

BANCA D'ITALIA

ABRIDGED VERSION OF THE

REPORT

FOR THE YEAR

1954

PRESENTED TO THE

ORDINARY GENERAL MEETING OF SHAREHOLDERS

HELD IN ROME ON 31st MAY, 1955

ROME

PRINTING OFFICE OF THE BANCA D'ITALIA

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REPORT OF THE GOVERNOR

I. *General Economic Picture*

The Italian Economy has again in 1954 followed the pattern of previous years by developing in circumstances which, on the whole, have been favourable. It has shown an increase in activity which, though less marked than that which occurred in 1953, has nevertheless remained impressive because of its signs of a healthy and lasting economic growth. In these circumstances, the agricultural set-back, which was due entirely to weather conditions, was absorbed without disruption: the basic factors in the economic organism showed that they can impose on the system itself a sufficient capacity for growth and elasticity to ensure the permanence of an adequate rate of expansion.

The general state of affairs during 1954, while collectively favourable for the year as a whole, can be considered to have been good during the first quarter, not so good for the second, improving during the summer, and best in the last quarter. This is matched by the course of wholesale prices which were stable for the first quarter, showed a slight fall in the second, and recovered during the last half of the year. During these last six months the upward pressure on the price levels of industrial raw materials on the international markets, the corresponding movement of freight, and the slight recovery of prices on the home market, have contributed towards reviving demand in all phases of production, particularly for power, and goods for production as a whole.

The rate of consumption during the year, whether compared in aggregate with 1953, or according to changes in the

course of the year, was largely influenced by the results in agriculture. The monetary agricultural receipts, which are indicative of the purchasing power of the agricultural community, showed a small drop for 1954 compared with 1953. This fall was almost entirely concentrated in the third quarter: during this period, it is estimated that the monetary receipts of agriculture (excluding wage earners) showed a reduction of around 130 milliards of lire, or of 17 per cent, compared to the corresponding quarter of 1953. On the other hand, during the previous two quarters of the year, especially the first, which still showed the benefit of the good winter crops of the previous season, receipts were correspondingly higher than in 1953.

These variations in the monetary receipts of agriculture have, however, been offset in the overall framework of available purchasing power by the steady rise in other income groups, notably in the earnings of employed persons. Nevertheless, the agricultural set-back was bound to influence the rate of aggregate demand which has felt its ill-effects, albeit in a somewhat mitigated form. If, then, one considers together the monetary earnings from employment and the monetary receipts of agriculture, these two large groups between them showed an increase of 3.8 per cent in their disposable income over 1953. In the first half of the year this increase was as much as 9.3 per cent, while in the second half, because of the drop in agricultural receipts, the two categories together stood at about the same level as the year before. All the same, the variation in the aggregate demand for consumer goods was far less marked than one might have supposed solely on the evidence of the elements just quoted. This in the first place, was due to the fact that these income groups constitute only a part of the total available purchasing power: secondly, now that the consumers' liquidity position is once more normal, expenditure is barely sensitive to short-term fluctuations in income, and, by temporarily drawing on reserves or by increasing indebtedness, it can anticipate the likelihood of a higher future income.

The overall economic results for 1954 are fully expressed in the figures for national income and expenditure contained in the « Survey of the Economic Position of Italy » presented to Parliament by the Ministers for the Budget and the Treasury (Table 1).

Table 1

National Income and Expenditure

(Milliards of current lire)

Sources of Income	1953	1954	Expenditure	1953	1954
Agriculture, Forestry, and Fisheries	2,479	2,430	Consumption:		
Industry	3,716	3,977			
Commerce, Transport, and Services	2,253	2,482			
Net Product of the Public Administration	998	1,086			
Duplicated Items	— 779	— 821	— Private . .	8,317	8,723
			— Public . .	832	862
Net Product at Factor Cost . . .	8,667	9,154	Total Consumption	9,149	9,585
Taxes not included in the Estimate of Goods and Services	1,439	1,604	Gross Investments	2,284	2,443
Net Product at Market Prices . .	10,106	10,758	Total Domestic Expenditure. . . .	11,433	12,028
Net Income from abroad	29	23	Exports of Goods and Services (and interest on foreign investments)	1,337	1,419
Depreciation	958	1,016			
Gross National Income	11,093	11,797			
Imports of Goods and Services (and income from foreign investments)	1,677	1,650			
Total resources . . .	12,770	13,447	Total resources .	12,770	13,447

The gross national income at market prices rose from 11,093 milliards in 1953 to 11,797 milliards in 1954, an increase of 6.3 per cent, which in real terms amounted to 4.6 per cent. The income from the major branches of economic activity, in monetary terms, showed a slight drop in agriculture, and an overall increase of 7 per cent in industry and of 10.2 per cent in tertiary activities, such as commerce, transport, insurance, banking and services. Because of the slight fall in the prices of manufactured products, the increase in monetary income for industry was somewhat less than the real increase of 10 per cent from 1953

to 1954 in industrial production, including building. The rise in available resources, amounting to 677 milliards, was distributed as follows between the different uses of income:

Table 2

(Milliards of current Lire)

	Between 1952 and 1953	Between 1953 and 1954
Private Consumption	549	406
Public Consumption	27	30
Total Consumption . . .	576	436
Gross Investments	130	159
Total Domestic Expenditure	706	595
Exports of Goods and Services	124	82
	830	677

As can be seen, the smaller rise in available resources has been matched by an increased proportion being used for investment.

Although for agriculture generally the economic results of production were slightly inferior to those achieved in 1953, industrial activity throughout the year showed a normal rate of profit, with a somewhat improved position in the last six months. Again in 1954 as in 1953, the sale-price of many industrial products showed a slight drop, which however, was adequately compensated for by a fall in the costs of production.

The distribution of national income between consumption and investment has further improved in favour of the latter. Between 1953 and 1954, in real terms, consumption increased by 3.3 per cent, as against an increase of 6.7 per cent for investment. This tendency towards a greater increase for investment than for consumption is the same as prevailed in past years, and is a fundamental necessity for Italian economic development. Going back as far as 1948, gross fixed investments have increased since that year from 1,210 milliards to 2,408 milliards

at current prices, or by 80 per cent in real terms. During the per cent against an increase of 18 per cent in the production of 9,585 milliards, an increase which, allowing for the rise in prices, was equal in real terms to approximately 35 per cent. Moreover the index for the production of capital goods, including building, shows an increase of 135 per cent from 1948 to 1954, while that for the production of consumer goods shows the more moderate increase of 39.5 per cent. A similar comparison on the basis of the years from 1950 to 1954 shows that the production of capital goods, including building, has increased by 70 per cent against an increase of 18 per cent in the production of consumer goods. On the basis of information contained in the Survey of the Economic Position of Italy, gross fixed investment from 1950 to 1954 has increased, in real terms, by approximately 39 per cent, while consumption has shown, again in real terms, an increase of approximately 16 per cent.

II. *The Pattern of Production*

Agriculture.— In 1954 the bad weather conditions affected nearly all branches of cultivation, falling particularly hard on some of the main crops. Consequently agricultural production, despite a notable increase in livestock figures, was below the level of the previous season, showing a fall of around 6 per cent on a provisional calculation. But despite the unfavourable weather, the process of development seen in previous years was not jeopardised. This is shown by a continuous improvement in the methods of cultivation: the supply of artificial fertilisers has considerably surpassed the amounts of the year before: mechanisation, largely as a consequence of the special steps taken to assist agriculture, has made even greater progress than in 1953, while seed selection was again more widespread.

The year's results can be briefly summarised as follows: negatively, there was a low wheat crop, a poor season for all types of fruit, and another bad olive crop: on the other hand, vegetable production was very high and there was a good supply

of fodder. In addition, livestock showed a considerable improvement: stockbreeding figures were notably higher than in 1953, with an increase of 7.4 per cent, which to a certain extent served to offset the fall in other agricultural yields. In considering the reflection of agricultural prices on farming in general, in very broad terms, one can say that in those areas where wheat provides a high percentage of mixed farming, the fall in receipts for cereals was balanced to a greater or lesser extent, according to individual cases, by the good results achieved by stockbreeding. But where cattle was primarily kept for milk-production, the year's results were, in contrast, very unsatisfactory.

During 1954 the prices of foodstuffs showed a tendency to rise, because of the increase in the price of meat and dairy products, while there was a slight fall in the price of industrial materials. Consequently there was a slight increase in the ratio between the price of foodstuffs and the price of industrial materials. Taken as a whole, the value of the marketable agricultural product was 3 per cent less than that for 1953, after taking into account the increase in prices and the contraction in the amount produced. Expenses rose by only 1.7 per cent, despite the increased use of technical means, because of the fall in the price of purchases. The net product for 1954, after taking into account the fall in the value of the gross marketable product and the increase in expenses, was 4 per cent less than in 1953. According to Banca d'Italia calculations, the receipts for 1954 were 1,894 milliards compared with 1,925 milliards for 1953, thus showing a decline of 1.6 per cent (Table 3). The receipts from 1954 crops, however, compared with the preceding crop-year, showed a drop of 4 per cent, which was approximately the same as the fall in the value of the marketable product. On the basis of the year's actual receipts, the fall in receipts from the current crop was in part offset by the sale of stocks of wine and oil: at the end of 1954 it is reckoned that the value of wine and oil still unsold was about 30 milliards less than at the end of 1953. This decrease was a direct result of the fall in production, especially of olive oil, although this compensatory influence

Table 3

Estimate of the Monetary Receipts in Agriculture
(milliards of lire)

Categories	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
Cereals					
1953	—	—	485	60	495
1954	—	—	285	50	335
Vegetables, Potatoes and Pulses					
1953	16	12	115	20	163
1954	18	10	122	22	172
Industrial Crops and Flowers					
1953	4	5	55	48	112
1954	5	7	55	40	107
Annual Tree-borne Crops					
1953	21	14	80	110	225
1954	24	16	85	120	245
Indirect Vegetable Products (wine and olive-oil)					
1953	43	25	9	125	202
1954	95	50	20	110	285
Livestock Products					
1953	186	185	169	188	728
1954	190	190	175	195	750
Total (1) . . {	270	241	863	551	1,925
	332	283	742	537	1,894

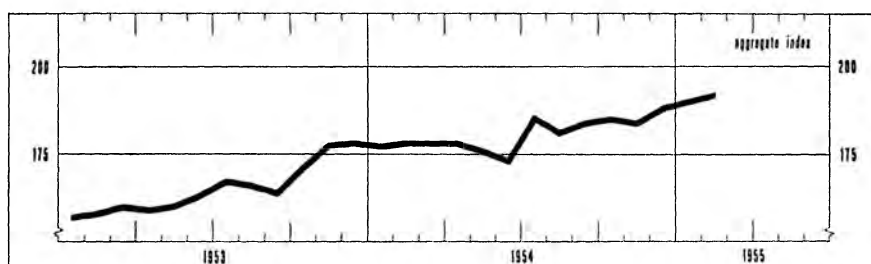
(1) Excluding the produce of some minor crops (Forestry etc.).

was limited to the first half of the year. Generally speaking, the slight fall in receipts was hardest felt in the South, despite the increased sale of olive-oil and wine compared to the amounts produced and actually sold in 1953.

Industry. In 1954 Italian industrial production continued along the lines of rapid expansion which have characterised the last seven years. There was an increase of 9.7 per cent over 1953, which was about equal to the average annual increase for the whole period from 1948 to 1954, and which brought production to a level over 80 per cent above that in 1938. The index of

the Central Institute of Statistics rose from 165 in 1953 to 181 in 1954: if on includes building, for which there was an increase of 13 per cent between the two years, the index rises from 170 to 187, a rise of 10 per cent. If the course of production is examined for these last two years on the basis of equal working days to each monthly figure, and with the adjustments necessary for seasonal variations, a somewhat slower rate of expansion is apparent in 1954, and also, for both years, a comparatively higher increase in the last six months (see Chart 1).

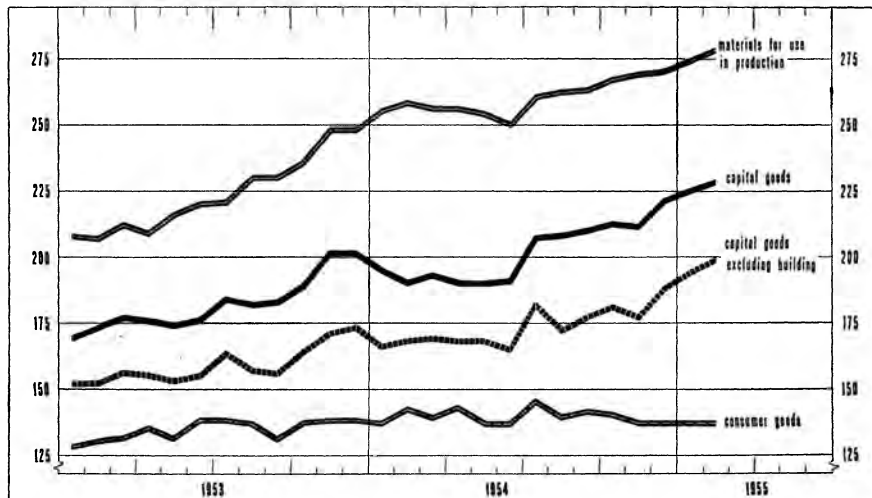
CHART 1



Aggregate index of industrial production (excluding building)
adjusted for seasonal movements
(1938 = 100)

The group of industries producing Power, Chemicals, and other materials for use in production, showed the greatest comparative increase within the overall rise in national industrial production (Chart 2). The appropriate index on a 1938 basis rose from 226 in 1953 to 263 in 1954, an increase of 16 per cent. This development was strongest in natural gas production which showed an increase of 30 per cent over 1953, and in the chemical and related industries which showed one of 23 per cent. Electricity and (Coal) Gas only had an increase of 7 per cent, which was rather below the general average. The production of capital goods also shared in the good results for the year, although its rate of increase was lower: the index rose from 182 as the annual average for 1953 to 202 for 1954, a rise of almost 11 per cent. Even if one excludes building from this estimate, the improvement between the two years was still 9 per cent. This favourable

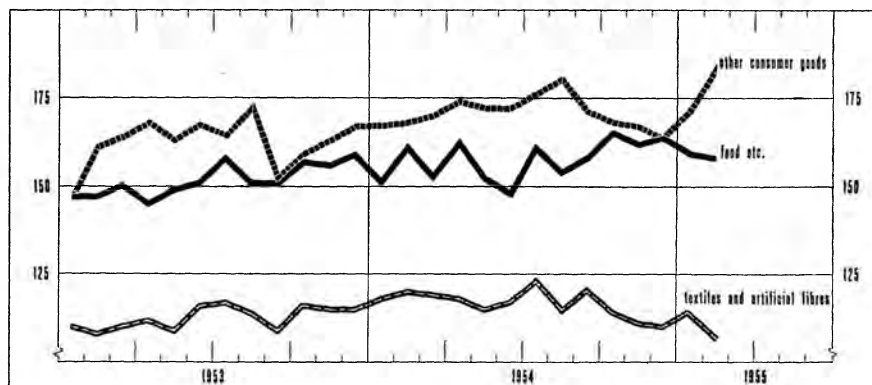
CHART 2



Production of capital goods, of materials for use in production, and of consumer goods
adjusted for seasonal movements
(1938 = 100)

development was primarily due to the excellent results achieved by Iron and Steel, and to the high level of activity in Building and related industries. In the production of consumer goods there was a more moderate rise, from an average of 134 in 1953 to 140 in 1954, an increase of 4.5 per cent (Chart 3).

CHART 3

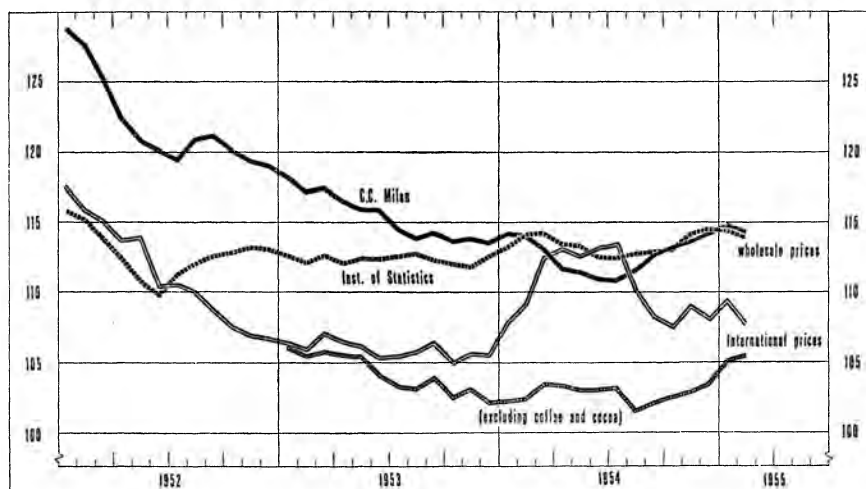


Production of consumer goods adjusted for seasonal movements
(1938 = 100)

III. Prices

Wholesale Prices.— During 1954 prices in Italy showed a slight tendency to rise, the year closing with a general level about 2 per cent higher than at the end of 1953. Basically this tendency appears to have been due to several domestic and external factors, whose interplay gave rise during the year to various changes in the price trends. The slight rise in prices was parallel on both the home and the world market, though at home it was determined by agricultural prices and in the international field by industrial prices (Chart 4): it was the more recent variations which bore the closest resemblance to those on the world market.

CHART 4



Index of domestic wholesale prices
and the prices of raw materials on international markets
(June 1950 = 100)

(The international price-index is that of the Italian Federation of Industry)

It is best to examine first the course of prices for consumer and capital goods, and for materials used in production. The prices of consumer goods rose during 1954, continuing the trend which started around the middle of 1952, and reached a level, by

the end of the year, about 2 1/2 per cent higher than that prevailing twelve months previously. Throughout the year these prices were substantially influenced by agricultural prices, in particular those for livestock products. The prices of materials for use in production, a category which predominantly includes chemical materials and products, rubber, and all kinds of fuel, reached their lowest point at the end of the Korean cycle towards the middle of 1953: they stayed firm at this level for a while, till, during the last months of that year, they started to rise. This trend became particularly evident during the first quarter of 1954, and it has continued with some modifications right up to the beginning of the current year. Capital goods, however, a category which includes metallurgical and engineering materials and products, bricks, cement and other building materials, showed a more unstable course. They achieved a certain measure of stability at the end of May 1953, after the decline which followed the Korean boom had ended. But in 1954 there occurred a further fall, caused by a drop in prices in the Iron and Steel industry, a fall in which these prices reached their lowest point in August: since then, there has been an appreciable rise, extending into the first months of 1955, and only partially attributable to Iron and Steel prices. The price index jumped by 7 per cent in the six months since August 1954, though in December the price level of capital goods was still a little lower than in December 1953 (Table 4 and Chart 5).

On the international market, the prices for capital goods and for materials used in production have shown a tendency to rise since the first months of 1954, a tendency which sharpened during the second half of the year and the beginning of 1955. By February of this year they showed an increase of from 8 to 10 per cent over the level of the previous February. More specifically, prices for capital goods, which only suffered a moderate downward adjustment after Korea, have since recovered, attaining by February 1955 a level slightly above the peak reached during the Korean boom. The international prices for consumer goods have been strongly influenced by the specific price movements for tea, coffee and cocoa: thus international consumer

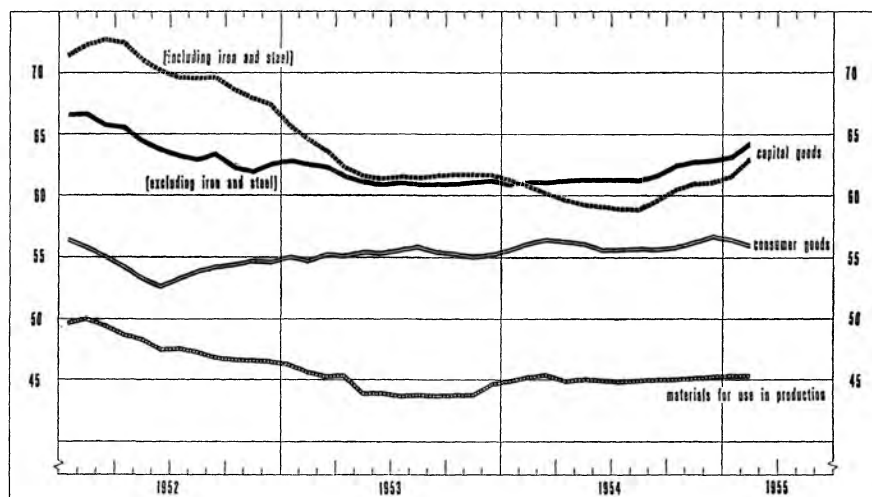
Table 4

**Price index for Capital Goods,
Materials for Use in Production, and Consumer Goods**
(1938 = 1)

Month	Capital Goods				Materials for Use in Production				Consumer Goods			
	1952	1953	1954	1955	1952	1953	1954	1955	1952	1953	1954	1955
January	71.7	65.7	61.2	61.5	49.8	46.3	44.9	45.4	56.5	55.0	55.6	56.5
February	72.4	64.6	60.9	62.9	50.0	45.7	45.2	45.4	55.9	54.8	56.1	56.0
March	72.8	63.7	60.2		49.5	45.3	45.4		55.1	55.2	56.4	
April	72.5	62.3	59.6		48.8	45.3	44.9		54.3	55.1	56.2	
May	71.1	61.6	59.2		48.4	43.9	45.0		53.3	55.4	56.1	
June	70.2	61.4	59.1		47.6	43.9	44.9		52.7	55.3	55.6	
July	69.6	61.5	58.9		47.6	43.7	44.8		53.3	55.6	55.6	
August	69.5	61.4	58.9		47.3	43.8	44.9		53.9	55.8	55.7	
September	69.6	61.6	59.6		46.9	43.7	45.0		54.2	55.4	55.6	
October	68.7	61.7	60.4		46.8	43.8	45.0		54.4	55.2	55.8	
November	67.9	61.7	60.9		46.7	43.8	45.1		54.7	55.0	56.2	
December	67.4	61.7	61.0		46.6	44.6	45.3		54.6	55.2	56.6	
Annual Average	70.3	62.4	60.0		48.0	44.5	45.0		54.4	55.3	56.0	

Banca d'Italia estimates based on Central Institute of Statistics figures.

CHART 5

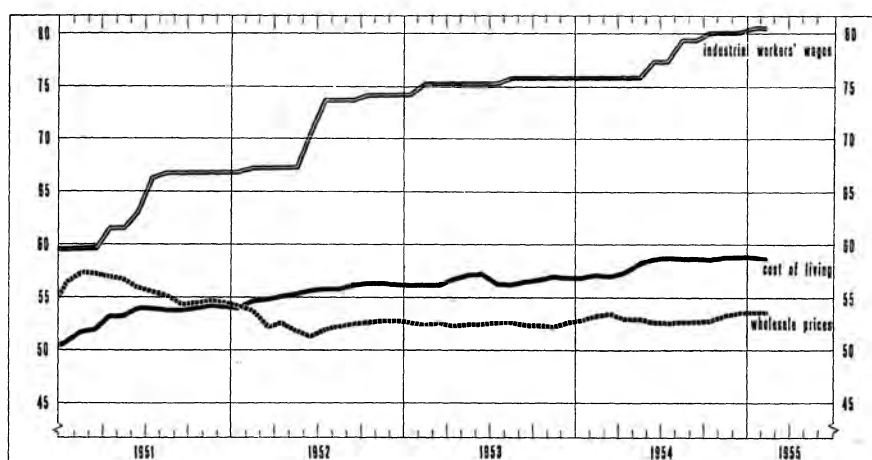


Price-index for capital goods, consumer goods and materials for use in production
(1930 = 1)

goods prices, and the international prices for capital goods showed opposite trends. Whereas the former declined, the latter rose, and the gap between the two sets of prices which during 1953 had shown a tendency to close, in 1954 again widened, increasingly so during the first months of this year. Similarly on the home market, there took place a barely discernible parallel price movement.

Retail Prices and the Cost of Living.— During 1954, the Cost of Living index showed an increase of 3.6 per cent (Chart 6), largely caused by the item of « Food » rising by 4.1 per cent: « Miscellaneous items » rose by 2.5 per cent, while the other main

CHART 6



Index of wholesale prices,
the cost of living and the wages of married workers in industry
(1938 = 1)

items remained almost stable. The increase in the cost of food, which led to the overall rise in the cost of living, was almost entirely concentrated in the period from March to July. By July, this increase had amounted to a 4.4 per cent rise over December 1953, largely as a consequence of the bad weather affecting the supply of fruit and vegetables although other food prices had

generally dropped. Subsequently this increase was almost wholly maintained through the general price rise for the main foodstuffs during the second half of the year. A further consequence was that the sliding wage scale rose by 3 points.

The ratio between the retail and the wholesale prices of foodstuffs decreased in the first half of the year, but increased in the second half, thus reversing the trend which on the whole it had kept since the middle of 1952. This was also noticeable for other commodities, where the ratio between wholesale and retail prices showed a further decrease in the first part of the year, but an increase in the remainder. The ratio for all classes of commodities, including foodstuffs, was still lower at the beginning of 1955 than in the middle of 1952.

IV. *Foreign Trade*

Last year in view of the apparent tendencies in the development of Italy's foreign trade, it had been anticipated that it would not be possible to expect a quantitative reduction in overall imports for 1954, despite the considerably decreased need for wheat imports: with the absence of any marked price changes, it had been reckoned that a further decrease in the trading deficit would have to come from an expansion in the volume of exports. This expansion did in fact take place, and its effective reduction of the deficit was greatly helped by the improvement in unit values: on the import side, the changes both in quantities and in prices were very small. Therefore, while the value of exports increased by 8.6 per cent (81 milliards), the value of imports fell by 0.8 per cent (12 milliards) compared to the previous year: thus the deficit decreased by 93 milliards (Tables 5 and 6). If one compares the price indexes for the different classes of goods, one can see that both in imports and in exports, there has been an increase for more elaborately processed industrial products, and a decrease for raw materials, for semi-finished products, and for auxiliary industrial materials: only for foodstuffs has an increase in export prices been matched by a slight decrease in imports. Thus the high proportion of manufactured

Table 5

Value of Italy's Foreign Trade

Period	Exports f. o. b.	Imports c. i. f.	Deficit	Exports as a percentage of imports
<i>(Milliards of lire)</i>				
1948	575.9	844.3	268.4	68.2
1949	641.3	883.0	241.7	72.6
1950	753.0	926.4	173.4	81.3
1951	1,029.5	1,354.5	325.0	76.0
1952	866.5	1,459.7	593.2	59.4
1953	941.8	1,512.7	570.9	62.3
1954	1,022.5	1,500.6	478.1	68.1
1948 - 1st half-year	234.8	440.1	205.3	53.4
1949 - "	320.3	480.7	160.4	66.6
1950 - "	338.5	465.3	126.8	72.7
1951 - "	485.4	673.8	188.4	72.0
1952 - "	443.5	748.3	304.8	59.3
1953 - "	435.6	776.7	341.1	56.1
1954 - "	499.9	784.2	284.3	63.7
1948 - 2nd half-year	341.1	404.2	63.1	84.4
1949 - "	321.0	402.3	81.3	79.8
1950 - "	414.5	461.1	46.6	89.9
1951 - "	544.1	680.7	136.6	79.9
1952 - "	423.0	711.4	288.4	59.5
1953 - "	506.2	736.0	229.8	68.8
1954 - "	522.6	716.4	193.8	72.9

Source: Central Institute of Statistics.

Figures include the value of trade passing through the Trieste customs.

