

BANCA D'ITALIA

ABRIDGED VERSION OF THE

REPORT

FOR THE YEAR

1957

PRESENTED TO THE

ORDINARY GENERAL MEETING OF SHAREHOLDERS

HELD IN ROME ON 31st MAY, 1958

ROME

PRINTING OFFICE OF THE BANCA D'ITALIA

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REPORT OF THE GOVERNOR

I. *General Economic Conditions*

The trend towards an appreciable increase in productive activity, which had already been a feature of 1956, became more pronounced in the early months of 1957; and throughout the first half of the year the economic situation remained favorable, except for a few elements of a special nature. In the third quarter certain signs of an imminent slackening of the previous trend were already beginning to appear, but, generally speaking, production still continued to develop and actually touched its highest point for the year during this period. After September, however, it became clear that the rate of growth of the economy as a whole was slowing down and that industrial production was no longer expanding.

Looking at the figures for both of the last two years, one can see that between January-February 1956 and the corresponding period of 1958 the index of industrial production (1953 = 100) rose from 120 to 140, or by the equivalent of 8 per cent per annum. At present industrial production is not far from its highest level ever and although it has remained practically unchanged in the last six months it has not yet fallen below the trend line of the last few years—a period in which there was a considerable upswing.

Foreign demand continued to expand throughout the year at a vigorous rate; it was particularly strong during the first half and only fell off slightly in the last quarter of 1957 and the first three months of the current year. It rose by 23 per cent on the year and thus contributed in considerable measure to the rapid development of production during the first six

months, while also helping to keep up the level of economic activity in the more recent period.

The greatest increase—especially in the last few months—occurred in the field of services rendered abroad, a sector in which the rate of expansion has not yet shown any signs of slowing down. Although exports of goods also rose rapidly during the first nine months of 1957, they subsequently showed a more moderate rate of growth; up till March of this year, however, they were still maintained at the previous record level.

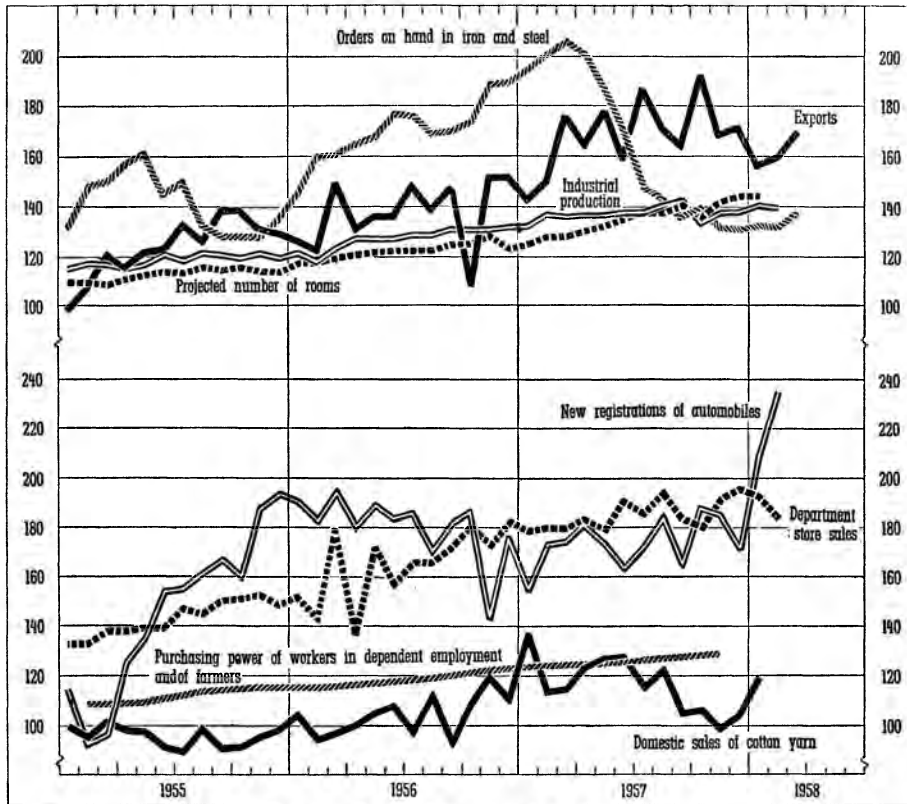
Domestic demand for capital goods in the form of machinery and equipment rose appreciably in the first half of the year, but then showed signs of weakening in certain lines during the second half of 1957 and the beginning of 1958. Inventory investment in agricultural products fell off considerably, with a decrease in the majority of cases and a sharp drop in respect of some specific products (sugar and wine). On the other hand, stocks of raw materials, semi-manufactures and industrial goods showed, on balance, a marked increase over the year, although there were various indications of the onset of a decline in the first quarter of 1958.

