

# BANCA D'ITALIA

ABRIDGED VERSION OF THE

# REPORT

FOR THE YEAR

# 1955

PRESENTED TO THE

ORDINARY GENERAL MEETING OF SHAREHOLDERS

*HELD IN ROME ON 30th MAY, 1956*

ROME

PRINTING OFFICE OF THE BANCA D'ITALIA

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# REPORT OF THE GOVERNOR

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## I. *General Economic Conditions*

In 1955 the Italian economy, functioning under economic conditions which were on the whole steadily favorable, maintained and accentuated the upward trend that had prevailed for some years.

In production, an increase in industrial output approximately equal to the noteworthy increases of preceding years was accompanied by favorable results in agriculture.

On the demand side, the sustained rising trend in domestic investment and consumption was supplemented by the effects of the high level of international economic activity on demand from abroad.

Domestic demand for consumer goods, except for a slight period of stagnation in the second quarter, was on the increase throughout the year. Demand for capital goods, sustained in the public investment sector by long-range programs and strengthened in the private investment sector by the good market outlook, continued high. Foreign demand, which had been weak in the first quarter, subsequently showed signs of recovery that were clearly confirmed in the last six months of the year, ending at rather high levels and pointing in the direction of a further rise.

The level of wholesale prices did not experience significant variation, while retail prices showed a slight increase as a result of the firmness of foodstuff prices. In fact, although the increase in demand for consumer goods, and in particular for nondurables, was comparatively somewhat smaller than that

reported in the demand for capital goods either at home or abroad, it was precisely in the field of goods for current consumption that an unusual tightness was felt in the market. This tightness was centered in foodstuff prices, i.e., in that sector in which, as a consequence of the good agricultural year, the increase in the total supply of products was relatively high and in which it might have been supposed that the increase in demand would be much smaller in comparison.

The experience of the year just past seems to confirm that in the Italian situation the income elasticity of demand for foodstuffs is still high, and above all seems to demonstrate that expectations based on consideration of macroeconomic aggregates require quite fine and precise qualification if they are to tally with actual results. In the case in question, it is true that the increase in the demand for foodstuffs was accompanied by a material increase—aided by favorable climatic conditions—in agricultural production in general, but the distribution of the larger demand among the various kinds of foodstuffs was directed toward products to a great extent different from those the production of which was increased, and this, along with other circumstances inherent in the support of the prices of agricultural products, brought about the tightness mentioned above and the corresponding increase in retail prices of foodstuffs.

The monetary receipts of employed persons and the monetary receipts in agriculture, taken together, showed an increase in both the first and second half of 1955 of about 9 per cent over the corresponding periods of the preceding year. The stability of the percentage increase was, however, the result of quite different trends in the two large categories of monetary receipts considered in this survey.

The amount of the receipts of employed persons rose from 1,958 billion lire to 2,158 billion between the first half of 1954 and that of 1955, increasing 10 per cent, principally as a result of the payment of salary arrears to public employees in the first quarter of last year, and from 2,284 billion to 2,407 billion between the second halves, an increase of 5 per cent (Table 1).

TABLE 1

**Monetary Receipts of Employed Persons**

(billions of lire)

	1954	1955
First quarter . . . . .	914	1,064
Second quarter . . . . .	1,044	1,094
Third quarter . . . . .	1,078	1,119
Fourth quarter . . . . .	1,206	1,288
<b>Total . . . . .</b>	<b>4,242</b>	<b>4,565</b>

The gross receipts in agriculture (not including wages earned in agriculture which are contained in the above total) increased by only about 2 per cent between the first half of 1954 and that of 1955 and by slightly more than 17 per cent between the second halves, primarily on account of the larger receipts for grain crops harvested in the third quarter of 1955 (Table 2).

TABLE 2

**Gross Receipts in Agriculture**

(excluding agricultural wages; billions of lire)

	1954	1955
First quarter . . . . .	252	259
Second quarter . . . . .	171	175
Third quarter . . . . .	634	821
Fourth quarter . . . . .	471	474
<b>Total . . . . .</b>	<b>1,528</b>	<b>1,729</b>

A complete picture of the results of the operation of the economy during the year is given by the figures on national income and expenditure contained in the *General Survey of the Economic Situation of Italy* presented to Parliament by the Ministers of the Budget and the Treasury (Table 3).

Total available resources rose from 13,498 billion lire in 1954 to 14,758 billion in 1955, or 9.3 per cent.



TABLE 3

**National Income and Expenditure**

(billions of current lire)

Sources of income	1954	1955	Expenditure	1954	1955
Agriculture, forestry, and fishing	2,462	2,586	Consumption:		
Industry . . . . .	4,001	4,404		— Private . .	8,653
Commerce, transportation and services . . . . .	2,462	2,700	— Public . .	923	1,000
Net product of public administration . . . . .	1,091	1,216	Total consumption	9,576	10,213
Duplicated items . . . . .	— 872	— 952	Gross investments	2,489	2,925
Net product at factor cost . . . .	9,144	9,954	Total domestic expenditure . . . .	12,065	13,138
Taxes not included in the estimate of goods and services . . . . .	1,634	1,816	Exports of goods and services (and interest on foreign investments) . . . . .	1,433	1,620
Net product at market prices . .	10,778	11,770	Total resources .	13,498	14,758
Net income from abroad . . . . .	20	19			
Depreciation . . . . .	1,022	1,113			
Gross national income . . . . .	11,820	12,902			
Imports of goods and services (and foreign investment income) . .	1,678	1,856			
Total resources . . . . .	13,498	14,758			

Excluding exports of goods and services, the total resources available for domestic expenditure amounted to 13,138 billion lire in 1955, against 12,065 billion in 1954, an increase of 8.9 per cent.

The gross national income rose from 11,820 billion lire to 12,902 billion, an increase of 9.2 per cent. In real terms, i.e., after eliminating the changes due to the price increase of about 2 per cent, the increase was 7.2 per cent.

In 1955, therefore, the annual average rate of increase of 5 per cent on which the ten-year development plan is based was considerably exceeded.

By major categories of economic activity, the greatest relative increase was in industrial activity—including building—which increased its net product 10.1 per cent (from 4,001 billion lire to 4,404 billion). The tertiary activities (commerce,

transportation, insurance, banking, and services) followed with an increase of 9.7 per cent (from 2,462 billion to 2,700 billion). Somewhat below, with about 5 per cent, was the increase in the net product of agriculture (from 2,462 billion to 2,586 billion).

The increase in available resources was 1,260 billion, almost twice the increase of 677 billion which occurred between 1953 and 1954 (Table 4).

TABLE 4

**Increase in Available Resources**

(billions of current lire)

Uses	Between 1953 and 1954	Between 1954 and 1955
Private consumption . . . . .	406	560
Public consumption . . . . .	30	77
Total consumption . . . . .	436	637
Gross investments . . . . .	159	436
Total domestic expenditure	595	1,073
Exports of goods and services . . . . .	82	187
Total available resources .	677	1,260

The table shows that in 1955 a large proportion of the increase in resources was used for investment: 34.6 per cent against 23.5 per cent in the preceding years. However, the proportion used for public consumption increased appreciably (from 4.4 per cent to 6.1 per cent), as did that for exports (from 12.1 per cent to 14.8 per cent). The increase in private consumption absorbed only 44.5 per cent of the total increase in available resources in 1955, against 60 per cent in 1954.

The share of the national income going to employed persons increased 7.6 per cent from 1954 to 1955 as a result of a rise in hourly wages estimated at about 6 per cent, the payment in 1955 of salary arrears (from 1954) to public employees, and an increase in employment and a slight decrease in working hours.

Total monetary income (including family allowances, but excluding other forms of social security) of employed persons amounted to 4,565 billion lire against 4,242 billion in 1954, according to an estimate embracing some 9 million workers prepared by the Research Department of the Bank of Italy (Table 5).

TABLE 5

**Monetary Receipts of Employed Persons**

(billions of lire)

Category	1954	1955
Public employees . . . . .	1,218	1,376
Private clerical employees . . . . .	570	609
Industrial workers included in the census of the Ministry of Labor . . . . .	855	913
Other workers in industry and other activities (except building) . . . . .	811	861
Building workers . . . . .	404	438
Farm workers (except clerical) . . . . .	384	368
Total . . .	4,242	4,565

The greatest increase took place in the sector of public administration (13 per cent), as a result of the new allowances for Government and similar employees under the appropriations law effective as from July 1955, and payment of salary arrears.

The earnings of building workers rose 8.4 per cent, of which 5 per cent was accounted for by an increase in contractual wages and the remainder by increased employment.

Private clerical employees, as well as the industrial workers included in the census of the Ministry of Labor, showed an increase in earnings of 6.8 per cent. For industrial workers the increase was the result of a rise of 6.7 per cent in hourly wages, an increase in employment of 0.8 per cent, and a decrease in working hours of 0.7 per cent.

The financial results in the industrial sector, as shown by the balance sheets of joint-stock companies, may be considered satisfactory. On the basis of the usual survey (made by the Bank's Research Department) of balance sheets of the principal joint-stock companies, which this year covered 274 companies, the depreciation reserves at the end of 1955 of the companies considered exceeded the figure for the previous year by 11.9 per cent, as compared with an increase in the value of plant during the period of 8.9 per cent (Table 6).

TABLE 6

**Depreciation Reserves and Net Profits of a Group of Joint-Stock Companies**

(based on balance sheets for 1953, 1954 and 1955)

(billions of lire)

Category of industry	Number of companies	Depreciation reserves			Net profits		
		1953	1954	1955	1953	1954	1955
Foodstuffs. . . . .	32	72.5	79.8	88.2	3.7	4.0	5.4
Textiles . . . . .	54	128.4	139.0	148.7	1.8	4.5	3.1
Paper. . . . .	12	23.2	26.2	29.0	1.9	2.1	2.3
Rubber . . . . .	4	35.9	41.2	45.0	3.4	4.0	4.2
Metallurgical . . . . .	16	108.5	124.9	146.7	6.1	7.9	10.1
Engineering . . . . .	34	106.7	128.1	156.6	11.2	12.2	14.5
Building and related materials	15	25.7	31.3	36.8	3.0	3.9	4.9
Chemicals and related products	37	164.6	184.3	206.2	11.2	13.5	15.6
Electrical . . . . .	35	357.6	390.9	428.5	19.6	24.3	26.6
Telephone. . . . .	6	94.2	102.3	111.8	4.7	6.2	6.9
Other. . . . .	29	53.7	58.8	65.0	4.0	4.6	5.6
<b>Total . . .</b>	<b>274</b>	<b>1,171.0</b>	<b>1,306.8</b>	<b>1,462.5</b>	<b>70.6</b>	<b>87.2</b>	<b>99.2</b>

From 1953 to 1954, the increase in depreciation reserves had been 11.6 per cent. The metallurgical, engineering and electrical industries showed increases higher than those of the preceding year without corresponding changes in plant. In the food, chemical, telephone, and miscellaneous industries, the increase in depreciation reserves was accompanied by similar increases in plant. On the other hand, even in absolute terms, the textile, paper, and building materials industries reduced

somewhat the amount allocated to depreciation reserves; the reduction was most noticeable in the rubber industry (from 5.3 billion lire in 1954 to 3.8 billion in 1955), which must have been adversely affected by increases in the prices of raw materials.

Net profits earned in 1955 by the 274 joint-stock companies covered by the survey amounted to 99 billion lire, against 87 billion in 1954, or an increase of 13.8 per cent—somewhat lower than that which took place from 1953 to 1954, which was 23.5 per cent. However, in evaluating the difference between these two percentages, it should be observed that the profits obtained in 1954 represented returns to an aggregate amount of equity capital in which the investment of new capital had increased about 12 per cent between the end of 1952 and the end of 1953, while the corresponding increase from 1953 to 1954 has been little more than 3 per cent.

The increase in net profits was common to all categories of industry included in the survey, with the exception of textiles, the profits of which, on the basis of the balance-sheet data of the companies considered, dropped from 4.5 billion lire to 3.1 billion, although this was still significantly higher than the level of 1953 (1.8 billion). Outstanding increases occurred in foodstuffs (35 per cent), chiefly because of the successful operations of the sugar, confectionery, and miscellaneous foodstuffs industries, but also because of the improvement in the economic position of the milling companies; in the metallurgical industries (28 per cent), entirely on account of the behavior of the iron and steel sector, nonferrous metals having declined slightly; in building materials and related items (26 per cent), because of the favorable market conditions under which the cement, brick, and glass industries operated as a result of requirements connected with the increase in building activity; in engineering (19 per cent), in which the upturn involved all segments of the industry to some extent, but especially automotive vehicles; and in chemicals and related products (16 per cent), principally because of the successful outcome of operations in the fertilizer and miscellaneous chemicals field.

In 1955 the tendency revealed in preceding years toward a more than proportional increase in investment as compared with consumption became more pronounced.

Gross investments rose from 2,489 billion lire in 1954 to 2,925 billion in 1955, an increase of 17.5 per cent (Table 7).

TABLE 7

**Gross Investments**

Sector	Value (billions of current lire)		Percentage change		
	1954	1955	Value	Quantity	Prices
Agriculture . . . . .	337	370	9.8	6.5	3.1
Industry . . . . .	750	846	12.8	10.8	1.8
Transportation and communications .	414	422	1.9	4.1	— 2.1
Building . . . . .	579	701	21.1	18.7	2.0
Public works . . . . .	242	250	3.3	— 0.4	3.7
Other . . . . .	132	146	10.6	7.6	2.8
Total fixed investments . . .	2,454	2,735	11.5	9.7	1.6
Change in inventories . . .	35	190	—	—	—
Total . . .	2,489	2,925	17.5	15.7	1.6

In real terms, considering an average increase in the prices of capital goods between the two years of about 1.6 per cent, the increase was 15.7 per cent. From 1953 to 1954 the increase, again in real terms, had been 6.7 per cent.

Between the two years, the increase in private consumption was 6.5 per cent at current prices and 4.4 per cent in real terms. The corresponding increments from 1953 to 1954 had been 4.9 and 3.3 per cent, respectively.

From 1954 to 1955, with the exception of clothing and other personal effects, consumption of which remained unchanged, all categories of consumption experienced a significant increase in quantitative terms, ranging from a minimum of 1.8 per cent for bread and grains to a maximum of 22.5 per cent in the consumption of goods and services for the operation of private means of transportation. The quantitative increase in the consumption of foodstuffs was 3 per cent.

A complete picture of the development of the various categories of consumption between 1953 and 1955 can be shown on the basis of the data contained in the *General Survey of the Economic Situation of Italy* for 1955, as well as that for 1954 (Table 8).

A quantitative increase of 7.8 per cent in total private consumption in the period 1954-55 was determined in part by significant increases of 6.8 per cent in food consumption, 11.2 per cent for public entertainment and other services of a cultural and recreational nature, 13.9 per cent for the purchase of durable household goods, 23.2 per cent for the purchase of means of transportation, and 41.9 per cent in consumption attributable to the operation of private means of transportation.

Within the foodstuffs group, the shift to higher-quality items continued. An increase of 2.3 per cent in the consumption of bread and grains was accompanied by increases of 5.3, 10.0, 12.8, and 24.0 per cent, respectively, for fruits and vegetables; meat; milk, cheese and eggs; and sugar.

Over a period longer than the two-year period considered above, the supply of foodstuffs, which in 1950 had provided 2,438 calories per capita daily, provided more than 2,800 in 1955, an increase of 15 per cent. Considering the increase in population, the total increment in calories was close to 18 per cent. And it should be noted that the mere increase in the calorie count certainly understates the actual improvement in food consumption, which is also affected by the qualitative improvement in the diet. Between 1950 and 1955, there was an especially large growth in the consumption of the higher-quality foods: meat (26 per cent), cheese (28 per cent), eggs (20 per cent), vegetables (22 per cent), fresh fruits (30 per cent), sugar (40 per cent), cocoa (39 per cent), coffee (57 per cent).

The increase indicated in gross investments in 1955 was the result of significantly different increases in fixed investments and in inventory. While the former rose by 11.5 per cent in terms of current prices and 9.7 per cent in real terms, the change in inventories was more than five times greater than that estimated for 1954—from 35 billion lire to 190 billion.

TABLE 8

**Indexes of Quantitative Variations in Private Consumption  
between 1953 and 1955**

I t e m s	1 9 5 4 (1953 = 100)	1 9 5 5 (1954 = 100)	1 9 5 5 (1953 = 100)
Foodstuffs . . . . .	103.7	103.0	106.8
Bread and grains . . . . .	100.5	101.8	102.3
Meat . . . . .	106.7	103.1	110.0
Fish. . . . .	101.0	104.4	105.4
Milk, cheese and eggs . . . . .	109.1	103.4	112.8
Oils and fats . . . . .	99.7	101.1	100.8
Potatoes, vegetables and fruits . . . . .	101.5	103.7	105.3
Coffee, tea, cocoa, etc. . . . .	99.1	105.5	104.6
Sugar, marmalade, honey . . . . .	117.4	105.6	124.0
Other foodstuffs . . . . .	100.0	103.4	103.4
Alcoholic beverages . . . . .	101.5	107.9	109.5
Tobacco . . . . .	105.7	106.1	112.1
Clothing and other personal effects . . . . .	97.3	100.1	97.4
Housing . . . . .	101.9	102.0	103.9
Fuel and electric power . . . . .	108.2	106.1	114.8
Durable household goods . . . . .	108.0	105.5	113.9
Nondurable household goods and miscellaneous personal services . . . . .	100.3	102.4	102.7
Health and hygiene . . . . .	104.1	108.8	113.3
Transportation . . . . .	108.4	112.7	122.2
Purchase of means of transportation . . . . .	108.6	113.4	123.2
Operation of private means of transportation . . . . .	115.8	122.5	141.9
Other means of transportation . . . . .	102.3	104.4	106.8
Communications . . . . .	108.6	111.3	120.9
Hotels and public facilities . . . . .	103.6	109.1	113.0
Public entertainment and other recreational and cultural expenditures . . . . .	106.3	104.6	111.2
Books and newspapers . . . . .	107.7	103.5	111.5
Public entertainment . . . . .	108.9	106.5	116.0
Other expenditures . . . . .	100.8	102.7	103.5
Miscellaneous expenditures . . . . .	100.6	105.8	106.4
Total . . . . .	103.3	104.4	107.8



Among the various sectors of economic activity, the largest percentage increase was attributable to investments in building construction (21 per cent), followed by industry (13 per cent). Agriculture and miscellaneous activities enjoyed increases slightly smaller than the average, while investments in transportation and communications and in the public works sector showed on the whole only slight increases, on the order of 2-3 per cent.

Considering the changes that occurred in prices, increases in investment in real terms were 19 per cent for building, 11 per cent for industry, 7.6 per cent for miscellaneous activities, 6.5 per cent for agriculture, and 4 per cent for transportation and communications, while investments in the public works sector remained practically unchanged.

The survey of the balance sheets of the joint-stock companies provides other indications of the progress of fixed investments in the various sectors. The balance-sheet value of plant for the group of enterprises covered rose from 3,200 billion lire at the end of 1954 to 3,486 billion at the end of 1955, an increase of 286 billion (Table 9). From 1953 to 1954, the increase

TABLE 9

**Fixed Capital and Inventories of a Group of Joint-Stock Companies**

(based on balance sheets for 1953, 1954 and 1955)

(billions of lire)

Category of industry	Number of companies	Premises and plant			Inventories		
		1953	1954	1955	1953	1954	1955
Foodstuffs . . . . .	32	128.4	134.6	146.5	50.6	53.6	80.5
Textiles . . . . .	54	246.6	258.5	266.0	65.5	76.1	71.4
Paper . . . . .	12	42.1	45.8	49.3	5.9	7.1	8.5
Rubber . . . . .	4	54.5	60.5	68.7	23.4	26.4	29.3
Metallurgical . . . . .	16	398.9	417.0	435.9	51.2	61.7	75.5
Engineering . . . . .	34	270.1	312.0	357.0	119.5	104.9	126.9
Building and related materials	15	51.8	59.0	66.6	6.3	6.9	8.0
Chemicals and related products	37	320.7	360.3	408.1	56.3	60.1	68.5
Electrical . . . . .	35	986.1	1,052.2	1,119.8	21.5	22.2	23.2
Telephone . . . . .	6	293.5	338.6	396.3	8.5	9.6	10.0
Other . . . . .	29	153.2	161.3	171.9	13.8	14.0	16.9
Total . . .	274	2,945.9	3,199.8	3,486.1	422.5	442.6	518.7

had been 254 billion lire. Therefore, investments in 1955 exceeded those of the preceding year by 12.6 per cent, an amount varying little from that of investment in industry and communications calculated for national income purposes (13.4 per cent).

Ranked first in the order of increases is the foodstuffs sector, in which investments almost doubled, having risen from 6.2 billion lire in 1954 to 11.9 billion in 1955, concentrated almost entirely in the sugar (9.7 billion) and confectionery (1.3 billion) industries. They were followed by the rubber industry, which, in spite of the unfavorable outcome of operations, increased investments from 6.0 billion lire to 8.2 billion; the telephone sector, expanding rapidly, with total investments of 58 billion in 1955, against 45 billion in the preceding year (29 per cent); and chemicals, which registered an increase of almost 21 per cent (from 39.6 billion to 47.8 billion). On the other hand, increases of between 2 and 5 per cent characterized investments in metallurgy (from 18.1 billion to 18.9 billion), engineering products (from 41.9 billion to 45.0 billion), building materials (from 7.2 billion to 7.6 billion), and electric power (from 66.1 billion to 67.6 billion).

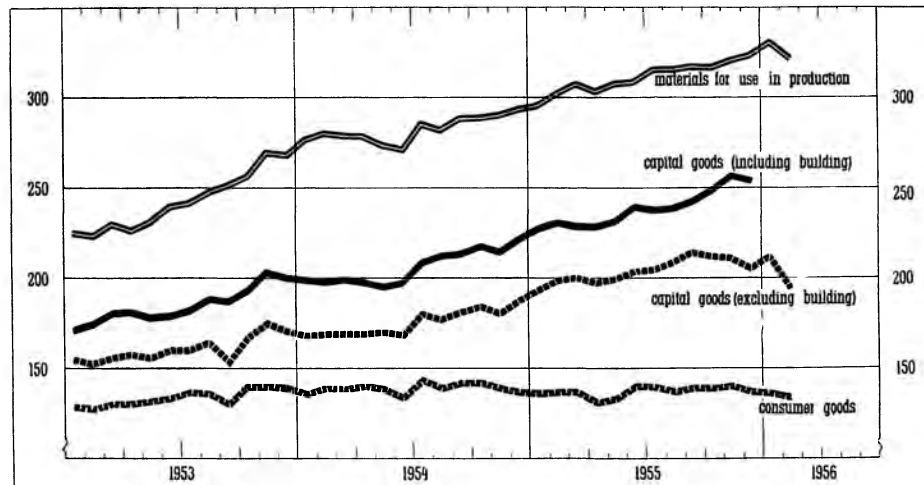
Significant decreases, however, occurred in investments in textiles, which on the basis of the 54 enterprises considered, declined from 11.9 billion lire to 7.5 billion. The reduction was especially large in woollen textiles (from almost 3.0 billion to less than 1.2 billion).

With regard to changes in inventory, a considerable difference is noted between 1954 and 1955. In 1954 a reduction in inventories of foodstuffs had been accompanied by an increase in stocks of industrial materials and products, resulting in a slight overall increase in inventories for the economic system. In 1955, on the other hand, the increase in inventories of industrial products, attributable to a larger volume of stocks of durable goods in the process of manufacture (especially in the shipbuilding industry), which more than compensated for the small declines in commercial inventories and in the stocks of raw materials in some industries, was accompanied by a notable increase in agricultural stocks in connection with exceptional harvests of grains and sugar beets.