Table 6

Quantity and Price Indexes of Foreign Trade in 1954

(1938 = 100)

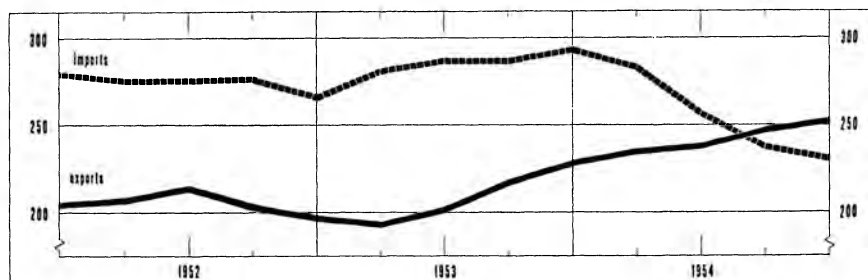
	In Terms of	Imports		Exports	
Price Index	1953 quantities	99.8		103.6	
	1954 quantities		96.8		100.3
Quantity Index	1953 prices		102.5		108.3
	1954 prices	99.4		104.8	
Value Index		99.2	99.2	108.6	108.6

goods in Italian exports, by their own price increase, accounted for the overall rise in export prices.

If trade figures are taken to exclude the specific items of wheat, crude oil and refined petroleum products, the decrease in the deficit only amounted to about 33 milliards instead of the 93 milliards previously quoted. For petroleum products, the increase of exports was almost totally neutralised by a rise in imports: if the import of wheat had been kept at a level equivalent to the average of from 1 to 1.2 million metric tons for the years 1950-53, the improvement in the deficit from 1953 to 1954 would not have exceeded the 33 milliards. Since 1953 the figures for exports have included off-shore purchases, which last year increased by 14 milliards: if, then, one deducts the amount for such extra-ordinary items, the improvement recorded drops to a still lower figure. Taking these considerations into account, it is clear that the deficit in 1954 was kept down by exceptional circumstances: without them, there would have been an expansion in the trading figures in both directions, but without this having a noticeable effect on the balance of trade.

Analysis of Exports and Imports.— A study of the breakdown of trade into the major commodity groups makes it clear that the narrowing of the deficit from 1953 to 1954 was almost entirely due to results in foodstuffs: in the other categories, whether for raw materials, or for finished or semi-finished goods, there was a practically equal expansion in both exports and

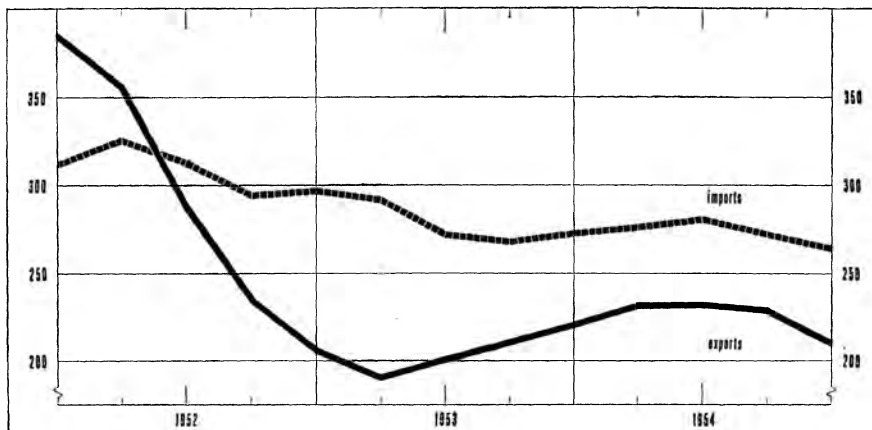
CHART 7



Imports and exports of foodstuffs
(12-monthly periods as of the end of the last month - milliards of lire)

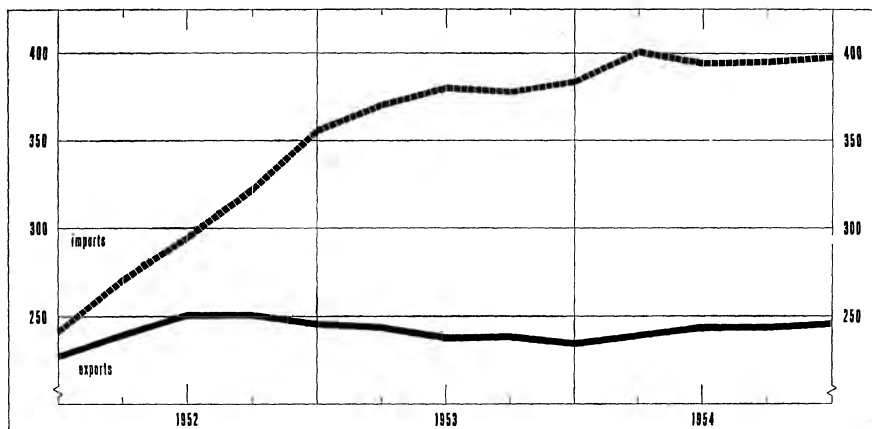
imports (Charts 7, 8 and 9). The shift in the source of imports, which was the main feature of 1953, no longer affected trade in 1954 (Table 7). During 1953 there had been a change in markets: goods which previously had been supplied by the United States and other dollar-area countries, were increasingly procured in the European Payments Union area. This shift was naturally

CHART 8



Imports and exports of textile materials and products
(12-monthly periods as of the end of the last month - milliards of lire)

CHART 9



Imports and exports of metallurgical and engineering products
(12-monthly periods as of the end of the last month - milliards of lire)

Table 7

Italy's Foreign Trade by Area

(billiards of lire)

Area	Imports (c.i.f.)					Exports (f.o.b.)				
	1950	1951	1952	1953	1954	1950	1951	1952	1953	1954
<i>O.E.E.C. Countries and their Overseas Territories</i> ⁽¹⁾	286	401	488	604	640	311	410	379	427	486
Sterling Area Member Countries	89	128	164	186	185	117	198	122	113	118
Non Member Countries in the Sterling Area . . .	83	174	171	224	213	71	116	65	76	78
Associated Countries	7	10	12	13	14	3	9	12	11	10
<i>Total, Sterling Area and Associated Countries</i> . .	179	312	347	423	412	191	323	199	200	206
United States and Canada	222	315	338	225	193	52	77	93	99	88
Argentine, Brazil, Ecuador, Paraguay	71	87	41	67	59	52	55	32	38	52
Other American Countries	34	43	44	36	26	33	34	32	31	46
<i>Total, America</i>	327	445	423	328	278	137	166	157	168	186
<i>Eastern Europe</i>	37	46	53	29	39	39	41	35	36	36
<i>Countries with Clearing Agreements</i>	57	76	70	57	60	57	70	66	73	66
<i>Other Countries</i>	40	75	79	72	72	18	20	31	38	45
<i>Total</i>	926	1,355	1,460	1,513	1,501	753	1,030	867	942	1,023

Percentage Breakdown

(on the figures given in the table above)

Area	Imports (c.i.f.)					Exports (f.o.b.)				
	1950	1951	1952	1953	1954	1950	1951	1952	1953	1954
<i>O.E.E.C. Countries and their Overseas Territories</i> ⁽¹⁾	30.9	29.6	33.4	39.9	42.6	41.3	39.8	43.7	45.3	47.4
Sterling Area Member Countries	9.6	9.5	11.3	12.3	12.3	15.5	19.2	14.1	12.0	11.5
Non Member Countries in the Sterling Area . . .	9.0	12.8	11.7	14.8	14.2	9.4	11.3	7.5	8.1	7.6
Associated Countries	0.8	0.7	0.8	0.9	1.0	0.4	0.9	1.4	1.2	1.0
<i>Total, Sterling Area and Associated Countries</i> . .	19.4	23.0	23.8	28.0	27.5	25.3	31.4	23.0	21.3	20.1
United States and Canada	24.0	23.2	23.2	14.9	12.9	6.9	7.5	10.7	10.5	8.6
Argentine, Brazil, Ecuador, Paraguay	7.7	6.4	2.8	4.4	3.9	6.9	5.3	3.7	4.0	5.1
Other American Countries	3.6	3.2	3.0	2.4	1.7	4.4	3.3	3.7	3.3	4.5
<i>Total, America</i>	35.3	32.8	29.0	21.7	18.5	18.2	16.1	18.1	17.8	18.2
<i>Eastern Europe</i>	4.0	3.4	3.6	1.9	2.6	5.2	4.0	4.0	3.8	3.4
<i>Countries with Clearing Agreements</i>	6.1	5.6	4.8	3.8	4.0	7.6	6.8	7.6	7.8	6.6
<i>Other Countries</i>	4.3	5.6	5.4	4.7	4.8	2.4	1.9	3.6	4.0	4.4
<i>Total</i>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) Excluding Sterling Area Member Countries.

Associated countries: Afghanistan, Eritrea, Ethiopia, Sudan, Thailand, Yemen.

Countries with clearing agreements: Egypt, Finland, Japan, Iran, Israel, Yugoslavia, Spain.

reflected in the balance of payments, since an appreciable fall in the dollar deficit was matched by a roughly equivalent increase in the deficit in EPU currencies. During 1954 there was a further fall in imports from the United States and Canada, and an increase in those from EPU countries. This reduction in dollar imports, however, should not be ascribed to a further shift in sources of supply, especially since for coal and copper it was found necessary to make more extensive purchases on the American market. Instead it arose through the United States and Canada being the chief suppliers of wheat, maize, and edible oils and fats: during the year there was a very considerable, though temporary, fall in the overall requirement for these commodities as a result of the exceptionally good home crops in 1953. Therefore the general increase in supplies from EPU sources last year was a result not so much of the substitution of one source of supply for another, as of the overall increase in certain imports which were not the same as those supplied by North America.

In the present structure of world trade, one cannot find sectors or countries which reasonably can be expected to absorb an additional volume of exports adequate to cover the anticipated increase in imports. This increase can only be covered, therefore, by other items in the balance of payments.

V. *The Balance of Payments*

The improving trend in the foreign exchange account in 1953, which had followed a period of deterioration running from the second half of 1950, was strongly maintained during 1954: the overall deficit, which excludes governmental foreign aid in all its forms, has successively dropped from 359 million dollars in 1952, to 303 million in 1953, and to 193 million in 1954 (Table 8). On the other hand, one must realise that in determining this course in the overall balance of payments, a large part has been played both by the movement of capital in the form of increased indebtedness abroad, and, to a lesser extent, by the balance of current items showing a smaller trading deficit and an increased

Table 8

Foreign Exchange Account

(Millions of dollars)

	Convertible Currencies				E. P. U. Currencies				Other Currencies		Total	
	U.S.A. Dollars		Swiss Francs, Canadian Dollars		Sterling		Others					
	1953	1954	1953	1954	1953	1954	1953	1954	1953	1954	1953	1954
<i>Credit:</i>												
Exports	248.1	243.5	6.2	6.1	324.3	367.3	587.3	653.1	166.8	203.6	1,332.7	1,473.6
Freight	37.7	39.4	0.2	0.1	34.1	37.7	45.1	42.9	17.0	14.7	134.1	134.8
Foreign Travel . . .	43.5	52.0	5.8	6.3	24.6	27.5	70.6	67.7	2.5	2.6	147.0	156.1
Emigrants' Remittances .	29.0	33.7	14.4	15.5	24.9	24.8	43.2	37.5	7.3	2.5	118.8	114.0
Other Current Items .	64.9	62.7	5.4	5.8	33.9	38.7	43.8	61.1	11.3	11.8	159.3	180.1
Movement of Capital .	14.6	37.0	4.4	7.8	0.4	5.1	2.0	41.4	—	—	21.4	91.3
Total Credit	437.8	468.3	36.4	41.6	442.2	501.1	792.0	903.7	204.9	235.2	1,913.3	2,149.9
<i>Debit:</i>												
Imports (cif)	441.0	374.2	4.5	4.5	578.7	596.9	895.2	990.9	198.2	254.5	2,117.6	2,221.0
Foreign Travel . . .	1.9	2.0	0.6	0.6	2.4	2.3	10.1	12.0	0.6	0.6	15.6	17.6
Other Current Items .	54.3	43.5	0.4	0.2	21.2	23.2	43.5	44.6	8.8	10.7	128.2	122.2
Movement of Capital .	30.5	14.3	0.2	0.3	—	—	—	5.6	1.6	1.6	32.3	21.8
Total Debit	527.7	434.0	5.7	5.6	602.3	622.4	948.8	1,053.1	209.2	267.4	2,293.7	2,382.6
<i>Balance:</i>												
Goods	— 192.9	— 130.7	1.7	1.6	— 254.4	— 229.6	— 307.9	— 337.8	— 31.4	— 50.9	— 784.9	— 747.4
Other Current Items .	118.9	142.3	24.8	26.9	93.9	103.2	149.1	152.6	28.7	20.3	415.4	445.3
Movement of Capital .	— 15.9	22.7	4.2	7.5	0.4	5.1	2.0	35.8	— 1.6	— 1.6	— 10.9	69.6
Total	— 89.9	34.3	30.7	36.0	— 160.1	— 121.3	— 156.8	— 149.4	— 4.3	— 32.2	— 380.4	— 232.0
Items Pending and Outstanding . . .	23.6	9.8	— 0.7	— 3.2	8.0	14.7	4.1	1.1	42.7	17.7	77.7	40.1
Overall Balance . . .	— 66.3	44.1	30.0	32.8	— 152.1	— 106.6	— 152.7	— 148.3	38.4	— 14.5	— 302.7	— 192.0

surplus on invisible items. If one deducts the changes due to the movement of capital, the decrease of 110 million in the overall deficit from 1953 to 1954 is reduced to around 30 million dollars. This is a result almost equally due both to invisible current items and to trade movements, though in the latter however, the items « pending and outstanding » on the export side stood at only 25 million, as against 48 million dollars in 1953. The overall deficit for 1954 of 193 million dollars was covered by 248 million received as foreign aid (Table 9). The total amount of aid was

Table 9

Foreign Aid and Foreign Exchange Assets

(Millions of dollars)

	Convertible currencies				E. P. U. currencies		Other currencies		Total	
	Gold and USA dollars		Swiss francs Canadian dollars		1953	1954	1953	1954	1953	1954
	1953	1954	1953	1954						
Balance of recorded exchange transactions . .	— 66.3	44.1	30.0	32.8	—304.8	—254.9	38.4	—14.5	—302.7	—192.5
M.S.A.-F.O.A. grants	133.1	104.3							133.1	104.3
Offshore procurements	61.3	132.5							61.3	132.5
Offshore procurement financing .	14.2	0.3							14.2	0.3
Repayment of offshore procurement financing .	— 10.8	— 10.1							— 10.8	— 10.1
Infrastructure . .	33.9	14.6			— 0.2	— 0.8			33.7	13.8
Paytroop	9.1	5.2			5.0	1.9			14.1	7.1
Total . .	174.5	290.9	30.0	32.8	—300.0	—253.8	38.4	—14.5	— 57.1	55.4
Transfers within E.P.U.:										
a) Existing resources					49.2	56.2	—49.2	—56.2	—	—
b) Sterling balances					— 0.7	0.1	0.7	— 0.1	—	—
c) Lire accounts .					3.1	3.4	— 3.1	3.4	—	—
E.P.U. settlements in gold and dollars	— 81.8	—160.0			81.8	160.0			—	—
Arbitrage transactions	34.0	10.7	—23.2	—12.1	— 11.6	7.9	0.8	— 6.5	—	—
Change in foreign exchange assets	126.7	141.6	6.8	20.7	—178.2	— 33.0	—12.4	—73.9	— 57.1	55.4

approximately equal to that for 1953, but its composition was substantially different: there was a considerable reduction in free economic assistance in favour of a more military pattern in the form of paytroop, infrastructure, and off-shore purchases.

The foreign exchange account for 1954, taking into consideration the assistance from foreign aid, closed with an increase of assets abroad (in dollar equivalent) of 55 million dollars, compared to a reduction of 57 million in 1953. On the 31st December last, the total gross assets abroad reached 1,035 million, while the net assets stood at 890 million (Table 10). During

Table 10

Foreign Exchange Assets

(Millions of dollars)

	End of 1953			End of 1954			Changes		
	Gross Holdings	Liabilities	Net Holdings	Gross Holdings	Liabilities	Net Holdings	Gross Holdings	Liabilities	Net Holdings
Gold	345.9	—	345.9	345.9	—	345.9	—	—	—
Convertible Currencies . .	323.2	—	323.2	485.5	—	485.5	162.3	—	162.3
E.P.U. Settlements ⁽¹⁾ . .	—	83.9	— 83.9	—	116.9	—116.9	—	33.0	— 33.0
Balance of Clearing Accounts and of Accounts in E.P.U. Currencies not settled through the Agent	272.6	22.7	249.9	203.4	27.4	176.0	— 69.2	4.7	— 73.9
Total . . .	941.7	106.6	835.1	1,034.8	144.3	890.5	93.1	37.7	55.4

(1) The recorded balances coincide with the net position of Italy as entered in the B.I.S. accounts: therefore they include the deficit in dollars for the month of December, equal to 11.3 million in 1953 and 14.9 million in 1954.

the course of last year, not only did total Italian assets abroad increase, but also the improving trend in the composition of these assets continued: by the end of the year, gold and convertible currency holdings stood at 831 million, while the overall position in EPU currencies showed a debit of 126 million dollars: clearing accounts reached the figures of around 194 millions in credits and 9 millions in debits. Before drawing any conclusions from the changes and developments in these figures, it is neces-

sary to examine the movement of goods through the Customs, including non-cash transactions. In addition, an analysis must be made both of the lag between this movement and the time when the goods are paid for, and also of the current invisible items. In effect, this represents the difference between the foreign exchange account and the overall balance of payments (Tables 11 and 12). Therefore in the relevant foreign trade data issued by the Central Institute of Statistics one must make certain necessary adjustments, and also subtract from the values of imports (c.i.f.), the amounts for freight and insurance.

Since the war the Transport account has shown increasingly favourable results within the general pattern of foreign payments (Table 13). The major part of the account is provided by the figures for the sea-borne passage of goods and passengers: these figures are bound to be influenced from one year to another by a variety of factors, chiefly differences in the freight rates, changes in the tonnage in service, and the nature, volume, and source of supply of imported goods. On the basis of the Banca d'Italia estimates, the Italian merchant marine's contribution towards reducing the balance of payments deficit, whether in the form of savings on foreign exchange or of foreign currency earned, rose from 191 million in 1953 to 211 million in 1954.

Earnings from « foreign travel » which passed through official channels rose from 147 million dollars in 1953 to 156 million: out of this, the increase was most marked for American currency, amounting to 52 million dollars. The figures for « workers' and emigrants' remittances », however, after having shown a consistently favourable trend since 1951, last year produced a sudden drop to 119 million dollars against 126 million the year before. But on the other hand there was an appreciable influx of foreign capital for both government agencies and private companies: foreign government loans amounted to the equivalent of 77 million dollars, while « private investment » amounted to about 55 million dollars against 19 million in 1953. This investment, which was broadly spread throughout the various branches of industry, was particularly high for the chemical industry: the petroleum industry had only a modest proportion, whereas

Table 11

Overall Balance of Payments (1)

(millions of dollars)

	Credit		Debit		Balance	
	1953	1954	1953	1954	1953	1954
A. Goods and Services						
Goods f.o.b.	1,473.1	1,579.5	2,212.8	2,192.5	— 739.7	— 613.0
Transport	245.9	285.6	286.8	300.0	— 40.9	— 14.4
Insurance	13.2	13.9	19.0	19.1	— 5.8	— 5.2
Foreign Travel	147.3	156.4	16.6	18.3	130.7	138.1
Investment Income	25.6	22.5	31.3	34.6	— 5.7	— 12.1
Workers' Remittances	51.2	44.8	—	—	51.2	44.8
Government Services	37.6	43.4	40.7	34.4	— 3.1	9.0
Miscellaneous	145.0	143.9	75.5	48.1	69.5	95.8
<i>Total Goods and Services . . .</i>	<i>2,138.9</i>	<i>2,290.0</i>	<i>2,682.7</i>	<i>2,647.0</i>	<i>— 543.8</i>	<i>— 357.0</i>
B. Unilateral Transfers						
Emigrants' Remittances	74.4	73.8	—	—	74.4	73.8
Other Donations	41.2	37.4	—	—	41.2	37.4
Reparations	—	—	22.2	8.1	— 22.2	— 8.1
<i>Total Unilateral Transfers . . .</i>	<i>115.6</i>	<i>111.2</i>	<i>22.2</i>	<i>8.1</i>	<i>93.4</i>	<i>103.1</i>
C. Total (A) and (B)	2,254.5	2,401.2	2,704.9	2,655.1	— 450.4	— 253.9
D. Foreign Aid						
Offshore Procurement and Services	110.5	154.6	1.4	—	109.1	154.6
Grants	135.4	70.6	11.0	8.5	124.4	62.1
<i>Total Foreign Aid . . .</i>	<i>245.9</i>	<i>225.2</i>	<i>12.4</i>	<i>8.5</i>	<i>233.5</i>	<i>216.7</i>
E. Total (C) and (D)	2,500.4	2,626.4	2,717.3	2,663.6	— 216.9	— 37.2
F. Movement of Capital (2)						
Contractual Repayments	—	—	52.0	30.9	— 52.0	— 30.9
Foreign Borrowing and Lending:						
a) Public	8.5	33.7	— 16.3	— 43.2	24.8	76.9
b) Private:						
1. Commercial items not financed in foreign exchange	139.3	131.5	118.8	157.0	20.5	— 25.5
2. Lags between imports and payments (3)	100.6	— 55.5	—	—	100.6	— 55.5
3. Lags between exports and receipts (4)	13.8	43.4	—	—	13.8	43.4
4. Others	—	—	— 15.0	— 53.0	15.0	53.0
Investments Abroad and From Abroad	3.6	4.5	— 15.1	— 50.2	18.7	54.7
<i>Total . . .</i>	<i>265.8</i>	<i>157.6</i>	<i>124.4</i>	<i>41.5</i>	<i>141.4</i>	<i>116.1</i>
Assets Abroad	— 23.6	— 93.1	— 80.7	— 37.7	57.1	— 55.4
<i>Total Movement of Capital . . .</i>	<i>242.2</i>	<i>64.5</i>	<i>43.7</i>	<i>— 3.8</i>	<i>198.5</i>	<i>60.7</i>
G. Errors and Omissions					18.4	— 23.5

(1) The data for 1953 have been adjusted on the basis of the new figures published by the Central Institute of Statistics in the « Annual Statistics of Foreign Trade for 1953 ». The data for 1954, approved by the Committee for the Balance of Payments, differ in certain respects from the provisional figures published in the Economic Report.

(2) Positive amounts indicate reduction of assets abroad, or increase in liability to foreign countries; negative amounts indicate increase in assets abroad or reduction in liability to foreign countries.

(3) The figures indicate, if positive, excess of imports over payments; if negative excess of payments over imports.

(4) The figures indicate, if positive, excess of receipts over exports, if negative excess of exports over receipts.

Table 12

**Comparison Between
the Movement of Goods and Foreign Exchange Settlements in 1954**
(millions of dollars)

	Dollar Area (7)	Argentine Brazil Ecuador Paraguay	E. P. U. Countries	Other Countries and Unclassified Amounts	Total
<i>Imports c. i. f.</i>					
I. Central Institute of Statistics Figures ⁽¹⁾					
A) Settled in Foreign Exchange ⁽²⁾					
1. Geographical Distribution	288.3	93.0	1,597.5	219.6	2,198.4
2. Multilateral Settlements					
In dollars	88.2	0.2	14.3	73.7	
In other currencies	11.4	—	16.7	5.3	
Total	365.1	92.8	1,599.9	140.6	2,198.4
B) Not Settled in Foreign Exchange ⁽³⁾ (franco valuta ⁽⁴⁾ transactions under com- pensation systems and clearing agree- ments, and processing of foreign goods.	28.8	1.1	64.4	41.3	135.6
C) Other Settlements ⁽⁵⁾	34.1	—	21.0	10.8	65.9
Total (A+B+C)	428.0	93.9	1,685.3	192.7	2,399.9
II. Italian Exchange Control Office Figures					
- Payments (see table 8)	378.7	98.8	1,587.8	155.7	2,221.0
- Various Adjustments ⁽⁶⁾	7.4	—	7.4	3.1	3.1
Total	386.1	98.8	1,580.4	152.6	2,217.9
III. Excess of Imports over Payments (I-A less II less freight paid in lire)	30.0	7.4	4.5	13.6	55.5
<i>Exports</i>					
I. Central Institute of Statistics Figures					
A) Settled in Foreign Exchange					
1. Geographical Distribution	168.6	80.0	996.0	186.5	1,431.1
2. Multilateral Settlements					
In dollars	75.6	0.5	16.3	58.8	
In other currencies	0.7	—	14.1	13.4	
Total	243.5	79.5	993.8	114.3	1,431.1
B) Not Settled in Foreign Exchange (franco valuta transactions under compen- sation systems and clearing agreements, and processing of foreign goods)	46.2	2.5	67.7	40.6	157.0
C) Other Settlements			9.3	6.9	16.2
Total (A+B+C)	289.7	82.0	1,070.8	161.8	1,604.3
II. Italian Exchange Control Office Figures					
- Receipts (see table 8)	249.6	80.2	1,020.4	123.4	1,473.6
- Various Adjustments	3.1	22.6	11.7	6.9	0.9
Total	246.5	102.8	1,008.7	116.5	1,474.5
III. Excess of Receipts over Exports (II less I-A)	3.0	23.3	14.9	2.2	43.4
⁽¹⁾ Excluding fisheries. ⁽²⁾ Including freight paid in lire (approx.) ⁽³⁾ Including freight earned by Italian carriers (approx.) ⁽⁴⁾ Specific trade transactions financed through funds other than those under the control of the exchange authorities. ⁽⁵⁾ Imports paid by means of accounts administered by the Banca d'Italia, or by short-term bank advances. ⁽⁶⁾ Adjustments include: a) book transfers in receipts and payments; b) commercial items; c) foreign exchange dealings covering electric power and films not listed in the Customs returns. ⁽⁷⁾ This column includes countries of the western hemisphere not indicated in the next column.					
	9.0	1.4	24.0	1.6	36.0
	0.9	—	2.0	1.2	4.1

Table 13

Transport Account

(millions of dollars)

	Sea		Land ⁽⁵⁾		Air		Total	
	1953	1954	1953	1954	1953	1954	1953	1954
<i>Receipts:</i>								
Freights								
- For Exports ⁽¹⁾ . .	11.2	14.9	—	—	0.6	0.8	11.8	15.7
- Others	120.2	125.0	4.5	5.8	1.6	3.0	126.3	133.8
Passenger Fares . .	51.8	72.0	—	—	9.9	17.9	61.7	89.9
Expenditure of Foreign Ships in Italy	36.7	35.8	—	—	9.4	10.4	46.1	46.2
Total Receipts . .	219.9	247.7	4.5	5.8	21.5	32.1	245.9	285.6
<i>Payments:</i>								
Freights								
- For Imports ⁽¹⁾ ⁽²⁾ .	82.0	79.8	67.2	76.8	2.4	2.6	151.6	159.2
- Others ⁽³⁾	0.9	1.0	—	—	3.0	3.3	3.9	4.3
Passenger Fares ⁽⁴⁾ .	16.6	13.4	—	—	13.7	15.1	30.3	28.5
Expenditure of Italian Ships abroad . . .	97.3	101.3	—	—	3.7	6.7	101.0	108.0
Total Payments . .	196.8	195.5	67.2	76.8	22.8	27.7	286.8	300.0
Balance . .	23.1	52.2	— 62.7	— 71.0	— 1.3	4.4	— 40.9	— 14.4

(1) Including freights for the movement of goods in bond with the Customs.

(2) Excluding freight received by the Italian merchant marine (73.5 million in 1953 and 72.2 in 1954) and by the Italian air lines (0.6 million in 1953 and 0.8 million in 1954).

(3) Excluding receipts of the Italian air lines for excess post and baggage for Italian nationals.

(4) Excluding fares received for transport of Italian passengers by the Italian merchant marine (35.8 million in 1953 and 32.6 in 1954) and by the Italian air lines (3.8 millions in 1953 and 6.8 in 1954).

(5) Including pipeline fees paid abroad for crude oil imported into Italy (36.7 million in 1953 and 31.1 in 1954)

in previous years it had absorbed as much as 55 per cent of all foreign investment.