As regards fixed investments, demand for iron and steel products followed a special course of its own, since, largely owing to expectations of a reduction in prices (which was subsequently effected), orders on hand in the industry fell off in the second quarter of 1957. This decline continued in the second half of the year and only seems to have been halted in the last few months (chart 1).

Apart from the fact that industries normally using iron and steel products were pursuing a policy of reducing their stocks of these materials, another factor which influenced the above-mentioned downward trend in the second half of the year was the slowing-down of building activity in the field of residential construction.

The index showing the production of capital goods touched its highest point in September and then fell very slightly in the latter part of the period under review. Iron and steel production, in particular, rose considerably up till September and then de-

CHART 1



Trends of certain economic indicators
(1953 = 100)

clined until, in the first quarter of the current year, it had reached a level slightly below that attained in the corresponding quarter of 1957.

Building activity, which had expanded vigorously in the first four months of 1957, subsequently registered only a slight decline, since the slowing-down of residential construction was partially compensated for by increased activity in respect of public works and public utilities.

Demand for consumer goods rose throughout the year in a normal manner, related to the increase in private incomes and in employment.

Consumption of food and beverages increased over the year by 3.8 per cent, both in real terms and in terms of current prices. Towards the end of the year and in the first months of 1958,

however, the pressure of demand, especially for better-quality food products, led to a fairly substantial rise in the retail prices of foodstuffs.

Expenditure on articles of clothing and personal effects rose in 1957 by 5.9 per cent at current prices and 3.7 in real terms, compared with the previous year. Demand for textile products reached a very high level in the first half of 1957 and then fell off sharply — a decline which was only halted in the last months of the year.

This movement was also reflected in the sales of the department stores, which were only 5 per cent greater in the last four months of 1957 and the first two months of 1958 than they had been a year earlier, whereas the rate of increase in the first eight months of 1957 was much larger.

Demand for durable household goods rose steadily throughout the year and continued to do so in the early months of 1958. Between 1956 and 1957 expenditure on this category of goods went up by 9.6 per cent, while the increase in quantitative terms was even greater (11.2 per cent) owing to the fall in the sale prices of these products. New television subscriptions showed a steady increase during the year; in the first four months of 1958, new subscribers numbered just under 200 thousand.

In contrast to those of other durable consumer goods, sales of automobiles showed a decline in the winter of 1956/57, followed by a slight recovery in the course of the year and a marked increase in the first months of 1958. The number of new cars registered in the first two months of this year was 35.9 per cent greater than in the corresponding period of 1957.

The purchasing power of persons in dependent employment increased still further in the course of 1957 (table 1). The annual increment in the aggregate money earnings of dependent labor in 1957 was 7 per cent and was due both to an increase in wage rates and to a rise in employment. Gross receipts in agriculture (excluding agricultural wages) were less in the first half of 1957 than they had been in the corresponding period of 1956, but in the following two quarters they were greater than they had been a year earlier (4.5 and 6.2 per cent respectively).

TABLE 1

Purchasing Power of Persons in Dependent Employment and of Farmers
(billions of lire)

	Money earnings of persons in dependent employment		Gross receipts in agriculture (excluding agricultural wages) (1)		Total	
	1956	1957	1956	1957	1956	1957
1st Quarter	1,064	1,186	291	273	1,355	1,459
2nd Quarter	1,191	1,278	188	183	1,379	1,461
3rd Quarter	1,242	1,301	786	821	2,028	2,122
4th Quarter	1,453	1,532	496	527	1,949	2,059
Total	4,950	5,297	1,761	1,804	6,711	7,101

(1) Agricultural wages are included in the money earnings of persons in dependent employment.

The economic conditions in which industrial activity developed changed somewhat in the course of 1957, but on the whole there was a fairly satisfactory balance between costs and receipts, so that operating profits for the year were generally good.

While prices rose slightly in the first quarter of 1957 and thereafter remained more or less stable, the increase in the cost of raw materials and semi-manufactured goods during the first half of the year was at least partly offset by an expansion of productive activity during that period and thus by a reduction in costs per unit of output. Business enterprises were probably operating at their most profitable level in the third quarter, when productive activity was still increasing and the effect of the decline in the prices of imported raw materials was beginning to be felt. Subsequently, when the level of activity became more stable, an increase in the wages of employed persons was counterbalanced by a further reduction in the price of raw-material supplies.