## II. *Production*

*Industry.*— Examination of developments in industrial activity according to the use made of the goods produced shows (Chart 1) that the gap between the output of equipment goods and the output of goods for direct consumption increased further.

CHART 1



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

The index of production of capital goods, including building activity, rose from an average of 185 in 1953 to 205 in 1954 and 238 in 1955, showing an increase of 11 per cent between 1953 and 1954 and 16 per cent between 1954 and 1955. Excluding building, which showed an increase of about 17 per cent in both years, the index increased 9 per cent in 1954 and 16 per cent in 1955.

The index of goods for use in production, pushed upward by the heavy demand of industries producing capital goods, in turn showed an increase of 10 per cent between December 1954 and December 1955, against an increase of 9 per cent in 1954.

The index of production of consumer goods, however, moved from an annual average of 134 in 1953 to 139 in 1954 and 136 in 1955.

Viewed on a monthly basis, the behavior of the three indexes showed substantial similarity throughout the phase of recovery that marked 1953 and in the period of uncertainty that characterized the first half of 1954. In the second half of 1954 and the first half of 1955 there was, on the contrary, a sharp contrast between the behavior of the index of production of capital goods and goods for use in production and the index of consumer goods, the latter being pulled downward by the crisis in the textile industry, while the other two were pushed upward by the developments in the engineering industry and the brilliant progress in building and related activities.

At the juncture of the two halves of 1955, the three indexes briefly resumed their similarity of behavior as a result of the improved outlook in the consumer goods sector. In the course of the second half of 1955, however, the three indexes followed sharply different trends.

The production of capital goods continued its upward course until September, to dip in the last quarter of the year as a result of the slump in activity in the engineering sector and more precisely in the field of means of transportation. Production in the metallurgical sector and building activity still remained high, however. The index of production of capital goods including building therefore continued to increase even in the last quarter of the year.

The industries producing materials for use in production showed a distinct upward movement throughout the second half of 1955 as a result of the more intense activity in the power sector (principally natural gas and crude petroleum and the production of electric power), which neutralized the drop that took place in the chemical sector in the last four months of the year.

Production of consumer goods, however, remained stationary.

*Agriculture.*— Last year's results were in general particularly good. Production was higher than in 1954, increasing 6 per cent.

The steady expansion of production over the past 5 year period is due to the concurrent action of several technical and economic factors which have brought about a sweeping forward movement covering agricultural techniques, experimentation, mechanization and the use of chemical fertilizers.

The investments of previous years, to which a series of development programs financed by the Government have contributed in large measure, are now coming to fruition.

In 1955 investments expanded further. The largest increase concerned investments for land reclamation, transformation and improvement. Purchases of agricultural machinery were only slightly higher than in 1954; a moderate decrease in purchases of tractors being counterbalanced by an increase for other types of machines and implements. The total number of tractors in operation has now reached a figure of 163 thousand.

The consumption of chemical fertilizers increased appreciably as did that of insecticides. The use of selected seeds expanded further, covering almost 3/4 of cultivated land in the case of wheat. Hybrid corn represented 1/6 of total corn acreage.

Briefly, last year can be characterized as one in which there was, on the one hand, a plentiful crop for wheat, beets and fruit but a very poor olive harvest, while on the other hand some industrial crops yielded less than in the year before and meat production decreased somewhat.

### III. *Prices*

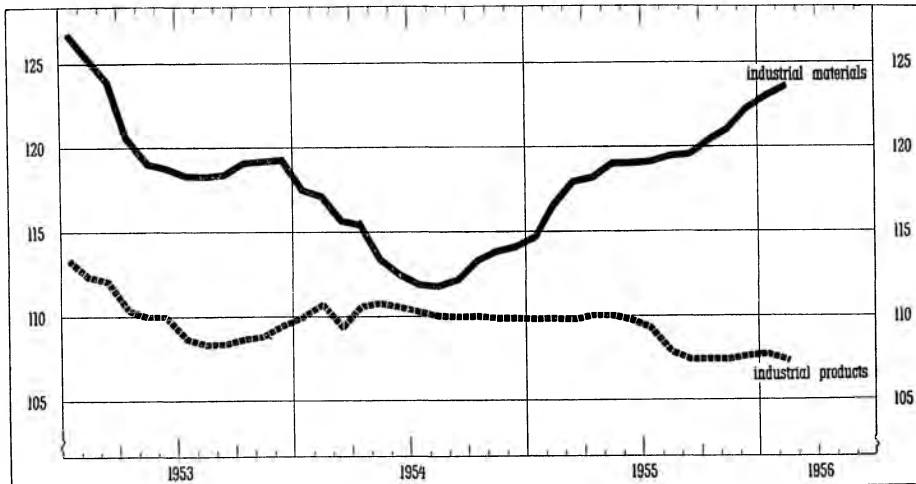
*Wholesale Prices.*— In 1955 the behavior of wholesale prices in Italy was largely stable because of certain equilibrium of conflicting factors of internal and international origin (in addition to the combined effect of different trends and movements), of which those tending to push the level of prices upward

gained greater force toward the end of 1955 and in the first months of 1956.

International prices of industrial materials, which had begun to recover toward the end of 1953, showed a slightly upward tendency in 1954, which was notably strengthened in 1955 under the stimulus of heavy demand connected with the boom in production on both sides of the Atlantic. Production of raw materials—with the exception of textile—did not keep pace with the increase in world demand, and prices in some cases, especially for minerals, reached exceptional levels. On international markets, 1955 was the most active year since Korea for industrial materials.

In 1954 the prices of industrial materials on the domestic market had tended to dip until summer, principally because of the downward course of prices of iron and steel materials and products following the opening of the common market. In the second half of the year an upward trend had appeared which became more clearly defined in 1955. Nevertheless, the increase in prices of materials for industry was not shifted to semifinished and finished products, which showed a tendency to drop (Chart 2).

CHART 2



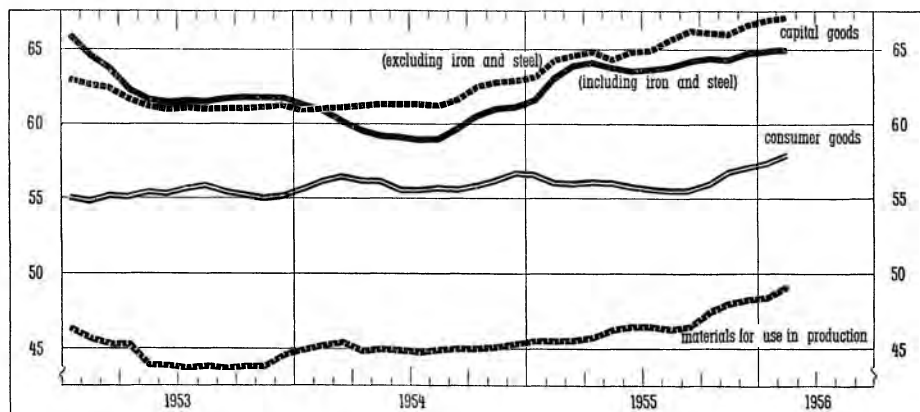
Index of wholesale prices of industrial materials and products  
(semifinished and finished)  
(June 1950 = 100)

(Bank of Italy estimates based on Central Institute of Statistics figures)

The increase in the efficiency of the productive system made it possible not only to neutralize the increase in prices of industrial materials, but to reduce, though but slightly, those of processed goods. Between 1954 and 1955 the prices of industrial materials increased 4.3 per cent, while those of finished and semifinished products decreased 1.2 per cent.

Demand in 1955 moved along the lines of development already evident in the second half of 1954. In harmony with the trends on the international market, domestic demand was clearly on the increase, especially for materials for production, durable goods, and capital goods in general (Chart 3).

CHART 3



Index of prices of capital goods, materials for use in production, and consumer goods  
(1938 = 1)

On the domestic market, prices of capital goods—a category which comprises metallurgical and engineering materials and products, bricks, cement and other building materials—which had started upward in the summer of 1954, showed a stronger rise in 1955. Between August 1954 and February 1956, the price index for these goods rose 10 per cent. The increase is attributable principally to metallurgical raw materials and manufactures and to timber. The prices of engineering products and some building materials, however, remained unchanged or even decreased slightly.

The domestic prices of goods for use in production—a category comprising chemical products, rubber, and fuel in general—which had barely progressed in 1954—showed a pronounced upward movement in 1955. In the course of the year, the index of these prices registered an increase of 6 per cent, due especially to coal (17 per cent) and chemical materials and products (6 per cent), while prices of mineral oils remained unchanged on the whole, despite an increase for fuel oils and lubricants.

The movement of prices of consumer goods, on the other hand, tended downward until summer. With the autumn an upward trend appeared that continued into the first months of 1956. The recent recovery is attributable primarily to the prices of foodstuffs—also higher in the first months of the present year because of the frost—and secondarily to the firmer tone of prices of textile materials in connection with the parallel tendency in the field of raw materials and a slight recovery in demand.

On the international market also, the prices of capital goods and goods for use in production showed a welldefined upward trend throughout 1955. In February 1956 the level of these prices exceeded by about 10 per cent the highest level reached at the peak of the Korean cycle. The prices of materials for use in production, which had moved conspicuously upward during much of 1955, showed a certain downward adjustment in the last quarter that continued into the first months of 1956. During 1955, the level of these prices increased 15 per cent.

The international prices of consumer goods, on the other hand, moved downward during 1955 under the influence of the behavior of prices of foodstuffs and textile materials, with a certain indication of recovery in the first quarter of 1956. This slight recovery was partly due to textile fibers and hides.

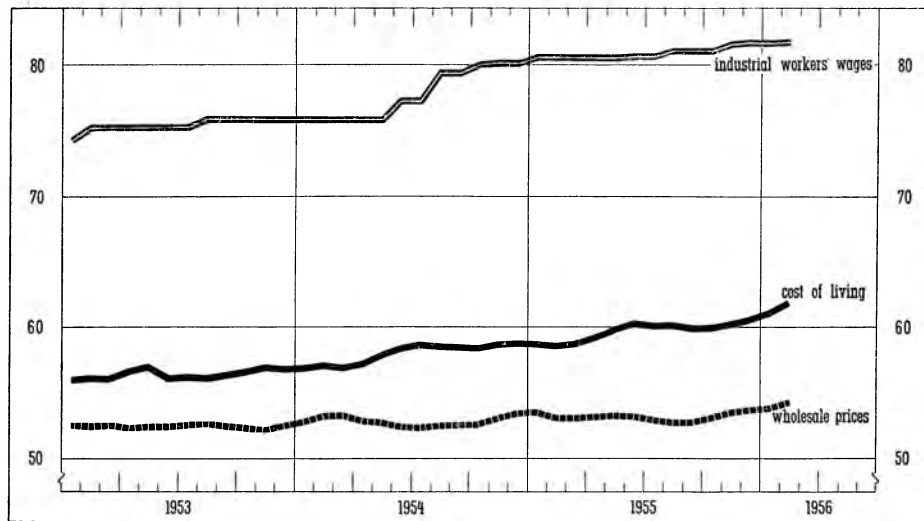
Therefore, notwithstanding certain divergencies, the connection between the domestic market and the international market was very close during 1955.



*Retail Prices and the Cost of Living.*— While wholesale prices showed a basically stable tendency, the cost of living continued to rise in 1955 at a rate slightly below that of 1954.

The cost of living index of the Central Institute of Statistics increased 3 per cent during the year, against 3.6 per cent in the preceding year (Chart 4).

CHART 4



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

The increase in the cost of living in 1955 was due essentially to food and housing.

The increase in the prices of food (2.4 per cent) caused a rise in the general cost of living of 1.7 per cent. The increase in housing expenditures—partly due to the increase in the rent ceiling established by the Government—resulted in turn in an increase of slightly more than 1 per cent in the general index, these two items alone accounting almost entirely for the indicated increase of 3 per cent.

In 1955 the ratio of retail prices to wholesale prices showed a slight increase for both food and clothing.

#### IV. *Foreign Trade*

The phase of intense economic development which Italy is experiencing was fully reflected in her import trade in 1955. The expansion of production, investment, and consumption, in fact necessitated a larger volume of goods from abroad; the total value of imports, which, although as a result of exceptional circumstances (decreased wheat requirements), had remained in 1954 at a level roughly equal to that of 1953, showed a notable increase.

The increased inflow of foreign goods was accompanied, however, by a simultaneous expansion of Italy's exports. The phase of export development initiated in the spring of 1953 had come to an abrupt halt toward the end of 1954 and the early part of 1955, to rally more vigorously in the spring of last year. From then on, exports increased at a relatively higher rate than imports, but not so much as to prevent a further deterioration of the trade balance in absolute terms for the entire year.

On an annual basis, compared with 1954, imports increased 10.9 per cent in value (from 1,524.4 billion lire to 1,691.2 billion), while exports increased 13.4 per cent (from 1,023.9 billion to 1,160.7 billion); the deficit rose 6 per cent, to 530 billion lire.

The increase in exports, a higher percentage than that of imports, was therefore insufficient to cause a reduction of the deficit, since, at their present relative levels, exports would have to increase at a rate about 40 per cent higher than that of imports in order to keep the expansion of trade from affecting the trade balance negatively.

A survey of developments in 1955 shows that the increase in the deficit in relation to 1954 occurred for the most part in the first half of the year. In the following months the rate of increase of exports was on the average about 30 per cent higher than that of imports, and consequently the deficit increased but little compared to the increase in the corresponding months

of 1954. In the second half of 1955, the percentage increase in imports was 14.7 per cent on the average, that of exports, 19.3 per cent—two figures that are really remarkable, especially in view of the fact that the 1954 values were among the highest registered in the postwar years.

Trade in 1955 was carried out under a price system which, according to the indications that can be gathered from the indexes computed by the Central Institute of Statistics, presented on the whole an increase over 1954 of 3.5 per cent for imports (calculated on a c.i.f. basis) and 2.7 per cent for exports. Accordingly, the terms of trade deteriorated for Italy from one year to the other by 0.8 per cent.

Examination of the distribution of foreign trade by main categories of commodities shows that in both currents of trade the expansion involved foodstuffs as well as materials and semi-finished and finished products of other industries.

From 1954 to 1955 the deterioration of the trade balance was the result of a rough offsetting of different elements in which the heavy increase of the surplus in trade in finished products of industries outside the foodstuffs sector was insufficient to neutralize the deterioration that occurred in foodstuffs and the group of industrial raw materials and semifinished products.

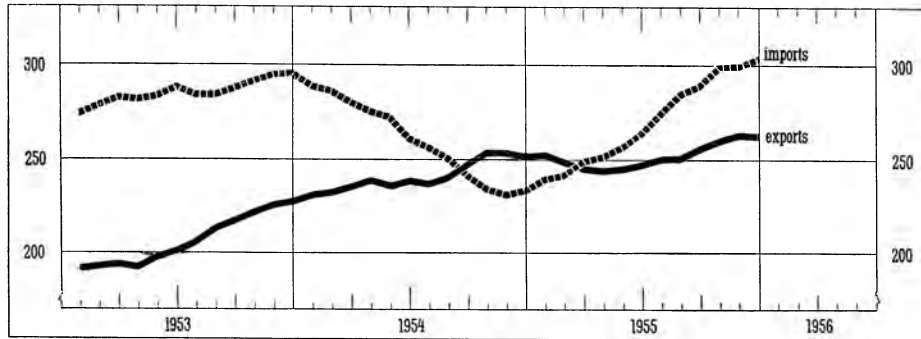
The deterioration of about 60 billion lire in the foodstuffs account, manifested despite the slight increase in exports, was attributable to the increased volume not only of imports of wheat, but also of those of meat, fish, and eggs.

On the export side, the remarkable quantitative increase in fresh fruits and the higher prices of dried fruits contributed to the increase in total value. Exports of vegetables also showed considerable firmness, while exports of rice continued to drop in spite of sagging prices.

The behavior of trade in foodstuffs in 1953-54, characterized in particular by a reversal in 1954 of the upward movement in imports as a result of the decrease in wheat purchases and by a similar movement in exports in the first part of 1955 as a

result of the decline in sales of fresh fruits, as well as by a subsequent resumption of expansion in both imports and exports, is revealed in Chart 5.

CHART 5



Imports and exports of foodstuffs

(12-month totals as of the end of each given month; billions of lire)

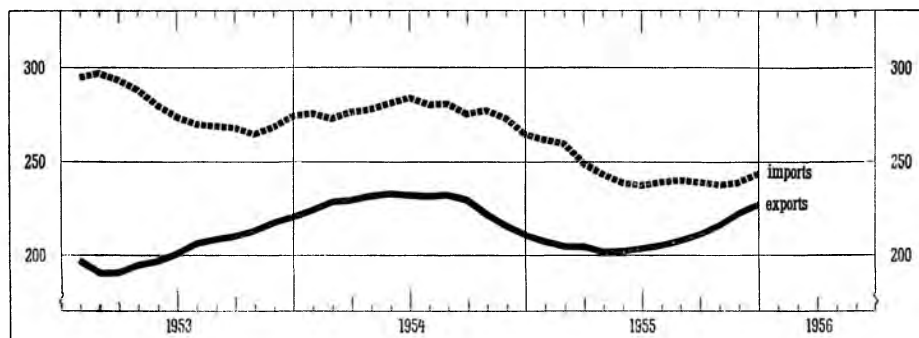
In the sector of non-food products, one characteristic of the year under review which may have considerable importance both for appraising the conditions under which Italy's foreign trade developed during the year and for forecasting future developments should be especially emphasized. If, in examining the breakdown of exports, one notes not only the large figures, but also the small figures which generally pertain to activities of modest industrial or handicraft enterprises, it becomes apparent that there were very few items that did not show increases. A large part of the increase in exports in 1955 was due precisely to the swelling of the numerous streams originating in medium and small businesses. This manifestation, which seems all the more remarkable in the light of the fact that these firms can hardly avail themselves of advertising and marketing organizations of their own to publicize their products, clearly indicates that all Italian production, and not merely that of the large industrial concerns, found favorable market conditions and good opportunities to do business abroad in 1955.

In the distribution of foreign trade by categories of commodities, it may be noted that the textile sector was the only one in which a further contraction in imports of raw materials

occurred. Although prices decreased by about 5 per cent, purchases were reduced in volume by about 10 per cent, which appears to be in line with the decrease registered in the production of that sector.

On the other hand, on the export side, while the downward movement continued in the first half of the year, sales began a recovery which appeared in July and became increasingly stronger and more widespread among the various products, raising the total value for the year to a level about 7 per cent higher than that of the preceding year (Chart 6). In connection with the growth of exports, imports of raw materials also turned upward in the last two months of the year. On the whole, trade in textile materials and products, which had run a deficit of 55 billion lire in 1954, presented a deficit of 17 billion in 1955.

CHART 6



Imports and exports of textile materials and products

*(12-month totals as of the end of each given month; billions of lire)*

The foreign trade of the sector of metal engineering products showed a particularly outstanding expansion in 1955. The modernization of equipment in the engineering industries and plant installation or renewal in iron-and-steel industries that had taken place in the past exerted a decisive influence on trade in this sector in 1955. Furthermore, in most of the industrial countries, heavy demand from abroad for capital goods created a state of peculiar saturation of demand and a tightness of prices, which, as already indicated, increased to a somewhat

smaller extent in Italy than elsewhere. Structural and cyclical elements therefore influenced the increase in trade.

On the export side, iron-and-steel and metallurgical products increased 40 per cent, and products of the engineering industries rose 26 per cent; on the import side, iron-and-steel raw materials and products and nonferrous metals showed an increase of 23 per cent, while the value of products of the engineering industry remained unchanged.

The heavy increase in iron-and-steel and engineering production led to larger purchases abroad of scrap metal and pig iron. In particular, scrap iron and steel doubled in value (from 35.6 to 69.5 billion) as a result of an increase of 52 per cent in quantity and 29 per cent in price.

Trade in products of the chemical industries (excluding products derived from petroleum and coal, as well as textile materials and products obtained by chemical processes) also showed considerable expansion, imports having increased about 20 per cent and exports 18 per cent. Two-thirds of the latter increase was accounted for by higher sales of fertilizers and plastic materials.

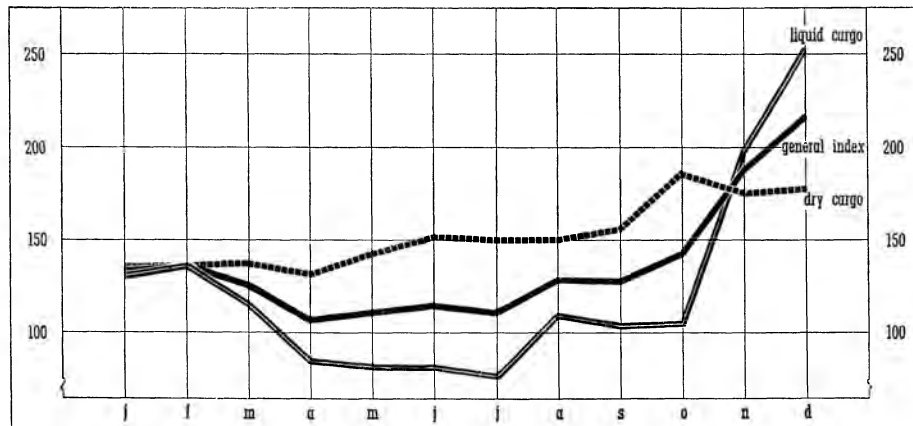
On the other hand, there was a significant contraction of exports of petroleum products. The quantitative increase in crude petroleum imports and the changes in imports and exports of refined products resulted in a net supply for domestic consumption which, roughly estimated, was about 15 per cent higher than that for 1954.

*International Transportation and Foreign Tourist Travel in Italy.*— In the transportation sector, both the volume of services required by Italy and the volume of services performed by Italian carriers increased considerably during 1955, while merchandise freight rates also increased significantly.

The quantitative increase in transportation services utilized by Italy was determined both by an increase in the volume of imports and by the greater average remoteness of the supplying markets.

As to the price component of the increase in the cost of transportation, it should be noted that the freight rate indexes (Chart 7) showed an appreciable increase in the average freight rate for dry cargo in 1955, which was especially pronounced in the case of minerals and coal. The increase was almost constant

CHART 7



Index of ocean freight rates for 1955 on Italian imports  
(monthly averages; 1954 = 100)

throughout the year, except for a peak in October and a slight dip thereafter. The freight rate for petroleum, however, remained stationary or slightly inclined to fall until October, when it took a sudden jump that doubled its size in the course of one month. The general index of freight rates — resulting from the combination of the two afore-mentioned subindexes — showed an increase of 43 per cent between the average for 1954 and 1955, reaching a level of 202 last December (average rate for 1954 = 100).

The transportation of goods and passengers by ships of Italian registry contributed to reduce the deficit of the balance of payments in 1955 in the form of a saving of foreign exchange in the amount of \$151 million and gross earnings in foreign exchange of \$247 million (Table 10).

The increase in the receipts of the Italian merchant marine in 1955 over the previous year was accounted for to the amount

TABLE 10

**Estimated Contribution of the Italian Merchant Marine to  
the Balance of Payments**  
(millions of dollars)

Items	1954	1955
<i>A. Savings of foreign exchange:</i>		
Import freights. . . . .	72.2	114.9
Transportation of Italian passengers . . . . .	32.6	35.9
Total savings . . . . .	104.8	150.8
<i>B. Earnings in foreign exchange:</i>		
Export freights. . . . .	14.9	16.6
Freights for goods in ocean transit and goods transported between third countries. . . . .	125.0	150.9
Transportation of foreign passengers . . . . .	72.0	79.9
Total gross earnings . . .	211.9	247.4
Expenditure of Italian merchant marine abroad <sup>(1)</sup>	105.6	120.6
Total net earnings . . . .	106.3	126.8
<i>C. Total contribution (A + B) . . . . .</i>	211.1	277.6

(1) Including cost of marine insurance underwritten abroad, less indemnities for losses.

of \$56 million by a change in the freight rates and to the amount of \$26 million by an increase in the volume of services. However, since the change in the freight rates gave rise to an increase in payments of about \$48 million, it produced a net increase in receipts of \$8 million.