The improvement in the Italian economic position from 1953 to 1954 was clearly shown by the higher coverage of imports (c.i.f.) by means of exports, and by those characteristically Italian invisible items, such as tourism, transport, and workers' and emigrants' remittances (Table 14). This coverage rose from 60 per cent to 65 per cent for exports, and from 18 per cent to 19 per cent for the invisible items already mentioned. The financial assistance of American Foreign Aid was further reduced

Table 14

Coverage of Imports (c.i.f.)
(millions of dollars)

	1953	1954
Imports c. i. f. (adjusted data)	2,443.7	2,421.9
Means of Coverage:		
Exports	1,473.1	1,579.5
Foreign Travel, Workers' and Emigrants' Remittances, Transport ⁽¹⁾	435.8	461.2
Other Current Items ⁽²⁾	84.4	127.3
Balance of Transactions not settled in Foreign currency	20.5	— 25.5
Excess of Imports over Payments	100.6	— 55.5
Excess of Receipts over Exports	13.8	43.4
Short-term Banking Indebtedness	15.0	53.0
Other Movement of Capital	— 8.5	100.7
Foreign Aid	233.5	216.7
Foreign Assets	57.1	— 55.4
	2,425.3	2,445.4
Errors and Omissions.	18.4	— 23.5
(1) The « transport » item, as regards imported goods includes on the credit side the earnings of Italian carriers	71.5	66.8
and excludes on the debit side, the freight paid to foreign carriers	148.9	152.1
(2) The « insurance item », as regards imported goods includes on the credit side the earnings of Italian insurers	2.4	2.3
and excludes on the debit side the insurance paid abroad	8.1	8.2

to about 9 per cent of the value of imports, while direct economic grants were below 3 per cent.

As far as one can foretell, the estimated high future growth of investments and consumption in Italy, coupled with the need to increase imports of cereals as a consequence of the poor crops last season, will be the prevailing factors affecting foreign trade. Therefore, even though there should take place a certain measure of improvement on the credit side, the balance of the foreign exchange transactions for goods and services, instead of becoming more favourable as in the past two years, is likely to worsen. This deterioration should be reflected in the balance of current items, since it would be difficult for an improvement to take place in Donations (less reparations). Given the presumed stability of receipts for these unilateral transfers, whether on government

or private account, the greater discounted deficit for goods and services should become apparent in a reduction between 1954 and 1955 in the total of foreign exchange holdings. This is unless an influx of foreign loans, whether private or public, should modify the situation. Besides loans already being negotiated, good prospects for such an influx are held out by the implementation of the new, more liberal, law on foreign investments at present before Parliament. One can perhaps conclude by saying that the prospects for the present year are that there will be a somewhat higher deficit on current items without this having an undue impact on the country's foreign exchange reserves.

VI. *Government Finances*

The Administrative Budget (Gestione di competenza).— The initial Estimates for the financial year 1953/54 were for an overall deficit of 417 milliards — 366 milliards on the «Current» Section (parte effettiva) and 51 milliards on the «Movement of Capital» Section (see Table 15): instead, the year closed with a deficit of 169 milliards — a 325 milliards deficit on the «Current» Section and a 156 milliards surplus for the «Movement of Capital» Section. But if, on the one hand, one isolates those items concerned with indebtedness with the purpose of determining the amount of deficit to be covered by Public Debt, one finds that instead of the initial deficit of 409 milliards, the year closed with a deficit of 366 milliards: on the other hand, if one takes into consideration other accounting items, the deficit rises to 370 milliards, which, however, still showed a net improvement over the initial Estimates.

The initial Estimates for the current financial year were for an overall deficit of 362 milliards—297 milliards on the «Current» Section and 65 milliards on «Movement of Capital»: this is reduced to 354 milliards, if calculated to exclude indebtedness, that is to say, a reduction of 16 milliards on the previous year. In the revised Estimates, however, the Budget for 1954/55 showed a net deficit (i.e. without indebtedness) of 423 milliards,

an increase of 69 milliards over the initial figures. It seems appropriate to emphasise that, except for certain specific new obligations, all major new items of expenditure in the « Current » Section have, by law (1), to be balanced by new receipts. It should moreover be pointed out that the initial estimates for 1954/55 were prepared on the basis of more realistic criteria than those used in the more cautious approach of previous years: consequently there are no longer the margins of previous years from which further revenue can be found during the course of the year to cover new or increased expenditure. The introduction of the new bases of calculation, which have again been applied in the preparation of next year's figures, has meant the adoption of the principle that any « natural » increase in receipts, that is to say, the higher returns resulting from the development of taxable resources, must be used for the reduction of the deficit.

The overall estimated deficit for the next financial year, 1955/56, is set at 325 milliards — 280 milliards on the « Current » Section and 45 on « Movement of Capital »: this is reduced to 317 milliards if one excludes indebtedness, a considerable decrease both over 1953/54 and over the current year.

The main angles from which the Budget is best examined are its size, the extent of the deficit in relative and absolute terms, and the component elements in Revenue and Expenditure. Since the war, both Revenue and Expenditure have progressively increased at a steady rate: in the Estimates for next year, Revenue is 84 times (2), and Expenditure 66 times as much as in 1938/39, and, respectively, 2 1/2 and 1 1/2 times as much as in 1947/48. Since the exceptional year 1947/48, the overall deficit, calculated less indebtedness, has, at a lower level, followed a fluctuating course with a tendency to drop (Table 16); and this is even more apparent on comparing the deficit with the rising

(1) Article 81 of the Constitution states that every law which implies new or increased expenditure must state how such expenditure is to be covered.

(2) In assessing such figures, it should be borne in mind that the 1954 index for wholesale prices is 53 times the 1938 level.

Budget Position for the Financial Year

(milliards)

Item	1952/53		
	Initial Estimates	Subsequent Variations	Final Results (1)
<i>Current Section («parte effettiva»)</i>			
Expenditure	2,132	169	2,301
Revenue:			
Domestic Resources	1,584	170	1,754
International Aid and Contributions	120	— 68	52
	1,704	102	1,806
Surplus or Deficit (—)	— 428	— 67	— 495
<i>Movement of Capital Section</i>			
Expenditure:			
Repayment of Public Debt	7	—	7
Repayment of Italian Foreign Exchange Control Office (U.I.C.) Credits	—	—	—
Others	102	11	113
	109	11	120
Revenue:			
Issue of Bonds placed on the Market	13	184	197
Other Issues of Bonds	—	—	—
Issue of State Notes and Coins	—	23	23
Others	27	58 (2)	85 (2)
	40	265	305
Surplus or Deficit (—)	— 69	254	185
<i>Overall Results</i>			
Expenditure	2,241	180	2,421
Revenue	1,744	367	2,111
Surplus or Deficit (—)	— 497	187	— 310

(1) Final results not yet approved by the Corte dei Conti for 1952/53, provisional figures for 1953/54, and revised estimates for 1954/55.
 Treasury's Debt to U.I.C. for the transfer of foreign exchange to purchase equipment in the sterling area, to be repaid from the
 (3) above. — (5) Including 4 milliards drawn from the fund of 1961 nine-year Treasury Bonds. — (6) Foreign contributions for multilateral

Table 15

1952/53, 1953/54, 1954/55, 1955/56

(in lire)

1953/54			1954/55			1955/56
Initial Estimates	Subsequent Variations	Final Results (1)	Initial Estimates	Subsequent Variations	Revised Estimates (1)	Initial Estimates
2,153	172	2,325	2,355	179	2,534	2,726
1,737	261	1,998	2,024	124	2,148	2,416
50	— 48	2	34 (6)	—	34	30 (6)
1,787	213	2,000	2,058	124	2,182	2,446
— 366	41	— 325	— 297	— 55	— 352	— 280
8	—	8	8	—	8	8
—	85 (3)	85 (3)	—	—	—	—
70	19	89	70	33	103	54
78	104	182	78	33	111	62
—	187	187	—	30 (7)	30 (7)	—
—	85 (4)	85 (4)	—	—	—	—
—	18	18	—	—	—	—
27	21 (5)	48 (5)	13	19	32	17
27	311	338	13	49	62	17
— 51	207	156	— 65	16	— 49	— 45
2,231	276	2,507	2,433	212	2,645	2,788
1,814	524	2,338	2,071	173	2,244	2,463
— 417	248	— 169	— 362	— 39	— 401	— 325

to March 18, 1955. — (2) Including 50 milliards drawn from the fund of 1961 nine-year Treasury Bonds. — (3) Repayment of the
 revenue as per (4) below. — (4) Issue of 1962 nine-year Treasury Bonds for repayment of the Treasury's debt to the U.I.C. as per
 structures. — (7) Proceeds from the issue of redeemable 5% « Trieste » Bonds.

Table 16

Revenue, Expenditure and Deficit

(Milliards of lire)

Financial Year	Total Revenue (less public debt items and the issue of State notes and coins)	Total Expendi- ture (less public debt items)	Surplus or Deficit (—)					Percen- tage Ratio between deficit and total expendi- ture
			Current Section	Movement of Capital		Total		
				Overall Amount	Net Amount	Overall Amount	Net Amount	
1	2	3	4	5	6	7=4+5	8=4+6=2-3	9=8:3
1938/39	29.2	42.0	— 12.3	+ 0.3	— 0.5	— 12.0	— 12.8	30.5
1947/48	991	1,895	— 845	— 71	— 59	— 916	— 904	47.7
1948/49	1,180	1,710	— 496	— 57	— 34	— 553	— 530	31.0
1949/50	1,463	1,815	— 297	120	— 55	— 177	— 352	19.4
1950/51	1,854	2,201	— 174	— 47	— 173	— 221	— 347	15.8
1951/52	1,943	2,425	— 392	31	— 90	— 361	— 482	19.9
1952/53	1,841	2,414	— 495	185	— 78	— 310	— 573	23.6
1953/54 (a) . . .	2,129	2,499	— 325	156	— 45	— 169	— 370	14.8
1954/55 (b) . . .	2,214	2,637	— 352	— 49	— 71	— 401	— 423	16.0
1955/56 (c) . . .	2,463	2,780	— 280	— 45	— 37	— 325	— 317	11.4

(a) Provisional figures.

(b) Revised Estimates (March 18th 1955).

(c) Initial Estimates.

total expenditure. The reduction, both in absolute terms, and in proportion to expenditure, is undoubtedly encouraging, but to form an opinion solely on the basis of the declining deficit is to fail to take into consideration the growing difficulty experienced in covering this deficit, since the higher fiscal revenue leaves a smaller margin for the formation of private savings to which the Treasury can turn for its cash requirements. In addition, it is essential to consider qualitatively the increase of Revenue and Expenditure shown by successive Budgets.

A characteristic element in the Budget is formed by the volume of Capital Investment and its relationship to the deficit (Table 17). In the period from the war to 1952/53 (excluding 1950/51), the amount set aside in each Budget for Capital Investment to be financed solely by domestic resources was consistently below the level of the deficit. Since 1952/53, however,

Table 17

The Deficit (—) and Capital Investment in the Budget

(billiards of lire)

Financial Year 1	Deficit (less public debt items and the issue of State notes and coins) 2	Capital Investment		
		Financed by Domestic Resources 3	Financed by American Aid 4	Total 5 = 3 + 4
1938/39	— 12.8	4.8	—	4.8
1947/48	— 904	....	53	....
1948/49	— 530	....	110	....
1949/50	— 352	190	217	407
1950/51	— 347	390	289	679
1951/52	— 482	445	118	563
1952/53	— 573	457	52	509
1953/54	— 370	437	2	439
1954/55	— 423	469	—	469
1955/56	— 317	434	—	434

investments have always been higher than the deficit, which implies that they have in part been financed by a surplus on the « Current » Section.

In order to examine the changes which have taken place in the composition of Expenditure between the pre-war period, the immediate post-war period, and today, it is useful to go into a more detailed study of Expenditure under the various heads (Table 18). The comparison of the figures for the current and the coming financial years with those both for 1947/48 and for 1938/39, clearly reveals the trend in the pattern of Italian Budgets. By making a comparison with a Budget structure not overwhelmingly influenced by the exceptional circumstances of war, inflation, or reconstruction, it can be seen that the Budget for 1938/39 was marked by the very heavy weight of defence requirements, and that for 1947/48 by the reduced burden of defence and national debt, and by the heavier load of reconstruction. Three of the four main lines of development in past years have now brought the Budget to an intermediary position between that for 1938/39 and that for 1947/48, and yet different

Table 18

Classified Budget Expenditure

Item	1938/39		1947/48		1953/54		1955/56		Index (1938/39 = 100)
	Milliards of Lire	Per- centage composi- tion	Milliards of Lire	Per- centage composi- tion	Milliards of Lire	Per- centage composi- tion	Milliards of Lire	Per- centage composi- tion	
<i>Expenditure for Economic and Productive Purposes:</i>									
Public Works and Railways	2.5	6.3	391.5	23.1	354	15.2	362	13.3	144.8
Economic Services	2.4	6.0	75.1	4.4	108	4.7	136	5.0	56.7
Total	4.9	12.3	466.6	27.5	462	19.9	498	18.3	101.6
<i>Expenditure for Domestic and International Security:</i>									
Justice	0.6	1.5	24.0	1.4	50	2.2	51	1.9	85.0
Defence	14.1	35.4	189.3	11.2	454	19.5	444	16.3	31.5
Police	1.2	3.0	79.7	4.7	119	5.1	117	4.3	97.5
Total	15.9	39.9	293.0	17.3	623	26.8	612	22.5	38.5
<i>Expenditure on Social Services:</i>									
Social Welfare and Relief	0.9	2.3	81.9	4.8	160	6.9	198	7.3	220.0
War Pensions	0.8	2.0	25.2	1.5	130	5.6	188	6.9	235.0
Total	1.7	4.3	107.1	6.3	290	12.5	386	14.2	227.1
Education	2.1	5.3	110.2	6.5	253	10.9	261	9.6	124.3
Interest on the Public Debt	6.8	17.1	75.2	4.4	184	7.9	214	7.9	31.5
<i>Cost of Subsidies:</i>									
Assistance to Independent Authorities . .	—	—	80.3	4.7	60	2.6	43	1.6	—
Food and Economic Subsidies	—	—	231.5	13.7	16	0.7	23	0.8	—
Total	—	—	311.8	18.4	76	3.3	66	2.4	—
Grants to Regional and Local Authorities .	..	..	65.0	3.9	144	6.2	166	6.1	—
Cost of Financial Administration	1.6	4.0	56.1	3.3	112	4.8	137	5.0	85.6
<i>Expenditure Arising out of the Peace Treaty</i>	—	—	64.8	3.8	18	0.8	1	..	—
<i>Miscellaneous:</i>									
Government General and Sundry Expenses	1.3	3.3	47.7	2.8	88	3.7	267	9.8	205.4
Revenue Collection	0.9	2.3	17.7	1.0	37	1.6	63	2.3	70.0
Former Colonies and Trusteeships	3.8	9.5	2.8	0.2	10	0.4	9	0.3	2.4
Foreign Service	0.3	0.8	6.4	0.4	19	0.8	23	0.8	76.7
War Expenditure, and its Liquidation . .	—	—	70.4	4.2	9	0.4	23	0.8	—
Albania	0.5	1.2	0.1	..	—	—	—	—	—
Total	6.8	17.1	145.1	8.6	163	6.9	385	14.0	56.6
Grand Total	39.8	100.0	1,694.9	100.0	2,325	100.0	2,726	100.0	68.6

from both those years in so far as they were peculiarly abnormal. One can see, therefore:

1. Expenditure for economic and productive purposes has fallen from 27 per cent of the total in 1947/48 to 18-20 per cent in more recent years: in 1938/39 it was only 12 per cent, since the prevailing defence requirements forced down the proportion available for other purposes;

2. Defence costs, which together with Police and Justice, in 1938/39 absorbed 40 per cent of the total payments, amounted to only 17 per cent in 1947/48: they have since risen to about a quarter of total expenditure;

3. Expenditure on the Public Debt which fell from 17 per cent in 1938/39 to 4 per cent in 1947/48, has already started to rise towards its former level, and now stands at 8 per cent of the total.

The fourth main trend, however, the cost of the social services, shows a more consistent line of structural development, since it has been less influenced by exceptional circumstances. It has risen from 4 per cent in 1938/39 to 6 per cent in 1947/48, and again to 14 per cent in 1955/56, while for the same years, Education has risen from 5 per cent to 7 per cent, and now to 10 per cent.

As for other important items, the burden of food subsidies is now less than it was in 1947/48, though it must be remembered that the 1947/48 Budget had to absorb the impact of losses incurred in previous years on the import of cereals. The greater present-day needs of regional and local finance compared to 1947/48 are essentially connected with the partial realisation of regional autonomy: the higher costs of the financial administration are due to the expansion of taxable resources and the wider sphere of government action. About a quarter of expenditure in the present Budget is devoted to transfer payments arising from social services, subsidies and the servicing of the public debt. If, furthermore, one takes into account the large transfers of income which have taken place through the system of social insurance, which, by being financed through

compulsory contributions, can be held to be included in a broad sense within the sphere of government action, one can see the extent to which the public administration is tending to assume wider functions in the redistribution of income.

The expenditure which is fixed, or at least recurrent for a number of years, of which a fairly large proportion consists of pay and pensions, has been estimated for 1955/56 at 2,100 milliards, according to the recent figures given by the Minister of the Treasury: this is the equivalent of 91.5 per cent of the fiscal revenue, or of 77.1 per cent of «current» expenditure. This advance commitment of the major part of the revenue, being calculated without having to allow for any appreciable margins, leaves a very restricted field open for manoeuvre, especially for using the Budget as an economic stabiliser. The situation has been aggravated in the course of time by the interpretation put on the Budgetary clause in the Constitution (art. 81): when expenditure is to be spread over a number of years, funds to cover it are only explicitly requested for that quota of expenditure which is expected to occur in the financial year authorisation is granted. If, therefore, the balance between funds available and the expenditure to be financed is not maintained, future Budgets are faced with payments which there are no corresponding funds to cover.

The Cash Budget (Gestione di Cassa).— A comprehensive view of the «Cash Budget» can be obtained by first integrating the information from the official Treasury Account (Conto del Tesoro) with some of the items from the balance sheet of the Banca d'Italia, and then by taking certain minor items from the Treasury Account and reclassifying them as Budget items (Table 19). The annual data acquired at the first stage for the period 1948-1954 reveal the tendency since 1949 for the cash deficit to increase, until a sudden fall took place in 1954. This pattern is broadly similar to that for Budget payments, while Budget receipts (which include counterpart funds) show an uninterrupted rise throughout these years, although there was a much smaller increase

from 1953 to 1954 (Chart 10). Furthermore, when the reclassification of the minor Treasury items has been carried out as mentioned, the fall in 1954, compared to the previous year, is considerably reduced. But if to the deficit thus obtained, there is added the extra-budgetary operations of the National Railways, carried out through direct application to the market, and of the Central Post Office Savings Fund, it is clear that 1954 marked the culmination of a rising trend in cash requirements which started in 1949, and which came close to the conspicuously high level of 1948. The growing overall Treasury requirements since 1949 have been covered by increasing indebtedness to the market and to the banking system.

Of the total raised by the Treasury, the share of institutional investors and private persons during these years has kept between 230 and 290 milliards, except for 1951. If one excludes 1948, the first year of the enforcement of the statutory bank reserves, which, besides cash payments, led directly and indirectly to a heavy purchase of Government Securities, the share of banks and savings banks in aggregate has been rising since 1949 till in 1954 it reached 60 per cent of the amount for institutional investors and private persons.

The transactions between the Treasury and the Banca d'Italia have given rise to considerable drawings since the two years 1950 and 1951, while in 1949, chiefly as a result of the large accumulations of counterpart funds (216 milliards), the Treasury was able appreciably to reduce its indebtedness. In 1954 net Treasury drawings amounted to 61 milliards (1), which was almost equal to the level of drawings in 1952, and was slightly above the figure for 1953. It should be realised, however, that while in these two years the Banks' statutory reserves with

(1) For a better comparison with previous years when the amounts advanced by the Foreign Exchange Control Office to the Treasury were not included in transactions with the Banca d'Italia, this sum has been adjusted to exclude government securities transferred from the Foreign Exchange Control Office to the Banca d'Italia in partial settlement of the debt arising out of the advances made by the Office to the Treasury (17 milliards).

Table 19

Budget and Extra-Budget Treasury Operations

(integrated with data on Banca d'Italia operations)

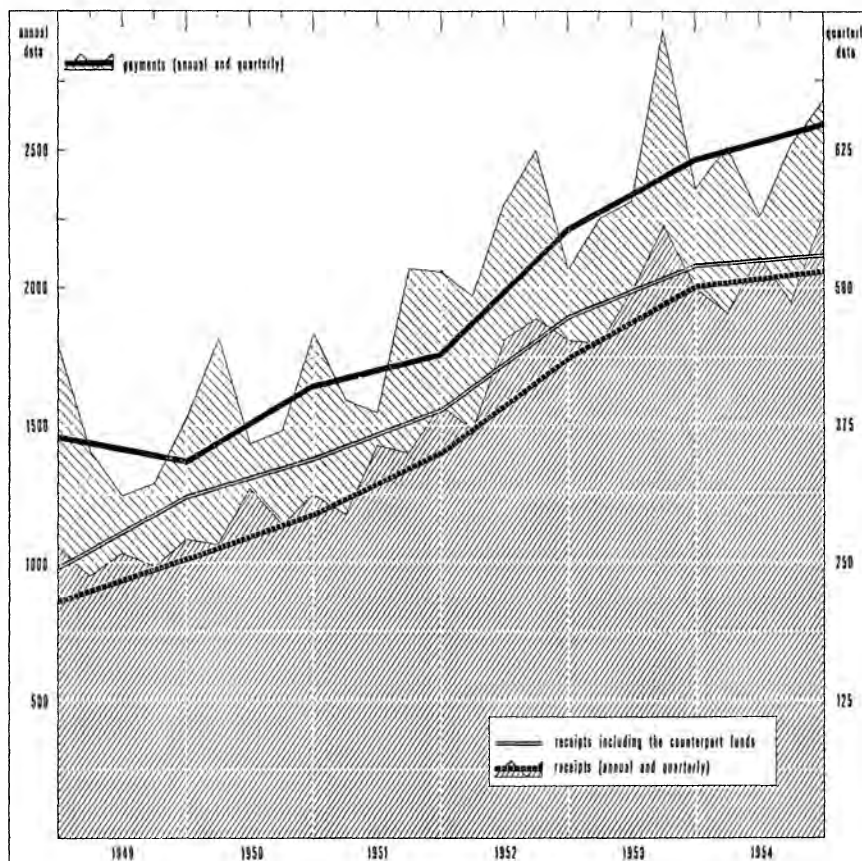
(Milliards of lire)

	1948	1949	1950	1951	1952	1953	1954
<i>Budget Payments</i>	1,460	1,498	1,788	1,928	2,336	2,511	2,484
+ «Sundry Services on behalf of the Government»	15	— 12	7	— 5	— 4	10	— 3
— Repayment of Debt	11	24	131	13	10	12	— 33
<i>Total . . .</i>	1,464	1,462	1,664	1,910	2,322	2,509	2,448
<i>Budget Receipts</i>	924	1,099	1,723	1,761	2,067	2,298	2,333
+ «Balance of Lire Counterpart Funds» (a)	55	135	— 81	— 65	— 42	— 6	31
— Debt Incurred	—	—	306	126	130	197	240
— State Currency Circulation	1	2	1	2	19	19	12
<i>Total . . .</i>	978	1,232	1,335	1,568	1,876	2,076	2,112
<i>Budget Deficit</i>	— 486	— 230	— 329	— 342	— 446	— 433	— 336
<i>Net Increase in Treasury Indebtedness . . .</i>	520	417	69	228	231	168	185
+ «Budget Funds with the Banca d'Italia»	—	14	4	— 2	4	—	2
— Floating Debt	510	334	50	132	121	123	216
<i>Net Inflow from Minor Treasury Items</i>	10	97	23	94	114	45	— 29
<i>Adjusted Cash Deficit</i>	— 476	— 133	— 306	— 248	— 332	— 388	— 365
<i>Extra-Budget Operations:</i>							
«Expenditures by Independent Authorities financed by direct borrowing from the market»	— 2	— 16	1	2	— 37	— 14	— 19
«Loans and Investments by the Central Post Office Savings Fund»	— 29	— 1	— 53	— 56	— 99	— 70	— 108
<i>Overall Cash Requirement</i>	— 507	— 150	— 358	— 302	— 468	— 473	— 492

Debt Incurred (issue of Redeemable Debt)

Borrowing from the market and the Banks:							
Debt Incurred (issue of Redeemable Debt)	—	—	289	107	118	185	202
— Debt repaid (medium and long-term).	13	10	131	13	10	12	16
	— 13	— 10	158	94	108	173	186
+ Floating Debt:							
Treasury Bills.	317	133	20	78	62	23	92
Social Security Institutes	—	1	9	— 5	3	— 6	11
Current Accounts with Banks and Other Institutions	— 16	10	— 15	11	—	— 2	27
« Post Office Savings »	161	176	178	117	176	181	117
+ « Direct borrowing by Independent Authorities »	19	— 1	— 1	— 2	37	36	— 4
	468	309	349	293	386	405	429
of which:							
from Institutional Investors and Private Individuals	260	246	288	194	234	266	274
from Banks and Savings Banks:							
Deposits and direct investments, excluding bank reserves	70	21	37	73	32	35	65
Bank reserves invested directly in Treasury Bills	74	— 8	61	34	54	69	47
Bank reserves invested by the Banca d'Italia in Treasury Bills	64	50	— 37	— 8	66	35	43
	208	63	61	99	152	139	155
« Uninvested Bank Reserves »	10	49	29	55	1	1	14
Treasury's withdrawals from, or deposits into (—), its accounts at the Banca d'Italia	39	— 160	8	8	65	54	61 (78)
State Currency Circulation (excluding currency held by the Banca d'Italia and the Treasury).	—	1	1	1	17	13	2
	39	— 159	9	9	82	67	63
	507	150	358	302	468	472	492
(a) Through the difference between: deposits	120	216	153	173	129	74	56
withdrawals	65	81	234	238	171	80	25

CHART 10



Budgetary Receipts and Payments

(milliards of lire)

Thick and double lines indicate annual data

Thin lines, edging the shaded portions, indicate quarterly data

the Banca d'Italia were wholly transferred to the Treasury in the form of Treasury Bills, in 1954 the amount subscribed to Treasury Bills was kept at about 14 milliards below the total of such reserves. Therefore, if one takes into account these 14 milliards, the figure quoted of 61 milliards for 1954 can be reduced to 47 milliards, a level somewhat below that for both 1952 and 1953.

VII. *The Issue of Securities and the Capital Market*

Government Securities.— During 1954, a new series was issued of 5 per cent nine-year Treasury Bonds, to mature in 1963. This issue, which raised about 187 milliards, had a nominal value of 192 milliards, of which 174 milliards were subscribed in cash, the remaining 18 milliards coming from the conversion of Treasury Bills. To provide for the immediate needs of the territory of Trieste as well as for its economic development, the flotation was authorised in October of a 5 per cent National Loan, redeemable in 20 years from January 1st 1960. This loan was underwritten by a Syndicate of banks. Subscriptions payable only in cash at a price of 95 lire for a nominal value of 100 lire were opened on the 26th October last, and closed the same day, having reached the limit of 32 milliards nominal capital authorised by the relevant law. At the beginning of the current year there was a further issue of nine-year Treasury Bonds which totalled 229 milliards of nominal capital, a sum 37 milliards higher than that raised by the similar operation in 1954. The increase occurred both in cash subscriptions and in the conversion of Treasury Bills, each, respectively, amounting to 14 and 23 milliards more. When comparing the one issue with the other, it is apparent that the contribution of Banks and Savings Banks considerably increased, both in cash (from 37.7 milliards to 48.8 milliards) and in Treasury Bills (from 14.3 milliards to 36.5 milliards). Private persons and non-banking institutions invested a sum of 144 milliards, nearly all in cash (139 milliards). This confirmed the favourable orientation towards investment in government securities already shown in the similar issue in 1954.