Even in those specific lines in which sale prices declined appreciably economic equilibrium was adequately safeguarded for the businesses in question by the simultaneous sharp drop in the prices of raw materials and fuel and by the increase in productivity.

As prices of raw materials still tended to fall in the first few months of the current year, business profits may be expected to remain at a satisfactory level.

The overall economic results for the year are fully expressed in the figures for national income and expenditure contained in the « General Survey of the Economic Situation of Italy » presented to Parliament by the Government, and reflect the progress made during a year in which the economic trend was, on the whole, favorable (table 2).

TABLE 2

National Income and Expenditure

(billions of current lire)

Sources of income	1956	1957	Expenditure	1956	1957
Agriculture, forestry, and fishing	2,507	2,540	Consumption:		
Industry	4,671	5,031	— Private . .	9,925	10,449
Commerce, transportation and services	3,047	3,322	— Public . . .	1,113	1,181
Net product of public administration	1,368	1,451	Total consumption	11,038	11,630
Adjustments	- 847	- 875	Gross investment	3,151	3,456
<i>Net product at factor cost</i>	10,746	11,469	<i>Total domestic expenditure</i>	14,189	15,086
Taxes not included in the estimate of goods and services	1,860	1,969	Exports of goods and services (and interest on foreign investments)	1,923	2,348
<i>Net product at market prices</i>	12,606	13,438			
Net income from abroad	28	40			
Depreciation	1,305	1,427			
<i>Gross national income</i>	13,939	14,905			
Imports of goods and services (and foreign investment income)	2,173	2,529			
Total resources	16,112	17,434	Total resources	16,112	17,434

The gross national income increased by 6.9 per cent at market prices and by 5.6 per cent in real terms. The comparable figures in 1956 were 7.2 and 4 per cent respectively. The real increase in the income was thus greater last year than it had been in 1956, while at the same time, owing to the greater stability of prices, the difference between the increase in real terms and in money terms was smaller.

Private consumption (table 3) continued to expand along the same lines as in past years, rising by 4.2 per cent in real terms, as against 4 per cent in 1956. The greater increase in the gross

TABLE 3

Private consumption

Items	Value (billions of current lire)		Percentage change		
	1956	1957	Value	Quantity	Prices
Bread and grains	1,072	1,088	1.5	1.4	0.1
Meat, fish, eggs and dairy produce	1,756	1,864	6.1	3.8	2.3
Oils and fats	426	396	- 6.9	4.2	- 10.6
Potatoes, vegetables and fruit	932	1,012	8.6	7.6	0.9
Coffee, cocoa, sugar and other foodstuffs	426	428	0.6	2.0	- 1.4
Alcoholic beverages	668	668	—	3.5	- 3.4
All foodstuffs and beverages	5,280	5,456	3.4	3.8	- 0.4
Tobacco	432	457	5.6	5.6	—
Clothing and other personal effects	1,067	1,131	5.9	3.7	2.1
Housing, fuel and electric power	531	600	13.0	5.1	7.5
Durable household goods	187	205	9.6	11.2	- 1.4
Purchases of means of transport	133	133	0.2	- 2.9	3.3
Transport, communications and tourism	914	991	8.4	5.2	3.0
Public entertainment and other recreational and cultural expenditures	524	552	5.3	3.8	1.4
Miscellaneous	856	924	8.0	5.1	2.8
Total	9,924	10,449	5.3	4.2	1.0

national income compared with the previous year was thus applied mainly to stepping up investments and reducing the foreign trade deficit in respect of goods and services. Total fixed investment rose by 11 per cent in terms of current values and by 7.6 per cent in real terms (table 4).

Investment in industry and in building and public works showed a marked increase both in real and in money terms. On the other hand, there was a decline in investment in transport and communications—a decline which was spread over nearly all the branches of this sector (post, telephone and broadcasting network; railroads; motor vehicles)—the sole exception being

TABLE 4

Gross Investment

Sector	Value (billions of current lire)		Percentage change		
	1956	1957	Value	Quantity	Prices
Agriculture.	373	402	7.8	4.8	2.9
Industry	945	1,077	14.0	9.9	3.7
Transport and communications	498	494	- 0.8	- 2.4	1.6
Building	827	927	12.1	8.2	3.6
Public works	240	283	17.9	13.8	3.6
Other	163	198	21.5	17.8	3.1
Total fixed investment.	3,046	3,381	11.0	7.6	3.2
Change in inventories.	105	75	—	—	—
Total	3,151	3,456	9.7	6.3	3.2

investment in shipping and airways, which went up by 29.5 per cent.