On the whole, the unfavorable balance of the transportation account (Table 11) of about \$14 million was approximately the same as the deficit of the preceding year; therefore, it may be concluded that the increased demand for transportation of goods absorbed not only the appreciable increase in the activity of the Italian merchant marine, but also the improvement of the balance due to the increase in freight rates.



TABLE 11

**Transportation Account**

(millions of dollars)

Items	Sea		Land <sup>(4)</sup>		Air		Total	
	1954	1955	1954	1955	1954	1955	1954	1955
<i>Receipts :</i>								
Freights								
- For exports <sup>(1)</sup> . .	14.9	16.6	—	—	0.8	1.4	15.7	18.0
- Other . . . . .	125.0	150.9	5.8	7.8	3.0	2.3	133.8	161.0
Passenger fares . . .	72.0	79.9	—	—	10.9	13.9	82.9	93.8
Expenditure of foreign ships in Italy	35.8	40.2	—	—	7.4	7.5	43.2	47.7
<b>Total receipts . .</b>	<b>247.7</b>	<b>287.6</b>	<b>5.8</b>	<b>7.8</b>	<b>22.1</b>	<b>25.1</b>	<b>275.6</b>	<b>320.5</b>
<i>Payments :</i>								
Freights								
- For imports <sup>(1)</sup> <sup>(2)</sup> .	79.8	102.3	76.8	80.4	2.6	2.2	159.2	184.9
- Other . . . . .	1.0	0.7	—	—	3.3	2.8	4.3	3.5
Passenger fares <sup>(3)</sup> .	13.4	14.4	—	—	8.1	10.0	21.5	24.4
Expenditure of Italian ships abroad . . .	101.3	117.6	—	—	3.7	4.1	105.0	121.7
<b>Total payments . .</b>	<b>195.5</b>	<b>235.0</b>	<b>76.8</b>	<b>80.4</b>	<b>17.7</b>	<b>19.1</b>	<b>290.0</b>	<b>334.5</b>
<b>Balance . .</b>	<b>52.2</b>	<b>52.6</b>	<b>— 71.0</b>	<b>— 72.6</b>	<b>4.4</b>	<b>6.0</b>	<b>— 14.4</b>	<b>— 14.0</b>

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

(2) Excluding freights received by the Italian merchant marine (72.2 million in 1954 and 114.9 million in 1955) and by the Italian airlines (0.8 million in 1954 and 0.9 million in 1955).

(3) Excluding fares received for transportation of Italian passengers by the Italian merchant marine (32.6 million in 1954 and 35.9 million in 1955) and by the Italian airlines (2.3 million in 1954 and 2.9 million in 1955).

(4) Including pipeline fees paid abroad for crude petroleum imported into Italy.

The developments which characterized foreign tourist travel in Italy from 1954 to 1955 may be summed up as follows: official foreign exchange receipts rose 35 per cent, reaching a level of \$211 million; the number of foreigners entering Italy increased 16 per cent, attaining a new high of about 11 million; hotel registrations increased 20 per cent, the number of overnight stays having risen to about 15 million; the overland influx of tourists with vehicles increased still further in 1955, accounting for about 68 per cent of all foreign visitors.

*Trade and Foreign Exchange Policy.*— Import trade was conducted during 1955 at a level of freedom substantially similar to that attained under the measures adopted in previous years. The liberalization of imports vis-à-vis EPU countries remained constant around the level of 99 per cent reached as long ago as November 1951. However, during the year it was found necessary to make use of restrictive measures to correct abnormal developments in the import of some goods.

In regard to the countries of the dollar area as well, the freely importable goods remained throughout 1955 as they had been at the end of 1954. The principle that imports from countries with which Italy has bilateral compensation agreements should be subject to the system—free or restricted—provided in the individual agreements continued to be followed.

As to the dollar area countries, a provision issued at the end of March, 1956, has furthermore enlarged the list of goods that can be imported without ministerial licensing. In respect to the value of foreign trade in 1953, it covers 15 per cent of private imports from United States and 9 per cent from Canada; hence the overall percentages of liberalization have reached, respectively, 40 and 57 per cent.

A table prepared by the Italian Foreign Exchange Control Office and published in the *General Survey of the Economic*

TABLE 12

**Imports Conducted under the Ministerial Licensing System**

(as percentages of total annual imports from each area)

Year (1)	Dollar area (2)	E.P.U. area (3)	Total (4)
1950 . . . . .	99.7	49.6	71.4
1951 . . . . .	96.5	29.6	56.9
1952 . . . . .	83.0	1.5	39.6
1953 . . . . .	77.6	2.1	30.2
1954 . . . . .	65.7	0.9	26.7
1955 . . . . .	42.4	1.6	23.6

Note: For other countries, which include all those with which trade is conducted on a bilateral basis, imports are considered to be entirely under direct or indirect control. The percentages shown in Column (4) indicate the portion of imports conducted under the licensing system from all sources.

*Situation of Italy* shows the extent to which Italian imports have been subject to the ministerial licensing system for each year from 1950 to 1955 (Table 12).

The drop from 65.7 per cent to 42.4 per cent between 1954 and 1955 in the ratio of imports subject to licensing to total imports from the dollar area does not indicate a change in the liberalization percentage established under the measures previously adopted, but rests upon the fact that imports of coal and scrap iron (liberalized goods) increased proportionally much more than the increase in the total traffic from that source.

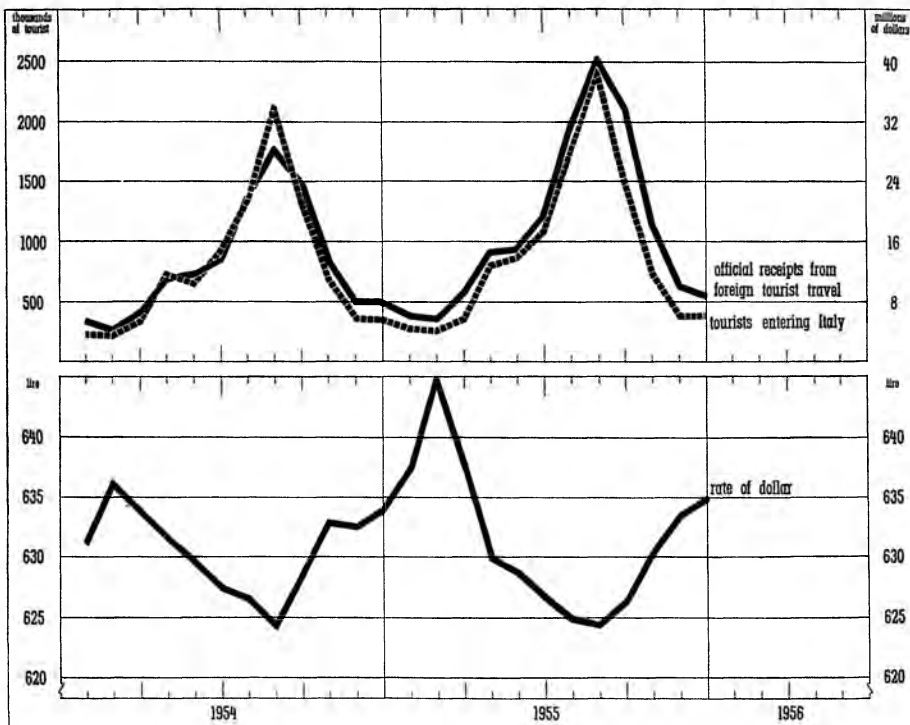
In 1955 measures were adopted that had as their guiding principle the need for adapting Italy's position to that attained by certain other European countries some time ago through the inclusion of their currencies in the system known as the «arbitrage club». Through that club, the multilateralization of payments, previously effected exclusively through the monthly settlement of bilateral balances within the EPU, had come to assume a broader scope for the participating countries in that it took place, in part, through the daily performance of arbitrage transactions by the various countries according to the need, in a system of rates fluctuating within fixed limits.

On the basis of these measures, for members of the arbitrage club the exchange rates may vary according to the club's rules within the limits of 0.75 per cent above or below the basic rate. When these limits are reached, the Italian Foreign Exchange Control Office is required to sell or buy the currencies concerned, as the case requires. The basic rate mentioned above has been established with reference to the official cross rate of the individual currencies to the dollar and the rate of 624.91 lire per dollar, which represents the average rate of dollar in Italy on the day the basic rates were unified.

Within the above-mentioned limits, the determination of the exchange rates of the currencies of the countries participating in the system is therefore left to the free play of supply and demand as it may evolve from transactions carried out in all the countries.

The time during which the system of fluctuating rates has been applied is too short to permit an appraisal of whether the seasonal nature of certain transactions exerts an influence on the exchange rates. It is true that during the summer months the demand for lire for purposes of tourist travel causes an appreciation of the official rates of the lira in relation to various currencies. The lack of a statistical series covering a sufficiently long period of time does not permit a direct investigation of the relationship which may exist between the seasonal character of tourist travel and the official rates. Indirectly, however, it has been possible to obtain an indication that the presumed correlation actually exists. Chart 8 shows the curves of the dollar exchange rate on the unofficial market, the official foreign exchange receipts from tourist travel, and the number of tourists entering Italy.

CHART 8



Official receipts from foreign tourist travel, number of tourists entering Italy, and rate of the dollar on the unofficial market

## V. *The Balance of Payments*

The overall deficit of the foreign exchange account (Table 13)—excluding foreign governmental aid in any form but including capital movements—decreased by \$97 million in 1955, or by approximately 50 per cent of the preceding deficit. In 1955, as in 1954, the reduction of the total deficit was almost entirely attributable to capital movements in the form of increased indebtedness abroad. In fact, if these movements are excluded, the decrease in the deficit was barely \$10 million, taken as the difference between an increased surplus on the invisible items of about \$113 million and an increase in the trading deficit, including items pending and outstanding, of about \$103 million.

The increase in the foreign exchange deficit on trade movements between the two years under review would have been even larger if Italy's import trade had not been financed, to the amount of about \$68 million in 1955 against \$56 in 1954, by the use of lines of credit granted by foreign banks and advances by Italian banks of their own holdings to customers.

Foreign governmental aid provided a contribution of approximately \$203 million (Table 14). While receipts for offshore purchases and military services rose to \$163 million, grants, now drawing to a close, continued to decrease, falling to a level of \$41 million against \$104 million in 1954.

As of last December 31, about \$10 million in the form of grants and about \$45 million under the agreement of May 23, 1955 on agricultural surpluses were still to be used, and the remaining receipts to be earned for offshore orders amounted to \$194 million.

The foreign exchange account for 1955, including current items, foreign loans and investments, as well as contributions derived from governmental aid, closed with an increase in net foreign assets equivalent to \$109 million against \$55 million in the preceding year. At the end of last year, total gross foreign

TABLE 13

**Foreign Exchange Account**

(millions of dollars)

Items	Convertible currencies				E. P. U. currencies				Other currencies		Total	
	U. S. dollars		Swiss francs Canadian dollars		Sterling		Others		1954	1955	1954	1955
	1954	1955	1954	1955	1954	1955	1954	1955				
<i>Credit:</i>												
Exports . . . . .	243.5	306.8	6.1	6.6	367.3	387.9	653.1	758.9	203.6	268.3	1,473.6	1,728.5
Freight . . . . .	39.4	53.3	0.1	0.5	37.7	35.9	42.9	50.5	14.8	17.1	134.6	157.3
Foreign travel . . .	52.0	65.2	6.3	14.5	27.5	41.4	67.7	87.1	2.6	3.2	156.1	211.4
Emigrants' remittances .	33.7	39.8	15.5	17.5	24.8	29.2	37.5	35.9	2.6	2.3	114.1	124.7
Other current items .	60.5	70.5	4.0	6.4	37.8	47.6	59.8	92.2	11.7	14.9	173.8	231.6
Movement of capital .	38.7	75.8	9.6	40.5	5.8	4.0	42.7	63.2	0.1	2.7	96.9	186.2
<b>Total credit</b>	<b>467.8</b>	<b>611.4</b>	<b>41.6</b>	<b>86.0</b>	<b>500.9</b>	<b>546.0</b>	<b>903.7</b>	<b>1,087.8</b>	<b>235.4</b>	<b>308.5</b>	<b>2,149.4</b>	<b>2,639.7</b>
<i>Debit:</i>												
Imports (cif) . . . . .	374.2	482.4	4.5	6.8	596.9	689.2	990.9	1,079.4	254.5	260.3	2,221.0	2,158.1
Foreign travel . . . .	2.0	2.3	0.6	0.7	2.3	3.5	12.0	14.3	0.6	0.6	17.5	21.4
Other current items .	37.2	42.6	0.5	2.1	22.1	25.0	43.5	56.4	10.7	16.6	114.0	142.7
Movement of capital .	20.6	23.2	—	5.0	1.1	0.9	6.7	1.9	1.6	1.7	30.0	32.7
<b>Total debit</b>	<b>434.0</b>	<b>550.5</b>	<b>5.6</b>	<b>14.6</b>	<b>622.4</b>	<b>718.6</b>	<b>1,053.1</b>	<b>1,152.0</b>	<b>267.4</b>	<b>279.2</b>	<b>2,382.5</b>	<b>2,714.9</b>
<i>Balance:</i>												
Goods . . . . .	-130.7	-175.6	1.6	-0.2	-229.6	-301.3	-337.8	-320.5	-50.9	8.0	-747.4	-789.6
Other current items .	146.4	183.9	24.8	36.1	103.4	125.6	152.4	195.0	20.4	20.3	447.4	560.9
Movement of capital .	18.1	52.6	9.6	35.5	4.7	3.1	36.0	61.3	-1.5	1.0	66.9	153.5
<b>Total</b>	<b>33.8</b>	<b>60.9</b>	<b>36.0</b>	<b>71.4</b>	<b>-121.5</b>	<b>-172.6</b>	<b>-149.4</b>	<b>-64.2</b>	<b>-32.0</b>	<b>29.3</b>	<b>-233.1</b>	<b>-75.2</b>
Items pending and outstanding . . . . .	10.3	10.0	-3.2	-0.7	14.7	10.0	1.1	-3.6	17.7	-36.2	40.6	-20.5
<b>Overall balance . . .</b>	<b>44.1</b>	<b>70.9</b>	<b>32.8</b>	<b>70.7</b>	<b>-106.8</b>	<b>-162.6</b>	<b>-148.3</b>	<b>-67.8</b>	<b>-14.3</b>	<b>-6.9</b>	<b>-192.5</b>	<b>-95.7</b>

Note: The « other current items » in this table exclude items of an extraordinary character (foreign aid, offshore procurement, etc.) which appear in the first part of Table 14. The movement of capital excludes financing in connection with these extraordinary items and (unlike Table 16) movements of foreign exchange assets, both of which may be seen in Table 14.

TABLE 14

**Foreign Aid and Foreign Exchange Assets**

(millions of dollars)

I t e m s	Convertible currencies				E. P. U. currencies		Other currencies		Total	
	Gold and U.S. dollars		Swiss francs Canadian dollars		1954	1955	1954	1955	1954	1955
	1954	1955	1954	1955						
Balance of recorded exchange transactions . .	44.1	70.9	32.8	70.7	-255.1	-230.4	-14.3	- 6.9	-192.5	- 95.7
M.S.A.-F.O.A.-I.C.A. grants . . . . .	104.3	41.3							104.3	41.3
Offshore procurement . . . . .	132.5	128.8							132.5	128.8
Offshore procurement financing .	- 9.8	—							- 9.8	—
Infrastructure . .	14.6	26.2			— 0.8	0.4			13.8	26.6
Troop pay . . . .	5.2	6.5			1.9	1.1			7.1	7.6
<b>Total . .</b>	<b>290.9</b>	<b>273.7</b>	<b>32.8</b>	<b>70.7</b>	<b>-254.0</b>	<b>-228.9</b>	<b>-14.3</b>	<b>- 6.9</b>	<b>55.4</b>	<b>108.6</b>
<b>Transfers within E.P.U.:</b>										
a) Existing resources . . . . .					56.1	4.8	-56.1	- 7.8	—	—
b) Foreign exchange accounts in E.P.U. currencies . .					0.1	- 3.0	- 0.1	3.0	—	—
c) Lire accounts .					- 3.4	11.8	3.4	-11.8	—	—
E.P.U. settlements in gold and dollars . . . . .	-113.5	-114.3			113.5	114.3			—	—
E.P.U. agreement on consolidation and repayment .	- 46.5	- 14.3			46.5	14.3			—	—
Arbitrage transactions . . . . .	10.7	54.6	-12.1	-74.4	7.9	21.6	- 6.5	- 1.8	—	—
<b>Change in foreign exchange assets</b>	<b>141.6</b>	<b>199.7</b>	<b>20.7</b>	<b>- 3.7</b>	<b>- 33.3</b>	<b>- 62.1</b>	<b>-73.6</b>	<b>-25.3</b>	<b>55.4</b>	<b>108.6</b>

assets rose to the equivalent of \$1,217 million, while net assets reached a level of \$999 million (Table 15). The improvement in the composition of the foreign assets which had begun in the first part of 1953 continued during the past year to such a point that the total holdings of gold and free foreign currencies now exceed net foreign assets (Chart 9). This development was the result of an increase in the holdings of gold and free currencies of about

TABLE 15

**Foreign Exchange Assets**

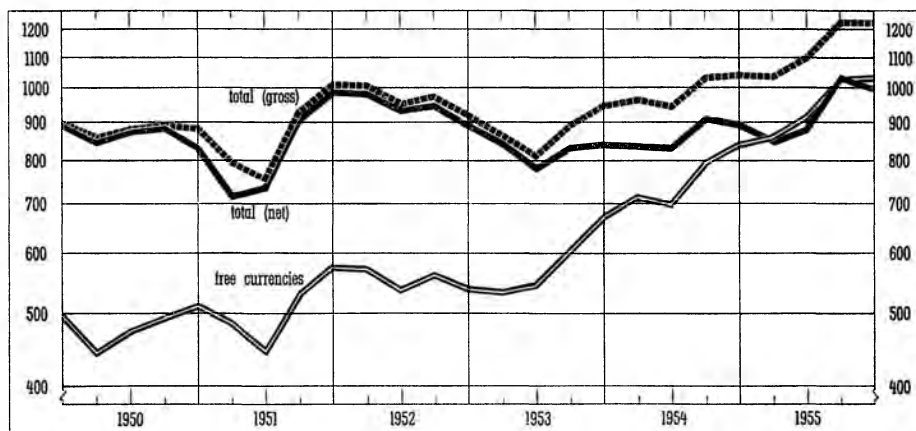
(millions of dollars)

Items	End of 1954			End of 1955			Changes		
	Gross hold-ings	Liabil-ities	Net hold-ings	Gross hold-ings	Liabil-ities	Net hold-ings	Gross hold-ings	Liabil-ities	Net hold-ings
Gold . . . . .	346.0	—	346.0	324.5	—	324.5	- 21.5	—	- 21.5
Convertible currencies . .	485.5	—	485.5	704.1	1.2	702.9	218.6	1.2	217.4
E.P.U. settlements (1) . .	—	116.9	-116.9	—	179.0	-179.0	—	62.1	- 62.1
Balance of clearing ac- counts and of accounts in E. P. U. currencies not settled through the Agent . . . . .	203.5	27.4	176.1	188.5	37.6	150.9	- 15.0	10.2	- 25.2
Total . . . . .	1,035.0	144.3	890.7	1,217.1	217.8	999.3	182.1	73.5	108.6

(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 actually settled the following January.

\$196 million, an increase in indebtedness on EPU accounts and with EPU countries of \$62 million and \$17 million, respectively, and a decrease in net clearing assets of about \$8 million.

CHART 9



Foreign exchange assets  
(millions of dollars; logarithmic scale)

Total goods and services exchanged, as shown by the overall balance of payments, amounted to about \$5.6 billion in 1955 (Table 16); i.e., \$3.0 billion of imports of goods and services and



**Overall Balance of Payments**

(millions of dollars)

Items	Credit		Debit		Balance	
	1954	1955	1954	1955	1954	1955
<b>A. Goods and Services</b>						
Goods f.o.b. . . . .	1,581.5	1,778.3	2,230.5	2,433.5	- 649.0	- 655.2
Transportation . . . . .	275.6	320.5	290.0	334.5	- 14.4	- 14.0
Insurance . . . . .	13.9	16.1	19.1	20.3	- 5.2	- 4.2
Foreign travel . . . . .	156.4	211.5	18.3	21.4	138.1	190.1
Investment income . . . . .	22.5	25.9	34.6	43.6	- 12.1	- 17.7
Workers' remittances . . . . .	44.8	45.0	-	-	44.8	45.0
Government services <sup>(2)</sup> . . . . .	43.4	43.9	34.4	41.8	9.0	2.1
Miscellaneous . . . . .	143.9	156.0	48.1	63.8	95.8	92.2
<i>Total goods and services</i> . . . . .	<i>2,282.0</i>	<i>2,597.2</i>	<i>2,675.0</i>	<i>2,958.9</i>	<i>- 393.0</i>	<i>- 361.7</i>
<b>B. Unilateral Transfers</b>						
Emigrants' remittances . . . . .	73.8	79.7	-	-	73.8	79.7
Other donations . . . . .	37.4	59.6	-	-	37.4	59.6
Reparations . . . . .	-	-	8.1	10.8	- 8.1	- 10.8
<i>Total unilateral transfers</i> . . . . .	<i>111.2</i>	<i>139.3</i>	<i>8.1</i>	<i>10.8</i>	<i>103.1</i>	<i>128.5</i>
<b>C. Total (A) and (B)</b> . . . . .	<b>2,393.2</b>	<b>2,736.5</b>	<b>2,683.1</b>	<b>2,969.7</b>	<b>- 289.9</b>	<b>- 233.2</b>
<b>D. Foreign aid</b>					<sup>(1)</sup> (253.9)	
Offshore procurement and services . . . . .	154.6	163.0	1.2	-	153.4	163.0
Grants . . . . .	70.6	41.3	7.3	4.1	63.3	37.2
<i>Total foreign aid</i> . . . . .	<i>225.2</i>	<i>204.3</i>	<i>8.5</i>	<i>4.1</i>	<i>216.7</i>	<i>200.2</i>
<b>E. Total (C) and (D)</b> . . . . .	<b>2,618.4</b>	<b>2,940.8</b>	<b>2,691.6</b>	<b>2,973.8</b>	<b>- 73.2</b>	<b>- 33.0</b>
<b>F. Movement of Capital <sup>(3)</sup></b>						
Contractual repayments . . . . .	-	-	37.8	29.9	- 37.8	- 29.9
Foreign borrowing and lending:						
a) Public . . . . .	33.7	-	- 49.7	- 74.1	83.4	74.1
b) Private:						
1. Commercial items not financed in foreign exchange . . . . .	- 157.0	- 170.7	- 131.5	- 175.1	- 25.5	4.4
2. Lags between imports and payments <sup>(4)</sup> . . . . .	- 20.6	- 112.0	-	-	- 20.6	- 112.0
3. Lags between exports and receipts <sup>(5)</sup> . . . . .	41.4	64.9	-	-	41.4	64.9
4. Other . . . . .	-	-	- 56.1	- 95.3	56.1	95.3
Investments abroad and from abroad . . . . .	4.5	5.9	- 50.2	- 69.3	54.7	75.2
Total . . . . .	- 98.0	- 211.9	- 249.7	- 383.9	151.7	172.0
Assets abroad . . . . .	- 93.6	- 180.9	- 38.2	- 72.3	- 55.4	- 108.6
<i>Total movement of capital</i> . . . . .	<i>- 191.6</i>	<i>- 392.8</i>	<i>- 287.9</i>	<i>- 456.2</i>	<i>96.3</i>	<i>63.4</i>
<b>G. Errors and omissions</b> . . . . .					<b>- 23.1</b>	<b>- 30.4</b>

(1) Figure given in last year's report corrected to 289.9 on the basis of the new figures published by the Central Institute of Statistics in the «Annual Statistics for Foreign Trade for 1954». The data for 1955, approved by the Committee for the Balance of Payments, differ in certain respects from the provisional figures published in the *Survey of the Economic Situation of Italy for 1955*.