Other Fixed Income Securities.— During 1954 the long-term credit institutions issued debentures for a smaller amount than in 1953, largely through the issue of railway debentures by the Credit Consortium for Public Works only recently having taken place, though they had been authorised in the previous December. The other issues of the Consortium in

1954 amounted to 22.4 milliards against 13.2 milliards the year before, and their proceeds were used to finance building, public utilities, land reclamation and land improvement. The delay in drawing from the market the funds for the National Railways made it easier for other long-term credit institutions to place their debentures, which in aggregate amounted to around 133 milliards, compared to 113 milliards in 1953. The highest increase was shown by the mortgage institutions (12 milliards), especially those concerned with building. Among the other more important institutions, the Istituto Mobiliare Italiano raised about 39 milliards from its own debentures, largely for Electricity, Transport and Communications, compared with 35 milliards in 1953. The Credit Institute for Public Utility Enterprises raised 16 milliards, as against the previous year's 13 milliards, primarily to finance power projects. The Institute for Industrial Reconstruction issued debentures which amounted to 28 milliards compared with 33 milliards in both ordinary and convertible debentures, the year before.

Shares.— Last year Companies drew from the Stock Market about 147 milliards, including 21 milliards for subsequent calls on capital first subscribed the year before. This was 44 milliards less than in 1953, when an exceptionally high amount of new capital was floated, and was entirely due to the more limited issue of shares in 1954 by electricity undertakings.

The Overall Issue of Securities.— The full total of money raised from the Capital Market in 1954 is shown in Table 20.

Interest Rates.— In consequence of the increase in rates on time deposits, as was laid down by the inter-Bank agreement which came into force in February 1954, the corresponding rates on interest-bearing notes issued by southern banks were raised by the Banco di Napoli in August and by the Banco di Sicilia in November. At present the interest on such notes rises from a minimum of 4 per cent for those with a maturity of 18

Table 20

Total Issue of Securities since 1948 (1)*(Milliards of lire)**(1938)**(millions)*

	1938	1948	1949	1950	1951	1952	1953	1954
State:								
Consolidated, Redeemable and Multi-year Treasury Bonds ⁽²⁾	244	— 11.6	— 29.2	191.5	114.8	124.7	192.8	211.5
Communal and Provincial	—	0.9	0.9	—	—	5.6	—	—
Total . . .	244	— 10.7	— 28.3	191.5	114.8	130.3	192.8	211.5
Long-term Credit Institutions:								
Istituto Mobiliare Italiano ⁽³⁾	— 9	18.5	20.7	14.7	16.6	35.9	35.2	38.7
Credit Institute for Public Utility Enterprises	15	11.7	13.5	4.7	10.8	12.6	12.8	15.8
Credit Consortium for Public Works . . .	604	24.5	0.4	24.2	1.7	46.9	48.0	22.4
Other Long-term Credit Institutions . . .	23	1.3	—	3.9	7.1	11.8	8.6	4.5
Credit Institutions for Land, Building and Agriculture	319	5.1	12.7	24.6	19.0	20.7	34.6	46.3
Total . .	952	61.1	47.3	72.1	55.2	127.9	139.2	127.7
Institute for Industrial Reconstruction ⁽⁴⁾	—	—	—	—	—	55.6	21.8	27.9
Joint-Stock Companies:								
Shares ⁽⁵⁾	1,697	94.9	104.6	65.5	81.4	107.0	191.6	147.3
Debentures ⁽⁶⁾	32	15.5	86.3	30.0	4.3	11.9	8.3	— 3.7
Total . . .	1,729	110.4	190.9	95.5	85.7	174.5	221.7	171.5
Overall Total . . .	2,925	160.8	209.9	359.1	255.7	432.7	553.7	510.7

(1) Actual proceeds of issues, less amounts repaid.

(2) 16.9 milliards of 5% nine-year Treasury Bonds «1962», transferred to the Italian Foreign Exchange Control Office in return for the financing of special imports from the sterling area, are excluded from the total of bonds issued in 1954; as also bonds amounting to 3 milliards, of the Funded Redeemable 5% Loan, issued as land reform compensation.

(3) Italian Industrial Credit Institute.

(4) Ordinary Debentures only.

(5) The amount of money absorbed by the issue of shares, including commissions and expenses, according to the figures of the Banca Commerciale Italiana. For the years 1948, 1953 and 1954, the following issues, not included in the original data, are now included: 15.0 and 1.1 milliards of shares issued respectively by Finmeccanica and the South Italian Railways Company; 15.0 milliards for similar operations in 1953 of Edison; 8.0 milliards for shares issued by Manifattura Lane Marzotto, carried out in 1954 by converting into shares debentures issued for the same value the year before.

(6) Excluding convertible debentures whose amounts are already included under shares.

months to a maximum of 5 per cent for those maturing in 5 years.

On January 1st of the current year a new agreement came into force which somewhat modified the conditions for the loans and deposits of the Banks and Savings Banks. These modifications only partially affected the level of the rates, which remained substantially unaltered except for current « correspondence » accounts, both demand and time. For demand accounts, the rates which under the previous agreement rose according to the size of the deposit, are now unified at the single rate of $2\frac{1}{2}$ per cent for all accounts with an average annual credit balance above 5 million, in order, partially at least, to remove the drawbacks which the previous scale of rates had imposed on medium-size Banks. Consequently the rates on accounts with an average annual credit balance of 100 millions and above fell on the whole by $\frac{1}{2}$ per cent, while those between 5 million and 50 million rose by 1 per cent. It is worth while to point out that on all categories of accounts, the rate still stands at $\frac{1}{2}$ per cent on the first 5 million of average credit (1). The rates in savings deposits and « ordinary » current accounts have not changed, but the limits have been raised of the agreed amounts that can be available for withdrawal from deposit accounts and demand savings accounts. It should be noted, moreover, that charges have been decreased on overdrafts granted against Government or government-guaranteed securities, while for discounts of promissory notes, the rate has fallen from $4\frac{3}{4}$ to $4\frac{1}{2}$ per cent (see Table 21).

(1) For time « correspondence » accounts, the changes introduced by the new agreement especially affected accounts held by stock-brokers, Government Agencies and long-term credit institutions. The rate on these accounts is now fixed not only, as previously, to differentiate between the length of the deposit, but also between the average size of the account. The distinction has been eliminated which existed in the old inter-Bank agreement between accounts for a determined and an undetermined period: instead, for those with a credit balance above 5 million, the rate has been raised from 3 to $3\frac{1}{2}$ per cent for a minimum of 3 to 6 months, the rate for other periods remaining the same. It should be added that for deposits which stand from 1 month to 3 months, the rates are, respectively, $2\frac{3}{4}$ and $3\frac{1}{4}$ per cent for average annual amounts below and above 5 millions.

Table 21

Interest Rates on the Money and Capital Markets

Description	1938 (¹)	December 1953	December 1954
Bank of Italy:			
Demand Deposits	0.50	0.50	0.50
Time Deposits	0.50	1.50 — 4.25	1.50 — 4.25
Rediscount	4.50	4.00	4.00
Advances	4.50	4.00	4.00
Banks and Savings Banks			
« Ordinary » Current Accounts (²)	1.50	0.50	0.50
Savings Deposits			
{ Demand	2.00	1.00	1.25
{ Time	2.50 — 3.00	1.50 — 2.00	2.50 — 4.00
Small Savings Deposits	2.50	1.50	1.50
Special Time Deposits	—	3.50	4.00 —
Current Corresp. Accounts (²) { Demand . .	1.50	0.50	0.50 — 3.00
{ Time	2.50 — 3.00	1.50 — 2.00	2.50 — 4.00
Open Credits	5.625 — 6.25	6.00 — 7.50	6.00 — 7.50
Advances	5.00 — 5.75	4.75 — 7.00	4.75 — 7.00
Discounts	5.00 — 6.125	5.25 — 6.75	5.25 — 6.75
 Treasury Bills	 5.26	 4.17	 4.17
Interest-Bearing Post Office Bonds	5.00	3.75	3.75
 Consolidated Bonds	 5.40	 5.45	 5.40
Redeemable Bonds	5.66	6.61	6.41
Treasury Bonds	5.29	6.28	6.23
Government Bonds	5.45	6.31	6.23
 Debentures issued by Institutes Specialising in Industrial Loans	 5.72	 7.21	 7.15
Debentures Issued by Institutes Specialising in Industrial Mortgages	5.47	6.76	6.67
Industrial Debentures	6.12	6.77	6.45
Total, Debentures	5.71	7.06	6.99
 Shares	 5.11	 6.21	 5.04

(1) Averages for the period.

(2) On « Current Correspondence a/cs » (c/c di corrispondenza), which are normally business accounts, the customer can give instructions for payment by letter. On « ordinary current a/cs » (c/c ordinario), which are usually smaller and personal, he can, in theory, draw only by cheque. In practice, however, there is not much distinction.

VIII. *The Operations of the Medium and Long-Term Credit Institutions*

The financial assistance channelled by the Government into industry through the specialised credit agencies in the post-war reconstruction period has, during the last few years, declined. Therefore medium and long-term credit institutions have come to depend more extensively on the capital market for raising their funds. The contribution of domestic savings invested in debentures and interest-bearing notes was relatively small for the period 1948/51, but since 1952, however, it has rapidly grown, so as to exceed to an increasing extent the funds which the Government previously provided, both in lire and foreign exchange. By the end of last year, this contribution amounted to about 808 milliards, which, when added to the 61 milliards Capital, represents over half the total of funds raised (Table 22). Next in importance came the foreign exchange and government funds (458 milliards), those raised by means of rediscounts with

Table 22

Sources of Funds of Medium and Long-term Credit Institutions (1)

(as at the end of the year, in milliards of lire)

	Medium and Long-Term Industrial Credit Institutes		Land and Building Credit Institutions		Agricultural Credit Institutions		Total	
	1953	1954	1953	1954	1953	1954	1953	1954
Capital and Reserves	31.0	44.0	5.6	7.7	7.8	9.1	44.4	60.8
Debentures	447.2	531.1	133.9	183.4	13.9	17.1	595.0	731.6
Deposits and interest-bearing notes	50.9	67.7	—	—	6.5	8.6	57.4	76.3
Rediscount	13.7	12.4	—	—	133.4	151.2	147.1	163.6
Current accounts with Banks and Savings Banks	17.2	18.1	0.6	1.0	79.4	87.5	97.2	106.6
Treasury	151.7	174.4	14.8	23.6	11.6	26.1	178.1	224.1
Foreign Exchange Funds	248.0	234.3	—	—	—	—	248.0	234.3
Miscellaneous	9.2	10.2	—	—	14.5	17.4	23.7	27.6
Total	968.9	1,092.2	154.9	215.7	267.1	317.0	1,390.9	1,624.9

(1) Funds provided by the « Central Institution for medium term credit to small and medium sized Industries » by the underwriting of debentures and interest-bearing bonds and through rediscount, are withdrawn from the appropriate sections and classed under the « Treasury », the source of the funds. Under the same heading is also included that portion of funds not invested by the above-mentioned Institution due to resources already being available through the Government.

the Banca d'Italia (164 milliards), and those through current accounts with Banks and Savings Banks (107 milliards). But it should be remembered that the Government provides additional investment funds either directly or through government organisations such as, for example, the Land Reform Authorities and the Southern Development Fund (Cassa per il Mezzogiorno) in their respective areas, the National Housing Institute for Government Employees (INCIS), the Building Fund administered by the National Insurance Institute (INA-Casa), and the Central Post Office Savings Fund. In the financing of industry, government intervention principally works through the long-term credit institutions. These put into effect the various projects: the development of particular branches of production, chiefly Ship-building, Iron and Steel, and Engineering; the support of special categories of undertakings or operations, such as medium-sized and small factories, or the purchase of machinery; the fostering of industrialisation and employment in specific areas in the South and in the Islands. If to these operations which are mainly financed by government funds and foreign exchange, normal ones are added, the volume of loans by the industrial credit institutions up to the end of last year amounted to 912 milliards, not including the 118 milliards invested in the National Railways by the Credit Consortium for Public Works (Table 23).

Table 23

Loans and Investments by Long-term Credit Institutions
(as at the end of the year, in milliards of lire)

Institutions	1953	1954
Industrial Credit Institutions	799.3	912.4
Land and Building Credit Institutions.	142.2	201.1
Agricultural Credit Institutions ⁽¹⁾	233.6	278.4
Agricultural Credit Institute for Sardinia	15.6	20.0
Total	1,190.7	1,411.9
Credit Consortium for Public Works-Operations with the National Railways.	122.3	118.3
Total	1,313.0	1,530.2

(1) Includes the rediscount of agricultural bills which amounted to 5.7 and 8.3 milliards, respectively, at the end of 1953 and 1954.

Industrial Credit Institutions.— By the end of 1954, the total funds raised by the industrial credit institutions had increased by over 117 milliards compared to December 1953, and amounted to 1,076 milliards, including 118 milliards Railways Debentures. Loans outstanding increased by 113 milliards in 1954, which, though a larger increase than in 1953, was smaller than that for any other previous year since 1950. If the destination of the loans is considered, and if the position is compared at the end of 1954 with that a year previously, the prevalence of non-manufacturing over manufacturing activities becomes more pronounced. The relative proportions for the two groups showed a drop from 48 per cent to 45 per cent for Industry, and a rise from 49 per cent to 52 per cent for Public Works and Services. The share of other economic activities remained unchanged at 3 per cent.

A consideration of the distribution of the loans among the various productive sectors during 1954 reveals that the highest proportion went to the electricity undertakings (42 milliards), which borrowed widely the medium and long-term funds necessary to cover the high capital costs arising from the expansion of their plants and their transmission networks. On the other hand, the volume of money raised through the issue of shares by this industrial sector dropped considerably. As a consequence of the heavy financing of electricity Companies by the credit institutions in the last three years, Electricity represented the highest percentage of loans outstanding (26 per cent). It was followed by Engineering (15 per cent) and Shipbuilding (9 per cent), while among the remainder, Iron and Steel had 8 per cent, Chemicals 7 per cent, and Communications 6 per cent.

During 1954, there was an increase of 4 milliards in loans for Engineering, against a drop of 5 milliards the year before. The financial support called for by this branch of industry was very high in 1949 and 1950, 31 milliards for each year, when the exceptional programme of plant modernisation required large amounts of capital investment. The demand was much lower in 1950 and 1951, 5 and 11 milliards respectively, following a progressive decline in the funds allocated by the Government to this

sector. Among other branches of industrial manufacture, the largest financial requirements were for the non-metallic mineral industries, whose activities, following an increase in Building, expanded considerably (about 4 milliards), and for Food industries, especially in the South, where the development of factories is needed to preserve and process fruit and vegetables. The financing of building concerns considerably increased during the year, reaching an amount very much higher than that in previous years, over 7 milliards against about 3 milliards in 1953. In Land Reclamation and Improvement, the higher credit demands revealed the mutual interest of the Central and Local Authorities in the same field: public intervention has been a stimulus to private enterprise to carry out wider works of improvement and transformation. In the more particular sphere of telephone, cable and wireless Companies, an increase double that for 1953 was achieved as a result of higher investments last year in projects to improve services and reorganise installations. In Shipbuilding, though there was a decrease of 5 milliards in the financial support provided by the Treasury, there was the appreciable increase of 7 milliards in loans financed by the direct funds of the credit institutions.

The regional distribution of these loans shows that 61 per cent went to the North of Italy, 18 per cent to the Centre, and the remaining 21 per cent to the South and the Islands. This should be compared to the information given in the last economic census which makes it clear that in November 1951, 65 per cent of employment in Industry, Transport, and Communications was in the North, 20 per cent in the Centre and 15 per cent in the South. It can be presumed that the concentration of fixed investments in industry is even heavier in the North than the last figures would suggest, since, to take one significant element, the regional pattern of power consumption shows that 72 per cent was used in the North, 15 per cent in the Centre, and 13 per cent in the South.

Institute for Industrial Reconstruction (IRI).— Now that the exceptional investment plans undertaken in the past are either completed or are in an advanced stage of being implemen-

ted, the financial requirements of the companies which are controlled by the Institute for Industrial Reconstruction last year needed a smaller amount of finance both from the IRI and from other external sources. This is partially attributable to the increase in their internal resources arising out of the improvements in production in various sectors. The assistance provided by the IRI, whether by direct loans or by subscription to share issues, dropped from 46 milliards to 27 milliards, less than half of that provided from the Capital Market and the banking system. These latter sources have also declined from 71 milliards to 64 milliards, of which 33 milliards were loans from long-term credit institutions, 22 milliards bank loans and 9 milliards were share subscriptions. In aggregate, the companies of the IRI group received about 91 milliards in 1954, against 118 milliards in 1953 and 145 milliards in 1952, the year which marked the highest level of their requirements.

The funds employed by IRI during 1954 came exclusively from either the issue of debentures or the sale of some holdings of lesser importance. The first source raised about 31 milliards, or about 28 milliards net, if account is taken of the redemption of securities previously issued: the second source, which has already in the past shown a steady tendency to rise, reached a sum of 7 milliards, which was a higher increase than for any previous year. As a result of these changes registered in the course of the year, the total of funds raised stood at the end of 1954 at about 356 milliards: of these, 187 milliards, or 53 per cent, came from debentures, (119 milliards ordinary and 68 milliards convertible), 118 milliards from government aid, net of losses borne in the engineering industry, 4 milliards from reserves, and 51 milliards from indebtedness to Banks and long-term credit institutions.

Land and Building Credit Institutions.— Following the recent increase in construction, the loans granted by the credit institutions for Land and Building rose considerably during 1954, reaching a sum of over 200 milliards by the end of the year, compared with 142 milliards twelve months previously. The amount of new loans granted last year was equal, in real

terms, to five times the similar amount in 1938, while the issue of mortgage debentures for building totalled 183 milliards by the end of the year, a net increase of 50 milliards over 1953.

Agricultural Credit Institutions.— The activities of the special agricultural credit institutions, both in giving short-term farm operating credit and in supporting improvements and mechanisation, showed further progress with the total of loans granted reaching 298 milliards by the end of last year. If the financing of agricultural stocks is excluded, the loans made by these institutions increased by 24.1 milliards in 1953 and 36.6 milliards in 1954. If to these operations are added those of the Banks and Savings Banks which also deal in agricultural credit, the overall total of short-term advances on December 31st. 1953 stood at 90.9 milliards and a year later at 117.7 milliards: these sums were, respectively, 85 times and 110 times as much as at the end of 1938. The loans given for agricultural improvements, chiefly through the long-term credit institutions, rose from 47.2 milliards on 31st. December 1953 to 73.6 milliards by the end of 1954: this amounts to a net increase during the year of 26.4 milliards, which was 218 times as much as the 120.9 millions in 1938, a year sufficiently representative of the average increase for the ten-year period from 1930 to 1939. For 1953 the increase had been only 15.7 milliards, 130 times as much as in 1938.

This increase was, to an important extent, due to the special assistance provided by the Treasury through the Revolving Fund and the Southern Development Fund (*Cassa per il Mezzogiorno*), which, among other objects, promotes the growth of agricultural credit facilities for land improvements in the southern regions of Italy. If from the operations of the whole credit system, including both the long-term institutions and the various forms of banks, are deducted those carried through with money from these two exceptional sources, normal operations amounted to 42 milliards up to the end of 1953, and 56 milliards up to 1954. Thus the increase for 1954 amounted to 14.1 milliards, which was 117 times as much as in 1938. The possibility of drawing on government funds has, of course, partially influenced the

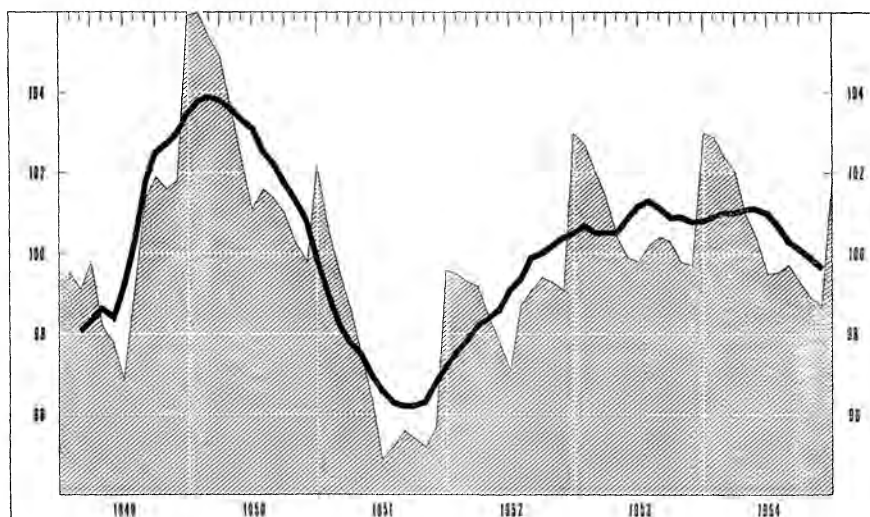
demand which would otherwise have been met by the financial resources of the market. But this source of credit is bound to be drawn on more widely in the future, when the work of agricultural development will have been further expanded through the extensive government action now in progress.

IX. *The operations of Banks and Savings Banks*

The Source of Funds.— The movement of deposits with the Banks and Savings Banks during 1954 has reflected, besides the influence of basic factors, both the year's economic developments and the changes in the pattern of interest rates. As far as the economic developments are concerned, the purely cyclical element can be disregarded, although it was important in the period from 1950 to 1952.

The shaded area in Chart 11 is drawn on gross data, excluding solely the trend, while the thick line excludes both the trend and seasonal variations. In the shaded area, two peaks are clearly apparent in each year: a winter peak connected with

CHART 11



Cyclical movement of savings deposits with the Banks and Savings Banks

the exceptional end-of-year payments made by firms and the Government, and a summer one chiefly determined by agricultural receipts, by government expenditure in the « additional » (1) month, and by the proceeds of seasonal activity. The cyclical movement shows two waves from the middle of 1949 to the middle of 1952, one high and the other low, and both of approximately equal depth and duration: the first marks falling prices and lower purchases, and the second rising prices and wider expenditure arising out of the effects of the Korean war.

The changes in the interest rates affected the overall accumulation of deposits, the form they took, and their distribution both between the various Banks and Savings Banks and, among them, between the large and the small. The inter-Bank agreement was voluntarily promoted by the Banks themselves, concerned as they were with putting an end to the widespread non-observance in recent years of the previous agreement with its low level of interest rates. The new rates generally meant in terms of those established in the previous agreement, higher rates for savings deposits, and lower rates for current accounts. The effects of the new agreement were sufficiently apparent within the first months of its application, during which there took place a transfer from one category of account to another, and an overall contraction from December to February, when the agreement came into force, in the total amount of deposits. Among the larger Banks and Saving Banks, with whom current « correspondence » and « ordinary » accounts form a higher proportion of the total deposits, there was a lower increase in deposits and a slight fall in the average rates paid to depositors: among those with whom savings deposits predominate, there took place a larger increase in deposits and, at the same time, a rise in average rates paid. As a further result of the new agreement, a transfer took place from demand deposits to time deposits, for which, despite the large increase in the past few

(1) The Italian financial year ends in June. July, besides being the first month of the next year is also an « additional » month on to the last year, when the accounts for that year's receipts and payments are still kept open.

years in the number of accounts, there appears to have been also an increase in the average credit balance of each account (Table 24). The transfer from one kind of account to another was the result of the higher rate of interest offered on time deposits, while the increase in the average amount showed that the large depositors to a considerable extent took part in the movement, since they are more sensitive to changes in the rates, and are quicker to move into a more profitable investment. It is therefore clear

Table 24

Deposits of Banks and Savings Banks

	Savings Deposits		Ordinary Current Accounts	Correspondence Current Accounts	
	Demand	Time		Demand	Time
As at the end of 1953:					
Total Amount (millions of lire) .	1,252,888	502,506	265,831	1,691,073	202,346
Number of Accounts	15,929,698	1,243,302	826,304	1,225,032	22,905
Average Amount (lire).	78,651	404,171	321,711	1,380,432	8,834,141
Percentage Variations in 1953:					
Total Amount	15.3	37.2	12.6	12.3	44.2
Average Amount	14.8	31.8	11.0	11.3	29.6
As at the end of 1954:					
Total Amount (millions of lire) .	1,068,747	1,024,766	247,620	1,755,005	377,105
Number of Accounts	15,826,049	1,729,545	846,764	1,260,283	32,234
Average Amount (lire).	67,531	592,506	292,431	1,392,548	11,698,982
Percentage Variations in 1954:					
Total Amount	— 14.7	103.9	— 6,9	3.8	86.4
Average Amount	— 14.1	46.6	— 9,1	0.9	32.4

that the new rates fixed by the agreement have achieved a greater stability in bank deposits, since they have tied down a portion of demand deposits, and eliminated the most mobile part by channeling it into direct investment. The increase of 558.6 milliards which took place in the year was divided into 338.1 milliards for savings deposits and 220.5 milliards for both « ordinary » and « correspondence » current accounts (Table 25). As a consequence of the movement towards more remunerative

Table 25

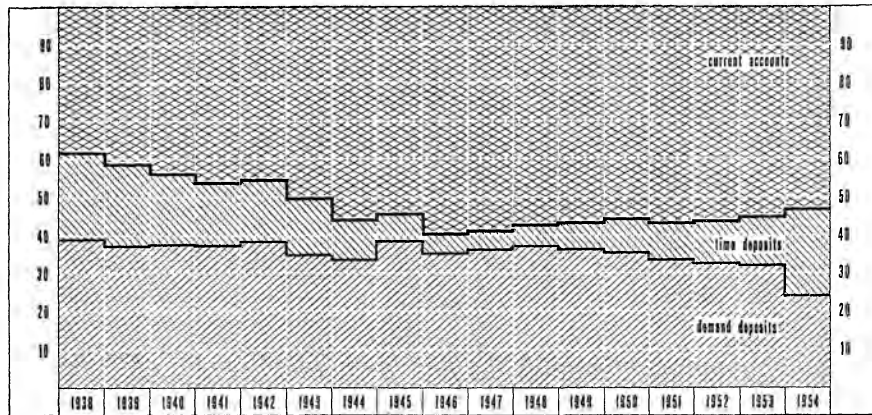
Bank and Post Office Deposits

(billiards of lire)

Period	Savings Deposits			Post Office Savings Books and Bonds	Total, Savings Deposits, and Post Office Savings Books and Bonds	Current Accounts		Total Bank Deposits
	Banks	Savings Banks	Total, Banks and Savings Banks			Ordinary	Correspondence	
Amounts as at the end of the period								
1938	17.7	16.5	34.2	29.2	63.4	3.8	17.5	55.5
1947	272.3	143.1	415.4	198.6	614.0	113.1	485.4	1,013.9
1948	422.2	228.7	650.9	341.7	992.6	154.6	714.8	1,520.3
1949	540.9	300.8	841.7	521.7	1,363.4	174.2	932.8	1,948.7
1950	640.2	349.1	989.3	688.4	1,677.7	183.1	1,062.5	2,234.9
1951	765.7	394.9	1,160.6	795.9	1,956.5	203.5	1,323.9	2,688.0
1952	978.1	474.5	1,452.6	962.5	2,415.1	236.1	1,646.7	3,335.4
1953	1,195.2	560.2	1,755.4	1,146.3	2,901.7	265.8	1,893.4	3,914.6
1954	1,405.4	688.1	2,093.5	1,262.6	3,356.1	247.6	2,132.1	4,473.2
Annual Increase								
1948	149.9	85.6	235.5	143.1	378.6	41.5	229.4	506.4
1949	118.7	72.1	190.8	180.0	370.8	19.6	218.0	428.4
1950	99.3	48.3	147.6	166.7	314.3	8.9	129.7	286.2
1951	125.5	45.8	171.3	107.5	278.8	20.4	261.4	453.1
1952	212.4	79.6	292.0	166.6	458.6	32.6	322.8	647.4
1953	217.1	85.7	302.8	183.8	486.6	29.7	246.7	579.2
1954	210.2	127.9	338.1	116.3	454.4	— 18.2	238.7	558.6
Annual Percentage Increase								
1948	55.0	59.8	56.7	72.0	61.7	36.7	47.3	49.9
1949	28.1	31.5	29.3	52.7	37.4	12.7	30.5	28.2
1950	18.4	16.1	17.5	32.0	23.1	5.1	13.9	14.7
1951	19.6	13.1	17.3	15.6	16.6	11.1	24.6	20.3
1952	27.7	20.2	25.2	20.9	23.4	16.0	24.4	24.1
1953	22.2	18.1	20.8	19.1	20.1	12.6	15.0	17.4
1954	17.6	22.8	19.3	10.1	15.7	— 6.9	12.6	14.3
Index 1938 = 1								
1947	15	9	12	7	10	30	28	18
1948	24	14	19	12	16	41	41	27
1949	31	18	25	18	21	46	53	35
1950	36	21	29	24	26	48	61	40
1951	43	24	34	27	31	54	76	48
1952	55	29	42	33	38	62	94	60
1953	68	34	51	39	46	70	108	71
1954	79	42	61	43	53	65	122	81

deposits, the composition of the overall total of deposits shows a percentage increase in time deposits and a percentage decrease in current « correspondence » accounts: in addition, demand savings deposits and « ordinary » current accounts showed both a percentage decrease and an actual drop in their respective total amounts (Chart 12).