Gross national saving (equivalent to gross domestic investment plus or minus the net external surplus or deficit in the balance of payments on current account) came to 3,493 billion lire compared with 3,151 billion in 1956 — an increase of 10 per cent on the year.

II. *Production*

Agriculture.— Agricultural production was 2.8 per cent greater than in the previous year. Bad weather conditions, which had seriously affected output in 1956, also caused considerable damage in 1957, hitting in particular our two main products — wheat and wine.

The frosts in the first ten days of May arrested the growth of wheat, falling especially hard on the crops in the central and northern regions. The grape harvest suffered not only from the frosts, but also from the prolonged drought in the southern regions. Climatic conditions were also unfavorable for other important crops.

If the adverse weather conditions are borne in mind, the agricultural results for last year seem more remarkable, although it

should be remembered that output had contracted in 1956 by comparison with 1955.

Despite the generally bad weather, production in 1957 was almost equal to that in 1953 and 1955—the best agricultural years Italy has ever known. Nevertheless, the production indexes—both the ordinary indexes and those adjusted by taking two-year moving averages—show that there has been a distinct slowing-down of the rate of growth since 1953.

A slackening in the last few years is clearly evidenced by the slower rate of development of certain inputs: fertilisers, insecticides, selected seeds, fodder concentrates, mechanical implements, etc. As only rather limited use is at present made of these materials, it can safely be stated that this slowing-down of the rate of growth is not in accordance with the basic law of development.

The use of chemical fertilisers was extended during 1956/57, rising by about 2 per cent, which is roughly equivalent to the increase in 1955/56 but considerably below that in the previous years. The development of the use of selected seeds was approximately the same as in 1956.

The mechanisation of agriculture made further progress, though it, too, proceeded at a slower pace than some years ago. Total purchases of mechanical equipment in 1957 decreased further, by nearly 6 per cent, both in money and in real terms, though prices remained practically unchanged. This decrease applied to purchases of tractors as well as of other machines; fuel consumption remained at the same level as in 1956.

Nevertheless, total investment in agriculture increased appreciably — by 7.8 per cent in money terms and by 4.8 per cent in real terms. This rise is particularly remarkable if one remembers that real investment declined by 2 per cent in 1956.

The decline in investment in mechanical equipment—tractors, various types of machinery and tools—was offset by a notable increase in longer-term investment, including works of land reclamation and improvement, due primarily to investments effected by the land reclamation agencies and by the Cassa per il Mezzogiorno. There was also an increase in invest-

ments made by farmers with Government assistance. Actual expenditure on reclamation was nearly equal to that undertaken in 1956, but showed a slight decrease in real terms.

Account must, however, be taken of the noticeable increase in livestock holdings, which was made possible by the good fodder yields. If this is done, an improvement is observable in the pattern of investment, since there was a more balanced relationship between investment giving more immediate returns and longer-term investment.

The pattern of development in the past year reveals a more definite trend towards livestock production. The increase in the production of cattle, for which demand is highly elastic in relation to income, and the improvement in livestock holdings might be an indication that farmers are preparing to take advantage of the great opportunities which economic development is opening up in this respect.

Finally, it should be mentioned that, in spite of the smaller grape harvest, the agricultural yields in the southern and insular regions of Italy were much better, in comparison with the previous year, than were those in the rest of the country, owing to the excellent hard-wheat crop, the rich olive crop and the good fruit harvest (especially the harvest of nuts). In the previous year agricultural production in the South had registered an increase, whereas that in the other regions had shown a decline.

It is reasonable to assume that the recent trend of agricultural production in the South is attributable, at least in part, to factors of a permanent nature and that it is evidence of a development in the direction of increased productivity related to the progressive realisation in these regions of works of land reclamation and improvement undertaken or initiated by the Government.

Industry.— The year 1957, taken as a whole, was characterised by the marked expansion of industrial production, following the notable advances already made in the preceding years.

The index of production, calculated on the basis of annual data, rose from 128 in 1956 (1953 = 100) to 137 in 1957, thus showing an increase of 7 per cent, which is the same as that recorded between 1955 and 1956. If building activity (which rose by 46 per cent on 1953 and by 9 per cent on 1956) is included in the calculation, the overall index works out at 138 and the increase in 1957 compared with 1956 comes to slightly over 7 per cent.