(2) Government services include receipts and expenditures of diplomatic and consular representations.

(3) The credit column indicates changes in assets abroad; the debit column, changes in liabilities to foreign countries. Due to the lags between the movements of goods and of foreign exchange, that distinction cannot be made; therefore, the amounts are recorded exclusively in the credit column. Positive amounts indicate reduction of assets abroad, or increase in liabilities to foreign countries; negative amounts indicate increase in assets abroad or reduction in liabilities to foreign countries.

(4) If positive, the figures indicate excess of imports over payments; if negative, excess of payments over imports.

(5) If positive, the figures indicate excess of receipts over exports; if negative, excess of exports over receipts.

\$2.6 billion of exports. From 1954 to 1955, the increase in trade in goods and services was appreciable in both directions and led to a slight decrease of the deficit, which moved from \$393 million to \$362 million.

The 1955 deficit was slightly more than half of that recorded in 1952 (\$654 million), but was still more than triple that of 1950 (\$111 million).

As pointed out in previous reports in the « overall balance of payments » the movements of goods are counted at the time they actually pass through the Italian customs rather than at the time of receipt or payment of foreign exchange. That makes it possible, on the one hand, to give a complete picture of trade by including goods for which settlement is not made in foreign exchange, and, on the other, to provide a precise evaluation of the resources available to Italy during the period considered. In addition, the movements of goods are given on an f.o.b. basis for both imports and exports, which in turn makes it possible to determine the actual contribution of foreign countries by deducting transportation and insurance provided by national enterprises.

## VI. *Government Finances*

*The Administrative Budget.*— The initial estimates for the financial year 1954/55 were for an overall deficit of 354 billion lire, net of indebtedness. The year closed instead with a deficit of 391 billion lire (always excluding public debt operations) which represented an increase of 23 billions over the previous year. The difference between the initial estimates and the final results is accounted for, in the « current » section (*parte effettiva*), by an increase of 12.3 and 11.2 billion lire respectively for revenue and expenditure.

The initial estimates for the current financial year were for an overall deficit of 317 billion lire, excluding indebtedness. On the basis of the revised estimates as of last March, the figures for

both revenue and expenditure are only moderately affected, but the deficit is increased by 16 billion lire, of which 14 billions in the « current » section and 2 billions in the « movement of capital » section, to a figure of 333 billion lire.

The increase in « current » expenditure (45 billion lire) is due to payments of salary increases to Government employees (22 billion), to the expenses involved in the issue of the nine-year Treasury bonds maturing in 1965 (8 billion), to the construction of roads and highways (6 billions) and to other minor items. The increase in « current » revenue, totalling 31 billion lire, is due to the extent of 27 billions to higher fiscal revenue, and for the remainder to other non fiscal items. In the « movement of capital » section expenditure appears to have increased 14 billions and revenue 12 billions as compared to the initial estimates.

The initial estimates for the financial year 1956/57 set the overall deficit at a figure of 317 billion lire (excluding public debt operations) which is equal to the deficit contemplated in the 1955/56 initial estimates, but 16 billions less if compared to the revised estimates for that year. In respect of these estimates « current » expenditure appears to have increased 147 billion lire (5.3 per cent) as a consequence of the salary increases granted to Government employees, of public works, price supports and expenditure in connection with the peace treaty. « Current » revenue on the other hand is up by 170 billion lire (6.9 per cent). In the « movement of capital » section, the 1956/57 initial estimates do not show any appreciable change as compared with the revised estimates for 1955/56.

*The Cash Budget.*— Table 17 shows the movement of the Treasury's cash operations in 1955 according to the scheme of reclassification and integration followed in previous reports. The data, for purposes of comparison, are extended to several previous calendar years.

While there had been a slight contraction in budget payments in 1954 in relation to the previous year, there was an

increase in 1955 of such proportions (217 billion lire) as to restore the upward trend in payments which had been the general pattern in the years immediately preceding. For budget receipts also, calculated without indebtedness, the increase in 1955 proved to be somewhat more marked than the increase that had occurred in 1954.

In view of the larger increase in payments in 1955, the deficit attributable to budgetary operations increased by 48 billion lire. That expansion, however, was neutralized in large part by the different net result of Treasury credit operations, which showed a deficit of 14 billion lire in 1955 against 39 billion in 1954. Thus the total deficit on cash operations directly attributable to the Treasury increased by only 23 billion lire from 1954 to 1955.

The extrabudgetary expenditures of the National Railways, financed by the market, and of the Central Post-Office Savings Fund, were maintained in 1955 at about the same order of magnitude as that reached in 1954, i.e., 120 billion lire.

On the whole, the total cash requirements of the Treasury for budgetary operations and extrabudgetary operations (National Railways and Central Post-Office Savings Fund) increased by 31 billion between the two years (Chart 10).

As to covering these requirements, it should be noted, as far as the contribution of the market and the commercial banks and savings banks is concerned, that the most important change in an upward direction (75 billion lire) was represented by the two issues of National Railway bonds in 1955, with which the financing of the extraordinary program of expenditure authorized on behalf of the National Railways in the amount of 160 billion lire was concluded.

A conspicuous decrease was recorded, however, in the movement of the balances of current accounts held at the Treasury by social-security institutions and commercial banks and savings banks (— 60 billion lire).

The issue of redeemable Government bonds provided an amount higher by 15 billion in 1955 than the corresponding re-

TABLE 17

## Budgetary and Extrabudgetary Treasury Operations (a)

(billions of lire)

Items	1950	1951	1952	1953	1954	1955
<i>Budget payments</i> . . . . .	1,788	1,928	2,336	2,511	2,484	2,707
+ «Sundry services on behalf of the Government» . . . . .	7	- 5	- 4	10	- 3	- 6
- Repayment of debt. . . . .	120	12	5	5	4	7
Total . . . . .	1,675	1,911	2,327	2,516	2,477	2,694
<i>Budget receipts</i> . . . . .	1,723	1,761	2,067	2,298	2,333	2,551
+ «Balance of lire counterpart funds» (b) . . . . .	- 81	- 65	- 42	- 5	31	- 16
- Debt incurred . . . . .	306	126	130	197	217	223
- Government currency circulation . . . . .	1	2	19	19	12	8
Total . . . . .	1,335	1,568	1,876	2,077	2,135	2,304
<i>Budget deficit</i> . . . . .	- 340	- 343	- 451	- 439	- 342	- 390
<i>Net increase in Treasury indebtedness</i> . . . . .	68	228	232	170	184	133
+ «Budget funds with Bank of Italy» . . . . .	4	- 2	3	1	2	- 3
- Floating debt. . . . .	53	134	123	122	225	144
Net inflow from minor Treasury items . . . . .	19	92	112	49	- 39	- 14
<i>Adjusted cash deficit</i> . . . . .	- 321	- 251	- 339	- 390	- 381	- 404
<i>Extrabudgetary Operations:</i>						
«Expenditures by independent authorities financed by direct borrowing from the market» . . . . .	4	1	- 37	- 14	- 19	- 40
«Loans and investments by the Central Post-Office Savings Fund» . . . . .	- 53	- 56	- 99	- 70	- 98	- 85
<i>Overall cash requirement</i> . . . . .	- 370	- 306	- 475	- 474	- 498	- 529

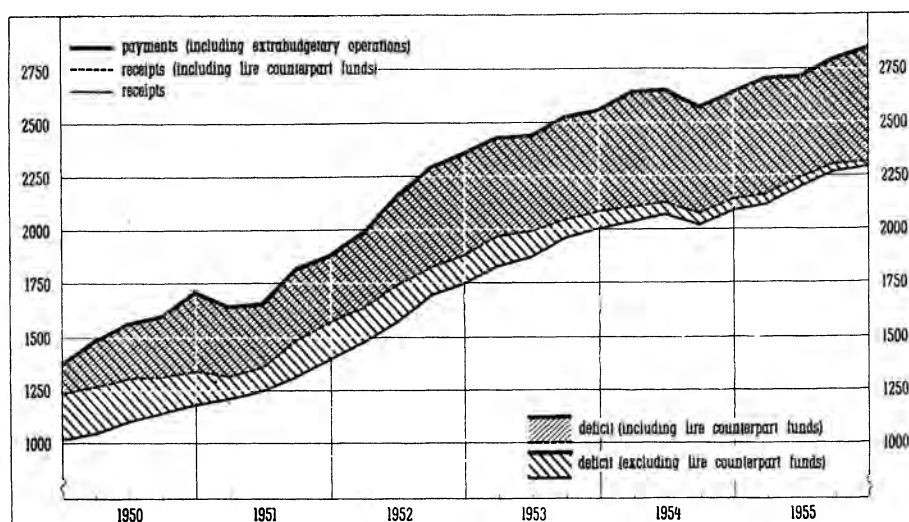
Coverage of overall requirement :						
<i>Borrowing from the market and the banks :</i>						
Debt incurred (issue of redeemable debt) . . . . .	288	108	118	185	196	214
- Debt repaid (medium-and long-term).	120	12	5	5	4	7
	168	96	113	180	192	207
+ Floating debt:						
Treasury bills. . . . .	20	77	62	23	92	68
Social-security institutions . . . . .	9	- 5	4	- 6	11	- 4
Current accounts with banks and other institutions . . . . .	- 12	13	-	- 5	23	- 22
« Post-Office savings » . . . . .	178	117	177	182	118	109
+ « Direct borrowing by independent authorities » . . . . .	- 4	- 1	37	36	- 3	72
	359	297	393	410	433	429
of which :						
from institutional investors and private individuals . . . . .		299	199	242	272	278
						265
from commercial banks and savings banks:						
Deposits and direct investments, excluding bank reserves . . . . .	33	71	29	32	63	47
Bank reserves invested directly in Treasury bills . . . . .	64	35	56	71	49	58
Bank reserves invested by the Bank of Italy in Treasury bills . . . . .	- 37	- 8	66	35	43	59
		60	98	151	138	155
						164
« Uninvested bank reserves » . . . . .		29	55	1	1	14
						4
<i>Treasury's withdrawals from, or deposits to (-) its accounts at the Bank of Italy . . . . .</i>						
	8	8	66	52	62	101
<i>Government currency circulation (excluding currency held by the Bank of Italy and the Treasury). . . . .</i>						
	3	1	16	12	3	- 1
	11	9	82	64	65	100
	370	306	475	474	498	529

(a) From the Treasury supplementary and end-of-year accounts, and from the balance sheet of the Bank of Italy. -

(b) Through the difference between:

deposits	153	173	129	75	56	25
withdrawals	234	236	171	80	25	41

CHART 10



Treasury receipts and payments, including extrabudgetary operations  
(billions of lire)

(12-month totals computed at quarterly intervals as of the end of each given quarter)

ceipts in 1954 (despite the fact that two issues of such bonds had taken place in that year, represented by the « multi-year » bonds and the Trieste loan); however, the improvement recorded in that sector was more than neutralized by the smaller proceeds of Treasury bills (— 24 billion) and post-office savings (— 10 billion), a circumstance which reduced the total contribution of the market and the banking system by about 3 billion lire.

Out of the total, private individuals and nonbanking institutions contributed a smaller amount in 1955 than in 1954 (265 billion lire against 278 billion). Subscription of Government securities not resulting from investment of reserves, and deposits of commercial banks and savings banks also showed a contraction; thus, the contribution of both these sources dropped from 341 billion lire in 1954 to 312 billion in 1955.

Through the formation of statutory reserves, on the other hand, the banking system provided, directly or indirectly, 92 billion in 1954 and 117 billion in 1955.

To meet the increased overall need and to offset the smaller contribution made by the market (only partially balanced by the increased contribution of the commercial banks and savings banks), the Treasury had to draw on the Bank of Italy in 1955 to a larger extent than in the preceding year (101 billion lire against 62 billion in 1954). If the comparison is made with the figures minus the uninvested cash reserves, the difference becomes even more considerable (97 billion against 48 billion).

The Government note issue, computed net of holdings at the issuing institutions, showed a slight contraction in 1955 in relation to the modest increase recorded in the preceding year.

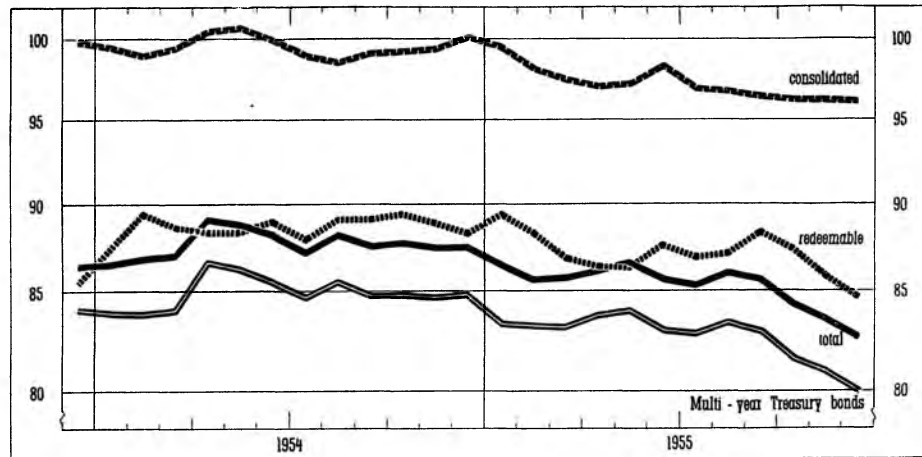
## VII. *The Issue of Securities and the Capital Market*

*Government Securities.*— During 1955 the prices of Government securities fell significantly, first in concomitance with the new issue of nine-year Treasury bonds falling due in 1964, and again in the last quarter, when they reached their lowest levels.

Compared to December 1954, the decrease in prices was nevertheless held in check by the smaller drop recorded by the nine-year Treasury bonds, the market value of which is affected by the approach of maturities. That circumstance is fully reflected, however, in the general index of prices calculated on the basis of the yield of securities, which showed a setback of greater proportions deriving jointly from the drop in prices and the approach of redemption periods. The index (1938 = 100) of the value of one lira in yield decreased during the year from 87.5 to 82.6, a drop of 6.6 per cent (Chart 11).

As to the distribution of Government securities in circulation, at the end of 1955 more than 41.8 per cent of the total was held by private investors, 35.5 per cent—predominantly Treasury bills—by commercial banks, savings banks, and banking associations, and 17.7 per cent by the Bank of Italy, principally as investments in Treasury bills of the statutory reserves of





Index of prices of Government securities  
(1938 = 100)

banks (Table 18). The remaining 5 per cent was held by other institutions, including the Central Post-Office Savings Fund and the larger social-security and insurance institutions (INSP, INAIL, INA, and the five institutions under the General Administration of Social-Security Institutions of the Ministry of the Treasury). The part held by private insurance companies, which has been included in the residual sector among private investors in the absence of the necessary statistical details, was relatively modest, however, amounting to less than 1 per cent. This situation has become consolidated through alternating movements in the distribution of holdings and in the types of securities (Chart 12).

In this connection, it is to be noted that, relative to the initial holdings, the increase in private holdings of Government securities has been smaller than the increase in holdings by banks, and also smaller than the increase recorded from 1952 on in private holdings of other fixed-yield securities.

*Shares.*— The activity of the stock market showed further significant progress in both prices and the volume of trading in 1955. General economic conditions and special circumstances

TABLE 18

**Government Securities in Circulation, by Category of Investors (1)**

*(end-of-year figures at nominal value, billions of lire)*

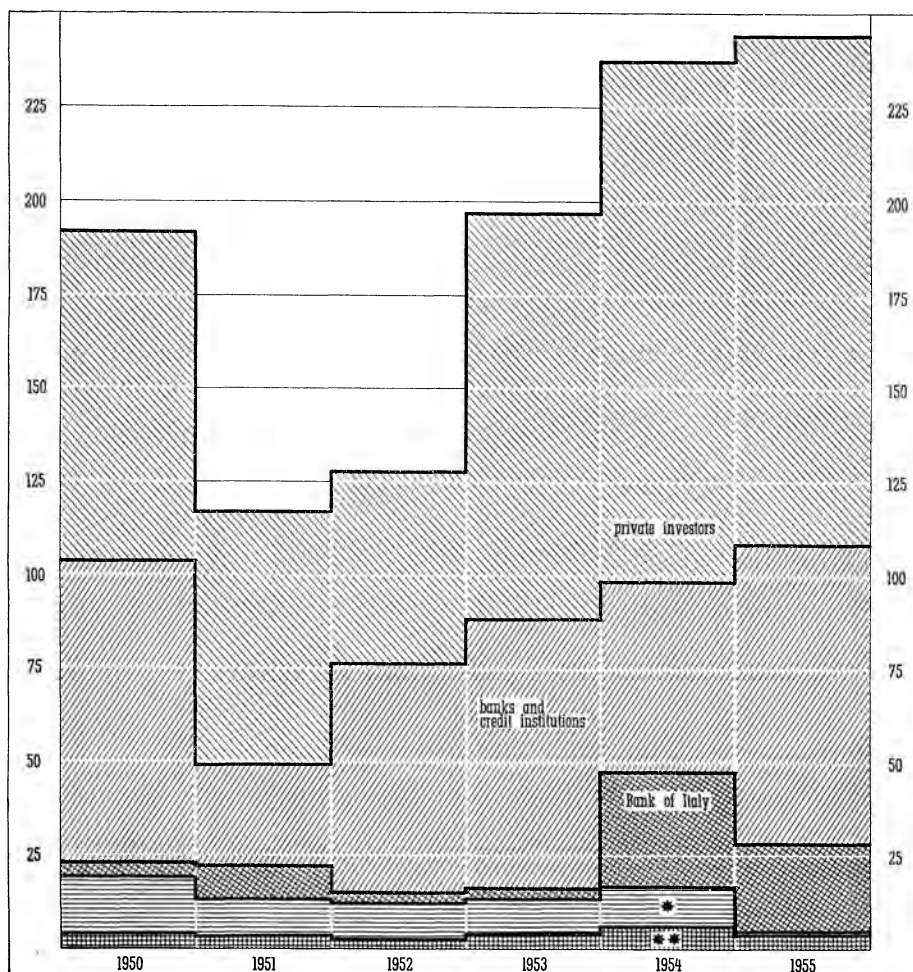
Category of investors	Consolidated and redeemable	Multi-year Treasury Bonds	Treasury bills	Total
<b>Bank of Italy</b>				
1947. . . . .	38.4	6.3	83.0	127.7
1955. . . . .	42.0	75.3	364.0	481.3
<b>Commercial banks, savings banks, and banking associations</b>				
1947. . . . .	20.4	36.1	191.3	247.8
1955. . . . .	42.1	371.6	550.3	964.0
<b>Medium- and long-term credit institutions</b>				
1947. . . . .	0.2	0.3	0.9	1.4
1955. . . . .	0.7	4.9	14.8	20.4
<b>Central Post-Office Savings Fund</b>				
1947. . . . .	12.6	20.9	—	33.5
1955. . . . .	11.8	63.4	—	75.2
<b>Social-security and insurance institutions</b>				
1947. . . . .	7.3	13.6	4.3	25.2
1955. . . . .	7.2	31.5	—	38.7
<b>Private investors</b>				
1947. . . . .	245.3	80.2	49.4	374.9
1955. . . . .	219.7	683.1	229.5	1,132.3
<b>Total</b>				
1947. . . . .	324.2	157.4	328.9	810.5
1955. . . . .	323.5	1,229.8	1,158.6	2,711.9

(1) Provisional figures for 1955.

related to the ever-increasing amount of capital raised, part of which derived from abroad, were combined with exceptional factors of a technical and fiscal nature to produce fluctuations in prices according to a pattern distinct in intensity and form from the patterns shown in the preceding years (Chart 13).

The recourse of enterprises to the capital market was more ample in 1955 than in 1954. Demand for funds was greater last

CHART 12



Distribution of Government securities by categories of investors  
(annual variations at nominal value in billions of lire)

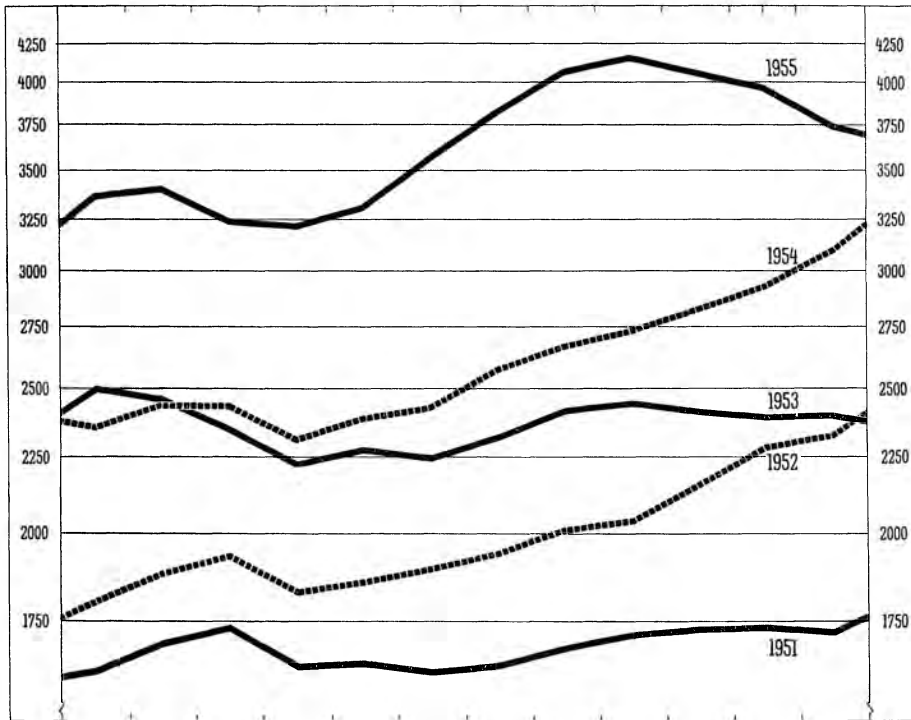
\* Central Post-Office Savings Fund.

\*\* Social-security and insurance institutions.

year especially on the part of small enterprises, thus strengthening the tendency towards their progressive entry into the market.

Capital increases effected last year, after elimination of duplications, amounted to about 155.7 billion lire. In 1954 the amount had been nearly the same, i.e., 156.4 billion.

CHART 13



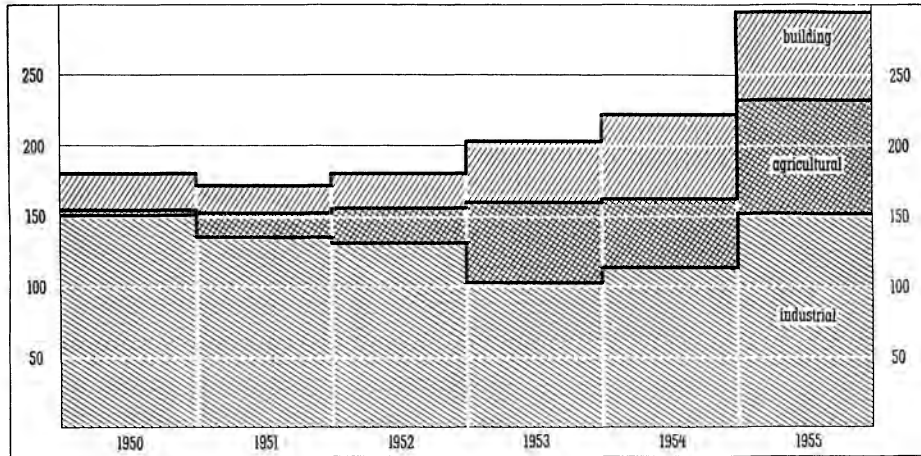
Index of share prices  
(1938 = 100; logarithmic scale)

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

The increased demand for funds in connection with the expansion of productive investments was reflected in a heavy increase in the loans of the medium- and long-term credit institutions, which reached a figure of 1,899.8 billion lire at the end of 1955, including 194.2 billion in loans by the Credit Consortium for Public Works on behalf of the National Railways.