CHART 12



Percentage composition of Bank deposits
(end of year figures)

The reduction in the rate for interest-bearing Post Office Bonds, which adjusted it to the prevailing rates for money, has slowed down the expansion of Post Office Savings, both for Books and Bonds: in place of the 19.1 per cent increase in 1953, there was an increase of 10.1 per cent in 1954 (Tables 25 and 26). In addition, Post Office Current Accounts showed a decline of 23.9 milliards last year against an increase of 79.1 milliards the year before. But both these variations arose almost entirely from accounts belonging to the Government or to the public agencies, used mostly for the payment of pensions, and therefore represent a movement of funds within the public sector. If only private accounts are considered, which are used for ordinary business transactions, the situation has scarcely altered, a rise of 0.7 milliards in 1954 being set against a fall of 2.6 milliards in 1953.

Table 26

Deposits with the Post Office Administration*(as at the end of the year)*

Nature of Deposit	1938		1953	1954		
	Millions	Per Cent	Milliards	Milliards	Per Cent	Index (1938 = 1)
Post Office Savings Books .	8,568	28.2	121.9	141.5	9.4	17
Interest-bearing Bonds . .	20,665	68.1	1,024.4	1,121.1	74.0	54
Books and Bonds . . .	29,233	96.3	1,146.3	1,262.6	83.4	43
Current Accounts	1,135	3.7	276.0	252.1	16.6	222
Total Deposits . . .	30,368	100.0	1,422.3	1,514.7	100.0	50

If regional distribution is studied, it is apparent that, as in the year before, the South and the Islands have further closed up with the national average of deposits per head, by showing a greater increase than either the agricultural areas of Emilia and Veneto, or even the industrial North-West. This relative improvement becomes even more favourable if a direct regional comparison is made rather than one with the national averages, which have been increased by the growing concentration of deposits in the capital. In particular, current accounts in the area of Rome increased by about 33 per cent in the year, equal in absolute terms to about 60 per cent of the increase for the whole country. Similarly, Post Office Books and Bonds showed percentage increases above the average for the capital and the South, the opposite to what occurred in 1953. In this movement, the influence is clear of structural factors, such as the economic development of the South, and the heavy movements of available monetary resources by the large national agencies centred on Rome. Simultaneously, the new inter-Bank agreement has forced out of current accounts a part of the available funds belonging to those industrial and commercial undertakings which are more sensitive to changes in the interest-rate: where the amount of these available funds is greatest, that is to say, in the industrial North-West, the annual increase has been markedly reduced.

The influence of structural factors becomes even more evident over a five-year period. On the basis of 100 for 1949, the regional index for bank deposits in 1954 stood as follows: first the Islands at 262, then Rome at 257, the Southern Mainland at 246 and the area of Tuscany, Umbria and the Marches at 236, which was closest to the national average of 230; below this average stood North-West Italy (Piedmont, Liguria and Lombardy) at 222, and the North-East (the Veneto and Emilia), at 208. The position of Northern Italy improves somewhat if Post Office deposits are also considered, but even then the order remains virtually the same. This pattern is in keeping with what one would expect to result from a planned integration and development of the national economy, except for the concentration in the capital, and the slower impetus in the predominantly agricultural regions of the North East. The regional distribution also confirms the shift in 1954 from the bigger Banks to the Savings Banks and smaller Banks. This not only resulted from the higher proportion of current accounts being with the bigger Banks, for even with savings deposits, the increase has been greater among the Savings Banks and the smaller Banks, especially on the mainland of Italy.

In 1954 there also took place a further strengthening of the capital and reserves of the Banks and Savings Banks. These rose from 95.8 milliards at the end of 1953 to 117.2 milliards a year later, an increase of 21.4 milliards, of which 2.0 milliards came from new capital and 19.4 milliards from reserves, arising for the most part from balances of monetary revaluations. This strengthening of capital and reserves reduced the amount of statutory reserves to be set aside, and raised the limit on loans above which the previous authority of the Banca d'Italia is required. The statutory reserves, which the Banks have to deposit with the Banca d'Italia, rose by the end of 1954 to 837.1 milliards, an increase for the year of 105.8 milliards (Table 27): they consisted of 444.9 milliards in cash and 392.3 milliards in securities. Of the Banks' cash deposits, 296.0 milliards were invested by the Banca d'Italia in Treasury Bills, which left uninvested 148.9 milliards, an increase of 14 milliards over the

Table 27

Banks' Statutory Reserves*(as at the end of the period, in millions of lire)*

Period	Statutory Reserves					Deposits and current correspondence Accounts	% Ratio of Reserves to Deposits
	Deposits at the Central Bank			Securities	Grand Total		
	Not invested	Invested in Treasury Bills by the Banca Italia	Total				
1946 - December . .	—	2,181	2,181	15,999	18,180	567,886	3.2
1947 - September .	—	4,036	4,036	21,436	25,472	763,256	3.3
» - December . .	—	73,293	73,293	37,857	111,150	810,566	13.7
1948 - » ..	712	147,000	147,712	114,336	262,048	1,195,578	21.9
1949 - » ..	49,416	197,000	246,416	107,389	353,805	1,532,822	23.1
1950 - » ..	77,987	160,000	237,987	171,781	409,768	1,761,028	23.3
1951 - » ..	133,377	152,000	285,377	207,429	492,806	2,144,424	23.0
1952 - » ..	134,051	218,000	352,051	272,899	624,950	2,680,437	23.3
1953 - » ..	134,786	253,000	387,786	343,493	731,279	3,142,945	23.3
1954 - » ..	148,864	296,000	444,864	392,276	837,140	3,547,857	23.6

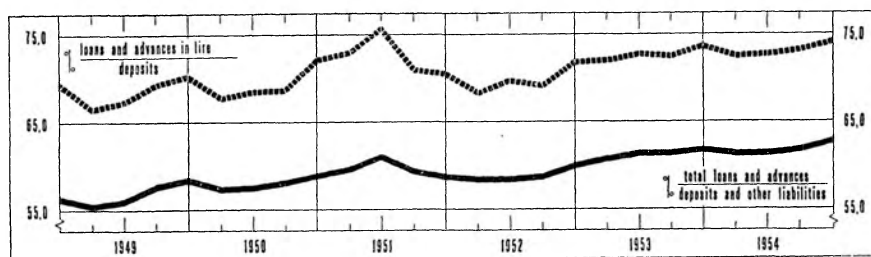
end of 1953, after a period of two years when the sum uninvested had scarcely changed. The total increase for 1954 consisted of 57.1 milliards in cash and 48.7 milliards in securities, a higher proportion therefore in cash than in securities, whereas in 1953 cash had only accounted for about a third of the rise. It now appears that the proportion of the Banks' statutory reserves to deposits which at the end of 1954 equalled 23.6 per cent has been stable for several years at a level below the maximum limit of 25 per cent of deposits, since, through the increase in capital and reserves, the quota of deposits exempted has also risen.

Investments in Securities.— The investments of Banks and Savings Banks in securities amounted to 1,117.5 milliards by the end of 1954: this was 104.0 milliards, or 10 per cent, higher than the total at the end of 1953. This increase of 104.0 milliards consisted of 43.4 milliards in Treasury Bills, 44.1 milliards in other government securities, 5.0 milliards in debentures and 11.5 milliards in shares.

Commercial Loans and Advances.— Table 28 shows on the bottom line the changes during 1954 in the main items of the balance sheet of Banks and Savings Banks. It can be seen then, that loans and advances increased in the year by 430.4 milliards, equal to 77 per cent of the increase in deposits. The total outstanding, excluding securities and loans in foreign currencies and in foreign countries, rose from 2,886.3 milliards at the end of 1953 to 3,316.7 milliards a year later. The increase principally lays in « bills discounted » which rose four times as much as « overdrafts on current accounts »: the ratio of these bills to deposits, including « rediscount with the Banca d'Italia », had returned by the end of the year to that prevailing in 1938 (31.5 per cent). This undoubtedly represented an improvement in the composition of commercial loans through greater elasticity (Table 29).

The ratio between the total of loans and advances to the total of deposits, after a contraction in the first quarter of 1954, progressively increased for the remainder of the year. The ratio between loans, excluding those in foreign currencies, and deposits rose from 73.7 per cent in December 1953 to 74.1 per cent twelve months later. The last figure drops to 62.7 per cent if loans are taken to include those in foreign currencies and in foreign countries, which last year developed considerably, and if deposits are taken to include funds from other sources, such as accounts in foreign currencies and foreign countries, cheques in circulation, third party funds held in administration, recourse to the Banca d'Italia, and capital reserves (Chart 13). The ratio

CHART 13



Percentage relationship of Loans and Advances to Deposits and other Liabilities

Table 28

Main Items in the Balance Sheet of Banks and Savings Banks*(quarterly variations in milliards of lire)*

Period	Cash and Available Funds	Statutory Reserve in Cash and Securities	Government Securities (excluding reserves)	Shares and Debentures (excluding reserves)	Loans and Advances (1)	Deposits	Cheques in circulation	Advances and Rediscunts with the Banca d'Italia	Balance of Minor Items
<i>B a n k s</i>									
1953 - I quarter	— 38.7	21.5	— 4.3	— 2.0	46.3	36.1	— 21.1	2.2	5.6
» - II »	— 9.1	23.7	6.0	1.1	76.1	72.5	2.5	— 6.6	29.4
» - III »	9.3	20.8	48.1	8.6	88.0	161.5	5.6	— 21.2	28.9
» - IV »	16.3	40.3	— 40.3	22.2	193.6	192.3	19.9	38.0	— 18.1
Total, 1953	— 22.2	106.3	9.5	29.9	404.0	462.4	6.9	12.4	45.8
1954 - I quarter	— 18.8	15.4	19.4	— 13.5	— 54.1	— 34.9	— 26.9	— 19.2	29.4
» - II »	14.6	20.3	8.0	4.1	63.7	93.8	9.3	13.9	— 6.3
» - III »	34.3	20.6	30.6	4.9	103.7	124.0	3.3	— 9.0	75.8
» - IV »	— 0.7	49.5	— 33.5	6.2	216.0	222.0	20.4	36.8	— 41.6
Total, 1954	29.4	105.8	24.6	1.7	329.3	404.9	6.1	22.5	57.3
<i>Savings Banks and First-Class Pawn Banks</i>									
1953 - I quarter	— 4.8	—	8.1	2.8	4.8	20.4	— 0.1	— 6.0	— 3.4
» - II »	4.2	—	0.1	4.6	16.8	19.9	0.1	1.5	4.2
» - III »	— 2.4	—	6.8	6.7	48.6	39.7	0.7	8.7	10.6
» - IV »	4.4	—	— 7.5	16.1	22.0	36.8	— 0.3	— 0.8	— 0.7
Total, 1953	1.4	—	7.5	30.2	92.2	116.8	0.4	3.4	10.7
1954 - I quarter	— 3.6	—	9.6	0.9	10.6	37.6	— 0.1	— 1.5	— 18.5
» - II »	0.1	—	— 1.0	2.5	26.5	19.6	—	9.3	— 0.8
» - III »	— 0.5	—	— 0.8	7.4	41.4	46.7	0.7	5.4	— 5.3
» - IV »	5.5	—	5.9	4.4	22.6	49.8	— 0.7	— 5.4	— 5.3
Total, 1954	1.5	—	13.7	15.2	101.1	153.7	— 0.1	7.8	— 29.9
<i>Total of Banks and Savings Banks</i>									
1953 - I quarter	— 43.5	21.5	3.8	0.8	51.1	56.5	— 21.2	— 3.8	2.2
» - II »	— 4.9	23.7	6.1	5.7	92.9	92.4	2.6	— 5.1	33.6
» - III »	6.9	20.8	54.9	15.3	136.6	201.2	6.3	— 12.5	39.5
» - IV »	20.7	40.3	— 47.8	38.3	215.6	229.1	19.6	37.2	— 18.8
Total, 1953	— 20.8	106.3	17.0	60.1	496.2	579.2	7.3	15.8	56.5
1954 - I quarter	— 22.4	15.4	29.0	— 12.6	— 43.5	2.7	— 27.0	— 20.7	10.9
» - II »	14.7	20.3	7.0	6.6	90.2	113.4	9.3	23.2	— 7.1
» - III »	33.8	20.6	29.8	12.3	145.1	170.7	4.0	— 3.6	70.5
» - IV »	4.8	49.5	— 27.5	10.6	238.6	271.8	19.7	31.4	— 46.9
Total, 1954	30.9	105.8	38.3	16.9	430.4	558.6	6.0	30.3	27.4

(1) Excluding foreign exchange loans and foreign loans, debentures and shares.

Table 29

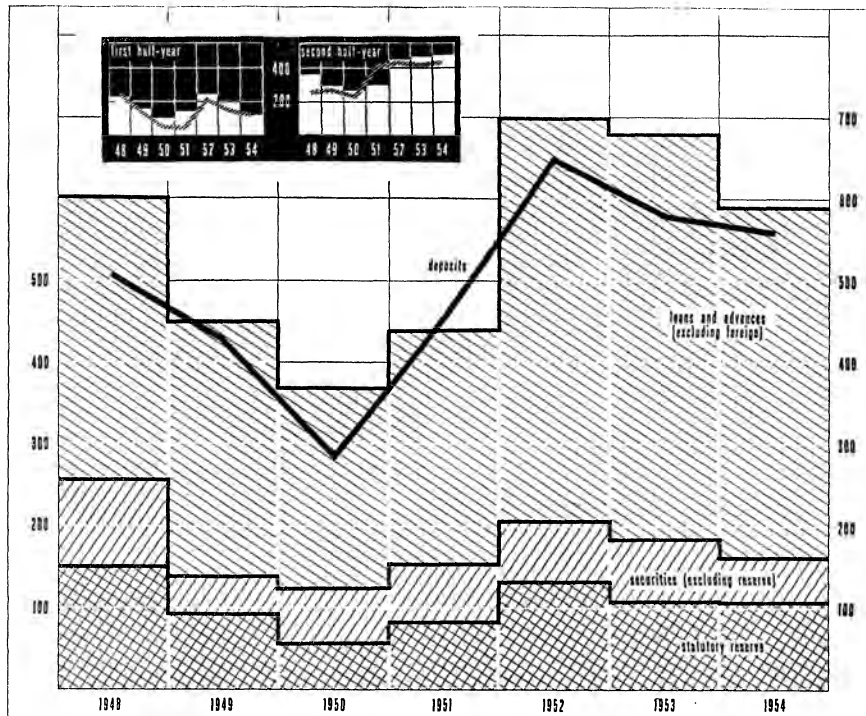
Loans and Deposits of Banks and Savings Banks*(as at the end of the year, in milliards of lire)*

Year	Loans and Advances				Depo- sits	Percentage Ratio to Deposits			
	Bills Discoun- ted and Redi- scouted	Over- drafts on Current Accounts	Other Loans and Advances	Total		Bills Discoun- ted and Redi- scouted	Over- drafts on Current Accounts	Other Loans and Advances	Total Loans and Advances
1938	17.7	?	?	35.5	55.5	31.9	?	?	64.0
1948	409.2	474.7	173.2	1,057.1	1,520.3	26.9	31.2	11.4	69.5
1949	579.0	583.4	206.8	1,369.2	1,948.7	29.7	29.9	10.7	70.3
1950	670.1	687.3	256.4	1,613.8	2,234.9	30.0	30.8	11.4	72.2
1951	759.8	824.0	314.9	1,898.7	2,688.0	28.3	30.7	11.6	70.6
1952	969.4	1,032.9	387.8	2,390.1	3,335.4	29.1	31.0	11.6	71.7
1953	1,160.6	1,260.2	465.5	2,886.3	3,914.6	29.6	32.2	11.9	73.7
1954 . . .	1,408.5	1,332.8	575.4	3,316.7	4,473.2	31.5	29.8	12.8	74.1

of 74.1 between loans (excluding foreign) and deposits was still lower than the peak reached in June 1951 during the period of great credit tightness. Looking back over the seven years since 1947 when monetary stability was achieved (Chart 14), one can see that the expansion both of loans in lire and of deposits slowed down between 1949 and 1951, especially in 1950. In 1952 the largest annual increases were recorded for the seven year period, whilst in the succeeding two years the same rate of expansion has almost been maintained.

The figures mentioned so far have been drawn from the quarterly statements of account by the Banks and Savings Banks. If, however, the figures for loans and advances are taken from the annual statistical survey of their distribution by branches of economic activity, a total of 3,368.4 milliards is reached for the end of 1954. This is an increase during the year of 470.6 milliards, or of 16.2 per cent compared with 493.8 milliards during 1953. The overall total at the end of 1954 was 95 times that for 1938, while in 1954 the national income at current prices was 78 times the 1938 figure. Last year as in the past two years, there was a further marked shift in the distribution of loans and advances towards those industries and

CHART 14



Statutory reserve, securities, loans and advances, and deposits
(variations in milliards of lire)

occupations which produce durable commodities, especially capital goods. With the increased activity in this sector of industry, loans made by Banks and Savings Banks to undertakings producing capital goods generally increased to a degree well above the overall average. In Engineering as a whole, there was an increase of 21.3 per cent arising both from the larger quantities of goods in process of manufacture which followed a higher level of activity, and from the longer delays in payment granted to customers. The non-ferrous metal industry received 20 per cent more bank credits than the year before, both as a result of increased production, and because of the larger imports of raw materials and the higher prices paid for them. Loans to the Iron and Steel industry, however, showed a more limited rise of 12.6 per cent, and a considerable increase in activity was ac-

Main Items in the Balance Sheet of

(million)

I t e m	As at December 31, 1953			
	Banks	Savings Banks	All Banks	Total of Banks and Banking Associations
1. Cash (notes and coins)	51.9	14.7	66.6	66.7
2. Ordinary Deposits with the Banca d'Italia . . .	38.3	3.1	41.4	41.4
3. Deposits at Treasury, Post Office and Central Post Office Savings Fund	19.4	1.0	20.4	20.4
Cash and Available Balances	109.6	18.8	128.4	128.6
4. Statutory Reserves { Cash	387.8	—	387.8	387.8
Government securities	331.6	—	331.6	331.6
Government-guaranteed securities	11.9	—	11.9	11.9
5. Government Securities (excluding reserves) . . .	327.3	94.7	422.0	427.6
6. Shares and Debentures (excluding reserves) . .	110.2	137.8	248.0	269.4
7. Coupons, Cashier Cheques and Other Documents payable on Sight	95.6	12.7	108.3	108.4
8. Deposits with other Banks and Savings Banks .	91.6	109.5	201.1	204.7
9. Correspondence Accounts with Banks and Savings Banks	175.7	39.6	215.3	224.8
10. Bills Discounted	884.1	154.8	1,038.9	1,078.6
11. Overdrafts on Current Accounts	1,146.4	113.8	1,260.2	1,332.7
12. Lombard Loans	99.6	0.1	99.7	100.6
13. Advances	74.7	8.2	82.9	83.1
14. Loans on Pawn and against Salary Allotments .	7.8	26.1	33.9	33.9
15. Loans against Promissory Notes and Mortgages	27.6	139.5	167.1	169.3
16. Participations	11.8	7.9	19.7	20.4
17. Overdrafts on Current Accounts with Special Sections of Banks	45.5	16.7	62.2	62.8
18. Bills Rediscounted at the Banca d'Italia . . .	71.3	50.4	121.7	121.7
Loans and Advances, other than Foreign . .	2,368.8	517.5	2,886.3	3,003.0
19. Loans and Advances in Foreign Currencies and Foreign Countries	60.1	—	60.1	60.1
All Loans and Advances including Foreign	2,428.9	517.5	2,946.4	3,063.1
20. Savings Deposits and Current Correspondence Accounts	3,142.9	771.7	3,914.6	3,923.1
21. Cheques in circulation	140.2	3.0	143.2	166.9
22. Advances and Rediscount by the Banca d'Italia	143.6	68.6	212.2	214.7
23. Other Funds (?)	91.5	40.8	132.3	132.3
24. Capital and Reserves	76.8	19.0	95.8	96.4
Funds Available, excluding Foreign Exchange Accounts	3,595.0	903.1	4,498.1	4,533.4
25. Foreign Exchange Accounts	255.0	..	255.0	255.0
All Funds Available, including Foreign Exchange Accounts	3,850.0	903.1	4,753.1	4,788.4
26. Current Correspondence Accounts with Banks. .	287.7	31.6	319.3	428.2

(1) Banking Associations include the Savings Banks Central Institution, the Credit Co-operatives Central Institution and the Central cultural stocks and with special sections of Banks, and third-party funds held in administration.

Table 30

Banks and Banking Associations (1)

M (re)

As at December 31, 1954				Variations in 1954			
Banks	Savings Banks	All Banks	Total of Banks and Banking Associations	Banks	Savings Banks	All Banks	Total of Banks and Banking Associations
50.9	14.7	65.6	65.7	— 1.0	—	— 1.0	— 1.0
39.8	4.5	44.3	44.3	1.5	1.4	2.9	2.9
48.3	1.1	49.4	49.4	28.9	0.1	29.0	29.0
139.0	20.3	159.3	159.4	29.4	1.5	30.9	30.9
444.8	—	444.8	444.8	57.0	—	57.0	57.0
380.8	—	380.8	380.8	49.2	—	49.2	49.2
11.5	—	11.5	11.5	— 0.4	—	— 0.4	— 0.4
351.9	108.4	460.3	469.0	24.6	13.7	38.3	41.4
111.9	153.0	264.9	290.5	1.7	15.2	16.9	21.1
116.5	13.0	129.5	129.6	20.9	0.3	21.2	21.2
76.1	142.4	218.5	221.9	— 15.5	32.9	17.4	17.2
216.4	56.0	272.4	285.9	40.7	16.4	57.1	61.1
1,061.2	179.3	1,240.5	1,281.9	177.1	24.5	201.6	203.3
1,193.5	139.3	1,332.8	1,436.8	47.1	25.5	72.6	104.1
140.7	0.1	140.8	142.2	41.1	—	41.1	41.7
85.4	9.5	94.9	94.9	10.7	1.3	12.0	11.8
9.2	28.9	38.1	38.1	1.4	2.8	4.2	4.2
35.3	169.7	205.0	207.8	7.7	30.2	37.9	38.5
13.6	9.1	22.7	23.5	1.8	1.2	3.0	3.1
52.9	21.0	73.9	73.9	7.4	4.3	11.7	11.1
106.3	61.7	168.0	168.0	35.0	11.3	46.3	46.3
2,698.1	618.6	3,316.7	3,467.1	329.3	101.1	430.4	464.1
95.3	—	95.3	95.3	35.2	—	35.2	35.2
2,793.4	618.6	3,412.0	3,562.4	364.5	101.1	465.6	499.3
3,547.8	925.4	4,473.2	4,490.1	404.9	153.7	558.6	567.0
146.3	2.9	149.2	174.5	6.1	— 0.1	6.0	7.6
166.1	76.4	242.5	242.8	22.5	7.8	30.3	28.1
97.7	44.8	142.5	142.5	6.2	4.0	10.2	10.2
89.7	27.5	117.2	118.2	12.9	8.5	21.4	21.8
4,047.6	1,077.0	5,124.6	5,168.1	452.6	173.9	626.5	634.7
313.9	..	313.9	313.9	58.9	—	58.9	58.9
4,361.5	1,077.0	5,438.5	5,482.0	511.5	173.9	685.4	693.6
339.2	40.1	379.3	521.6	51.5	8.5	60.0	93.4

1. Union among Commercial Banks and Bankers. — (2) Lombard Loans obtained, current accounts with Institutions financing agri-

accompanied by a tendency for prices to weaken. But the amount of credit required was limited through the financial situation in the industry being good, since the heavy programme of modernisation had no longer to be borne, while its implementation had already made its influence felt on the costs of production. For the timber industry, an increase in imports, together with greater activity and a rise in prices, led to the appreciable increase of 22.2 per cent in credit granted. Durable consumer goods, already partially included under Engineering, but chiefly consisting of Housing, also showed a considerable increase in the use of bank credit facilities. Credit given to «private persons», which in fact is largely used for the purchase of real estate, rose by 20.7 per cent in 1954.

Loans and advances to industry and trade in nondurable commodities, however, increased to a degree less than the general average as did also the level of activity in these industries. Within the group as a whole, the highest percentage increase went to Mineral Oils (22.2 per cent) and Chemical Production (16.1 per cent), though these two branches only to a limited extent produce consumer goods, the major portion of their production being used for industrial purposes. Finally, the credit facilities granted to the retail trade increased by as much as 26.9 per cent, as a result both of a slow-down in some branches in the turnover of goods, and of the consistently increasing spread of hire-purchase.

The shift in the distribution of loans towards undertakings producing durable commodities, already discussed for 1954, becomes even more apparent if the development of loans is considered over the last four years. Between the end of 1950 and the end of 1954, total bank loans approximately doubled, rising from 1,670.7 milliards to 3,368.4 milliards. During this period, loans to industries producing durable commodities rose from 294.5 milliards to 730.9 milliards, that is to say by 148 per cent. Within this sector, the increase was 113 per cent for industry and trade in timber, 159 per cent for non-metallic industries, and 152 per cent for Iron and Steel, and Engineering. Building and Public Works similarly showed an increase

of 113 per cent. On the other hand, loans to industries producing nondurable commodities, chiefly consumer goods, rose from 796.1 milliards to 1,262.5 milliards over the four years, an increase of 59 per cent.

A proper assessment of the developments in the amount of credit granted to the various economic activities, implies some knowledge of the structural distribution of stocks in industry and trade. Therefore an estimate was made of the existing stocks at the end of 1952 (Table 31 and 32).