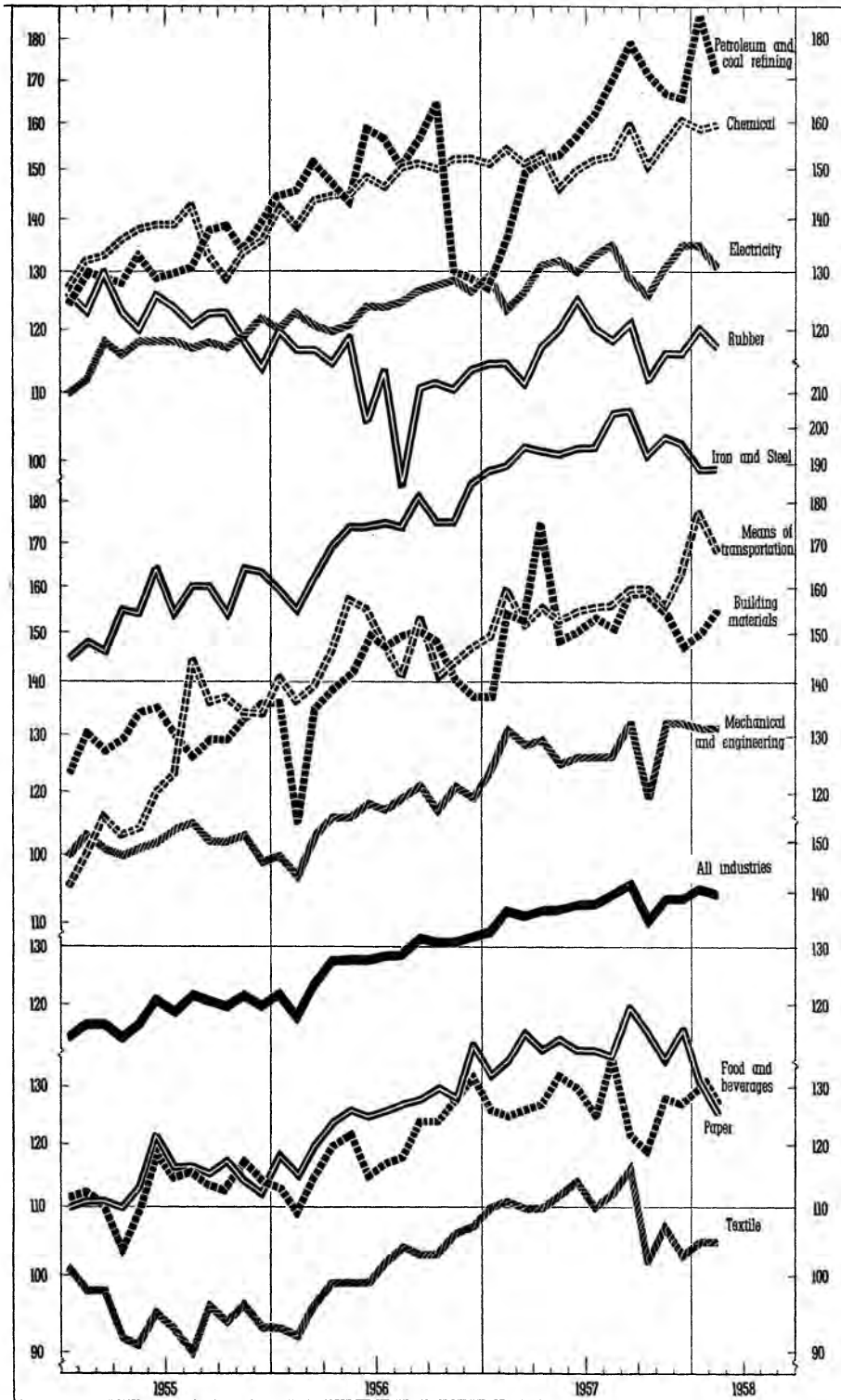
Unlike the previous year, however, when the rise in production from December to December was greater than that shown by a comparison of the annual averages, the increase achieved in the course of 1957 amounted to only 5.3 per cent, while the average annual rise was approximately the same as in 1956.

Looking at the pattern of industrial production in the course of the past two years—and disregarding temporary fluctuations due to special circumstances—it may be seen that there was an almost uninterrupted increase throughout 1956 and the first three quarters of 1957, followed by a weakening of the trend in the last few months of 1957 and first two months of 1958. In the 21-month period from December 1955 to September 1957 the aggregate index of industrial production rose by 18 per cent, i.e. by the equivalent of 10 per cent per annum; in the more recent period the index has remained more or less stable at an average level of 139 (chart 2).