The total increase in the volume of loans, less those to the National Railways (75.9 billion lire) was 293.7 billion last year, of which 151.4 billion was provided by industrial credit institutions, 79.1 billion by agricultural credit institutions, and the remaining 63.2 billion by land and building credit institutions (Chart 14).

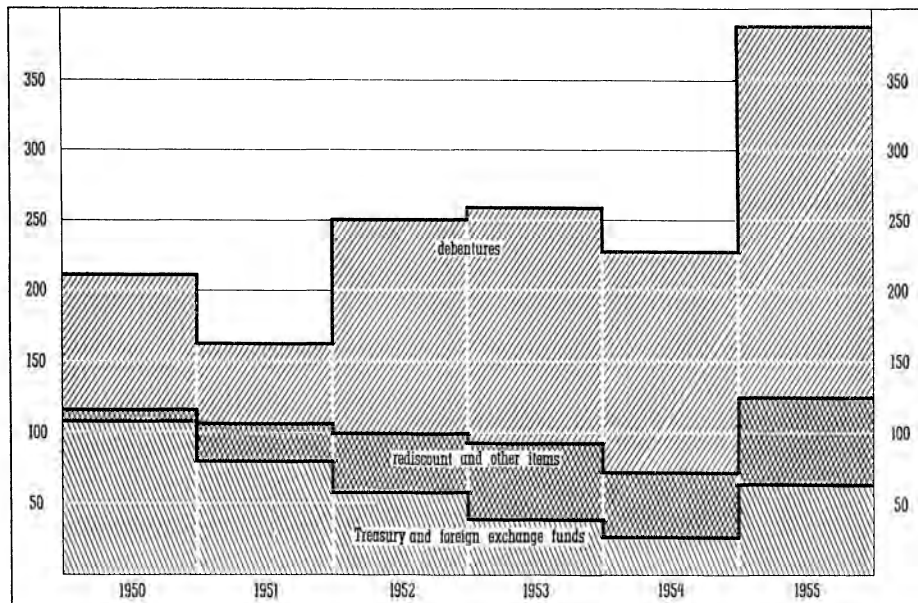
CHART 14



Loans and investments by medium- and long-term credit institutions  
(annual variations in billions of lire)

The trend already shown in 1954 toward an increasing participation of ordinary sources in the financing of the activities of the medium- and long-term credit institutions became more

CHART 15



Sources of funds of medium- and long-term credit institutions  
(annual variations in billions of lire)

pronounced in 1955, when these sources provided about 80 per cent of the total net increase in the period. The remaining portion of the loans granted, less repayments, was financed with funds derived from foreign loans (12.7 billion) and from the Government (50.7 billion) (Chart 15).

### IX. *The Operations of Commercial Banks and Savings Banks* (1)

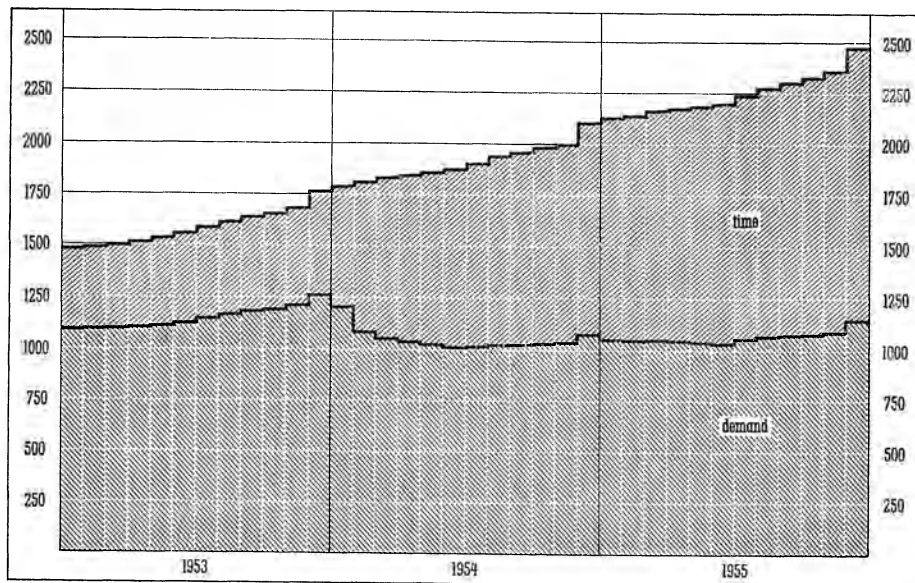
*The Sources of Funds.*— The principal source of funds for commercial banks and savings banks consists of deposits, which increased during 1955 to a higher degree than in the preceding year. The overall change was the result of divergent trends in the different categories of banks, in the types of accounts, and in the areas served. In the second year of the application of the new interest rates, fixed for bank deposits by the interbank agreement and for post-office deposits by the appropriate Ministry, the heavier emphasis on bank accounts, and in particular on time deposits, continued as a result of the higher interest rates provided for them (Chart 16).

Total bank deposits rose from 4,473.2 billion lire in December 1954 to 5,153.8 billion a year later, the increase being 680.6 billion, or 15.2 per cent of the amount as at the beginning of the year. The percentage was higher than that registered in 1954, when there was an outflow of funds from the banking system which principally affected current accounts. Savings deposits increased 371.1 billion lire, or 17.7 per cent, against 338.1 billion or 19.3 per cent in 1954. For current accounts, the increase was higher in both absolute and relative terms than that of the preceding year, amounting to 309.5 billion or 13 per cent in 1955, against 220.5 billion or 10.2 per cent in 1954. These data are not homogeneous, however, for they were influenced in varying degrees during the two periods by the implementation of the new interbank agreement.

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(1) Unless otherwise specified, the data refer to 365 institutions which receive 99 per cent of total deposits.

CHART 16



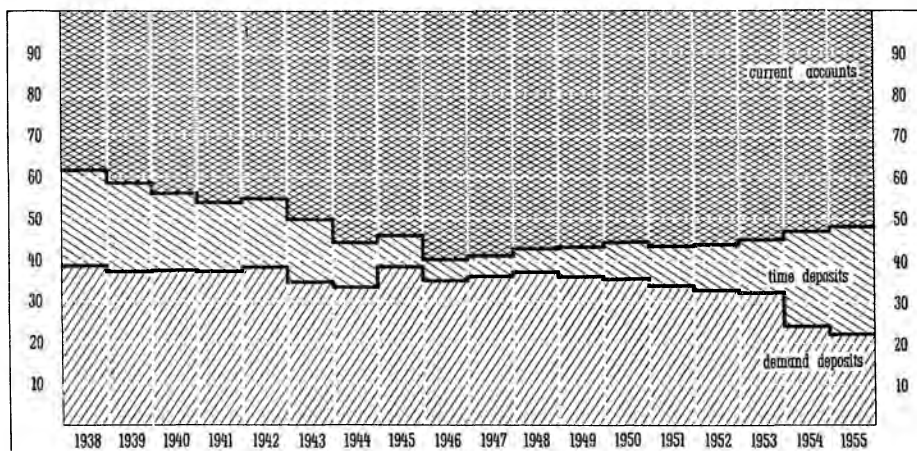
Savings deposits at commercial banks and savings banks  
(billions of lire)

The percentage composition of bank deposits (Chart 17) reveals the progress of current accounts at the cost of time deposits until 1947 and the subsequent recovery of the latter, partly at the cost of current accounts, but to a larger extent by the displacement of demand deposits.

This behavior is explained by the slight margin between the interest rates applied by the banks to the different categories of deposits until 1947, and by the payment of higher interest rates after that year, at first because of the failure to observe the maximum rates established in the existing interbank agreement, and from February 1954 as a result of a new interbank agreement providing for higher ceilings.

The amount of post-office savings deposits and books at the end of 1955 was 1,363.0 billion lire, the increase being 94.8 billion, or 7.5 per cent of the amount as at the beginning of the year. The change in 1955 was somewhat below that of 1954, when there was an increase of 117.7 billion, or 10.2 per cent.

CHART 17



Percentage composition of bank deposits  
(end-of-year figures)

Post-office current accounts, largely influenced by accounts of the Government and public authorities, principally because of the payment of pensions and related movements of funds within the sphere of public administration, rose from 252.1 billion lire at the end of 1954 to 276.9 billion a year later, with an increase of 24.8 billion, against a reduction of 23.9 billion in 1954. Unlike the variations in the two preceding years, which had been due almost exclusively to accounts connected with the public administration, the variations in 1955 were little influenced by such accounts. In fact, if only the privately held accounts, on the movement of which the normal turnover of business has a more direct influence, are considered, there was an increase of 13.1 billion in 1955, against only 0.7 billion in 1954.

The rates of increase of bank deposits were higher than the national average in northern Italy and part of central Italy. In the southern regions, the rate of increase was less than the national average and showed a slackening compared to the high rates in preceding years.

This varying behavior of deposits in the different regions was fully justified by the outcome of the crop year, which was



generally very favorable in the northern regions and less favorable or even negative in the South.

Post-office deposits, however, increased at lower rate than the average in northwestern Italy and the Islands; the highest rate of increase was attained, as in the previous year, in the Rome region.

At the end of 1955, the statutory reserves deposited in the Bank of Italy amounted to 956.7 billion lire, with an increase during the year of 119.6 billion. These reserves were made up of securities in the amount of 448.6 billion and cash in the amount of 508.1 billion. Of the latter amount, 355 billion was invested in Treasury bills by the Bank of Italy (Table 19).

TABLE 19

**Statutory Reserves and Deposits of Banks**

*(end-of-year figures in millions of lire)*

Year	Statutory reserves			Deposits and current correspondence accounts	% Ratio of reserves to deposits
	Cash	Securities	Total		
1948 . . . . .	147,712	114,336	262,048	1,195,578	21.9
1954 . . . . .	444,864	392,276	837,140	3,547,857	23.6
1955 . . . . .	508,125	448,592	956,717	4,041,487	23.7

The additional reserves formed in 1955 showed, as in the preceding year, a slight preponderance of cash, 63.3 billion having been paid into the Bank of Italy in cash and 56.3 billion in securities.

The ratio of reserves to deposits was 23.7 per cent, a little higher than in 1954 and varying but slightly from that of the last six years. Hence, it can be said that this ratio is now stabilized, since the margin below the maximum limit of 25 per cent is attributable to variations in capital and reserves which make a portion of the deposits exempt from the reserve requirement.

*Investments in Securities.*— The more plentiful accumulation of deposits in 1955 enabled the commercial banks and savings banks to invest in securities a larger sum than in the preceding year. At the end of 1955, these investments amounted to 1,253.9 billion lire, with an increase during the year of 136.4 billion, or 12.2 per cent of the amount at the end of 1954.

*Commercial Loans.*— The commercial and savings banks had to meet a growing demand for finance during 1955. Commercial loans (excluding investments in securities or loans in foreign exchange and in foreign countries) amounted to 3,832.5 billion lire in 1955, with an increase of 515.8 billion, or 15.6 per cent of the amount at the end of 1954. Loans in 1955 absorbed 76 per cent of the new deposits accumulated during the year, a larger percentage than that for 1954, with the result that the ratio of loans to deposits increased slightly in 1955 (from 74.1 to 74.4 per cent) (Table 20).

TABLE 20

**Loans and Deposits of Commercial Banks and Savings Banks**

(end-of-year figures in billions of lire)

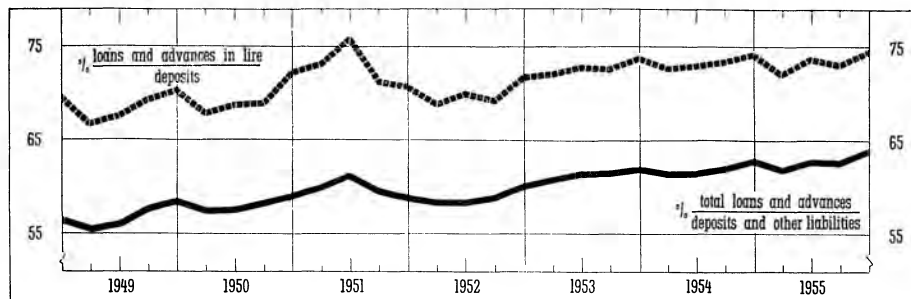
Year	Loans				Deposits	Percentage ratio to deposits			
	Bills discounted and rediscounted	Over-drafts on current account	Other loans	Total		Bills discounted and rediscounted	Over-drafts on current account	Other loans	Total
1938 . . . .	17.7		17.8	35.5	55.5	31.9		32.1	64.0
1948 . . . .	409.2	474.7	173.2	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
1955 . . . .	1,604.6	1,514.9	713.0	3,832.5	5,153.8	31.1	29.4	13.8	74.4

The ratio of the various categories of loans to deposits remained approximately unchanged for discounts (including rediscounts) and for current-account overdrafts, while it increased for other loans as a result of the increase in loans against securities and mortgage loans.

As a result of the larger growth of loans compared to the sources of loanable funds, the relevant ratio rose above that at the end of 1954 for both commercial banks and, albeit to a very slight extent, savings banks. A comparison of loans (excluding those in foreign currency or in foreign countries) and deposits alone, excluding other sources of supply, shows that the ratio increased only for the commercial banks, while the savings banks, which had enjoyed increased deposits, partly invested through their banking associations, showed a slight decrease.

The behavior of the loan-deposit ratio in the last seven years showed large fluctuations until 1951, with a peak in June of that year, and after the drop in 1952, slighter fluctuations and a marked tendency to increase (Chart 18).

CHART 18



Percentage relationship of loans and advances to deposits and other liabilities

The increase in the loan-deposit ratio bears witness to the effort made by the banks to finance productive activity. This effort was made without jeopardizing their liquidity, because the increase was accompanied by a greater stability of deposits arising from the spread of time deposits.

## X. *Overall Development in the Credit and Capital Market*

The total loans of credit and insurance institutions and the capital market to the economy showed an increase of 1,206.1 billion lire in 1955, somewhat larger than that of the preceding year of 1,050.2 billion (Table 21).

Commercial banks, savings banks, and special medium-and long-term credit institutions contributed to the increase in the amount of 855.2 billion lire in 1955 against 726.9 billion in 1954. The increment between 1954 and 1955 in the amount of new funds flowing to the economy, amounting to 155.9 billion, was therefore largely (128.3 billion) made up of increased loans by the credit system.

The loans of the Central Post-Office Savings Fund were maintained at about the same level as in the preceding year (104 billion in 1954 and 105 billion in 1955); those of the Institute for Industrial Reconstruction showed a decrease (from 27.9 billion to 14.5 billion); the proceeds of the issue of private shares and debentures were about the same as in 1954; and the loans of insurance companies (excluding investments in securities) rose from 58.4 billion in 1954 to 86.4 billion in 1955.

The total amount of the loans of banks and medium- and long-term credit institutions, the Institute for Industrial Reconstruction, and the Central Post-Office Savings Fund was 6,603.4 billion lire at the end of 1955. With respect to the situation at the end of 1954, the increase was 17.3 per cent, approximately equal to that of the year before (17.2 per cent). The change in loans outstanding was greater percentagewise for those of the Central Post-Office Savings Fund (up 23.8 per cent) and the medium- and long-term credit institutions (up 21 per cent). The amount of the loans of the commercial and savings banks (including banking associations and the smaller credit institutions), rose from 3,554.0 billion lire to 4,117.5 billion, an increase of 15.8 per cent.

The regional distribution of loans showed no appreciable change between the amounts at the end of 1954 and the end of

TABLE 21

**Total Loans**

Description	1938		1954		1955		Index (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>(billions of lire)</i>				
Commercial banks and sav- ings banks <sup>(1)</sup> . . . . .	35,340	2,017	3,368.4	470.6	3,889.8	521.4	110
Banking associations . . . . .	64	26	150.4	33.7	185.8	35.4	
Minor credit institutions . . . . .	426	32	35.2	5.8	41.9	6.7	98
Total . . . . .	35,830	2,075	3,554.0	510.1	4,117.5	563.5	115
Credit institutions for indus- try and public works . . . . .	8,779	974	912.4	113.1	1,063.8	151.4	121
Credit institutions for agri- culture, land, and building . . . . .	9,659	340	471.2	103.7	619.8	140.3	64
Total . . . . .	54,268	3,389	4,937.6	726.9	5,801.1	855.2	107
I.R.I. (Institute for Industrial Reconstruction) <sup>(2)</sup> . . . . .	1,000	—	242.9	27.9	257.4	14.5	257
Central Post-Office Savings Fund . . . . .	7,166	114	439.9	104.0	544.9	105.0	76
Total . . . . .	62,434	3,503	5,620.4	858.8	6,603.4	974.7	106
Bank of Italy (operations with private customers) . . . . .				— 2.0		— 2.8	
Insurance companies (exclud- ing securities) . . . . .				58.4		86.4	
Private shares and debent- ures . . . . .				167.8		166.1	
Total . . . . .				1,083.0		1,224.4	
less duplicated items in the issue of securities . . . . .				32.8		18.3	
Total . . . . .				1,050.2		1,206.1	
<i>Reconciliation with the «Flow of Savings and the Money Supply»</i>							
Loans as indicated in the «flow of savings and the money supply» . . . . .				952.4		1,087.0	
plus loans of medium- and long-term credit institu- tions with miscellaneous funds . . . . .				51.8		106.8	
plus loans in foreign curren- cies of commercial banks and savings banks . . . . .				35.2		27.8	
plus loans of minor credit institutions . . . . .				5.8		6.7	
plus differences between the quarterly position and the statistics by branch of economic activity . . . . .				5.0		— 22.2	
Total . . . . .				1,050.2		1,206.1	

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

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

1955, except for a slight improvement in the percentage share of the Southern mainland.

In very recent years, considerable improvements have been made in Italy in the field of statistical surveys, both in regard to estimating the volume of investment and for the purpose of reclassifying by economic principles the revenue and expenditure of the Government, independent authorities and other public agencies, and regrouping all the accounts of the public administration into a single consolidated general account.

In the monetary and financial field, an excellent statistical study has been made for several years on the formation of the money supply and the uses to which it is put in the public and private sectors of the economy.

Data now available, though derived from the most diverse sources, and frequently of varying and not strictly ascertainable conceptual nature, nevertheless provide elements sufficient to support the belief that it is not illusory to combine them in order to bring out at least the order of magnitude of the principal direct sources of funds which have supplied the demand represented by gross investments.

The division of gross total investments into the two major categories of public and private investments has been made through an analysis of public investments, and the amount of private investments has been obtained as the residual balance of the grand total.

Public investments (Table 22) are those financed with funds drawn from the national budget, the budgets of independent authorities, and the budgets of regions, provinces and municipalities; investments made with funds of the Central Post-Office Savings Fund; and those of the Southern Development Fund and the National Insurance Institute—Housing Fund—financed with funds not transferred through the Government budget. In addition, investments made with funds obtained from credit and insurance institutions through the discount of Government promissory notes in anticipation of annual payments, or advances against funds to be appropriated in budgets for future fiscal years, are also considered public investments.

TABLE 22

**Public Investments***(billions of lire)*

Investors	1954	1955
Government <sup>(1)</sup> . . . . .	377	415
Regions <sup>(2)</sup> . . . . .	25	31
Provinces <sup>(3)</sup> . . . . .	52	58
Municipalities <sup>(3)</sup> . . . . .	102	113
Independent authorities <sup>(4)</sup> . . . . .	49	63
Southern Development Fund <sup>(5)</sup> . . . . .	122	134
Central Post-Office Savings Fund <sup>(6)</sup> . . . . .	47	50
National Insurance Institute -Housing Fund- <sup>(7)</sup>	29	20
Other investments directly financed by credit and insurance institutions <sup>(8)</sup> . . . . .	78	76
<b>Total . . .</b>	<b>881</b>	<b>960</b>

(1) Payments for investment expenditures indicated in the *Survey of the Economic Situation of Italy for 1955*, p. 145, Table 4, less payments on behalf of the Southern Development Fund and the Fund for Professional Training of Workers.

(2) Payments for public works and for capital transfers, p. 134 of the *Survey*.

(3) Expenditures of an economic and productive nature (for the most part consisting of new public-works construction) referred to in the *Survey*, pp. 136 and 138.

(4) Payments for construction works, machinery, and equipment, and capital transfers as shown in the consolidated account on p. 126 of the *Survey* (less receipts for capital transfers).

(5) Estimate of total investments made with its own funds.

(6) Loans granted for private housing construction.

(7) Works executed with contributions of employers and employees.

(8) Estimate of loans included in the categories: public authorities, construction, public works and land reclamation.

Total public investments thus defined amounted to 960 billion lire in 1955, against 881 billion in 1954.

The mass of available data has made it possible to reconstruct the sources from which these investments were financed (Table 23) with an adequate degree of accuracy and in some detail.

A primary source of financing consists of so-called public savings, i.e., the surplus of the consolidated budget of the public administration for current receipts and expenditures. On the basis of data contained in the *General Survey of the Economic Situation of Italy for 1955*, the funds obtained from this source amounted to 144 billion lire in 1954 and 202 billion in 1955.

TABLE 23

**Sources of Financing of Public Investments**

(billions of lire)

Sources	1954	1955
Surplus on current items of the general account for receipts and expenditures of the public administration <sup>(1)</sup> . . .	144	202
Government securities placed on the market and minor current items in the floating debt <sup>(2)</sup> . . . . .	318	249
Post-Office savings <sup>(2)</sup> . . . . .	118	109
Railway bonds <sup>(2)</sup> . . . . .	— 3	72
Treasury operations with the Bank of Italy and Government currency in circulation <sup>(2)</sup> . . . . .	65	99
<b>Total coverage of overall Treasury cash requirements (for budgetary and extrabudgetary operations) <sup>(2)</sup> . . . . .</b>	<b>498</b>	<b>529</b>
Other issues of securities <sup>(3)</sup> . . . . .	20	20
Other debts of local and independent authorities <sup>(4)</sup> . . . .	59	36
Public works directly financed by credit and insurance institutions <sup>(5)</sup> . . . . .	78	76
<b>Total borrowing . . . . .</b>	<b>655</b>	<b>661</b>
Surplus on other items of the capital account of the public administration . . . . .	56	67
Receipts of the Southern Development Fund not derived from the national budget . . . . .	— 3	10
Receipts of the National Insurance Institute-Housing Fund-not derived from the national budget <sup>(5)</sup> . . . . .	29	20
	<b>881</b>	<b>960</b>

(1) As on pp. 86 and 87 of the *General Survey of the Economic Situation of Italy for 1955*.

(2) See Table 17 in the section on Government Finances.

(3) From the public-debt position.

(4) Balance of « receipts derived from debt incurred or from advances » (item included in the general account of the public administration).

(5) See note 8, Table 22.

A detailed presentation of the funds obtained by borrowing (only summarized by major categories in Table 23) is given for the entire portion used to cover the Treasury's overall cash requirements for budgetary and extrabudgetary operations, as has been shown in this Report for several years in connection with the results of the Treasury's cash operations.

In addition to the Treasury's cash operations, and in conformity with the definition of public investments given above, other forms of borrowing not affecting the Treasury's cash budget



must be considered: these are mainly indebtedness contracted by local and independent authorities and direct financing of public works by credit and insurance institutions.