Table 31

Total Commodity Stocks

(estimated as at the end of 1952 - milliards of lire)

Branch of Economic Activity	Industry	Wholesale Trade	Retail Trade	Total
<i>Durable Goods</i>	908	175	214	1,297
Timber	56	50	30	136
Non-metallic Ores	60	15	25	100
Iron and Steel, Metallurgy, Engineering	792	110	159	1,061
<i>Non-Durable Goods</i>	1,007	875	831	2,713
Food	319	540	176	1,035
Textiles and Clothing	387	170	460	1,017
Other Non-Durable Goods	301	165	195	661
	1,915	1,050	1,045	4,010
<i>Public Services and Other Services</i> . . .	150	—	—	150
Total . . .	2,065	1,050	1,045	4,160

A considerable degree of approximation is unavoidable in this, which is the first valuation of this kind carried out in Italy, especially with regard to the amount of existing stocks in the wholesale trade. The figures, however, are held to give a fairly accurate picture of the structural distribution of stocks within the national economy. The overall total is estimated for the end of 1952 at 4,160 milliards, divided about equally between Industry and the wholesale and retail trade. The ratio between indu-

Table 32

Total Commodity Stocks of Industry

(estimated as at the end of 1952 - milliards of lire)

Branch of Economic Activity	Joint Stock Companies	Others	Total
<i>Durable Goods</i>	534	374	908
Timber	7	49	56
Non-metallic Ores	32	28	60
Iron and Steel, Metallurgy, Engineering	495	297	792
<i>Non-Durable Goods</i>	516	491	1,007
Food	112	207	319
Textiles and Clothing	196	191	387
Other Non-Durable Goods	208	98	301
<i>Public Services and Other Services</i>	54	96	150
Total	1,104	961	2,065

ustrial and commercial stocks varies considerably for the different categories of goods. For non-durable commodities, about 1,000 milliards worth of industrial stocks is matched by the much larger commercial figure of 1,700 milliards, while for durable commodities, the total stocks are largely held by industry (900 milliards against about 400 milliards), consisting chiefly, in the case of Engineering, of goods in process of manufacture. Similarly the ratio is extremely variable between existing stocks in the wholesale trade and those in the retail trade. In the wholesale trade, they are highest for foodstuffs, where the turnover of commodities on sale is particularly fast, and where the total of stocks with retailers is calculated at only 5 per cent of the average annual sale, dropping as low as 1 per cent, or even lower, in the case of bakers and green-grocers. But for textiles and clothing, existing stocks are generally higher in the shops than with wholesalers, retailers holding the equivalent of about 35 per cent of their annual sale. A final feature worth noting is the distribution of stocks between durable and non-durable com-

modities. Within the economy as a whole, the total of 1,300 milliards in stocks of durable goods is equal to about half that for non-durable goods (2,700 milliards). Stocks held by industry are about equal for both categories at around 900 milliards, while for commercial stocks there is a wide disparity, 1,700 milliards non-durable against 400 milliards durable goods.

X. Overall Development in the Credit and Capital Market

The total of credit outstanding for the Banks and Savings Banks, the Banking Associations, and the long-term credit institutions at the end of 1954 amounted to 4,938 milliards: of this, 3,554 milliards, or 72 per cent, came from the Banks and Savings Banks, and the remaining 1,384 milliards (28 per cent) from the long-term credit institutions. The overall increase in 1954 was 724 milliards, 17.2 per cent of the total at the end of 1953 when the increase during the year was 712 milliards. The overall total in 1954 was 91 times as much as that at the end of 1938 (Table 33). As was noted in previous years, the rate of expansion over 1938 is much lower in the sector of public works and mortgage credit, since the period of repayment is longer, the normal ratio between new loans in a year and the total loaned is much smaller, and further since activity carried out during the war and immediately after it was much more limited. Taken as they stand, the different figures for credit outstanding, when compared with the 1938 position, do not adequately convey the actual rate of operations carried out by the institutions specialising in these fields, since, in fact, those operations considerably exceeded in all cases the pre-war level (Table 34).

If to the figures for loans and advances are added those granted by the Institute for Industrial Reconstruction and the Central Post Office Savings Fund, the total increase for 1954 mounts to 861.2 milliards against 828.6 the year before. This was because in addition to the higher amounts for the long-term credit institutions, there was an increase from 21.8 milliards to 27.9 milliards for the Institute for Industrial Reconstruction,

Table 33

Total Loans and Advances

Description	1938		1953		1954		Index of amounts (1938=1)
	Amount as at the end of the year	Increase during the year	Amount as at the end of the year	Increase during the year	Amount as at the end of the year	Increase during the year	
	<i>millions of lire</i>		<i>milliards of lire</i>				
Banks and Savings Banks ⁽¹⁾	35,536	2,192	2,897.8	493.8	3,368.4	470.6	95
Banking Associations. . . .	64	26	116.7	14.5	150.4	33.7	
Minor Credit Institutions . .	426	32	29.4	5.7	35.2	5.8	83
Total	36,026	2,250	3,043.9	514.0	3,554.0	510.1	99
Credit Institutions for Industry and Public Works . .	8,779	974	799.3	102.4	912.4	113.1	104
Credit Institutions for Agriculture, Land and Bilding	9,464	340	370.1	95.8	471.2	101.1	50
Total	54,269	3,564	4,213.3	712.2	4,937.6	724.3	91
I.R.I. (Institute for Industrial Reconstruction) ⁽²⁾	1,000	—	215.0	21.8	242.9	27.9	243
Central Post Office Savings Fund	7,166	114	330.9	94.6	439.9	109.0	61
Total	62,435	3,678	4,759.2	828.6	5,620.4	861.2	90
Banca d'Italia (operations with private customers) . .				— 0,8	—	2.0	
Insurance Companies (excluding securities)				55.0		58.4	
Private shares and debentures				199.9		143.6	
Total				1,082.7		1,061.2	
Duplicated Items in the Issue of Securities				32.3		20.1	
Total				1,050.4		1,041.1	

(1) The figures are drawn from the annual surveys by branch of economic activity and thus include loans and advances in foreign currencies.

(2) Only loans and advances through funds provided by the Treasury, and through the issue of Debentures.

and from 94.6 milliards to 109 milliards for the Central Post Office Savings Fund. Finally, the grand total averaged 1,050 milliards for both 1953 and 1954 if the operations of the Banca d'Italia and of Insurance Companies together with net issues of private industrial shares and debentures are included.

Table 34

**Loans and Advances by Banks, Savings Banks
and Special Credit Institutions**

(as at the end of the year)

Class of Banks	1938		1953	1954		
	Millions of Lire	Per Cent	Milliards of Lire	Milliards of Lire	Per Cent	Index (1938=1)
Banks of Public Law	7,861	14.6	735.9	845.1	17.8	108
Banks of National Interest.	6,784	12.6	748.5	857.2	18.0	126
Ordinary Commercial Banks	7,857	14.6	633.1	736.2	15.5	94
Co-operative Banks	3,659	6.8	287.9	341.9	7.2	93
Savings Banks and First-Class Pawn Banks.	9,375	17.5	492.4	588.0	12.4	63
Special Industrial Credit Institutions Credit Consortium for Public Works - Excluding operations with the Railways	3,785	7.0	749.4	834.4	17.6	220
Land and Building Credit Institutions	4,994	9.3	49.9	78.0	1.6	16
Agricultural Credit Institutions:	6,091	11.3	142.2	201.1	4.2	33
Short-term farm operating loans and Financing of Agricultural Stocks	2,113	3.9	184.0	204.3	4.3	97
Land improvement credit	1,260	2.4	43.9	65.8	1.4	52
Total	53,779	100.0	4,067.2	4,752.0	100.0	88

XI. The Money Supply and the Flow of Savings

The index for currency circulation, calculated on the basis of 100 for the year 1949, showed in 1954 a rise of 9 points over 1953 (Table 36). This was consistent with the increase given for the national income. The index for current accounts rose from 201 to 224, which, as in previous years, was a comparatively higher increase. This was despite the fact that in the early months of the year the reduction in the interest rates offered led to a more discriminating use of current accounts. On calculating the annual increase for each category over the full six-year period from 1949 to 1954, a nearly equal rate of between 8 per cent and 9 per cent is apparent for both the national income and the currency circulation, and double this rate for current accounts. As a consequence of this six-year development, the ratio between

Table 35

**Funds supplied to the various Branches of Economic Activity
by the Credit and Capital Market**

(annual increments, in milliards of lire)

Branch of Economic Activity	Banks and Savings Banks	Industrial and Public Works Credit Institutions	Agri- cultural, Land and Building Credit Institutions	Shares	Debentures	Total	Percentage Breakdown	
							1954	1949-53
1. Private Persons	41.4	—	—	—	—	41.4	4.9	7.4
2. Public Agencies	28.0	—	—	—	—	28.0	3.3	4.9
3. Banks and Stock Brokers, Holding and Insurance Companies	26.4	4.3	—	12.5	—	43.2	5.2	3.9
4. Transport and Communi- cations	4.8	17.6	—	21.4	—	43.8	5.2	2.9
5. Public Utilities	4.9	44.9	—	22.2	—	72.0	8.6	2.4
6. Hotels, Sanatoria, and En- tertainment	9.8	2.7	—	1.5	—	14.0	1.7	1.8
7. Building, Public Works, and Land Reclamation . .	37.0	18.6	53.0	1.4	—	110.0	13.1	8.2
8. Agriculture, including Raw Materials and Implements	39.4	—	27.8	0.1	—	67.3	8.0	6.2
9. Cereals and Other Food- stuffs	73.1	4.8	20.3	2.4	1.5	102.1	12.1	17.9
10. Timber	16.3	1.2	—	..	—	17.5	2.1	2.8
11. Non-metal Ores	33.3	4.7	—	7.7	0.2	45.9	5.5	6.7
12. Iron and Steel, Metallur- gical and Engineering Products	72.0	6.6	—	37.3	0.4	116.3	13.8	15.0
13. Chemicals	14.2	3.6	—	23.0	0.5	41.3	4.9	3.0
14. Paper and Printing . . .	6.0	0.9	—	2.6	0.1	9.6	1.1	1.4
15. Hides and Skins	2.4	—	—	0.4	—	2.8	0.3	1.1
16. Textiles and Clothing . .	28.9	3.6	—	12.7	6.3	51.5	6.1	8.8
17. Miscellaneous Products .	5.7	— 0.4	—	0.9	0.1	6.3	0.7	1.2
18. Retail Trade and Miscel- laneous Services	27.0	—	—	1.2	0.2	28.4	3.4	4.4
Total 1954 . . .	470.6	113.1	101.1	147.3	9.3	841.4	100.0	100.0
» 1953 . . .	493.8	102.4	95.8	191.6	12.2	895.8		
» 1952 . . .	463.4	130.7	46.7	107.0	15.1	762.9		
» 1951 . . .	269.9	135.0	33.4	81.4	6.8	526.5		
» 1950 . . .	292.5	150.7	24.9	65.5	31.7	565.3		
» 1949 . . .	323.2	95.4	46.2	104.6	86.4	655.8		

Table 36

National Income and the Money Supply

(1949 = 100)

	National Income	Notes and coins	Cashier Cheques and Cheques	Current Correspondence and Ordinary Accounts	Total Money Supply
1950.	110.0	109.5	94.1	117.4	112.3
1951.	126.4	120.8	99.3	136.0	126.7
1952.	132.5	134.5	104.2	169.7	149.4
1953.	143.0	142.1	108.6	201.3	168.2
1954.	152.1	152.0	112.5	224.3	183.9
Annual rate of increase between 1949 and 1954	8.7 %	8.9 %	3.1 %	18.3 %	13.5 %

the total money supply and the national income has varied in a sense which would seem to indicate a slowing down in the velocity of circulation in current accounts, and stability for notes (Table 37).

To make clear the mechanism through which the circulation was adapted to the needs of the market over this period, it is useful to examine the variations which occurred in the main

Table 37

Comparison between the Money Supply and the National Income

	National Income (milliards)		For every 100 lire of income ⁽³⁾			
			Notes, and coins	Cashier Cheques, and Cheques	Current Ordinary and Correspondence Accounts	Total Money Supply
	(1)	(2)				
1949	6,961		13.4	1.9	14.0	29.3
1950	7,660		13.3	1.6	14.9	29.9
1951	8,799		12.8	1.5	15.0	29.4
1952	9,221		13.6	1.5	17.9	33.0
1953	9,553	10,135	13.3	1.4	19.7	34.5
1954		10,781	13.4	1.4	20.6	35.4

(1) «Annuario Statistico Italiano» p. 357.

(2) «General Report on the Economic Position of Italy» (1950) p. 10.

(3) For 1954 the figures have as their denominator the sum of 10,587 (milliards), that is to say, the total income for 1954 as shown by the Central Institute of Statistics proportionately increased by the variations in the totals shown for 1953 and 1954 in the «General Report on the Economic Position of Italy».

items of the balance sheet of the Banca d'Italia. In Table 38 the headings have been reclassified to isolate the main channels in the inflow and outflow of notes. The comparison between the years shows a steady expansion of discounts and advances, of de-

Table 38

Summary of the Main Items of the Balance Sheet of the Banca d'Italia
(as at the end of the year, in milliards of lire)

	1947	1948	1949	1950	1951	1952	1953	1954
Discounts and Advances	182.9	195.6	240.8	293.4	281.5	341.4	389.5	430.9
Deposits less Reserves	83.9	113.3	125.2	102.0	138.3	148.6	153.6	172.4
Deposits less Reserves, Loans and Advances	99.0	82.3	115.6	191.4	143.2	192.8	235.9	258.5
Statutory Reserves	73.3	147.7	246.4	238.0	285.4	352.1	387.8	444.9
Deposits including Reserves	157.2	261.0	371.6	340.0	423.7	500.7	541.4	617.3
Gold and Foreign Exchange Holdings	46.8	173.7	420.2	484.3	565.4	470.8	422.0	433.5
Government Commodity Stocks	2.9	39.4	54.4	101.4	192.6	263.2	284.8	275.5
Government Securities held by the Foreign Exchange Control Office	—	—	—	—	—	—	—	16.9
Advances to the Treasury and Government Securities	713.7	816.4	705.6	677.5	677.6	808.6	896.4	1,001.2
Same, less Statutory Reserves	640.4	668.7	459.2	439.5	392.2	456.5	508.6	556.3
Gold and Foreign Exchange Holdings, Government Securities and Treasury Account	763.4	1,029.5	1,180.2	1,213.2	1,435.6	1,542.6	1,603.2	1,727.1
Capital and Reserves	1.0	1.1	1.2	1.4	1.6	1.8	2.0	2.3
Notes in circulation	788.1	963.0	1,048.2	1,165.2	1,291.8	1,381.5	1,449.3	1,538.4

posits, and of the statutory reserves. It reveals at first a fall, but later a rise, for Advances to the Treasury, including government securities, and on the whole an opposite course in the accounts for gold, foreign exchange and the Foreign Exchange Control Office. If, however, these last two groups are considered together, the changes partially cancel each other out, and the combination

of the two also shows a progressive expansion. An analysis of seasonal movements has been made for the last three years, which is an appropriate period since there have been no reversals in the underlying trends to obscure such movements. The results are shown in Table 39.

Table 39

Average Quantity Variations in the Main Items of the Balance Sheet (1)

(1952-54 - milliards of lire)

	Quarter				Year
	I	II	III	IV	
Gold, Foreign Exchange, Government Securities and Treasury Accounts	— 72	16	121	32	97
<i>Statutory Reserves</i>	6	11	31	5	53
Discounts and Advances less Deposits (excluding statutory reserves)	— 25	— 10	— 22	95	38
<i>Notes in circulation</i>	— 103	— 5	68	122	82

(1) Liability items are shown in italics.

To interpret this table to the full, it is necessary to have a picture of the reciprocal relationships between the main items in the Banca d'Italia balance-sheet. In the Table 41 showing the flow of savings and the money supply, a system of presentation has been adopted which derives the «residual effect on the currency circulation» from the variations in the other flows in the table. This presentation has not been inspired by a theoretical line of reasoning which would appear to treat the currency circulation as a dependent variable, and other movements as independent variables, since it merely conforms to certain practical requirements involved in presenting the data. The volume of circulation reflects changes in the liquidity preference, which rises in periods of depression marked by falling prices and by a reduction in aggregate consumer expenditure. If during such periods a restrictive policy were to be adopted which aimed at eliminating the cyclical expansion in circulation, it would, in fact, merely aggravate the cyclical swing in the economy. When, therefore, such a limitation on official action is borne in mind,

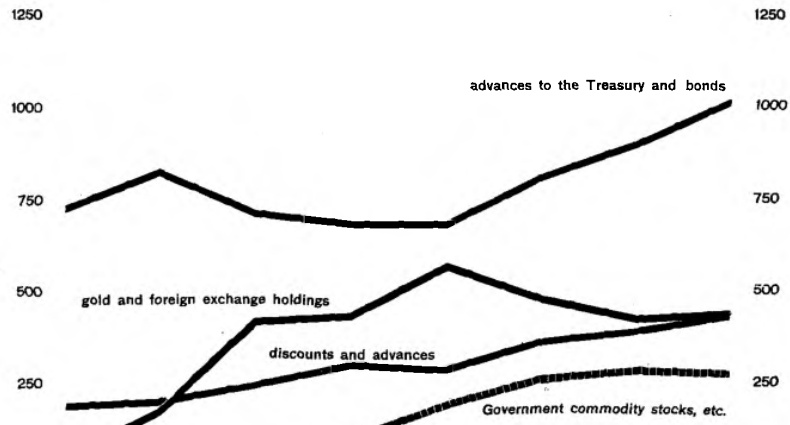
the circulation must be considered as an independent variable in the interplay among the items in the balance sheet of the Central Bank. Given the relationship existing in Italy between the Treasury and the Central Bank, and given the mechanism of compulsory foreign exchange surrender at fixed rates, the group « Gold, Foreign Exchange and Foreign Exchange Control Office, Government Securities, and Treasury Accounts » should also be regarded as composed of variables which, to a large extent, are independent. But the other main items, discounts and advances, deposits, and statutory reserves, taken as a whole, predominantly express the debit-credit relationships between the Central Bank and the Commercial Banks. Therefore, being a fundamental element in the liquidity of commercial Banks, they must be classified as dependent variables.

To enlarge upon this summary analysis, the total amount of the circulation can be said to be the sum of the separate cash holdings: if the total is divided among the groups to which such cash holdings belong, as for example, companies, entrepreneurs, employed persons or farmers, each category will be found to have a different velocity of circulation. This arises from the fact that the members of some of the groups, farmers, or employed persons for instance, invest in notes their temporary excess of liquidity and also, at least at first, their savings. It therefore follows that when through seasonal or cyclical influences their average holdings rise or decline, the total currency circulation correspondingly rises or declines. For example, at times when real wages are increasing, and experience shows that this occurs when prices are slightly falling and nominal wages are stable, then the cash holdings of employed persons become larger: a consequent official policy aimed at checking the rise in circulation, by being unable to remove the root-cause of the problem, would end by dealing only with that portion of the circulation which remains in the turnover of payments, and by so doing, would aggravate the tendency of prices to fall, and hence the phenomenon which it is trying to control. Again, around harvest time, prices show a seasonal decline and circulation a certain growth, as a result of farmers' increased cash holdings.

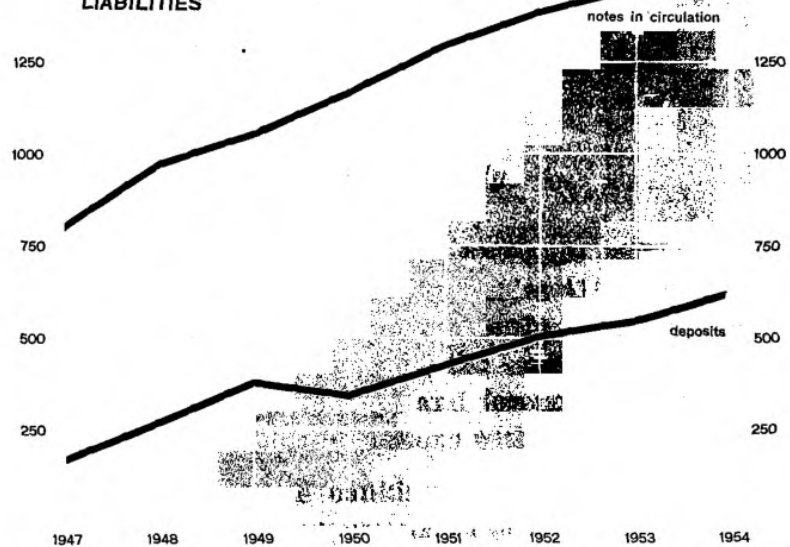
SUMMARY OF THE BALANCE SHEET

(in milliards of lire as at the end of the year)

ASSETS



LIABILITIES



It can be seen from Table 39 that in the first quarter of the year, the absorption of liquidity by the usual issue of Treasury Bonds coincides with a smaller liquidity requirement on the part of the general public. Therefore the Treasury action does not affect the Banks and Savings Banks, whose liquidity, in fact, increases during this quarter. In the third quarter, as a result of the seasonal surplus on foreign transactions and the Treasury deficit which is increased by the payments for the « additional » month, greater liquidity is created in the accounts of Banks and Savings Banks with the Banca d'Italia: this increase they make use of in the last quarter of the year to satisfy the seasonal peak in liquidity requirements.

The liquidity Position of Banks and Savings Banks

It has been noticed that the increase in recent years in total bank deposits has been much higher than the increase in the note issue, and a similar relationship holds between deposits and bank liquidity (Table 40). Although primary liquidity reserves during the past six years have generally risen, they have tended to show a lower ratio to deposits (13.1 per cent in December 1949, 8.2 per cent in 1953, but up to 8.6 per cent in 1954).

The Flow of Savings and the Money Supply

The origin and utilisation of the available monetary resources in 1953 and 1954 can be seen in Tables 41 and 42 which give the flow of savings and the money supply. They show the operations of the banking system and the capital market with the Treasury, the national economy, and foreign countries, and also the relationship of such transactions with the money supply.

The funds raised by the banking system and the capital market, excluding Foreign Aid, amounted in 1954 to 1,263.5 milliards, which was almost equal to the 1,271.1 milliards of 1953. Although there was an increase in savings which took the form

Table 40

**Liquid Reserves of Banks and Savings Banks and their Indebtedness
to the Banca d'Italia**
(millions of dollars)

	1953	1954			
	December	March	June	September	December
Cash (notes and coins)	66.6	53.8	57.2	55.1	65.6
Deposits with the Banca d'Italia - Time (Ordinary)	0.5	10.0	19.1	69.0	0.8
Deposits with the Banca d'Italia - Demand	39.5	34.1	35.6	27.1	47.5
Deposits with the Treasury, the Post Offices and the Central Post Office Savings Fund	20.4	10.2	12.5	4.7	49.4
Unutilised Balances on the Banca d'Italia's overdrafts	149.2	163.1	144.1	168.0	158.4
Treasury Bills in hand	45.5	54.1	70.9	104.7	61.6
<i>Total Primary Reserve</i>	<i>321.7</i>	<i>325.3</i>	<i>339.4</i>	<i>428.6</i>	<i>383.3</i>
Government Securities (excluding Treasury Bills) Government-Guaranteed Securities, Mortgage Debentures	172.2	190.4	190.2	189.8	198.7
Statutory Reserves (Securities and Cash) . .	731.3	746.7	767.0	787.7	837.1
Bills Discounted	1,038.9	1,036.5	1,081.3	1,157.8	1,240.5
<i>Total Secondary Reserve</i>	<i>1,942.4</i>	<i>1,973.6</i>	<i>2,038.5</i>	<i>2,135.3</i>	<i>2,276.3</i>
<i>Total Reserve</i>	<i>2,264.1</i>	<i>2,298.9</i>	<i>2,377.9</i>	<i>2,563.9</i>	<i>2,659.6</i>
Deposits	3,914.6	3,917.3	4,030.6	4,201.4	4,473.2
Ratio between Reserves { Primary Reserve .	8.2	8.3	8.4	10.2	8.6
and Deposits { Secondary Reserve	49.6	50.4	50.6	50.8	50.9
{ Total Reserve . .	57.8	58.7	59.0	61.0	59.5
Rediscount on the financing of agricultural stocks	113.0	109.0	111.0	143.6	146.8
Rediscount on Trade Bills	7.3	11.5	18.3	4.8	20.2
Advances	91.7	69.6	85.7	62.2	75.9
Deferred Payments	3.8	0.4	0.4	—	2.6
<i>Total debts to the Banca d'Italia</i> (excluding rediscount on the financing of agricultural stocks)	<i>102.8</i>	<i>81.5</i>	<i>104.4</i>	<i>67.0</i>	<i>98.7</i>

of deposit accounts and government securities from 992.5 milliards to 1,026.0 milliards, there was a fall in current accounts and cheques from 278.6 milliards to 237.5 milliards. This slight overall decrease arose from the very wide changes, some positive and some negative, in the different components of the total.

Thus the appreciable drop in current accounts at the Banks and in Post Office Savings was matched by the rise, from 302.8 milliards in 1953 to 338.1 milliards in 1954, in savings with the Banks and Savings Banks, and from 310.4 milliards to 406.7 milliards in the funds raised by the long-term credit institutions and on the capital market. The net increase in this last category resulted from a higher issue of securities by the government and the long-term credit institutions, and a lower issue by industrial undertakings. A larger amount of government, but a smaller amount of private securities was taken up by the banks.

To obtain a more comprehensive idea of the amount of money employed, to the figure of 1,263.5 milliards given before there should be added 6.5 milliards from rediscount, advances and deposits with the Banca d'Italia, and from it subtracted a 1.6 milliard increase in cash and available balances. Thus a figure of 1,268.4 milliards is obtained, of which 322.4 milliards went to the Treasury and 946.0 milliards to the private sector, including Local Authorities. The funds lent to the Treasury amounted therefore to a quarter of the available resources formed during 1954. The sum of 946.0 milliards that went to the private sector, which included loans by the Central Post Office Savings Fund for Communal and Provincial Housing schemes, was 54.8 milliards less than the similar amount for 1953. This decrease was entirely due to the smaller total of bank loans and advances in lire, and to the lower issue of industrial securities, whereas the Central Post Office Savings Fund, the Banking Associations, the long-term credit institutions, and the Insurance Companies, each increased the volume of their loans. The difference between the last two years in the amount of loans and advances made to the private sector is considerably reduced if, besides the figures given in the table for the « Flow of Savings and the Money Supply », one also considers loans and advances by the Banks and Savings Banks in foreign exchange, and loans made by the long-term credit institutions with funds coming from minor sources not included in Table 41.

Transactions arising from the accumulation and release of counterpart funds and those arising from the purchase and sale

The Flow of Savings and the Money Supply - Detailed Statement

Table 41

(Variations during the year, milliards of lire)

I T E M S	Y E A R 1 9 5 3					Y E A R 1 9 5 4				
	Destination		Source (1)		Residual Effect on Currency Circulation	Destination		Source (1)		Residual Effect on Currency Circulation
	To the Treasury	To the Economy shares and de- bentures loans and advances	Excluding Current Accounts	Current Accounts		To the Treasury	To the Economy shares and de- bentures loans and advances	Excluding Current Accounts	Current Accounts	
BANCA D'ITALIA (Special Institutions and Private Customers)										
1. Rediscount: Syndicate for Advances on Industrial Securities.				3.4					1.2	
2. Rediscount: Agricultural Credit Institutions and Sections				32.0					17.6	
3. Direct Discounts				0.1					—	
4. Advances to Special Institutions.				0.5					0.5	
5. Advances to Private Customers				0.7					2.0	
				35.1					13.9	
6. Current Accounts.				—	6.5				—	3.5
7. Cashier Cheques, Cheques and other Sight Liabilities.					0.3				—	3.2
8. Minor Items			14.6					12.2		
				8.4	26.7				12.5	1.4
BANKS AND SAVINGS BANKS										
9. Deposits at the Treasury.	5.4					23.3				
10. Treasury Bills through the Banca d'Italia for Statutory Reserves.	35.0					43.0				
11. Treasury Bills direct for Statutory Reserves.	72.1					49.4				
12. Other Government Securities for Statutory Reserves	1.1					0.2				
13. Other Treasury Bills	49.4					6.0				
14. Other Government Securities	66.5					44.3				
	117.7					153.8				
15. Loans and Investments.	22.2	37.5	496.2			1.3	17.8	430.4		
16. Savings Deposits and Current Correspondence Accounts			302.8	276.4				338.1	220.5	
17. Cashier Cheques, and Cheques				7.3					6.0	
18. Net Surplus on Minor Asset and Liability Items			87.5					63.7		
			674.0					628.3		
19. Less Cash and Available Balances (excluding balances with the Tr. and the B.I.)			18.6					34.9		
			655.4					593.4		
Transactions with the Banca d'Italia:										
20. Rediscounts					22.3					46.7
21. Advances taken					9.0					15.9
22. Deferred Payments at Clearing Houses					1.3					1.2
23. Less Uninvested Deposits for Statutory Reserves					0.7					14.1
24. Less Other Deposits					6.9					8.2
					18.2					7.3
BANKING ASSOCIATIONS										
25. Deposits at the Treasury.	0.1					—				
26. Treasury Bills	2.2					3.0				
27. Other Government Securities	2.1					3.0				
		1.6	14.5				4.3	33.8		
28. Loans and Investments.				2.4					8.4	
29. Savings Deposits and Current Correspondence Accounts				1.3					1.6	
30. Cheques.										
			3.7					10.0		
31. Less Cash and Available Balances (excluding balances with the Tr. and the B.I.)			15.1					33.3		
			18.8					43.3		

Table 42

The Flow of Savings and the Money Supply in 1953 and 1954 (1)*(Variations during the year, milliards of lire)*

Items	1953			1954		
	First Half	Second Half	Total	First Half	Second Half	Total
<i>Funds borrowed by the Treasury from:</i>						
Banks, Savings Banks and Banking Associations	56.0	86.0	142.0	47.3	108.2	155.5
Central Post-Office Savings Fund	51.0	36.3	87.3	1.5	7.4	8.9
Insurance Companies	3.6	0.5	4.1	4.1	4.1	8.2
Long-term Credit Institutions and the Capital Market . .	70.1	7.6	77.7	136.4	13.4	149.8
	180.7	130.4	311.1	189.3	133.1	322.4
Foreign Aid	35.9	38.1	74.0	10.5	9.2	19.7
Other Accounts at the Banca d'Italia	— 59.1	105.5	46.4	— 15.2	124.2	109.0
Italian Foreign Exchange Control Office, Gold and Foreign Exchange	21.2	0.4	21.6	— 0.1	— 9.2	— 9.3
	178.7	274.4	453.1	184.5	257.3	441.8
<i>Funds borrowed by the Economy, from or through:</i>						
Banca d'Italia	— 12.5	47.6	35.1	— 28.5	42.4	13.9
Banks, Savings Banks and Banking Associations	165.1	384.7	549.8	67.2	419.1	486.3
Central Post-Office Savings Fund	28.3	65.6	93.9	45.3	62.8	108.1
Insurance Companies	43.1	46.2	89.3	40.4	40.4	80.8
Long-term Credit Institutions and the Capital Market . .	193.5	39.2	232.7	164.1	92.8	256.9
	417.5	583.3	1,000.8	288.5	657.5	946.0
Italian Foreign Exchange Control Office, Gold and Foreign Exchange	— 80.9	30.8	— 50.1	— 14.2	27.4	13.2
Foreign Aid	—	—	—	—	—	—
	336.6	614.1	950.7	274.3	684.9	959.2
	515.3	888.5	1,403.8	458.8	942.2	1,401.0
<i>Source of Funds:</i>						
Savings Deposits	95.5	207.3	302.8	109.0	229.1	338.1
Other Bank Accounts	35.9	66.2	102.1	1.2	74.7	75.9
Post-Office Savings	88.7	95.1	183.8	42.0	74.3	116.3
Insurance Companies	46.7	46.7	93.4	44.5	44.5	89.0
Long-term Credit Institutions and the Capital Market . .	263.6	46.8	310.4	300.5	106.2	406.7
Banca d'Italia Current Accounts and Cashier Cheques . .	— 3.7	— 2.5	— 6.2	2.8	— 2.5	0.3
Banks' Current Accounts and Cheques	36.6	250.8	287.4	— 8.2	244.7	236.5
Post Office Current Accounts	— 9.4	6.8	— 2.6	4.8	— 4.1	0.7
	553.9	717.2	1,271.1	496.6	766.9	1,263.5
Foreign Aid	45.0	23.4	68.4	25.8	24.4	50.2
Cash and Available Balances (2).	— 48.5	52.0	3.5	— 45.0	46.6	1.6
Circulation of Banca d'Italia Notes	— 132.1	199.9	67.8	— 108.6	197.5	88.9
	515.3	888.5	1,403.8	458.8	942.2	1,401.0

(1) Excluding loans and investments in foreign currencies, and current accounts in foreign countries.

(2) If negative the figures should be added to the funds available, and, if positive, deducted.

of foreign exchange and gold, led to the inflow of notes to the value of 37.0 milliards which was rather less than one third the corresponding inflow in 1953. The figure for 1954 is made up by a net outflow of 13.2 milliards to purchase foreign currency and an inflow of 50.2 milliards arising from Foreign Aid: the equivalent figures for 1953 were both inflows of 50.1 and 66.6 milliards respectively. In all, the operations which have been discussed, carried out by the banking system and the capital market, have resulted in an increase in the currency circulation, including Treasury currency, of 90.6 milliards, which was somewhat higher than the 1953 rise of 80.6 milliards.

As in previous years, during 1954 the available monetary resources were formed to a larger extent in the second half of the year than in the first, 60 per cent against 40 per cent, which were roughly the same percentages as the year before. The difference between one half of the year and the other was not so marked in the overall total as it was, more specifically, for Bank and Post Office deposits, since there was a partial compensation in the fact that funds raised by the credit institutions and the capital market were, unlike deposits, higher in the first half. The greater yield of the capital market in the first half of the year has been generally caused by the issue of Treasury Bonds, which in the recent past has always been made in the first months of each year: in both 1953 and 1954, however, the difference between the first half and the second was further accentuated through private companies also concentrating their issues in the first half of each of the two years.

XII. *Excerpts from the Governor's Concluding Survey*

Gentlemen,

it is our task to draw from the figures, observations, and references contained in this Report certain conclusions which, on the basis of a summary reclassification of the numerous data, attempt to outline the fundamental facts of the economic life of our country. Devoting special attention to the financial aspects of these facts, we shall also attempt to draw from them indications capable of facilitating the course of future action, for which we ourselves are partly responsible.

This year, the studies on our economic situation have had the benefit of the remarkable contributions made in the « Survey on the economic position of Italy » submitted to Parliament and, above all, of the publication of the Programme for the « Development of Employment and Income in Italy in the Ten-Year Period 1955-1964 ». This full and scientifically conducted investigation of the problems of our economic development, carried out with a full awareness of the structural conditions of our productive system and the fundamental needs of Italian society, presents for the first time in our country a unified picture of these problems, and the final effects that any given course of action is likely to produce on the development of income and employment. One of the merits of the Programme is that it has provided a useful guide for preventing those losses which result from a failure to make use of the human, capital or material resources available in our country.

As the framework for our conclusions, we shall start with an analysis of the balance sheet of the Bank, into which are channelled the various monetary flows arising from the movements of production, domestic and foreign trade, and from public finance developments, in order that we may trace the often remote causes of these movements from the results shown in the accounts of the Bank. The credit side is divided into three prin-

principal categories of assets: loans and advances, Treasury accounts, including holdings of government securities by the Bank, and lastly, the direct and indirect financing of the official foreign exchange holdings; the debit basically shows the Commercial Banks' funds held by the Banca d'Italia in the form of demand and time deposits, and currency circulation.

The analysis of the first category of assets will permit us to show how production and trade were financed by the credit system during the year; the analysis of the second category will permit us to measure the repercussions of the management of the public finances on the balance sheet of the Bank; and finally, the analysis of the third category, will allow us to examine our position in regard to our economic and financial relations with foreign countries.

The Financing of Production and Trade.— The loans of the Banca d'Italia to Banks and Savings Banks increased by 43 milliards from December 31, 1953 to December 31, 1954; since the deposits of these banks, other than for statutory reserves, increased by only 8 milliards, there was a net increase in their borrowing of 35 milliards. This is a first indication that in 1954 the banking system was subjected to demands in excess of the resources which flowed to it during the course of the year. An analysis, though brief, of the lending and borrowing activities of the banking system will show that in 1954 it was confronted with a heavy demand which it did not find easy to meet. The volume of credit granted to the private sector by the entire credit system (Banks and Savings Banks, special institutions for credit to industry and public works, and agricultural, mortgage and building credit institutions) increased between the end of 1953 and the end of 1954 by 724 milliards, thus exceeding the increase of 712 milliards, which in itself appeared to be extremely high, registered in 1953. If the loans of the Institute for Industrial Reconstruction and the Central Post Office Savings Fund are also included, the figure for loans in 1954 rises to 861 milliards, a figure which is also higher than the 829 milliards in 1953.

Total loans of the banking system thus rose from 4,213 milliards as at the end of 1953 to 4,937 milliards as at December 31, 1954. The latter figure, considered alone, is 91 times the amount of such loans as at December 31, 1938, and is indicative of a notable participation of the banking system in the field of production; but the burden placed upon the system is measured better by the fact that, whereas national income at current prices in 1954 was 78 times that of 1938, the amount of new financial resources provided last year for the development of the economy was about 200 times that of 1938. If the comparison is made between 1954 and 1947, which was the year in which excessive credit expansion had to be arrested by certain well-known measures, and in which the price level did not differ substantially from the present level, the increase in the amount of loans was about 1.6 times.

The amounts just referred to require some comment.

To clear the ground of minor questions, and to measure as faithfully as possible the effort the banking system is making, it must be pointed out that of the 724 milliards which it supplied to the economy, 54 milliards were financed with resources obtained from the Treasury (agricultural revolving fund, Aldisio loans, ERP funds carried over). Therefore the money furnished to the private sector by the banking system on its own was 670 milliards. It also invested 161 milliards, of which 87 milliards was in Treasury Bills and other Government securities, 57 milliards in statutory reserves held on deposit at the Banca d'Italia, and 17 milliards in shares and debentures. Thus, if the additional liquidity is also included, which, though limited in amount (31 milliards), the banking system had to maintain in relation to the increased volume of deposits, the funds it had to procure during the year, from both the domestic and the international markets, amounted to 862 milliards, excluding Government assistance.

This enormous sum of money was obtained in the form of savings deposits and current accounts at Banks and Savings Banks (559 milliards), sale of debentures and interest-bear-

ing notes beyond those subscribed by the Banks and Savings Banks (144 milliards), increases in capital and reserves of Banks and long-term credit institutions (38 milliards), and increased net indebtedness in foreign currency (59 milliards). But to reach the full amount needed to cover the larger volume of lending operations, including minor items of 19 milliards, the Banks and Savings Banks had recourse, in the usual form of rediscounts on the financing of agricultural stocks, to the Banca d'Italia, which, as already indicated, had to supply 43 milliards. It should be added that the 670 milliards of 1954 corresponded to 652 milliards in 1953, 632 milliards in 1952, and only 409 milliards in 1951 and 411 milliards in 1950. For three years, therefore, the expansion of the banking system is measured at about 650 milliards a year, which exceeds that of 1950 by about 60 per cent.

The heavy demand for bank loans in the last three years has not been the consequence of an impoverishment of the other sources of finance. The tables on the « Flow of Savings and the Money Supply » published in our Reports show that the money collected from the public in the form of savings deposits with Banks and Savings Banks, Post Office Savings Books and Bonds, Government or Government-guaranteed securities, interest-bearing notes, shares and debentures less subscriptions by the banking system, and reserves of insurance companies, was around 600 milliards in both 1950 and 1951, rose to about 800 milliards in 1952, which was a year of great liquidity, and rose still further to 993 milliards and 1,026 milliards in 1953 and 1954, which years, however, were characterised by a credit stringency of some importance. These last two figures are more than 60 per cent higher than those of 1950/51, although they reveal only a slight increase for last year.

In the period from 1952 to 1953, however, and again from 1953 to 1954, the funds which flowed to the capital market acquired increasing importance in comparison with those which flowed to the banking system and Post Office savings banks. The size of the capital market increased from 230 milliards in 1952 to 310 milliards in 1953, and to 407 milliards in 1954, thus absorbing about 177 milliards between 1952 and 1954. This was almost

80 per cent of the increase in the total amount of deposits with Banks, which rose, as we have shown, from about 800 milliards in 1952 to well above 1,000 milliards in 1954. This fact, if it is permissible to assume what will happen in the future on the basis of what has taken place in the recent past, leads us to say that the importance of the different instruments for financing production is tending to vary, in the sense that the rôle played by the Banks is decreasing in comparison with the growing importance of the capital market. This tendency has also developed in the most important foreign countries, where every effort is made to favour it. A comparison between the last two years' «Flow of Savings and the Money Supply» reveals not only the phenomenon of the increased participation of the capital market in the channelling of savings to investments, but also the substantial equality of the volume of savings available to the Treasury in these two years for its own purposes, and for the loans of the Central Post Office Savings Fund. The total amounts involved were 311 milliards in 1953 and 322 milliards in 1954, not including the sum that went to the Treasury in the form of statutory bank reserves.

The size of the capital market can be gauged by the fact that the total issue of shares decreased from 192 milliards in 1953, to 147 milliards in 1954, while the issue of debentures, made for the most part by the long-term credit institutions, increased from 134 milliards to 156 milliards between the two years. Less duplications and placement with Banks and Savings Banks, total shares and debentures sold to the public amounted to 162 milliards in 1952, 221 milliards in 1953 and 239 milliards in 1954. The reduction of shares issued, which was of a purely voluntary nature in as much as the Inter-Ministerial committee for credit and savings authorised all increases of capital requested, is not explained by the behaviour of Stock Exchange quotations, the average index of which increased 29 per cent during the year. Therefore it can be considered that further issues could easily have been placed.

The intensity with which money had flowed to the capital market in these years when income has been rising substantially,

is explained by the fact that savers, once they have reached an amount of deposits they consider sufficient for the unforeseeable contingencies that may require them to make use of liquid funds, slow down the further accumulation of Bank or Post Office savings deposits. They turn to other forms of investment, such as Government or private securities, or, of course, to the purchase of furniture, durable consumer goods, houses, or life insurance policies. Similarly, it can be considered that enterprises, after having re-established in past years their normal degree of liquidity, placed their excess margins of financial resources in direct or portfolio investments.

Under these circumstances, it seems to be logical that it is not the first segments of savings that tend to remain outside the banking system, but rather the higher segments, and consequently it is only in respect to the latter that the amount of interest paid on deposits becomes a real incentive. That explains why the Banks decided, as of February 1954, to increase the rates paid on time deposits, into which flow the higher segments of deposits, those believed to be not urgently needed. But, even if the objective of safeguarding our credit system, which meets the permanent requirements of our country, especially the development of local economies, requires that interest on deposits be not excessive, in accordance with a principle which is carefully observed abroad even in countries favouring the utmost freedom of competition, other reasons of general interest fully confirm the desirability of such a principle.

The growth of deposits, however, should not be entrusted to an increase in the interest paid on them, but rather to an improvement in the standard of living of those who are still far removed from the credit institutions, and who have come to them in recent times only with minimal amounts. It is reassuring to observe in this connection that in the years following the monetary stabilisation, the underdeveloped regions of southern Italy and the Islands have taken part in the movement to accumulate bank deposits, with amounts which, although they seem small in absolute terms in comparison with the larger funds which flow to the banks of the North on the basis of the initial

levels, represent relatively higher increases than those obtaining in the rest of the country. Even in the field of credit, therefore, the shortening of the distances between the economy of the South and that of the North appears to be desirable, not only as a good end in itself, but as an instrument in that process of economic expansion which must also include banking activity.

The rehabilitation of the southern areas and the improvement of the well-being of the poor, as well as a limitation on the other classes in the general march towards higher consumption, are the objectives to be pursued. From this point of view, it is not superfluous to point out that while the volume of investment increased notably last year, savings channelled through the credit and capital market increased but little on the basis of the data given in our Report. The moderate change between the two years may perhaps be connected with reduced grain production; it may also be attributed to heavy building investments made by the many Italians who want to obtain homes of their own, since the maintenance of rent control prevents a rational utilisation of the building assets subject to that control.

But the level of savings which flowed to the banking system, besides being affected by the portion of savings directly invested, appears also to have been restricted by heavy increases in purchases of consumer goods (cars, household electrical appliances, etc.), as well as non-essential items (tobacco, entertainments, etc.). We do not wish to draw any conclusions from this hypothesis, other than that it is impossible to advocate large increases in consumption and in the purchase of durable goods at the expense of investment in capital goods, and at the same time to call on the credit and capital market in general for funds in excess of the resources which flow to those markets, and which are reduced by the growth of consumption. Therefore, it is obviously in the interest of the credit system that the economic development of the country should take place along the lines of the ten-year Programme, which aims at providing employment for a large number of unemployed or underemployed, thus making them potential savers. This presupposes the adoption of measures capable of ensuring that the total expansion of con-

sumption will be somewhat slower than the accumulation of income, so that an increasing flow of savings may be channelled into the banking system.

The heavy demand for bank loans last year, as has been seen, did not arise from the drying-up of other sources of capital, nor, on the other hand, is it explained by the movement of prices, which remained substantially stable. The index of wholesale prices of the Central Institute of Statistics indicates a slight increase of 1.8 per cent between December 1953 and December 1954, while the index of the Chamber of Commerce of Milan, shows only a rise of 0.7 per cent—changes not appreciably different from those normally registered in countries which are considered to enjoy sufficient monetary stability. Last year was characterised by a remarkable agreement between the behaviour of our general index of wholesale prices and that of international prices, both of which increased slightly (about 2 per cent) from December 1953 to December 1954.

This seeming parallelism, however, conceals contrary movements for both foodstuffs and industrial prices: the former increased appreciably in Italy (agricultural foodstuffs in general increased by 4.6 per cent, among which livestock products increased by 12.9 per cent), whereas they dropped slightly on the international market; the latter increased abroad, and decreased, though moderately, in Italy. The contrast between the behaviour of foodstuff prices and industrial prices in Italy is greater if June 1952, is taken as the point of departure, the date to which the change in the situation following the Korean cycle is generally traced. From that time to December 1954 the Central Institute of Statistics index of wholesale agricultural food prices increased by 15 per cent; the index of the Milan Chamber of Commerce also increased, though to a smaller extent, by 6.3 per cent. During the same period, the index of domestic industrial prices as calculated by the Milan Chamber of Commerce dropped by 8.9 per cent. On the international market, however, between the same dates agricultural and food prices remained stable on the whole, but decreased noticeably (13 per cent) if the prices

of coffee, tea and cocoa are disregarded; prices of industrial raw materials also dropped by 3.4 per cent.

Such similarities and differences are also revealed if a comparison is made between the prices of consumer goods in general and those for capital goods in Italy and abroad. On the basis of re-elaborations by the Bank's Research Department of the indexes of domestic prices prepared by the Central Institute of Statistics and of international prices computed by the Confindustria, it appears that, from December 1953 to December 1954, the prices of consumer goods increased more in Italy than on international markets, whereas prices of capital goods decreased slightly in Italy and increased somewhat abroad. In relation to June 1952, prices of consumer goods increased 7.3 per cent in Italy and, conversely, decreased 2.6 per cent on the international markets; prices of capital goods decreased 13.1 per cent in Italy and increased 2.6 per cent abroad. If a comparison is made with June 1950, it is found that prices of consumer goods increased 15.5 per cent and only 1.1 per cent on the international markets, whereas prices of capital goods increased 36 per cent abroad and only 21 per cent in Italy.

Since the large investments made in these years in Italy did not cause an increase in the prices of capital goods comparable to that which took place abroad, it appears that the principal cause of this phenomenon may be found in the fact of the excess productive capacity existing in Italy after the war in many branches of industry, and in the policy of liberalisation adopted by our country. This has prevented the intense domestic demand from causing a surge in prices, since they are held in check by foreign competition. A further substantial contribution toward checking the rise in industrial prices has been made by the increase in productivity arising from the modernisation of factories which has been taking place in Italy in recent years by means, both of machinery purchased on long term under the ERP plan, and of the large volume of sterling accumulated up to 1949. This has made possible the reduction in the large discrepancies previously existing between foreign prices and Italian costs.

In the field of consumer goods, the opposing trends of domestic prices and international prices are probably explained both by the absence in several branches of production, especially in agriculture, of that unused productive capacity which existed in industry, and by an increased monetary demand not always easily met by supply, together with the lower effectiveness of the policy of liberalisation. For certain types of widely consumed foodstuffs, the policy of liberalisation has not had any real chance of being effective. In 1954, for example, about one third of the increase in the foodstuff sector in the index of the cost of living was due to the increase in the price of fruit, probably caused by a decrease of about 8 per cent in the crops. But unfortunately, besides the results of entirely natural phenomena, such as the increase in the price of certain agricultural products arising from a decreased domestic production which cannot be replaced by imports, even seasonal changes tend to consolidate through the action of the sliding-wage scale mechanism. For example, the index for foodstuffs was 4.4 per cent higher in July 1954 than in December 1953, and this increase was entirely due to a seasonal price increase in fruit and vegetables (28.2 per cent): as a result, the sliding wage scale rose 3 points in this period.

Therefore the continual concern with anything that can cause an increase in the price level, must appear to be fully justified: the increased employment of factors of production that were abundant several years ago has tended to abolish that condition which, as we have pointed out, has permitted a smaller increase in the prices of capital goods here than abroad. Thus, if the reasons which have kept the prices of our consumer goods high were to remain valid, or, what would be worse, if new ones were to be created, it would be impossible to avoid our price level from getting out of line in respect of foreign prices, and hence a deterioration from occurring in our competitive position in foreign trade.

The Financing of Government Requirements.— A second group of items in the Bank's balance sheet concerns the general

transactions with the Treasury and the Banks' holdings of Government securities. This group of items, which does not include the debts contracted by the Treasury with the Italian Foreign Exchange Control Office mainly to finance the import of machinery and commodities for Government stocks, amounted to 714 milliards on December 31, 1947 and 1,001 milliards on December 31, 1954, an increase of 287 milliards. This amount was fully covered by the increase that took place between the two dates in the Banks' statutory reserves with the Banca d'Italia, which rose from 73 milliards to 445 milliards, an increase of 372 milliards. In the same period, savings deposits at the Banks increased by 1,133 milliards and the direct investment by the Banks of their statutory reserves in government securities increased by 354 milliards.

One of the rules on which monetary stability is based, the limitation of advances to the Treasury on the part of the Central Bank, has therefore been observed in the last seven years. No small part of the success which the country has achieved in the monetary field has been due to the pursuit of this policy. To avoid any risks, it must firmly be maintained, all the more so because in the last three years the situation has been much less favourable than in the previous three-year period. The large amount of international aid received between 1949 and 1951 permitted the Treasury to reduce its total indebtedness to the Bank. In the last three years, on the other hand, there has been an increase in the Treasury's indebtedness, although the situation has tended to improve over the period: the size of this improvement has been only a few milliards, but nevertheless it is significant of the efforts the Treasury is making to finance the Budget deficit with voluntary contributions of savings from the market. It would be desirable to aim, if not at the total elimination of the Budget deficit, at least at containing it in such a way as to avoid any increased recourse to the Central Bank and to check the extent to which it has been necessary in past years to rely on the Commercial Banks' statutory reserves.

We realise that this is by no means an easy task. Government Expenditure has always a tendency to increase, while the Budget Revenue has already shown an appreciable advance: from a 1,000 milliards in 1947/1948, it has risen to 2,200 for the current financial year. The provisional estimates for 1955/1956 show a further increase of 250 milliards, which brings the total to $2\frac{1}{2}$ times the 1947/48 level. Nevertheless there are other considerations which make us believe that it is essential further to limit the increase in the public debt used for financing budgetary and other public expenditure.

As we have said, the sums which, apart from the investments of the banking system, flow to the Treasury through the purchase of government securities and railway debentures, and through Post Office Savings Books and Bonds, have not differed much from year to year since 1948 and have fluctuated at around 250 milliards a year. The total needs, however, of the Treasury, of the Central Post Office Savings Fund and of the Railways were much greater. They amounted to 500 milliards in 1948, dropped sharply in the three-year period 1948/51, partly as a result of the use of Counterpart Funds, and rose to slightly less than 500 milliards in the more recent three-year period 1952-1954.

Although the Treasury's annual requirement of funds to be drawn from the banking system and the capital market has not appreciably altered over the period from 1948, it has nevertheless proportionately decreased in relation to the rising level of Expenditure. If we consider only the National Budget, the Expenditure of the « Administrative Budget » (*spesa di competenza*) to be covered by borrowing, which was 48 per cent in the 1947/48 Budget, decreased to 16 per cent in 1950/51, rose to 24 per cent in 1952/53 and dropped back to 16 per cent in the current financial year; the initial estimates for the year 1955/56 indicate a further reduction to 11 per cent. If instead of using the figures for authorised appropriations to measure the relationship we have brought up, we take the figures for the « Cash Budget », and also include the Central Post Office Savings Fund and the Railways, the improvement is still confirmed, the uncovered part

of expenditure dropping from 34 per cent in 1948 to 19 per cent in 1954. This was a notable advance.

But it is none the less true, that if the funds supplied directly by savers remain around 250 milliards per year, the Treasury must inevitably go to the banking system to cover its necessary requirements, a practice which in the long run might prevent the system from financing production efficiently, or might generate inflationary dangers. At the beginning of the last seven year period, these dangers were averted by the fact that heavy government demand only occurred in 1948, while in 1949 there was a strong contribution from American aid (216 milliards); in 1950 the Budget receipts exceeded those of 1948 by a figure higher than the increase recorded in payments between the two years; furthermore in 1950, in a capital market of much smaller dimensions than the present one, the first post-war issue of nine-year Treasury bonds was made, the large proceeds of which prove that not only current savings, but also savings from previous years, went into these bonds, a form of investment especially attractive to savers.

All these conditions do not exist today. American aid has been sharply reduced, and the market for government securities does not warrant the hope that larger issues may be placed than in previous years. Therefore the necessity remains of reducing Government requirements to be covered by both budgetary and extra-budgetary financing. For this reason, we cannot fail to be appreciative of the fact that the Government has consistently pursued its declared intention of reducing the Budget deficit from year to year. It has presented for 1955/56 Estimates which show a financial deficit which is 37 milliards less than the Initial Estimates for 1954/55.

Foreign Exchange Financing and Balance of Payments Problems.— The financing of the official foreign exchange holdings is carried out by the Bank both directly, and through the credits it grants to the Italian Exchange Control Office. As at December 31, 1954, the official gold and foreign exchange holdings, after deduction of the debt contracted with the European Pay-

ments Union and of minor amounts on lire and clearing accounts, amounted to \$ 891 million, which showed an increase for the year of \$ 55 million. This increase in the exchange reserves was accompanied by a notable improvement in their composition; the year closed with an increase in dollar holdings of \$ 162.3 million and, on the other hand, an increased indebtedness to EPU of \$ 33.0 million, as well as with a reduction of sterling holdings and clearing currencies amounting to \$ 73.9 million.

It should be pointed out at once that the favourable impression created by these final results is offset by the fact that they arose from the inclusion of \$ 104.3 million in FOA aid carried over from previous years, of \$ 132.5 million received during the year for off-shore purchases in Italy and of other items closely connected with the NATO military programmes. All of these receipts are of a merely temporary nature, some now being in the process of termination. It should also be pointed out that an amount of \$ 73.9 million, representing both increased indebtedness of the country abroad (the result of loan repayments to the amount of \$ 30.9 million and new loans contracted for \$ 104.8 million), and the greater utilisation of bank lines of credit, together with changes in trade debits and credits, played a part in determining the above mentioned movement of reserves. But, as we pointed out last year, it is not the behaviour of the foreign exchange reserves that should be observed for assessing the payments equilibrium with foreign countries, so much as the current items of the balance of payments. For 1954 these items showed a deficit of \$ 254 million. Here again a favourable impression is obtained from comparing this deficit with the larger ones of \$ 450 million in 1953 and \$ 596 million in 1952. Thus there has been a gradual and unquestionably substantial improvement in the last two years, which, should it be maintained, would make it possible to eliminate the deficit in a short time.

But this is not the case. As we have been saying for several years, the balance of payments problem is the most serious one in our economy, in view of Italy's basic development require-

ments. First of all, in the more recent period, it is noteworthy that the expenditure made in 1954 for wheat purchases, as a result of the favourable crop in 1953, amounted to only \$ 24 million against \$ 114 million in 1953; thus, if the 1954 expenditure for wheat had not been cut down considerably by the exceptional harvest in 1953, the deficit on current items would certainly have exceeded \$ 300 million.