The remaining sources of finance are, finally, any surplus on other items of the capital account of the public administration for repayment of credits and advances, and receipts of the Southern Development Fund and the National Insurance Institute — Housing Fund — not derived from the national budget.

Private investment, obtained, as already indicated, as the difference between total investments and public investments, rose from 1,608 billion lire in 1954 to 1,965 billion in 1955, an increase of 22 per cent.

A breakdown of the private sector's recourse to the market through medium- and long-term operations for the financing of investments has been given in the present section of this Report with reference to the overall development in the credit and capital market (Table 21). Excluding loans to public authorities or those made to finance public works and investments, as well as the funds provided by the Treasury to banks and credit institutions, these figures show a total contribution to the financing of private investments by the banking system, the capital market, and insurance companies in the amount of 403 billion lire in 1955, against 334 billion in 1954 (Table 24).

It is much more difficult, however, to determine the share of funds represented by depreciation in the financing of gross investments.

For this purpose, data are available in the estimate of depreciation according to categories of productive activities made by the Central Institute of Statistics in connection with its work on national income accounts. Depreciation as given in national income statistics differs conceptually from depreciation for purposes of the present analysis in that the national income statistics consider the decrease in the value of national resources, while for the present purpose the actual funds available to productive enterprises for depreciation must be determined.

TABLE 24

**Sources of Financing of Private Investments**

(billions of lire)

Sources	1954	1955
Shares and debentures issued. . . . .	153	159
Loans of agricultural, land and building credit institutions <sup>(1)</sup>	81	93
Loans of industrial credit institutions <sup>(2)</sup> . . . . .	102	137
Medium- and long-term loans of banks <sup>(1)</sup> <sup>(2)</sup> . . . . .	19	20
	355	409
less funds supplied by the Treasury to banks and credit institutions <sup>(3)</sup> . . . . .	40	49
	315	360
Loans of insurance companies . . . . .	19	43
	334	403
Depreciation reserves . . . . .	851	944
Savings directly invested by private individuals, self-financing by businesses, and net balances of operations with banks	423	618
	1,608	1,965

(1) Excluding those to public authorities.

(2) Excluding those for public works.

(3) Excluding those supplied for the financing of public investments (10 billion in 1954 and 19 billion in 1955).

Typical examples of this difference are public works, the decrease in value of which must be taken into account in national income statistics, but for which there is certainly no accumulation of funds for depreciation purposes. The same may be said of housing, where in the case of frozen rent ceilings, there is no formation of funds representing the decrease in value of buildings.

A rough estimate based on depreciation determined for national income purposes and adjusted as required by the concept of depreciation just outlined, sets the funds available from that source at 851 billion lire for 1954 and 944 billion for 1955.

The other sources of financing of private investment are indicated in Table 24 in a single item obtained as a residual balance and containing savings directly invested by private individuals (which are of considerable importance in housing construction), self-financing by enterprises from undistributed prof-

its, and the net balance of short-term operations of private producers with banks.

From 1954 to 1955, among the three major sources of private investment financing, there was an increase of 20 per cent in the loans of medium- and long-term credit institutions, and an increase of 11 per cent in depreciation, while an impressive increase of 46 per cent was registered in self-financing by private individuals and enterprises and in the net balance of operations with banks.

#### XI. *The Money Supply and the Flow of Savings*

During 1955 the relative expansion of current account balances compared to the other components of the money supply (notes, coins, checks, and cashier's checks) continued. In fact, as early as 1949 the relationship between notes, coins and checks, on the one hand, and current account balances at commercial banks, on the other, had resumed its similarity to that of 1938, the expansion of current accounts in the postwar years having offset the lag with respect to the increase in the currency circulation during the war years. Later, under the spur of factors of growth operative over a long period and entailing increasing utilization of banking services, current accounts in turn took an increasing lead over the growth of currency in circulation.

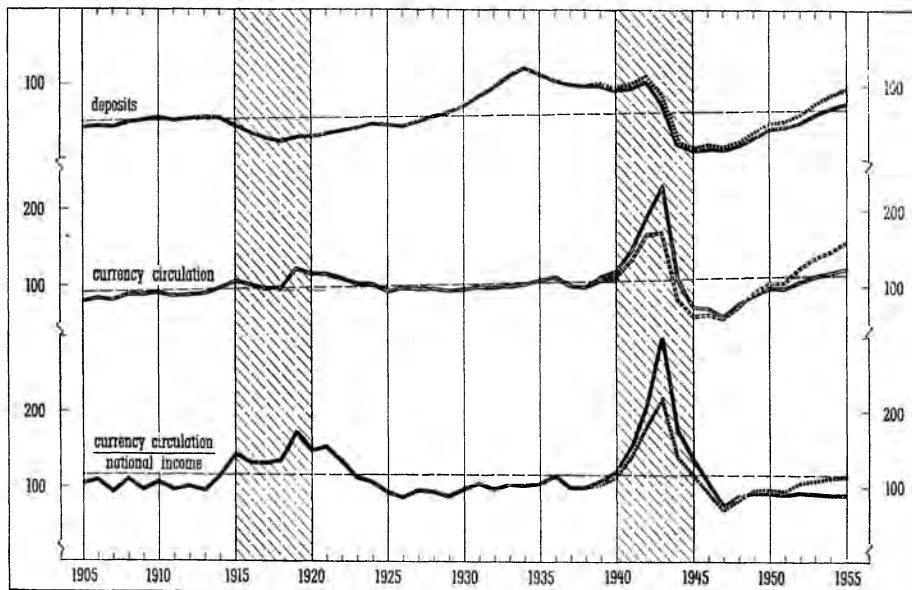
The shift in the relationship toward a preponderance of current accounts was influenced, on the other hand, by the curbing of the increase in the volume of notes and checks in circulation resulting from circumstances which permit their increasingly rapid utilization among the public.

In the last fifty years, the population of Italy has risen from 33.2 million to 48.1 million, an increase of 45 per cent. Income at current prices has increased 795 times, and since prices have increased 297 times on the average, real income has increased 268 per cent in the aggregate and 185 per cent per capita. Note and coin circulation has increased 666 times in current value in the same period, and 155 per cent in real value per capita .

If the comparison is limited to the period from 1938 to 1955, during which it can be extended to the entire money supply, the increase in real value per capita proves to be 23 per cent for notes and coins, 40 per cent for national income, and 57 per cent for the total money supply.

Examination of the trends during the period under review (Chart 19) confirms that the above tendencies hold in the long run, even though the heavy fluctuations which took place between 1940 and 1950 and the limited period of observation in regard to the total money supply makes the interpretation of the underlying trend less reliable.

CHART 19



Indexes: (1) of savings deposits, in real value per capita ;  
(2) of currency circulation, in real value per capita ;  
(3) of the ratio of currency circulation to national income

(1938 = 100; the straight lines interpolated represent the underlying trends)

In Chart 19, the indexes represent :

(1) deposits at savings banks and post-offices for the period 1905-55, and, from 1938 (broken line), those deposits plus savings deposits at commercial banks ;

(2) circulation of notes and coins for the period 1905-55, and, from 1938 (broken double line), total money supply ;

(3) the ratio between circulation of notes and coins and the national income for the period 1905-55, and, from 1938 (broken line), the ratio between total money supply and national income.

It appears that the growth of the money supply, whether per unit of income, or (in real terms) per unit of population—movements which reflect the use of an increasing portion of income for monetary exchange and a growing volume of transactions per person—is taking place through the spreading of more modern means of payment, while the more modest rate of increase of the traditional means of payment in relation to income can be considered more indicative of a better utilization (volume remaining the same) than of actual replacement by means of payment of another kind.

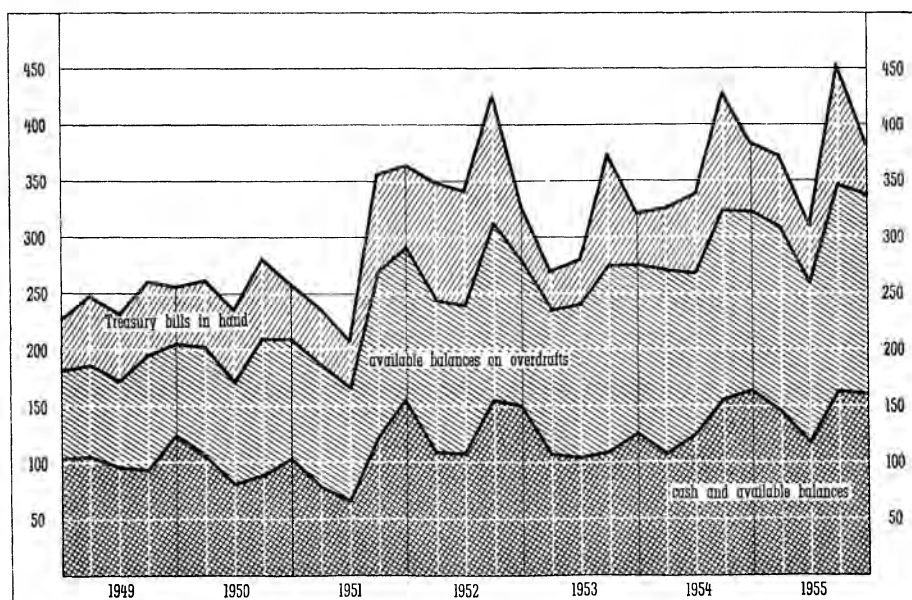
The changes in the composition of the money supply and in the velocity of circulation (not clearly determinable) of the different means of payment, the difficulty of distinguishing between funds held as investments and those forming real liquidity, and the exclusion of certain forms of « quasi-money » (such as savings deposits and post-office deposits and current accounts) render uncertain the appraisal of the state of liquidity of the economy on the basis of the data described thus far. In fact, that appraisal is linked to a presumed invariability of certain habits and situations, which forms an acceptable hypothesis only for comparisons that are very limited in time. Moreover, notes and coins, which can be calculated more easily, are used predominantly by consumer households, while bank money responds more closely to the needs of enterprises and the movements of production.

The picture presented becomes, if not more clear, at least less incomplete if its developments are viewed in relation to the state of the liquid reserves of commercial banks and savings banks. The total of these reserves showed an increase of 385 billion lire between December 1954 and December 1955, 67 billion of which was caused by an increase in Government securities (excluding Treasury bills), mortgage bonds and the like, 120 bil-

lion by an increase in statutory reserves, and the remainder by discounts and advances.

As a result of the movements which took place in the funds usable for statutory reserves (contraction of Treasury bills in hand and deposits with the Treasury, limited increase in deposits at the Bank of Italy), the composition of the reserves showed a relative contraction of the primary reserves, which, however, presented a distinct upward trend in absolute value (Chart 20).

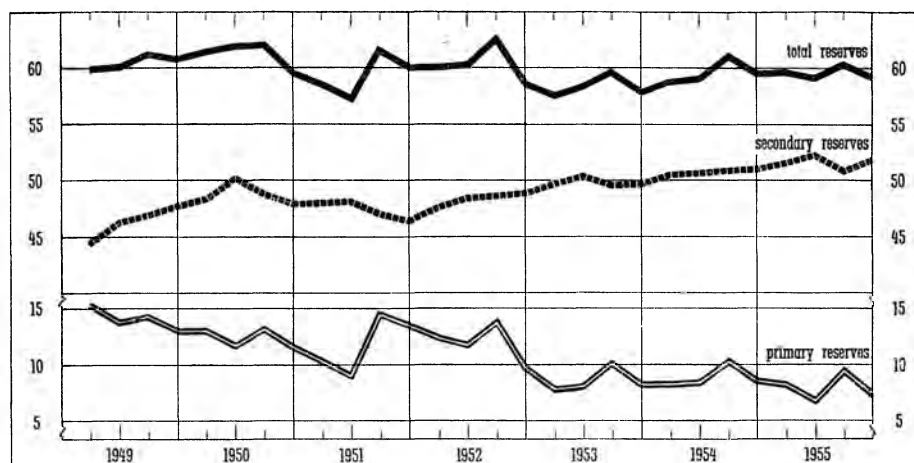
CHART 20



Amount and composition of primary liquidity reserves  
(billions of lire)

The ratio of primary reserves to deposits moved downward, while that of secondary reserves (in which are included the statutory reserves) to deposits moved upward (see Chart 21). This change in the composition of the reserves appears to be justified, however, by a corresponding qualitative change in deposits. In fact, for savings deposits, for which the velocity of circulation can be calculated, a decrease in velocity is found from 1.45 to 1.10; as to current accounts, the reasons why their rate of turnover may tend to decrease have already been given.

CHART 21



Percentage ratio of reserves to deposits of commercial banks and savings banks

*The Flow of Savings.*— Between 1948 and 1955 the annual formation of savings, as depicted in Table 25 and 26, varied from a minimum of 592 billion lire in 1951 to a maximum of 1,081 billion in 1955. These amounts, if translated into lire of constant purchasing power and placed on a per capita basis, indicate an actual increase in the annual formation of savings in 1955 of 29 per cent compared to the first two years of monetary stability (1948-49).

If the annual flow of savings (as defined in the tables on « The Flow of Savings and the Money Supply ») is divided into its two principal components, savings deposits at commercial banks and savings banks and post-office savings books and bonds, on the one hand, and the remaining formation of savings, on the other (capital market, insurance companies, and minor items), two series are obtained which differed in behavior, although both were affected, with a certain lag and with varying intensity, by the depression following upon the Korean crisis. In terms of constant lire per capita, the flow of savings pertaining to the capital market and contractual savings (insurance) moved upward, exceeding by 52 per cent in 1955 the average for 1948-49 and presenting the greatest increase in recent years. Conversely,

**The Flow of Savings and the Money Supply in 1954 and 1955 (1)**

(variations during the year in billions of lire)

Items	1954			1955		
	First Half	Second Half	Total	First Half	Second Half	Total
<i>Funds borrowed by the Treasury from:</i>						
Commercial banks, savings banks, and banking associations	47.5	105.9	153.4	75.9	87.2	163.1
Central Post-Office Savings Fund . . . . .	— 2.7	18.0	15.3	— 31.4	34.3	2.9
Social-security and insurance institutions . . . . .	— 0.7	19.8	19.1	— 6.6	6.1	— 0.5
Long-term credit institutions and the capital market . . . . .	135.7	6.7	142.4	137.8	20.3	158.1
	179.8	150.4	330.2	175.7	147.9	323.6
Foreign aid . . . . .	10.5	9.2	19.7	—	20.0	20.0
Other accounts at the Bank of Italy . . . . .	— 15.0	124.0	109.0	— 50.4	150.0	99.6
Italian Foreign Exchange Control Office, gold and foreign exchange . . . . .	2.3	— 7.3	— 5.0	10.4	— 9.0	1.4
Government notes and coins . . . . .	— 2.1	3.6	1.5	— 1.4	1.8	0.4
	175.5	279.9	455.4	134.3	310.7	445.0
<i>Funds borrowed by the economy, from or through:</i>						
Bank of Italy . . . . .	— 28.5	42.4	13.9	— 28.2	38.4	10.2
Commercial banks, savings banks and banking associations	67.3	421.0	488.3	108.3	467.0	575.3
Central Post-Office Savings Fund . . . . .	45.3	57.8	103.1	57.0	48.0	105.0
Social-security and insurance institutions . . . . .	50.6	30.2	80.8	58.6	45.9	104.5
Long-term credit institutions and the capital market. . . . .	144.0	122.3	266.3	153.0	139.0	292.0
	278.7	673.7	952.4	348.7	738.3	1,087.0
Italian Foreign Exchange Control Office, gold and foreign exchange. . . . .	— 16.6	25.5	8.9	— 10.9	68.5	57.6
	262.1	699.2	961.3	337.8	806.8	1,144.6
	437.6	979.1	1,416.7	472.1	1,117.5	1,589.6
<i>Source of funds:</i>						
Savings deposits . . . . .	109.0	229.1	338.1	93.6	277.5	371.1
Other bank accounts . . . . .	1.6	74.3	75.9	14.6	45.8	60.4
Post-Office savings . . . . .	37.8	79.9	117.7	20.0	74.8	94.8
Social-security and insurance institutions . . . . .	49.9	50.0	99.9	52.0	52.0	104.0
Long-term credit institutions and the capital market. . . . .	279.7	129.0	408.7	290.8	159.3	450.1
Bank of Italy current accounts and cashier's checks . . . . .	2.8	— 2.5	0.3	12.4	— 6.7	19.1
Banks' current accounts and checks. . . . .	— 8.2	244.7	236.5	34.4	304.9	339.3
Post-Office current accounts. . . . .	4.8	— 4.1	0.7	5.6	7.5	13.1
	477.4	800.4	1,277.8	523.4	928.5	1,451.9
Foreign aid . . . . .	25.8	24.4	50.2	15.6	— 11.3	4.3
Cash and available balances (2) . . . . .	— 45.0	46.6	1.7	— 44.8	45.2	0.4
Circulation of notes and coins . . . . .	— 110.6	201.0	90.4	— 111.7	245.5	133.8
	437.6	979.1	1,416.7	472.1	1,117.5	1,589.6

(1) Excluding loans 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.



The Flow of Savings and the Money Supply - Detailed Statement

TABLE 26

(variations during the year in billions of lire)

I T E M S	Y E A R 1 9 5 4					Y E A R 1 9 5 5				
	Destination		Source (1)		Residual Effect on Currency Circulation	Destination		Source (1)		Residual Effect on Currency Circulation
	To the Treasury	To the Economy shares and debentures loans and advances	Excluding Current Accounts	Current Accounts		To the Treasury	To the Economy shares and debentures loans and advances	Excluding Current Accounts	Current Accounts	
<b>BANCA D'ITALIA (Special Institutions and Private Customers)</b>										
1. Rediscount: Syndicate for Advances on Industrial Securities . . . . .				1.2					3.5	
2. Rediscount: Agricultural Credit Institutions and Sections . . . . .				17.6					17.5	
3. Direct Discounts . . . . .										
4. Advances to Special Institutions . . . . .				0.5					1.0	
5. Advances to Private Customers . . . . .				2.0					2.8	
				13.9					10.2	
6. Current Accounts . . . . .										15.1
7. Cashier's Checks, Checks and other Sight Liabilities . . . . .										4.0
8. Minor Items . . . . .				12.2					8.6	
				12.5		1.4			27.7	17.5
<b>BANKS AND SAVINGS BANKS</b>										
9. Deposits at the Treasury . . . . .	23.3									
10. Treasury Bills through the Banca d'Italia for Statutory Reserves . . . . .	43.0									
11. Treasury Bills direct for Statutory Reserves . . . . .	49.4									
12. Other Government Securities for Statutory Reserves . . . . .	0.2									
13. Other Treasury Bills . . . . .	6.0									
14. Other Government Securities . . . . .	44.3									
	153.8									
15. Loans and Investments . . . . .	3.5	20.0	430.4							
16. Savings Deposits and Current Correspondence Accounts . . . . .				388.1	220.5					
17. Cashier's Checks, and Checks . . . . .				63.7	6.0					
18. Net Surplus on Minor Asset and Liability Items . . . . .									51.8	10.1
				628.3					742.5	
19. <i>Less</i> Cash and Available Balances (excluding balances with the Tr. and the B.I.) . . . . .				34.9					30.4	
				593.4					712.1	
<b>Transactions with the Banca d'Italia:</b>										
20. Rediscounts . . . . .						46.7				6.2
21. Advances taken . . . . .						15.9				5.0
22. Deferred Payments at Clearing Houses . . . . .						1.2				2.6
23. <i>Less</i> Uninvested Deposits for Statutory Reserves . . . . .						14.1				4.2
24. <i>Less</i> Other Deposits . . . . .						8.2				5.0
						7.3				23.0
<b>BANKING ASSOCIATIONS</b>										
25. Deposits at the Treasury . . . . .										
26. Treasury Bills . . . . .									0.1	
27. Other Government Securities . . . . .	3.0								3.2	
	3.0								3.3	
28. Loans and Investments . . . . .	0.1	4.2	33.7							
29. Savings Deposits and Current Correspondence Accounts . . . . .					8.4					17.9
30. Checks . . . . .					1.6					1.8
				10.0					19.7	
31. <i>Less</i> Cash and Available Balances (excluding balances with the Tr. and the B.I.) . . . . .				33.2					30.0	
				43.2					49.7	
32. Transactions with the Banca d'Italia . . . . .						2.2				0.4
<b>CENTRAL POST-OFFICE SAVINGS FUND</b>										
33. Deposits at the Treasury . . . . .	5.9								3.9	
34. Treasury Bills . . . . .										
35. Other Government Securities . . . . .	10.3									
	16.2								3.9	
36. Loans and Investments . . . . .	0.9	0.9	104.0						1.0	
37. Post-Office Savings and Current Accounts . . . . .				117.7	0.7					
				118.4						
										94.8
										13.1
										107.9
<b>INSURANCE COMPANIES</b>										
38. Deposits at the Treasury . . . . .	10.9								4.0	
39. Government Securities . . . . .	8.2								3.5	
40. Loans and Investments . . . . .		22.4	58.4					18.1		86.4
41. Actuarial Reserves . . . . .				99.9						104.0
<b>LONG-TERM CREDIT INSTITUTIONS AND THE CAPITAL MARKET</b>										
42. Treasury Bills . . . . .	4.8								10.7	
43. Other Government Securities . . . . .	137.2								129.4	
	142.0								118.7	
44. Debentures issued by the Institute for Industrial Reconstruction . . . . .		27.9							14.5	
45. Debentures issued by Long-term Institutions . . . . .	3.9	131.6						71.0	168.7	
46. Time Deposits of Long-term Institutions . . . . .		17.5							13.2	
47. Issues of Industrial Debentures . . . . .		3.4							3.6	
48. Share Issues . . . . .		171.2							162.5	
	3.9	344.8						71.0	352.5	
49. <i>Less</i> Securities already included in Items 15, 28, 36, 40 and Other Duplications . . . . .	4.3	78.5						31.6	60.5	
	0.4	266.3		266.7				39.4	292.0	
	330.2	312.0	640.4	1,040.3	237.5	6.5	323.6	334.2	752.8	1,080.4
		952.4		1,277.8				1,087.0		1,451.9
				1,276.1						1,451.5
<b>B. I. (Transactions in Foreign Exchange and with the Tr.)</b>										
50. Current Account of UIC, Gold and Foreign Exchange . . . . .	5.0		8.9			3.9	1.4		57.6	59.0
51. Foreign Aid . . . . .	19.7			50.2		30.5	20.0			15.7
52. Other Accounts with the Treasury (*) . . . . .	26.2					26.2	20.3		4.3	20.3
53. Current Account for Treasury Service . . . . .	82.8					82.8	79.3			79.3
	453.9					88.9	444.6			133.4
54. Collections in respect of Budget Receipts (2) . . . . .	2,094.0					1.5	2,308.5			0.4
55. Minor Treasury Transactions (4) . . . . .	68.7						52.4			
56. Payments in respect of Budget Expenditure (5) . . . . .	2,479.2						2,700.7			
	312.0	649.3	1,090.5	237.5	90.4		334.2	810.4	1,084.7	371.5
		961.3		1,328.0	327.9		1,144.6		1,456.2	505.3
				1,326.3					1,455.8	

(1) The first total indicates money raised; the second indicates money used for loans and advances, and for transactions with the Banca d'Italia.

(2) Including Treasury Bills . . . . . 6.1  
Other Government Securities . . . . . 27.3

(3) « Current Section » . . . . . 2,022.3  
« Movement of Capital » . . . . . 311.0  
« Excluding » Foreign Aid « Current Section » . . . . . 21.7  
Increase in Indebtedness « Movement of Capital » . . . . . 217.6

(4) Including Deposits of the Southern Development Fund with the Treasury . . . . . 34.5  
Special Fund arising from the nine-year Treasury Bonds « 1961 » . . . . . 3.6

(5) « Current Section » . . . . . 2,323.5  
« Movement of Capital » . . . . . 160.1  
*less* Debt Redemption . . . . . 4.4

Tr. = Treasury. — B. I. = Banca d'Italia. — UIC = Italian Foreign Exchange Control Office.