Some comparisons with the year immediately preceding the Korean war will suffice to isolate the causes, at least the immediate and most important ones, of a situation which cannot be changed in a relatively short time, or without significant consequences. In the year 1949/50 the unfavourable balance of the current items amounted to \$ 121 million. Since \$ 122 million were spent for wheat that year against only \$ 24 million in 1954, the difference between the two years is measured by a deterioration of \$ 231 million on all items of the balance of payments, excluding the purchases of wheat abroad, and by an improvement of about \$ 98 million in these specific purchases.

Looking first of all at the behaviour of the invisible items, namely all the current items which enter into the balance of payments except the movements of goods (f.o.b.), we find that there was an advance from a surplus of \$ 117 million in 1949/50 to a surplus of \$ 359 million in 1954. This was an important increase of more than \$ 242 million, of which \$ 83 million was accounted for by tourism, \$ 50 million by freight, \$ 33 million by workers' and emigrants' remittances, and 76 million by miscellaneous items. This progress was such that it would have created a balance of payments surplus, if at the same time the deficit arising from imports and exports of merchandise (again excluding imports of wheat), had not increased heavily from about \$ 128 million to about \$ 591 million in 1954, in other words, if there had not been a deterioration of some 463 millions. This deterioration was due to an increase in payments for imports of \$ 952 million which was only offset to the amount of \$ 489 million by an increase in receipts from exports. Export proceeds in fact rose from \$ 1,090 million to \$ 1,579 million, an increase of 45 per cent, between the two years under consideration.

An international comparison for the years between 1950 and 1954 based on OEEC statistics, which, unlike the above data in Italian exports, include offshore purchases and ships' stores, and represent c.i.f. values on the import side, showed that the OEEC countries as a whole, excluding Germany and Italy, witnessed an average increase in exports of 37,8 per cent, whereas 35.3 per cent was registered for Italy. Germany's improvement was 165.8 per cent; if German exports are included, the improvement for all OEEC countries, excluding Italy, was 51.4 per cent. On the other hand, imports increased between 1950 and 1954, for Italy by 72.7 per cent, wheat excluded, and by 62 per cent, wheat included, whereas they increased by only 33.8 per cent for the other OEEC countries, except Germany, which registered an increase of 70,2 per cent.

A comparison of these percentages brings out how much the state of affairs in Italy differed from that in the other principal European countries in this period. While in the field of exports the difference between our increase and the average increase for all the other countries, except Germany, is slight, in the field of imports it is extremely pronounced. Pausing for a moment on exports, we note that in the period from 1950 to 1954, Italy with an increase of 35.3 per cent stands, among the principal manufacturing countries of OEEC, in a position somewhat similar to that of Switzerland (35.9 per cent), Belgium (39.9 per cent), France (40.3 per cent), Sweden (44 per cent), above that of the United Kingdom (23.3 per cent), and below that of the Netherlands (71.5 per cent), and Germany (165.8 per cent).

A quick glance at the development of imports is sufficient to make clear the main changes that have taken place from 1950 to 1954, when, as already said, imports rose by 72.7 per cent. As regards imports of foodstuffs (excluding those of wheat, which decreased), the increased purchases of several products amounted on the whole to about \$ 135 million. This increased expenditure was offset only in part by higher proceeds from the exports of domestic foodstuffs (\$ 92 million); there remained an uncovered difference of \$ 43 million, which corresponded, more or less, to the increased expenditure on coffee, imports of which

increased between the two years under consideration by 32 per cent in quantity and 113 per cent in value. The principal economy achieved, for the reasons indicated, was in the purchase of wheat, which decreased by \$ 83 million between 1950 and 1954; but, as we have said, this saving will not be maintained in future years. All these indications show that the undeniable progress made between 1950 and 1954 in the production of foodstuffs, was neutralised by an expansion of consumption, and thus failed to bring about an appreciable improvement of the trade balance.

But the most important increases in purchases abroad between 1950 and 1954 were recorded in raw materials and in industrial goods, both for investment and for consumption. The imports of scrap iron, steel, and iron ore trebled in volume during the period. Making due allowances for prices, which in 1954 were higher than before Korea, the entire group of minerals, scrap, and products of the metallurgical industry accounted for an additional \$ 136 million of our imports, an increase which was double as much as the full total of previous expenditure. The purchase of machinery and equipment more than doubled, rising from \$ 100 million to \$ 240 million.

Moreover, despite the striking increase in the consumption of fuel oil and natural gas, the purchase abroad of coal did not decrease between the two years under consideration. Partly because of the expanding exports of refined petroleum products, the quantity of imported crude oil approximately trebled, involving an additional \$ 190 million; but if we consider only the influence of purchases abroad of crude oil and petroleum products for domestic consumption, it can be said that they increased 90 per cent, causing a deterioration of about \$ 65 million. Among the other goods usable for both investment or consumption, purchases of rubber increased 45 per cent and those of timber 70 per cent; with due allowance for prices, these two commodities accounted for an increased expenditure of \$ 72 million. Finally in textiles, domestic consumption of imported cotton and wool is estimated to have led to an increased expenditure of about \$ 80 million as a consequence of larger quantities purchased abroad (around 15 to 20 per cent) and of higher prices.

We have revealed these significant figures showing the fundamental changes that have taken place in our exports and imports over the last four years, in order to round off what has been said in the Report, and to reiterate the warning that in the present state of affairs, the short-run outlook, i.e., for the present year and perhaps also for next year, points to an increase, and not a reduction in the trade deficit. This does not merely arise from the larger purchases of wheat which are necessary this year for reasons already given.

In previous years a survey has been carried out by our Research Department of the effects of liberalisation on imports. The continuation of the survey for 1954 shows that imports of products freed from quota restrictions in October 1951 were not appreciably greater than those of 1953. This confirms the inference made in previous Reports that the expansion of Italian imports can only very partially be attributed to the liberalisation voluntarily carried out within OEEC. This policy has, rather, exerted its greatest influence by preventing domestic prices from rising excessively. Hence it appears that the considerable deterioration that took place during the past four years in the volume of liberalised imports should primarily be attributed to the expansion of investment and consumption which characterised the development of the Italian economy in this period. For what it may be worth, it must also be remembered that the percentage increase in the volume of imports over the four-year period was much greater than the percentage increase in Italy's real income.

We have no doubt, therefore, that the further economic development we are aiming at will require an increased volume of imports: indeed it may be said that the latter will determine the former, since the economic strength of our country depends upon its increasing participation in international trade, rather than upon restrictive practices. For this reason we have been pleased to see that the lines along which the ten-year economic development Programme will be carried out contemplate a considerable expansion of our international trade, and reject all measures which are inspired by protectionism. Such measures would

inevitably lead, sooner or later, to a contraction or to an inadequate increase in the country's real income, despite any benefit that they might give to particular sectors of economic activity or to particular groups of producers.

The efforts we have made in the past four years, to modernise our industrial equipment and to apply in agriculture improved techniques, have been made in a climate of competition determined by the policy of liberalisation adopted some three years ago. The hardships included in this policy have been made tolerable by increased productivity, while further, but perhaps more important, easing of the effects of foreign competition arose from the wide assistance given by the Government to the southern regions through the Cassa per il Mezzogiorno. The policy of developing investment and consumption in the formerly neglected regions of the South has kept demand at a high level. This has enabled all the productive sectors, even those most exposed to foreign competition, to increase production, and hence to reduce costs. Thus we have had the salutary experience, for the first time for many years, of plunging into the cold bath of international competition, and of having to produce at increasingly reduced costs, though perhaps we have had to run the risk of freezing, and of having to retire precipitously to the warmth of protectionist and discriminatory practices, the inseparable companions of distress.

The merit, by no means small, is not ours alone. It can be attributed to a large extent to the growth of international co-operation in the post-war period, which in the case of Italy took the form both of the substantial and decisive aid furnished by the United States and also of our participation in the joint action taken in Europe through OEEC. Without American aid the reconstruction and modernisation of our industrial equipment would have been extremely difficult: without the perseverance of OEEC in holding together at the highest level the economies of Western European Countries, restraining national egoism and protecting and promoting reciprocal trade, American aid would perhaps have been less effective or would merely have been a temporary relief: upon its termination, it would not

have been possible to approach the solution of the fundamental problems of our economy, as is now feasible. It is our firm conviction that we are on the right road, that we have already covered a considerable distance, that we cannot stop or turn back without harming what has been so painfully accomplished. This gives us the courage fully to state our opinion that it is still imperative for the assistance to be maintained which has been granted to us in recent years by international co-operation. Our concern is a part of the well-grounded feeling shown abroad lest certain concrete forms of this co-operation should be weakened by the adoption of measures, such as currency convertibility, which however desirable in themselves might nevertheless weaken international co-operation and the instruments by which it has been promoted and strongly maintained in recent years.

Italy has largely benefited from the sympathetic consideration of her problems shown in the international sphere. In the last few weeks a new demonstration of confidence has been given us by the International Bank for Reconstruction and Development, which has granted a loan of \$ 70 million for carrying out specific development projects in the South, thus bringing the total of its assistance to Italy to \$ 90 million. Furthermore in the last financial year we were able to reach with several European countries funding agreements for debts contracted with the EPU. In particular, last year as well as this, the Swiss market has shown us a favourable disposition by granting loans to some of our most important firms; in addition we have also been able partially to renew a line of credit granted to us by the Export-Import Bank in 1947. In all these carefully negotiated transactions, we have been able to satisfy our lenders as to the high credit standing of our country; Italy has always honoured its international financial obligations.

A promising prospect is also held out for the development of foreign investments. It is the intention of our Government that they should be favoured and protected, and this is shown by the bill on foreign investments recently submitted to Parliament. This bill provides for full freedom to transfer both profits and capital while reserving these advantages for capital

which directly assists either in the creation or in the expansion of new productive units. Little in fact would be gained by the entry of foreign capital in the form of mere portfolio investments, subject to rapid displacement.

The inflow of such capital might lead to many unfulfilled expectations as well as to serious economic mistakes. At the same time, we would have to be prepared to face sudden outflows and therefore we would have to keep correspondingly high liquid reserves. Indeed we have already received from various sources, and may yet receive in the future, a sizeable amount of loans and capital investments. These are both additions to the volume of domestic savings, which are by themselves insufficient to sustain a strong development of production, and also a means of covering the balance of payments deficits without impairing our exchange reserves.

But as we have pointed out before, we would not be sincere if we did not repeat that in the case of Italy unified long-term international action seems both indispensable and justified. The need for continued reliance on considerable international assistance is shown by a number of factors: the size of the balance of payments deficit, its persistence, the impossibility of reducing imports which in fact show a tendency to expand in many sectors, the spreading crisis in textile exports to underdeveloped countries, and above all the knowledge that a policy of economic development tends of itself to increase imports and to curb exports. Fortunately, the ten-year programme has not underestimated this need, which was translated into a series of requests when it was submitted to OEEC. These requests were based on the evidence supplied that the need for assistance is temporary since the effort necessary to overcome unemployment is also temporary, and they were justified by our intention to slow down the increase in consumption in order to be able to devote larger amounts of the additional income to investment.

We have much appreciated the work OEEC has so far performed in the interest of European co-operation, and we have, in addition, a special Italian interest in maintaining the institution in its full duties and functions. We are therefore, con-

cerned that the policy of economic co-operation between the Western countries should not be changed, that it should be strengthened along the lines the OEEC has endeavoured to promote in recent years.

Bearing these considerations in mind, it seems appropriate to bring up the very important problem of international economic and monetary co-operation, on which decisions are anxiously expected. It may be recalled that after the war, the countries of Western Europe had to face first of all the urgent task of reconstruction; later, in the atmosphere of co-operation created by the Marshall Plan, they attempted to establish a system of trade and payments less narrow than that which had prevailed in the decade between the great depression and the second world war. This system had been the result of the disintegration of the classic order which had been based on freedom of trade both from quantitative restrictions and from restrictions on the convertibility of currencies. The benefits that this order had brought before the first world war explain the anxiety with which, thirty years ago, the European countries attempted to restore it, without having first carefully measured their own forces or ascertained whether the old conditions under which it had operated were still in existence.

However, the men who faced the task of monetary reconstruction after the second world war had the unfortunate experience of the collapse of the old system fresh in their minds. It is true that the classic order is incompatible with the ends of autarky and war toward which the policy of the European countries headed in a rapid succession of painful events between 1930 and 1935. But even more than to the ill will of men, that collapse appears to have been due to the fact that the fundamental mechanism of the system, such as the flexibility of prices and wages, and the movement of capital, had failed in a rigid economy, or had shown that it tended towards accentuating rather than correcting the incipient disequilibria.

Between the two wars and after the second one, the extreme reaction to that negative experience, shown in certain policies and doctrines, was to deny *in toto* the trinity of multilateralism,

convertibility, and nondiscrimination. But a more moderate line, and one more compatible with technical conditions and with the general political and economic situation, has prevailed in Europe in recent years, thanks in part to the particular inter-relationships established, through ERP, between the methods of settling trade and the requirements of aid redistribution, which the granting of bilateral drawing rights, and their subsequent multilateralisation permitted.

Within EPU which comprises Western Europe and the vast areas associated with European currencies, more than 60 per cent of world trade is settled on a multilateral basis, although the participating currencies are not convertible into dollars. The mechanism of automatic credits which has given stability to the system, although it is endowed only in part with the stabilising virtues assigned in the classic schemes to the international movement of capital, is nevertheless removed from the risks of a market disturbed by heavy waves of speculation and panic such as those witnessed between the two wars. It has constituted the indispensable prerequisite to a substantial return to forms of multilateral settlement in the situation of scarcity of exchange reserves characteristic of the European countries in 1947/48. Developments in recent years have been inimical to the continuance of this regional system of payments in Europe and the associated areas, partly because some of the objective, generally valid, reasons for its establishment have since weakened, chief among them the scarcity of reserves and the overvaluation of European currencies, and partly because the pressure of national interests of different kinds has generated within EPU centrifugal forces which might well in the near future lead to its dissolution.

The criticisms directed from most sides at the present system are inspired by reasons as diverse as are the attributes of the system of convertibility which it is sought to create. The leanings of the British are obviously influenced by the wish to restore the traditional position of sterling as the great currency for settlement in international trade, and for London the function of world centre for trade in merchandise, freight, insu-

rance, bankers' acceptances, foreign exchange, and gold. These requirements suggest that sterling should be given the full measure of transferability that is compatible with the protection of foreign exchange reserves and the maintenance of an orderly system of exchange rates. An important advance in that direction was undoubtedly made in March of last year when the transferable account and the bilateral account areas were substantially unified. But the innovation gave impetus, in Zurich, New York, and other centres, to the market for transferable sterling, in which the holders of such sterling can sell it for dollars by taking a moderate discount which varies according to the market situation. With the decision adopted in February by the British authorities to intervene in that market, even in the direction of supporting the rate of transferable sterling with sales of hard currencies, a system of « imperfect convertibility » was established, which, however, is the prelude to the final system which must result from the declaration of convertibility, and in which the problem of the exchange rate will be posed. Two elements of importance in the choice between a fixed rate and a limitedly fluctuating rate seem to be the favourable experience that the United Kingdom made between 1932 and 1939 in operating the Exchange Equalisation Account, and the preference of Anglo-Saxon economists for a fluctuating rate.

As a counter-weight, on the Continent a clear preference has been shown for a system of fixed rates, both by economists and the officials responsible for the management of exchange control. Certainly in this attitude there is also involved the consideration that the European countries hold large balances in the two main currencies, whether to cover the normal requirements of trade or to find remunerative investments for a part of their reserves, and they are accordingly more exposed to the risks of rate fluctuations. This is one of the reasons behind the desire of the creditor countries of continental Europe to retain EPU as a clearing mechanism, operating at fixed exchange rates, and enjoying an exchange rate guarantee in cases of changes of parity. On the other hand, the functioning of the Union has meant for these countries the granting of

credit which they are reluctant to extend beyond the limits already reached.

For our part, Italy, as a debtor country, does not have specific reasons for opposing the interests of the great currencies and of the countries which are structurally creditors in the European area. We must, however, point out that, after the successful results obtained in the fields of recovery in production and internal financial stability, the liberation of trade and currencies became a natural guiding line for OEEC activity. But, as we noted last year in this Report, it is the progress in the liberation of trade that gives meaning to the progress already achieved in the direction of convertibility which could only be an empty façade if it were to be supported by quantitative restrictions, however nondiscriminatory they might be.

But from the obstacles OEEC has encountered to the liberalisation of trade from quantitative restrictions, one draws the impression that an awareness of the difficulty of proceeding further on the road to liberalisation is not unconnected with the movement toward convertibility; and that the difficulty is due, at least in some cases, to the opposition of vested interests, or the desire to use the remaining quantitative restrictions as a means to negotiate reductions of import duties on the part of other higher-tariff countries. The shifting of the principal effort of liberalisation from trade to currency, if it occurred before the process of liberalisation of intra-European trade were carried to completion, might exert secondary effects even more harmful to the economic integration of Western Europe. If, in fact, serious balance of payments difficulties arose as time went by, the retreat from convertibility could no longer be halted at a position such as that of transferability within the regional circuit represented by the EPU, the halfway house between the extremes of bilateralism and convertibility. The result would therefore mean the resumption of open or concealed forms of bilateralism, against which, if experience is a guide to the future, the efficiency of universal agencies such as GATT is smaller, since the degree such institutions can attain effective co-operation and acceptance of a common discipline, does not bear comparison

with what can be accomplished in a homogeneous and compact area such as Europe.

These are the concerns and preoccupations by which we are influenced, convinced as we are by our recent experience that trade restrictions and bilateralism, in addition to being open to censure in themselves, would be especially harmful to Italy because of her vulnerability in large sectors of her export trade. This trade is exposed to the protective measures of other countries, which can only be eliminated at the cost of great sacrifices. Therefore we still believe that every effort will be made by America and the major European countries to ensure that the process of multilateral intra-European trade, which has been the really new feature of the post-war period, and which to many appears to be the most effective step so far taken towards European unification, should be preserved in its full vigour.

Should this endeavour require further economic support, or should it delay the time when West European trade is settled only on a world basis, we believe that the additional waiting would not be sterile, because the work which really lasts is that which is carried through to fulfillment, and certainly not that which is broken off, even if at a fairly advanced stage.

Gentlemen,

If one studies the increase in production among the nine major European countries associated with OEEC, Italy occupies second place after Germany on the basis of progress made in 1954 compared to the situations in 1950 and 1953; Italy again occupies second place, this time after Norway, if the comparison is made with 1938 or with the year of maximum pre-war production. We believe that Italy can point with just pride to these results, which give the measure of the success of the effort made and which seem to us to corroborate the statement we made at this meeting a year ago, that never in its history has our country shown such great economic progress as in recent years.

Our last year's annual Report was mainly concerned with the developments which accompanied the intensive growth of productive activity, and we paid particular attention to credit expansion, which can at times promote speculation rather than a sound productive process; to the behaviour of prices, which by their instability can jeopardise the efforts made to increase production; to the influence exerted on the capital market by Treasury requirements, which by competing with private needs, may lead to increases in the rates of interest, and hence to an increase in the costs of production; to the difficulties in the balance of payments, which under certain conditions, can set an insuperable limit to productive expansion. These four problems have to be considered above all others in our Bank's annual Report so that we can establish whether economic development is taking place without distortions and without endangering monetary stability.

We believe that we have shown on the basis of actual data that in 1954 the credit expansion, although it promoted and accompanied a heavy increase in production, did not exceed the dimensions of 1953; that, as in 1953, it was held within bounds and did not provoke an inflation of prices or an unhealthy accumulation either of stocks by producers or of finished products by consumers. It can, therefore, be stated that the monetary stability was not jeopardised by the intensive efforts made.

We have also shown on the basis of a thorough analysis that the Budget position, considered from the extent to which it had to lean on the capital market in order to meet the deficit, improved somewhat last year, in both the « administrative » and the « cash » Budgets; and that considered from the same standpoint, the structure of the Budget was much better balanced than the Budgets for the years immediately preceding the second world war, which witnessed cash deficits of around 30 per cent of expenditure. These deficits, by their size, required a large direct and indirect assistance by the Central Bank to the Treasury, and set in motion the inflationary movement which was accelerated by the even larger deficit of the war years.

Among the factors which have been responsible for the improved management of our public finances since the war, we should certainly count the lesson we have learned from this past experience, and also the existence of more favourable conditions arising from the opening up of international trade channels. The improvement can be measured by the fact that the deficit now stands at about 16 per cent of total expenditure, half the pre-war figures. But we have still had to point out that the high level of public expenditure and the urgent needs of the private sector of the economy called for a further determined advance along the road towards a balanced Budget. As far as the structure of the Budget is concerned we should never forget the need of not sacrificing investment expenditure, which directly produces income, for the sake of expenditure which only leads to an expansion of consumption.

Finally, we have pointed out that even in the less favourable aspect of our economic development, namely in the behaviour of the balance of payments, the deficit on current account was smaller in 1954 than in the two preceding years, even if the savings arising from lower wheat imports are disregarded. We have remarked that the volume and the composition of our foreign exchange reserves notably improved in the course of the year, but we also pointed to the fact that the deficit was covered last year, as in previous years, only through the help of American aid, to which offshore purchases have recently been added. We have, therefore, stated our firm conviction that in the near future we shall not be deprived of the understanding shown for our determined efforts during the period of reconstruction and of the assistance granted to us since the war through international co-operation. This favourable attitude has been very recently confirmed by many acts of sympathetic support, now that the phase of development which started in 1950 with a programme of extensive public works in the South, is in full swing.

We may conclude on the basis of the facts we have been describing, that the efforts made so far have been planned and carried out with due respect for the need to have a balanced

development if lasting results are to be obtained. This balanced development has undeniably benefited both the activities of business firms which have been able to expand and reorganise in a favourable economic environment, and also individuals who have enjoyed a higher and more continuous level of employment. The effects of the increased productivity of the economic system have brought about an appreciable growth of consumption, which has been spread throughout the community and especially among the working population.

But the tasks which await us are still larger. The efforts envisaged for the coming years are indeed substantial, and will require considerable sacrifices. It is true that future action will have the advantage of taking place in an adequately balanced economy which is already expanding: thus further progress will be made easier, and the time required for its achievement will be shortened. Nevertheless we should not forget that any strengthening of the effort already being made increases the strain on the economy. This requires even greater attention and vigilance in every branch of economic activity in order to maintain the desired degree of flexibility which will permit us to cope with any distortions that may arise, without thereby compromising the process of our development.

BALANCE SHEET
AND GENERAL PROFIT AND LOSS ACCOUNT

BALANCE SHEET FOR THE YEAR

ASSETS			
Gold in the Bank's Vaults	L.	4,226,623,373	37
Gold deposited abroad, and due by the Government to the Bank	»	1,772,798,105	00
Cash in Hand	»	6,687,307,142	55
Domestic Bills of Exchange	»	326,841,102,614	48
Bills for Collection	»	84,545,019	15
Advances	»	91,923,366,739	50
Deferred Payments to Clearing Houses	»	2,550,000,000	00
Available Foreign Balances	»	72,482,176,273	61
Government or Government-guaranteed Securities	»	49,213,972,361	39
Premises	»	1	00
Sundry Debtors	»	695,196,075,553	59
Sundry Items	»	3,577,406,810	69
Advances to Treasury: Temporary	»	77,000,000,000	00
Advances to Treasury: Extraordinary	»	342,697,000,000	00
Notes issued by Allied Forces or for their account:			
A.M. Lire issued direct by Allied Forces	L.	113,896,481,370	00
Italian Currency supplied to the Allied Forces	»	31,245,348,495	00
	L.	145,141,829,865	00
		145,141,829,865	00
Treasury Current Account	L.	96,707,318,596	65
Investments in Securities for account of the Treasury	»	296,000,000,000	00
Sundry Services for account of the Government	»	17,576,611,771	91
	L.	2,229,678,134,227	89
Securities and other Valuables Deposited	»	3,218,535,818,593	29
	L.	5,448,213,952,821	12
Items written off in past years	»	38,617,914	41
GRAND TOTAL	L.	5,448,252,570,735	59

Audited and found correct — Rome, 13th May, 1955.

The Auditors

ALESSANDRO BACCAGLINI
MARINO EMILIANI
GIUSEPPE GARIBOLDI FARINA
FELICE PAPPALARDO
RAFFAELE PILOTTI

The Accountant General

GUIDO PIERINI

ENDED 31st DECEMBER, 1954

LIABILITIES

Notes in Circulation	L.	1,538,378,277,500	00
Bank Drafts, Cashier Cheques and other Sight Liabilities	»	16,970,973,687	09
Current Accounts	»	62,527,925,453	72
Time Current Accounts	»	448,337,267,367	10
Sundry Creditors	»	123,658,995,028	14
Treasury - Foreign Aid:			
Italian Government - Counterpart Funds (net) L.	67,614,470,787	57	
Italian Government - Special Advances Account (Decree Law No. 781 of 7th May, 1948) for the formation of Counterpart Funds, less repayments	30,437,878,992	73	
		37,176,591,794	84
Net Profit of the Year 1954.	L.	327,852,966	00
Capital	L.	300,000,000	00
Statutory Reserve	»	1,170,934,216	00
Extraordinary Reserve	»	829,316,215	00
		2,300,250,431	00
	L.	2,229,678,134,227	89
Securities and other valuables deposited	»	3,218,535,818,593	23
	L.	5,448,213,952,821	12
Items written off in past years	»	38,617,914	41
GRAND TOTAL	L.	5,448,252,570,735	53

The Governor

DONATO MENICHELLA

GENERAL PROFIT

FOR THE

EXPENDITURE

	EXPENDITURE			
Administration L.	10,935,457,621	11		
Board of Directors »	213,292,521	62		
Transport of Notes, Coins and other Securities. »	76,122,507	75		
Printing Notes. »	2,231,930,898	00		
Premises. »	430,237,071	87	13,887,040,620	36
Circulation Tax on Notes and Demand Drafts. L.	2,998,118,309	75		
Income Tax. »	2,507,450,460	25		
Sundry Taxes and Dues. »	370,897,958	44	5,876,466,728	44
Bad and Doubtful Debts incurred during the year L.			204,035	37
Amounts written off »			7,846,418,853	15
Interest and Annuities Payable »			175,912,969	66
Charity and other Contributions »			41,142,953	00
Contributions to Employees Fund. »			1,928,808,250	12
		L.	29,755,994,410	09
Net Profits available for Distribution »			327,852,966	00
TOTAL L.			30,083,847,376	09

APPROPRIATION

To Statutory Reserves	
To Extraordinary Reserves.	
10% Dividend to Shareholders	
To the Treasury	

TOTAL DISTRIBUTABLE

Audited and found correct — Rome, 13th May, 1955.

The Auditors

ALESSANDRO BACCAGLINI
MARINO EMILIANI
GIUSEPPE GARIBOLDI FARINA
FELICE PAPPALARDO
RAFFAELE PILOTTI

The Accountant General

GUIDO PIERINI

AND LOSS ACCOUNT

YEAR 1954

RECEIPTS

RECEIPTS					
Discounts	L.	10,691,905,736	12		
Interest on Advances	»	3,390,218,090	00		
Interest on other Assets	»	10,723,205,332	19		
Commissions and Fees for Custody	»	1,411,333,129	51		
Profits on Foreign Transactions	»	1,377,197,528	40		
Sundry Profits	»	268,391,992	62	27,862,251,808	84
Interest on Government Securities	L.	2,092,569,601	50		
Revenue from Real Estate	»	129,025,965	75	2,221,595,567	25
TOTAL . . . L.				30,083,847,376	09

OF NET PROFITS

• • • • • L.	65,570,593	00
• • • • • "	65,570,593	00
• • • • • "	30,000,000	00
• • • • • "	166,711,780	00
PROFIT FOR THE YEAR. . . . L.	327,852,966	00

The Governor

DONATO MENICHELLA