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bank and post-office savings appeared stable, or slightly on the rise, with an increase of 9 per cent between 1948-49 and 1955, the depression of 1951 being followed by a peak, but not a pronounced one, in 1953, with subsequent declines in 1954 and 1955.

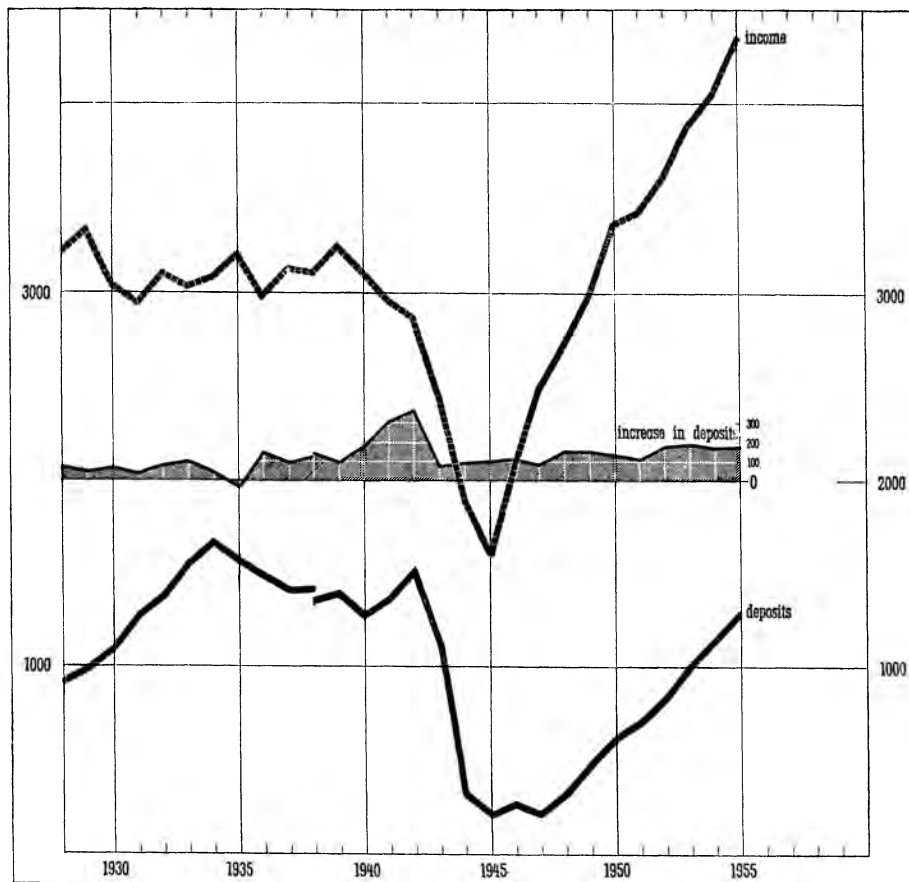
If the two series just described are expressed as percentages of annual national income per capita (in 1938 lire), the funds raised on the capital market are found to have resettled after the 1952 crisis at the 1948-49 position, while deposits remained behind. That is to say, after the downward movement of 1950-52, which did not reflect a similar movement in income, the funds raised on the capital market showed nearly the same ratio to national income in 1953, 1954 and 1955 as they did in 1948-49 (5.0, 5.4, and 5.2 per cent).

As to the behavior of bank and post-office savings, it appears that a rigid relationship between the annual flow of savings to bank or post-office deposits and national income can be ruled out, as is shown in Chart 22. The increase in this form of savings was low when the amounts were high (in real terms) and high when alternative investments were lacking (1940-42), or when it became necessary to replenish the amounts.

In fact, bank and post-office savings deposits represent secondary liquidity reserves of consumer households and, in exceptional circumstances, means for the investment of temporary cash holdings of enterprises. Moreover, the portion of income which can be put each year into these deposits (as in general all income going into savings) seems to be linked to the type of income distribution: the high ratios found in 1945 and 1946 are also explained partly, considering the exceptional depression in income, by the windfall profits in certain categories of enterprise.

The tables on « The Flow of Savings and the Money Supply » show essentially that part of savings which takes forms that assure a rather high degree of liquidity. And as to the further increases in income that are saved, the incentive toward such forms of savings diminishes as the primary and secondary liquid-

CHART 22



National income (net product), savings deposits, and annual increase in savings deposits  
(1938 lire per capita)

ity reserves of consumers and enterprises reach a satisfactory level.

For this reason, the behavior of the savings flowing to bank and post-office deposits, which represent « quasi-money » because of their degree of liquidity, and to a smaller extent the movement of the funds raised on the capital market, are not indicative of the portion of income that goes into savings, but rather of the characteristic distribution of wealth among the various possible uses to which it can be put, of the spreading of forms of insurance, of the changing pattern of income distribution, and of the action of special obstacles.

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

*Gentlemen:*

in this final section I shall try to summarize the main economic trends which form the background to the developments in the position of the assets and liabilities of the central bank, as reflected in its end-of-year statement of accounts.

Production in Italy reached especially high levels in 1955, outstripping any other year of the postwar period. This exceptional growth, which is measured by an increase in real income of 7.2 per cent over the preceding year, resulted from an increase of 9.3 per cent in industrial production, approximately equal to that of 1954, accompanied by a notable rise in agricultural production (6.0 per cent), which had shown rather modest percentages of increase in some important sectors, especially that of grain, in the preceding year.

The increase of 7.2 per cent in national income ranks Italy in second place among the principal countries of Western Europe in 1955, preceded by Germany, which showed an increase of 10 per cent.

In 1954, Italy had shared third place with Sweden, with an increase of 4.6 per cent in national income, being preceded by Germany (8.5 per cent) and France (5.9 per cent).

In industrial production (excluding building), which perhaps serves more adequately as a frame of reference for useful international comparison of economic growth, Italy occupied third place in 1955, with an increase of 8.3 per cent, after Germany (16 per cent), and France (10 per cent).

The preceding year Italy had occupied second place, with an increase of 9.7 per cent, after Germany (12 per cent) and on a par with the Netherlands.

If the comparison is extended to the entire three-year period of 1953-55, Italy's position appears in an even more favorable light, since she shared only with Germany and the Netherlands the distinction of having achieved a constantly high increase in industrial production throughout the period.

The higher income obtained in 1955 permitted an increase in private consumption of 4.4 per cent and an increase in fixed investments of 9.7 per cent, if housing construction is included, and of 6.9 per cent, if it is excluded. These investments represented 21.2 per cent and 15.8 per cent, respectively, of gross national income.

The increase in investments is indirectly confirmed by the rise in the index of production of capital goods which, after having increased from an average of 185 in 1953 (1938 = 100) to 205 in 1954, or 20 points, went up 33 additional points in 1955.

The results obtained last year have therefore been very encouraging, whether considered in themselves or compared with the results obtained in countries better endowed than Italy with natural resources or wealth accumulated throughout many years of economic progress.

Italy's problem, at least for the years immediately ahead, is therefore not to surpass the rate of development achieved in 1955, which, for national income, went considerably beyond the rate of 5 per cent envisaged in the ten-year plan for the development of employment and income, but to direct productive efforts, and the expenditure of the income that will be obtained, into the best and most profitable channels.

*Financing of Production and Trade.*— A comparison of the balance sheet of the Bank of Italy as of December 31, 1954 and December 31, 1955 shows that its loans were reduced by 4 billion lire during the year, while the financing of foreign exchange increased by 56 billion, resulting in a disbursement of 52 billion which went directly into productive activity.

On the other hand, 63 billion lire in the form of commercial banks' statutory reserves together with 30 billion as free deposits, totalling 93 billion, flowed to the Central Bank. Thus, the market and, above all, the credit system contributed with the difference of 41 billion lire to ease the pressure exerted on the money supply by Treasury drawings, besides, of course, aiding directly in Treasury financing, principally through subscription of Government securities.

Nevertheless, the credit system did not play a smaller part in the financing of production and trade in 1955 than in 1954. The total loans of the entire credit system, which had risen 727 billion lire in 1954, showed an increase of 855 billion in 1955, or of 128 billion between the two years.

Whereas the increase in the credit system's loans had averaged 469 billion lire a year during the four-year period 1948-51, the average increase over the last four years was 744 billion, approximately two-third higher. The increase in 1955 exceeded by 82 per cent the average increase of the four-year period 1948-51.

The amount of 855 billion lire which measures the loans of the credit system, added to an aggregate sum of 206 billion representing loans of the Institute for Industrial Reconstruction to the institutions under its control, loans of the Central Post-Office Savings Fund to municipalities, provinces, building cooperatives, etc., and loans of insurance companies (public and private, and social-security institutions) for investments of reserves, produces a total of 1,061 billion lire distributed by the public and private agencies which provide for Italy's credit needs either as their institutional function or as a corollary to their other activities.

To obtain a complete picture of the money that flowed into productive activity, the funds received from direct sale of shares and debentures to institutions and individuals other than the credit system proper must also be considered. In the year under review this amount was 159 billion lire (against 153 billion in 1954).

All in all, after the elimination of insignificant duplications, loans to the private sector increased during the year by 1,206 billion lire against 1,050 billion in 1954, a difference of 156 billion between the two years, of which 128 billion lire was accounted for by the credit system as a whole.

To this tremendous demand must be added that of the Government, which, beside using tax proceeds, property income, and other minor receipts in the amount of 2,308 billion lire, required an additional 446 billion, against 455 billion in 1954, including money obtained through the issue of bonds on behalf of the National Railways.

In sum, liquid funds in the amount of 1,652 billion lire were required in 1955, against 1,505 billion in 1954, an increase of 147 billion.

To meet this huge need, use was made, above all, of savings deposits, accumulated in the amount of 371 billion lire in the credit system and 95 billion in post-office savings funds, as well as other bank accounts in the amount of 61 billion, totalling 527 billion lire (4 billion less than in the preceding year), plus the funds flowing to the reserves of social-security institutions and insurance companies in the amount of 104 billion (4 billion more than in 1954), and finally, the amounts obtained on the capital market by the Government, special long- and medium-term credit institutions, and private institutions in the form of shares and debentures for a total of 450 billion (41 billion more than in 1954). Altogether, the figure that can be regarded as true savings amounted to 1,108 billion lire, showing an increase of 41 billion over the preceding year.

In addition, the funds known as « bank money » were used, i.e., current account deposits, cashier's checks, and other checks in the credit and postal systems, for a total of 372 billion lire against 238 billion in the previous year, as well as the portion of foreign aid directly accruing to the Treasury and going into lire counterpart funds, for 4 billion against 50 billion the year before.

To cover the entire demand, use was made of other funds flowing to the credit system (in connection with foreign exchange



accounts and accounts of minor credit institutions) in the amount of 62 billion lire, against 87 billion in 1954, and, finally, the issue of notes and coins, which amounted to 90 billion lire in 1954 and 134 billion in 1955.

The listing of the sources of the money supply in 1954 and 1955 and of its uses suggests certain considerations which cannot be disregarded if it is desired to appraise correctly the financial and monetary activity accompanying the growth of Italy's production.

The increase in 1955 of 133 billion lire in the circulation of only the notes of the Bank of Italy was the highest annual increase experienced since 1948; however, this circumstance loses much of its significance if account is taken of the fact that it resulted from those special factors which influence circulation in December of each year and which had been less actively operative at the end of 1954 than usual.

Proof of this is the behavior of the increase in banknote circulation determined as of January of last year and in January of this year. Measurement of the increase for the twelve months from the end of January 1955 to the end of January 1956 rather than on the basis of year-end data shows 103 billion lire instead of 133 billion.

The increase between the latest available figure (April 30, 1956) and the corresponding figure for 1955 proves to be 109 billion lire, still a considerably lower figure than that recorded at the end of 1955.

To appraise better, even though not fully, the normality of the development of the money supply — which in any case is not in itself capable of revealing whether or not there is a state of actual or potential inflation on the market — the ratio of the annual average circulation of notes and coins to national income may well be considered.

This ratio barely varied in 1955 from its 1954 position (14 per cent against 14.2 per cent).

As to the total money supply, i.e., with the addition of cashier's checks, other checks, and bank current accounts to notes and coins, its ratio to national income was approximately 35 lire to every 100 lire in both 1954 and 1955.

\* \* \*

The heavy increase in deposits which has been taking place from year to year in Italian commercial banks may indeed cause surprise in certain foreign countries, since, under the conditions prevailing in those countries, such increases would be clear symptoms of inflation, to combat which they are frequently not content to reduce the rate of increase of deposits, but even attempt to contract the volume and often to no small extent.

However, account should be taken of various circumstances that explain this difference in attitude — the policy of repressed inflation pursued by those countries in the war years, which left an excess liquidity that is still in the process of being reabsorbed; the less marked rate of increase in national income shown by their economies, with the full use of their productive capacity and manpower; and finally, institutional differences in the banking system. In Italy, in fact, the banks are not only depositories of bank money, which, as is well known, they themselves help to create (and the excessive use of this power may be translated into an inflationary pressure), but also depositories of private savings in large amounts.

Consequently, to find whether inflationary pressures have appeared on the market, the inquiry must be made in other directions and, in particular, through examination of the development of consumption and investment, the movement of inventories in relation to their nature, the behavior of prices of Government and private securities and, above all, the behavior of wholesale and retail prices.

Some of these points will be considered later in this report, which will conclude with an analysis of price movements.

Meanwhile, to return to illustrate the credit system's action by supplementing the absolute figures already given, the

total credits granted by what are called ordinary institutions were expressed at the end of 1955 by a figure 115 times higher than that recorded at the end of 1938.

The volume of ordinary credit aiding the productive cycle was thus about twice that of 1938, taking the value of money into account. This represented a considerable effort, evidenced also by the fact that the percentage ratio of loans to deposits, which had been 63.6 per cent for commercial banks and savings banks at the end of 1938, rose to 74.4 per cent at the end of 1955.

In the absence of expansionary processes engendered by recourse to the Central Bank, the action of the commercial banks and savings banks, intense as it is both directly and indirectly on behalf of Italy's productive development, finds a limit in the volume of savings flowing to them.

Savings deposits of commercial and savings banks increased in the last two years by 18 to 20 per cent yearly, and in 1955 by 17.7 per cent; but these percentages, measured from time to time against the volume of deposits at the end of the preceding year, cannot tell us (in fact, they may confuse us) whether the annual increase in these deposits is in harmony with the rate of increase in income or what expectations are warrantable for the future.

Therefore, it appears preferable and, moreover, is of more general interest to see what part of the national income is not utilized directly for consumption or investment by the recipients of the income but is entrusted to the institutions which collect savings deposits, or employed on the capital market.

To do that, deposits at commercial banks and savings banks and post-office savings funds will be placed together, and funds invested in Government securities, shares and debentures of special institutions, and insurance premiums will be added; in brief, the annual formation of money savings will be considered, and related to national income.

To sum up the movements of previous years beginning with 1948, it is found that the accumulation of money savings has ranged between a minimum of 592 billion lire in 1951, which

was the year of monetary tightness following the outbreak of the Korean war and a certain race to stock up goods, and a maximum of 1,081 billion in 1955. This figure is compared with the average of 725 billion lire for the years 1948-49 which, as will be recalled, were the first two years of postwar monetary stability, and were not influenced by the course of the Korean war; the resulting increase proves to be 49 per cent. Net national product at current prices was 11,770 billion lire in 1955, against an average of 6,729 billion in 1948-49, the increase being 75 per cent. In other words, money savings, which were about 10.8 per cent of income in 1948-49, dropped to 9.2 per cent in 1955.

But in order not to give final weight to comparisons made between years marked by different economic trends, the period 1953-55 may be examined. The ratio in question then proves to have decreased from 9.8 per cent in 1953 to 9.6 per cent in 1954, and 9.2 per cent in 1955.

Both observation of a longer period and experience in more recent years indicate, therefore, that not only has no tendency been shown toward an improvement of the ratio between money savings and national income, but that the very opposite has occurred, though to a limited extent.

Conversely, the ratio between gross investment and national income has improved. Gross investment increased from an average of 1,406 billion lire in the two-year period 1948-49 to an average of 2,566 billion in the period 1953-55. The ratio of money savings to investment of 51.6 per cent in the two-year period 1948-49 thus dropped to 40.3 per cent in 1953-55. In the individual years of this last period, the ratio decreased from 43.8 per cent in 1953 to 41.4 per cent in 1954 and 36.9 per cent in 1955.

The phenomenon of an inadequate expansion of money savings, already revealed in relation to national income, thus proves to have broader dimensions when the comparison is made with reference to investment. The causes, to the determination of which the greatest interest attaches for the implementation of the measures necessary to carry out the ten-year program, are

not easy to isolate. It is true, however, that an important role is played by the level of consumption and the type of investments now prevailing among the sectors of the population from which money savings are largely drawn.

In 1954 the increase in private consumption had been 3.3 per cent; in 1955, coincident with a very large increase in income, it was 4.4 per cent. But in both years the percentages of increase in certain consumer goods sufficiently characteristic of those sectors were much higher than the average. In particular, purchases of durable household goods increased by 8 per cent and 5.5 per cent, respectively, but, above all, expenditures for the purchase and operation of private means of transportation increased heavily. At constant prices, these increases were 8.6 per cent and 15.8 per cent in 1954 and 13.4 per cent and 22.5 per cent in 1955.

The emphasis on these types of consumer goods cannot fail to have considerable influence on the volume of savings that flows to the credit institutions and the capital market in general. The spread of instalment sales has a large influence on the increase in the consumption of these goods, but it is difficult to evaluate these sales statistically because of the extreme variety of forms they assume in Italy.

In the field of investments, the importance of expenditures for the purchase of apartments in the use of income by those sectors of the population from which the most important contributions to money savings and the development of the capital market might be expected should be emphasized. In order to appreciate the scope of this phenomenon, it must be stated in the first place that in 1955 the large sum of 701 billion lire was invested in housing construction, which reached a new high with about 1,440,000 new units, or more than five times the annual prewar construction.

Concerning the dimensions of the capital market and in general of money savings, the conclusion may now be reached that the experience of recent years would not warrant the hope that they will increase in the future at a higher rate than that

of the growth of national income, so that the shift in the expenditure of income to investments, as intended in the ten-year program, should, in the absence of special stimuli, take place preponderantly in areas other than the money market.

The probability that such a shift toward productive investments will take place therefore depends on whether, in the implementation of the ten-year plan, consumption of certain consumer goods is moderated and, instead, a larger increase in productive investments is encouraged, with the use of appropriate instruments for achieving both purposes.

*Government Finances.*— Expenditure under the current section of the « administrative » budget for 1956/57 is slightly higher than 2,900 billion lire, according to the initial estimates. A comparison of this figure with that of about 40 billion lire under the 1938/39 budget shows a multiplication coefficient of about 73, which does not appear at all disproportionate in view of the coefficient measuring the increase in national income at current prices from the prewar period to the present time.

But comparison with the prewar, even to overlook the remoteness of the period of reference, cannot provide any useful basis for advancing any conclusions on the appropriateness of present expenditure. Therefore, these conclusions must be reached elsewhere, within the framework of the uses to which expenditure is assigned by the Administration.

Accordingly, useful elements may be drawn from a comparison between the present situation and that of six years ago, or more precisely, from a comparison of the budget for the fiscal year 1956/57 with that for 1950/51.

If expenditures covered with receipts derived from American aid are eliminated, it appears that the expenditures to be covered by domestic resources (taxes, income from property, and borrowing) rose between the two periods considered from 1,772 billion lire to 2,958 billion, an increase of 1,186 billion in the six-year period. Of that amount, 73 billion, or 6 per cent,

should be assigned to the category of investments (which rose from 390 billion to 463 billion), and 1,113 billion, or 94 per cent, is attributable to other categories of expenditure (public consumption and current transfers). Chief among these is the increase of approximately 440 billion lire going to active and pensioned public employees; equally important are the increases in the expenditure for war pensions of 106 billion, and expenditures for social welfare and relief, which increased by 73 billion, going to recipients from whom wide margins of savings cannot logically be expected.

It is indeed true that in the present state of our knowledge the final effects of Government expenditure cannot be determined with sufficient reliability since it cannot be overlooked that the so-called consumer expenditures lead, at least in part, toward increasing savings or improving the cultural level and the technical training of future generations, and are translated into an investment in human capital no less useful than capital in the form of economic goods, while the expenditures conventionally classified among investments might, in fact, be resolved into a destruction of capital and a waste of human labor.

Even with these reservations concerning the final effects of Government expenditure, there is no doubt that its development during the last six years has contributed to check the volume of savings which should be available to the economy for new production, and to the Treasury and other public entities for covering deficits.

It may be pointed out that the deficit for the fiscal year 1956/57 is not greater than that for 1950/51; it should be added that, looking at the series of deficits to be met with domestic resources from subsequent budgets, one might be led to the fallacious conclusion that if it was possible to weather without disruption the two years 1951/52 and 1952/53 when, according to the « administrative » budgets, the fiscal deficits to be financed with domestic resources were close to 500 billion and 600 billion lire, respectively, it should be quite easy to cover the present deficit, which is appreciably lower than those just indicated.

However, the analysis, to be relevant, should not be made on the basis of the « administrative » budgets, but on the basis of the cash requirements, which alone are important in terms of pressures exerted on the money market.

It should also be noted that in addition to carried-over balances properly so called, carried-over balances are formed that might be called improper, consisting in the immediate pouring back into the Treasury of budget payments. The final expenditures by the Treasury in favor of, for example, the Cassa per il Mezzogiorno (Southern Development Fund), did not by any means coincide in time with the dates of the budget payments; thus, the Treasury's position was improved by them in the first years of the Cassa's existence and made worse in more recent years.

As a matter of fact, the requirements to be met with domestic resources amounted to 240 billion lire in 1950 (the calculations on this subject are based on calendar years and not fiscal years), and were immediately reduced in the following year to 186 billion lire, with the result that on the average for the two years they were only slightly higher than 200 billion lire; however, in the last three years they have varied but little from 400 billion lire, i. e., they have almost doubled.

But these figures do not measure adequately the volume of the increased funds the market is called upon to provide as a result of the action of the public administration. The loans granted by the Central Post-Office Savings Fund from the savings deposits it holds, and the expenditures for new works made by the National Railways as extrabudgetary Treasury operations must also be considered.

For these purposes an amount of 49 billion lire was necessary in 1950 while 125 billion was required in 1955, an increase of 76 billion between the two years. But that is not all. Demands for funds on the money market by central or local public authorities or, in general, for financing works the cost of which is met by the Government in instalments or which are carried out only through the impetus of its contributions in



capital or in interest on the corresponding loans, cannot be omitted.

Thus, the pressure exerted on the savings market by the Government, directly or indirectly through its agencies, or even more indirectly with measures which lead public or private institutions to press upon that market, is now much greater than it was six years ago, whereas a comparison of the deficits of the « administrative » budgets alone might have led one to believe that it had even decreased. And since the private sector, doubtless partly through the impulse transmitted by greater expenditures of the Government and central and local public authorities, in turn needs larger amounts of capital, a capital stringency ensues which is clearly revealed by several indexes, of which the index of prices of Government securities shows directly the difficulties encountered in financing the deficit.

The difficulties found in providing the Treasury with the means it requires are also shown directly by the nearly constant volume of funds it manages to obtain outside the banking system. Despite the rapid increase in national income and in the dimensions of the capital market, these funds, including those used by the Central Post-Office Savings Fund for its financing and by the National Railways for extraordinary works, have ranged between 240 billion lire and 280 billion lire in the last four years.

Therefore, it becomes urgently necessary to repair the disturbed equilibrium, not only because it is a duty toward those who put their trust in the State, but also in order to make use of the most favorable financial conditions for redeeming the nine-year Treasury bonds which will fall due for several consecutive years beginning with the spring of 1959, now not very far off.

And it is also necessary to stop the practice of using bank reserves to cover the deficit. In fact, it might become necessary to return to those reserves, once and for all, their institutional function of counteracting possible inflationary movements.

*Foreign Exchange Financing and Balance of Payments Problems.*— As mentioned earlier, foreign exchange financing re-

quired the utilization of funds supplied by the Bank of Italy in the amount of 56 billion lire. This expenditure is closely correlated with the increase in the foreign exchange reserves during the year, which was equivalent to \$109 million. These reserves, in addition to increasing in size, improved in composition, an increase in free foreign currencies of \$196 million having been accompanied by an indebtedness to EPU of \$62 million and a reduction of \$25 million in the net balances on other accounts. These figures represent the final result of very broad movements.

Leaving aside the flotation on foreign markets of public and private loans and investments of foreign capital in Italy, the transactions with foreign countries usually classified as current increased considerably. Trade in goods, in particular, increased in 1955 in absolute value more than in any year since 1948, when for the first time since the war the economy was conducted under the sign of monetary stability. This increase was surpassed only in 1951, when world developments immediately following the Korean war and the general increase in prices led to an exceptional upward bound in the value of Italy's international trade, as well as in that of all other countries.

The annual increases in Italy's imports c.i.f. from 1948 to 1950 had been kept at about 40 billion lire. In the years following 1951 they were 105 billion in 1952, 53 billion in 1953, and 12 billion in 1954; thus, the increase in 1955 of 167 billion appears exceptional.

Imports of goods in 1955 amounted to 1,691 billion lire; this is twice the amount for 1948, which was 844 billion. On the average for the three-year period 1948-50 imports of merchandise were 885 billion; they rose in the recent three-year period 1953-55 to 1,576 billion lire, an increase of 78 per cent.

Since the national income at current prices increased between the two periods considered by 55 per cent, it appears that Italy's economic development, as shown in recent years, required an increase in imports of 1.4 per cent for each increase of 1 per cent in income.

A closer estimate for the period 1950-55, for which it was possible to prepare indexes of real variations in all debit items of the balance of current payments, produces an even higher value for the marginal elasticity of imports of goods and services in relation to income, of 1.7.

From these comparisons it is not desired to draw conclusions as to a « proportionality », so to speak, which can without qualification be considered valid for the future. However, it must be pointed out that the increase in imports in 1955 supports the assertion that the growth of consumption and investment rests on an increasing expansion of international trade. Exports also doubled in value from 1948 to 1955, with a more uneven course, however, which included the large drop in textile exports that took place after the peak in 1951; in 1953 and 1954 their growth was relatively higher than that of imports, with the result that they served to decrease the deficits by 22 billion lire between 1952 and 1953 and 70 billion between 1953 and 1954. Last year the percentage increase in exports also exceeded that of imports, but not sufficiently to reduce the deficit, which rose by 30 billion lire.

The ratio of exports to imports was about equal to that of 1948, slightly more than 68 per cent. Since the value of trade doubled between the two years compared, the trade deficit also doubled in absolute value. More precisely, it was 268 billion lire in 1948 and 530 billion in 1955.

Even if practically the entire increase in the deficit for 1955 over the preceding years is considered to be attributable to larger purchase of grains on account of the reduced home output in 1954, it must nevertheless be stated that the improvement registered in past years came to a halt.

In brief, it can be said that the accounts relating to food-stuffs, the so-called auxiliary materials (coal and mineral oils), raw materials, and metallurgical products deteriorated heavily, while there was considerable improvement in engineering products, textiles — especially because of a decrease in imports of natural fibers — and numerous miscellaneous export items, consisting in general of products of medium and small industry.

The average increase in agricultural production in the last two years has been estimated at about 22 per cent over the average for the four-year period 1936-39, which is usually regarded as representative of the prewar situation; with the increase in population that has taken place in the meantime, the increase in production per capita is about 10 per cent. In spite of that, the foodstuffs account, in constant prices (1955), changed between the two periods from a surplus of 63 billion lire (excluding the colonies: 34 billion lire) to a deficit of 40 billion.

The most important progress made during the year was in the engineering sector. Not only were imports, with 225 billion lire, slightly below those of 1954, but exports increased by upwards of 53 billion, or 26 per cent of exports in 1954, which amounted to 202 billion lire; thus the engineering products account became favorable for Italy once more.

These remarks on Italy's foreign trade cannot be concluded without calling attention to another favorable note. Exports to the dollar area increased by about 25 per cent in 1955, and this percentage not only considerably exceeds the average increase in our exports, which was 13 per cent, but is also the highest among the Western European nations after Germany's barely larger increase.

The trade deficit which has been briefly analyzed, if measured as a residual balance between imports f.o.b. and exports, proves to be 409 billion lire. It was covered, for 64 per cent, by the net proceeds of tourist travel (119 billion lire), workers' earnings and emigrants' remittances (78 billion), and by the balance of minor debit and credit items (67 billion). The amount that remained to be covered thus came to 145 billion lire, equivalent to \$233 million. This represents a contraction of the deficit in relation to 1954, which closed, in adjusted figures, with a deficit of \$290 million; the improvement of \$57 million, however, was less than that registered in 1954 (\$60 million).

This persistence of a considerable deficit was not unexpected; rather, precisely because of it and the decline in American aid, Italian institutions and businesses had for some time been floating loans abroad.

Even at the present stage, however, American aid has still contributed to the balance of payments 23 billion lire in 1955, as have earnings for offshore purchases in the amount of 81 billion lire and other minor items for 21 billion.

Capital movements (proceeds of loans contracted abroad by Italian institutions and businesses, investments in Italian securities and in various enterprises on the part of foreign countries, use by Italian banks of lines of credit and foreign exchange derived from deposits, and, lastly, increases in commercial debits and credits), caused an inflow of foreign exchange in the amount of 89 billion lire.

From these movements, taken together, there was an increase in official foreign exchange holdings of 68 billion lire, equivalent to \$109 million, as already mentioned.

This increase does not warrant less vigilance for the future.

In the first place, it is a good rule that a larger volume of foreign trade should be accompanied by an increase in foreign exchange reserves, which have the specific function of protecting its growth by absorbing its variations, which are always difficult to foresee, and which may be the greater as trade increases.

In the second place, analysis of the balance of payments shows that more than half of the increase in foreign exchange holdings during the year was due to an increase in indebtedness at very short term, demand obligations, so to speak, in the international relations of Italian banks; this was permitted in order that use might be made of less onerous interest rates than those at home, but, by its very nature, it does not have a stable character.

Hence Italy is still faced with the problem of the forthcoming termination of American aid and earnings for offshore orders.

Finally, even if the expectation of an increase in invisible items is warranted, considerable efforts are still required to reduce the trade deficit to reasonable proportions. The aim should be to secure that result gradually along with the growth of consumption and investment, so that success will be

achieved only with the avoidance of excesses in either direction; i.e., by not allowing consumption and investment to rise excessively, and not attempting to eliminate the present deficit at a single stroke.

Partly because of this cautious policy, international circles are following Italy with the greatest sympathy, disposed to aid in the solution of the problems of her economic development, assured by the proofs of balance given and by the efforts made throughout the postwar years, now not a brief period.

The International Bank for Reconstruction and Development, in particular, is considering with great sympathy, for which Italy is truly grateful, the possibility of increasing and extending the credit already provided for the development of the South.

*Prices.*— In 1955 there were no important symptoms of the existence of inflationary pressures. The increase in the indexes of fiduciary currency and bank money developed normally, and, in some industrial sectors producing goods for current consumption, inventories decreased. Increases in inventories took place principally in the agricultural sectors, as a result of the considerable output of grains, in the sugar industry through the increased production of sugar beets, and in the engineering industry on account of the increased load of orders. But inventories of this type do not indicate the speculative stocking-up of goods that usually accompanies manifestations of distrust in the currency.

The capital market, especially for part of the year, showed an increase in the price of shares and, particularly towards the end of the year, a decline in the prices of Government securities. In regard to the first movement, however, it appears sufficient to point out that productive activity developed during the year at a rather intense rate in many sectors, in a period of increasing income; in regard to the second, it has been pointed out that the national budget has shown in past years, even with increased public expenditures, a certain contraction of the « administra-

tive » deficit. And if that was not sufficient to prevent the decline in the prices of Government securities, the reason must be sought in the Treasury's persistent calls on the market for funds, which have been made year after year without interruption, and are in competition with the requirements of the private sector.

Finally, examination of the current accounts of the balance of payments shows that even that deficit tends to improve, a circumstance which can hardly be reconciled with the existence of inflationary pressures, according to the experience of Italy and other countries.

To complete the picture, the behavior of prices remains to be considered.

According to the index of the Central Institute of Statistics, wholesale prices showed a very slight increase of 0.3 per cent between December 1954 and December 1955, against an increase of 1.8 per cent between December 1953 and December 1954. These changes from one December to the next would indicate therefore that 1955 was on the whole better than 1954 in regard to the movement of wholesale prices.

But there is more. If the first nine months of the year are separated from the last three, the wholesale price index of the Central Institute of Statistics shows a decrease from December 1954 to September 1955 of 1.4 per cent. The dip in prices of domestic foodstuffs — also of 1.4 per cent — and the more remarkable decrease in textile materials and products, as well as in hides and footwear, more than neutralize the increase that took place in other materials utilized by industry, especially in the group of metals and in fuels and building timber.

Although held within narrow limits, the drop in foodstuffs, which had been about 8 per cent on the international market, still represented a factor of considerable importance in Italy's situation.

In the Report for last year the drop in Italy's industrial prices in 1954 had in fact been pointed out, and concern was expressed that it had been offset, or rather exceeded, by the movement of prices of foodstuffs, which had been increasing in Italy

in recent years, in contrast to the trend on the international market.

Unfortunately, in the last quarter of 1955 the index of food prices again began to rise, both for foods of vegetable origin and those of animal origin, while the upward movement of fuels and other industrial materials continued. Nevertheless, the year closed, as already indicated, with a wholesale price level practically equal to that of 1954.

To judge more fully the year just ended, reference must be made, finally, to the encouraging capacity of Italy's industry, as shown for years past and strengthened in 1955, to absorb, fully or in large part, the increases in prices of raw and semifinished materials in the course of the transformation process. Indeed, the general index of manufactured products went down slightly in 1955, despite the fact that the prices of raw and semifinished materials were on the rise and, as is well known, wages also tended to increase.

This is a manifestation of the remarkable improvement in productivity that has taken place in industry, facilitated, it is true, by a growth in demand on which Government expenditure, especially expenditure for the South, has had considerable effect, but which got its real start from liberalization.

These observations on the behavior of wholesale prices during 1955 seem to warrant the conclusion that there was no inflationary pressure, even on this side, of any importance.

The situation has been aggravated not a little, however, in the first months of 1956, principally because of the severe frost which reduced the output of vegetables and fruits.

The prices of foodstuffs which, as already pointed out, had shown a slight dip in the first nine months of 1955, rose 6.6 per cent in the next six months (these observations conclude as of March 1956). Thus, the general index of wholesale prices, which had dropped 1.4 per cent in the first nine months of 1955, rose 2.9 per cent from September to March.



In this six-month period, not only have food prices increased, but also, in sympathy with the international situation, the prices of some important industrial materials have continued upward, and prices of some textile raw materials have recovered, the result being that the movement of Italian agricultural and industrial prices, rather than offsetting each other, have combined their forces.

The cost of living index rose 3 per cent from December 1954 to December 1955. For purposes of appraising the year 1955, it should be noted that the increase during the year was lower than that which occurred in 1954 (3.6 per cent), and that almost one-third of it was due to an increase in legal rents.

But even in regard to the cost of living, the situation has deteriorated considerably in the first months of this year.

The effect of another increase in the housing component following the new increase in legal rents that became effective January 1, was supplemented by the heavy influence of food and vegetable prices, which reached extremely high points as a result of the heavy frosts.

As of March 1956, the index of the food component was 6.0 per cent higher than that of March 1955 (olive oil showed an increase of 81 per cent), and the general cost of living index, which has risen 3 per cent from December to December, increased by 6.4 per cent.

Perhaps attention should be drawn again to what has been said for years at this meeting concerning the heavy effect on wages of the too rapidly automatic mechanism that regulates the functioning of the sliding wage scales, or escalator clauses. The influence exerted on the cost of living index by the seasonal nature of vegetables and fruit, which are on the rise from March to June and on the decline in the second part of the year, has been pointed out on several occasions. Naturally this seasonal movement would not have any disturbing effect if the prices used for constructing the index did not serve as a basis for the functioning of the sliding scale mechanism. Other conditions remaining equal, the index would only show alternating movements.

But that is not the case. In fact the seasonal upward wave causes the sliding scales to rise, leading to an increase in the volume of wages; this produces an increase in the demand for goods of all kinds which pushes their prices upward, so that the subsequent downward seasonal wave in the prices of vegetables and fruit becomes part of price level already increased and sustained by the additional money demand, and therefore cannot restore the previous situation.

The short supply, determined by the causes already indicated, on the market for olive oil and vegetables and fruits in the first months of the year in progress drove the prices of those goods upward, some of them even being tripled, and has necessarily reduced consumption to a very large extent. Now, the mechanism of the sliding scale has continued to function on the erroneous assumption that consumption of those goods is continuing at the same rate as before. Wages in industry consequently increased by 2 points beginning in April and will increase by 4 more points beginning in June, and similar movements have taken place and will take place in other sectors.

It was not by chance that the system of the sliding scale was originally introduced everywhere in periods of monetary instability to cope with exceptional needs for protecting the purchasing power of employed persons. Thereafter its use was continued and consolidated even in less disturbed monetary periods, when, however, the imperfections of the system make its application dangerous since the minor changes characteristic of these periods may be dominated by seasonal factors and by the faulty methods of compiling the price data.

In the presence of changes of sufficient breadth and duration, the system might still be used without serious damage, but in every case an effort should be made to keep a permanent increase in wages from being linked to temporary factors or to weather conditions, and especially, to a malfunctioning of instruments which amplify the real scope of the changes.

Sliding scale systems should at least be regulated in such a way as not to function in only one direction, and should therefore

be surrounded by indispensable safeguards, such as reference to average values extended over sufficiently long periods and the introduction of margins of tolerance for changes in both directions.

After what has occurred, foreigners are probably astonished, among other things, that in Italy none of the measures which other countries have used to combat inflationary pressures have been adopted or are being adopted: raising the cost of money, credit restrictions, increased taxes, elimination of customs barriers, reductions or postponement of investment plans, etc.

As a rule, the adoption of these measures has not preceded the attainment of full employment. Only when, as the limits of the productive system's capacity are approached, the difficulty of a further adaptation of supply to an expanding demand becomes clearly evident, is an effort made to check demand or to bring it back to lower levels with general measures which, although pervasive in scope, primarily affect the demand for investments. In Italy, the productive system showed throughout 1955 its adequacy to satisfy demands within a framework of stable or moderately increasing wages and growing employment, in which considerable profit margins utilizable for investment were obtained. Only at the end of the year, as has just been shown, did some signs of tightness appear in parts of the food sector. The more obvious excess demand that occurred for certain food items in the following winter months, being the effect of an accidental reduction in supply, was not of such a nature as to justify the adoption of restrictive measures of a general character which principally affect investments. The appropriate remedy might have been found in a manipulation of imports or inventories if the disturbance of supply had involved nonperishable or import commodities rather than perishable or export commodities for which possibilities of manipulation were nonexistent or less flexible.

The Government ten-year development program, after having assigned to the unemployed to be absorbed into production a volume of consumption on a par with that of the employed,

found that for those now employed there remained the possibility of increasing their income by about 30 per cent in the decade. That means an annual average increase of 2.6 per cent. Now, last year the increase in consumption was 4.4 per cent.

This apparent deviation can be explained in only one way, i.e., by the exceptional increase in real income in 1955.

In particular, the disparity between the crop years 1954 and 1955, the one of shortage and the other of abundance, played an important part. However, in view of the damages suffered by the crops because of unfavorable weather, it can be assumed that the outcome of the agricultural year now in progress will serve to reduce the average increase in national income and place it below the increase that may be found in industry.

Consequently, on the basis of elements now available, it appears difficult to count on a higher increase in real terms in the national income for 1956 than that envisaged in the ten-year plan. Therefore, this year it will be more necessary than ever to put into practice the principles on which the ten-year plan is based, and specifically to check the expansion of consumption decidedly if it is desired to maintain a high rate of investment.

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In 1952 the large volume of liquidity left to the market, which permitted the initiation of numerous productive projects encouraged by the greater expenditure in the South, led Italy to watch with some anxiety to see what dimensions would be assumed by the unfavorable manifestations that generally accompany a phase of rapid growth.

The heavy deficit occurring immediately in the balance of payments and correctly not offset by the use of quantitative restrictions which would have pushed domestic prices upwards, was financed principally with American aid, which was once more as valuable as it had been indispensable in the previous phase of reconstruction.

At that time we were confident that the deficit would subsequently be reduced, and that our foreign exchange reserves would not undergo losses which would compel us to renounce perhaps for many years any hope of solving our development problems. And that confidence was fortunately encouraged by the facts, for the deficit was gradually reduced, and the foreign exchange reserves, although following a course considerably below that of other European nations, were nevertheless adequately safeguarded.

Therefore, we have reason to believe that Italy can achieve a firmer and better equilibrium, if only the will to achieve it and the capacity to accept all the necessary sacrifices are present.

Despite certain contrary appearances in the indexes of some prices, which have recently moved for merely fortuitous reasons, the conviction appears warranted, and an attempt has been made to show, that this stability is still adequately maintained, given the absence of those underlying movements that usually develop during an inflationary process.

However, certain apprehensions have not been concealed, and from them reason has been drawn to show the need for proceeding with caution in the further development of economic action and, above all, for keeping a steady eye on the behavior of our foreign trade.

Excessive spurts of certain types of consumption or certain types of investment, now more than ever, are likely to expand imports or to contract exports because, as a result of the high level attained in the utilization of material resources of internal origin, the influence of the foreign component in our economy has increased.

Nor, to moderate these effects, are protective practices feasible, whatever form they may assume and whatever may be the reason advanced for invoking them. These practices, in one way or another, sooner or later, are paid for in the general level of prices, so that the reduction of imports which may arise from them ends with an induced decrease in exports and merely retrogressive effects on economic development.

Problems of monetary stability are on the first level of importance throughout the Western world, which has progressively banished policies that are detrimental to monetary stability or that preserve it in only a fictitious and therefore precarious way. The effort the various countries are making is to preserve stability in an environment increasingly freed from the limitations and restrictions which had multiplied, especially in the field of international trade, during the decade preceding the war, and had survived at the end of the war, becoming intensified at times to overcome the grave problems of reconstruction.

Italy has been traveling determinedly along this road for a long time, occasionally assuming vanguard positions. Her pace must be quickened lest she be left behind in the process of liberating both trade and currencies from the shackles that still bind them. The progress achieved and the present state of Italy's monetary relationship with foreign countries seem to justify the assurance that broader results can be achieved here also; thus, the hope appears warranted that Italy will continue to be an active element in the development of international cooperation in the years ahead.



**BALANCE SHEET**  
**AND GENERAL PROFIT AND LOSS ACCOUNT**





## BALANCE SHEET FOR THE YEAR

<b>A S S E T S</b>			
Gold in the Bank's Vaults . . . . .	L.	4,228,123,758	14
Gold deposited abroad, and due by the Government to the Bank . . . . .	»	1,772,798,105	00
Cash in Hand . . . . .	»	6,956,532,313	15
Domestic Bills of Exchange . . . . .	»	334,666,959,026	48
Bills for Collection . . . . .	»	67,110,076	48
Advances . . . . .	»	82,783,504,844	50
Available Foreign Balances . . . . .	»	69,851,460,483	84
Government or Government-guaranteed Securities . . . . .	»	60,377,103,761	84
Premises . . . . .	»	1	00
Sundry Debtors . . . . .	»	766,181,257,703	80
Sundry Items . . . . .	»	3,491,142,793	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
Treasury Current Account . . . . .	L.	175,955,477,271	12
Investments in Securities for account of the Treasury . . . . .	»	355,000,000,000	00
Sundry Services for account of the Government . . . . .	»	11,169,287,307	68
	L.	2,437,339,587,311	89
Securities and other Valuables Deposited . . . . .	»	3,683,732,103,744	35
	L.	6,121,071,691,056	07
Items written off in past years . . . . .	»	32,939,628	42
<b>GRAND TOTAL . . . . .</b>	<b>L.</b>	<b>6,121,104,630,684</b>	<b>49</b>

*Audited and found correct* — Rome, 14th May, 1956.

**The Auditors**

ALESSANDRO BACCAGLINI  
 ALESSANDRO CARETONI  
 GIUSEPPE GARIBOLDI FARINA  
 FELICE PAPPALARDO  
 RAFFAELE PILOTTI

**The Accountant General**

GUIDO PIERINI

ENDED 31st DECEMBER, 1955

**LIABILITIES**

Notes in Circulation . . . . .	L.	1,671,396,462,500	00
Bank Drafts, Cashier Cheques and other Sight Liabilities . . . . .	»	21,021,873,646	59
Current Accounts . . . . .	»	81,025,486,488	74
Time Current Accounts . . . . .	»	513,202,549,706	15
Sundry Creditors . . . . .	»	126,252,344,758	65
<b>Treasury - Foreign Aid:</b>			
Italian Government - Counterpart Funds (net) L.	67,972,973,558	07	
Italian Government - Special Advances Account (Decree Law No. 781 of 7th May, 1948) for the formation of Counterpart Funds, less repayments . . . . .	46,497,019,354	48	
		21,475,954,203	59
Net Profit of the Year 1955. . . . .	L.	358,624,068	00
Capital . . . . .	L.	300,000,000	00
Statutory Reserves . . . . .	»	1,360,483,329	00
Extraordinary Reserves . . . . .	»	945,808,611	00
		2,606,291,940	00
	L.	2,437,339,587,311	72
Securities and other Valuables Deposited . . . . .	»	3,683,732,103,744	35
	L.	6,121,071,691,056	07
Items written off in past years . . . . .	»	32,939,628	42
<b>GRAND TOTAL . . . . .</b>	<b>L.</b>	<b>6,121,104,630,684</b>	<b>49</b>

The Governor  
DONATO MENICHELLA

**GENERAL PROFIT  
FOR THE**

<b>EXPENDITURE</b>		
Administration . . . . .	L. 11,086,671,303	
Board of Directors . . . . .	» 213,716,185	
Transport of Notes, Coins and other Securities. . . . .	» 88,318,092	
Printing Notes . . . . .	» 2,378,660,649	
Premises. . . . .	» 456,707,346	14,174,073,575
Circulation Tax on Notes and Demand Drafts. . . . .	L. 3,317,297,060	
Income Tax. . . . .	» 3,424,295,328	
Sundry Taxes and Dues. . . . .	» 597,110,215	7,338,702,603
Bad and Doubtful Debts incurred during the year . . . . .	L. 144,602	
Provision for Securities Price Fluctuations. . . . .	» 1,809,500,000	
Amounts written off . . . . .	» 7,939,246,780	
Interest and Annuities Payable . . . . .	» 226,235,905	
Charity and other Contributions . . . . .	» 38,140,047	
Contributions to Employees Fund. . . . .	» 2,183,132,913	
Net Profits available for Distribution . . . . .	L. 33,709,176,425	358,624,068
<b>TOTAL . . . . .</b>	<b>L.</b>	<b>34,067,800,493</b>

**APPROPRIATION**

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

**TOTAL DISTRIBUTABLE**

*Audited and found correct* — Rome, 14th May, 1956.

**The Auditors**

ALESSANDRO BACCAGLINI  
ALESSANDRO CARETTONI  
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RAFFAELE PILOTTI

**The Accountant General**

GUIDO PIERINI