In the three main sectors of basic materials for use in industry (fuel, power, chemicals, rubber), capital goods and consumer goods the movement recorded in the production indexes between December 1955 and September 1957 was scarcely different from that shown by the aggregate index. The index of basic materials for use in industry and the index of capital goods showed almost parallel movements; the increase in the index of consumer goods, however, was slightly smaller (chart 3).

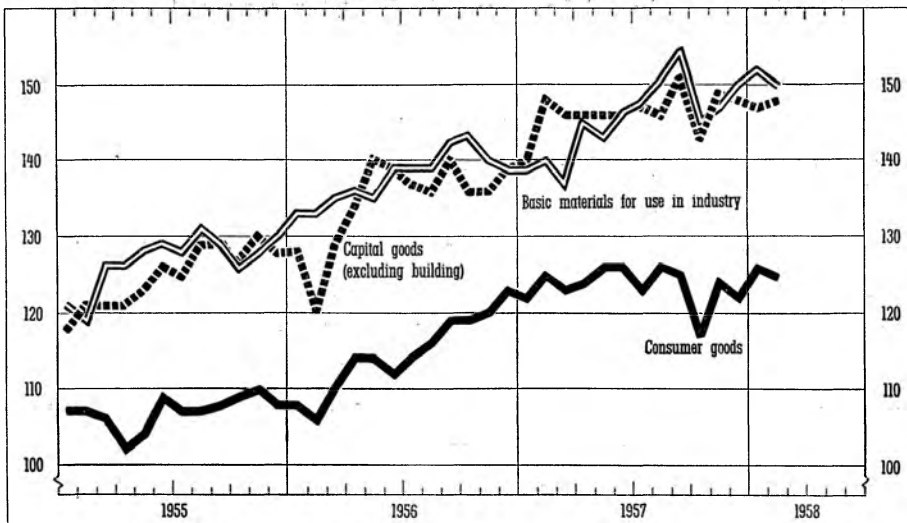
The slight slowing-down of industrial activity in the last quarter of 1957 was evidenced by similar movements of roughly the same magnitude in all the three major branches of production.

CHART 2



Production in principal branches of industry, adjusted for seasonal movements
(1953 = 100; logarithmic scale)

CHART 3



Production of capital goods, of consumer goods,
and of basic materials for use in industry, adjusted for seasonal movements
(1953 = 100)

In the first two months of this year there was a recovery in the consumer-goods sector, so that the index returned to the level it had reached in September, whereas the other two sectors were stationary. Between September 1957 and February 1958 the aggregate index actually fell very slightly—by 1.4 per cent—below its peak, as a result of a decline of 2.6 per cent in the index of basic materials and one of 2 per cent in the index of production of capital goods. These changes are too small for them to be regarded as pointers to a possible reversal of trend. They indicate rather a period of waiting after almost two years of rapid advance, just as we have experienced similar periods from time to time in the course of industrial development in the past decade.

Turning now to examine the pattern of industrial production in the last two years, on the basis of variations in the average annual indexes, we can observe a slackening of the rate of growth in the case of basic materials (a reduction from 8.7 to 5.1 per cent), compared with a slight increase in the tempo of growth in industries producing capital goods (7.1 to 8.2 per cent) and a practically even rate of development in the consumer-goods sector (7.5 to 7.8 per cent).

The slower rate of increase in 1957, compared with 1956, observable in the index of basic materials for use in industry was a common feature in nearly all the industries grouped together in this index, the sole exception being rubber, which staged a partial recovery after its sharp fall in 1956.

The increase which occurred in the capital-goods sector was ascribable to both building activity and metallurgical-engineering and was stimulated by the vigorous demand on the home and foreign markets. Output in the building industry showed an increase of 9 per cent in 1957 on the previous year, both residential construction and public works playing a part in this increase. Iron and steel production went up by 13 per cent last year, against 10 per cent in 1956.

In the group of mechanical-engineering industries there was an average rise in production of 10 per cent, thanks to favorable developments in the sectors of metal frames and structures for use in building, metal furniture, office machines, machine tools and in some lines of operating equipment.

There was an average increase of 7 per cent in the production of means of transport. Activity in shipyards continued to expand at a steady rate, increasing by a further 24 per cent, and considerable rises were shown in industries producing motor-cycles (11 per cent) and passenger cars (9 per cent), where output was encouraged by the strength of foreign demand.

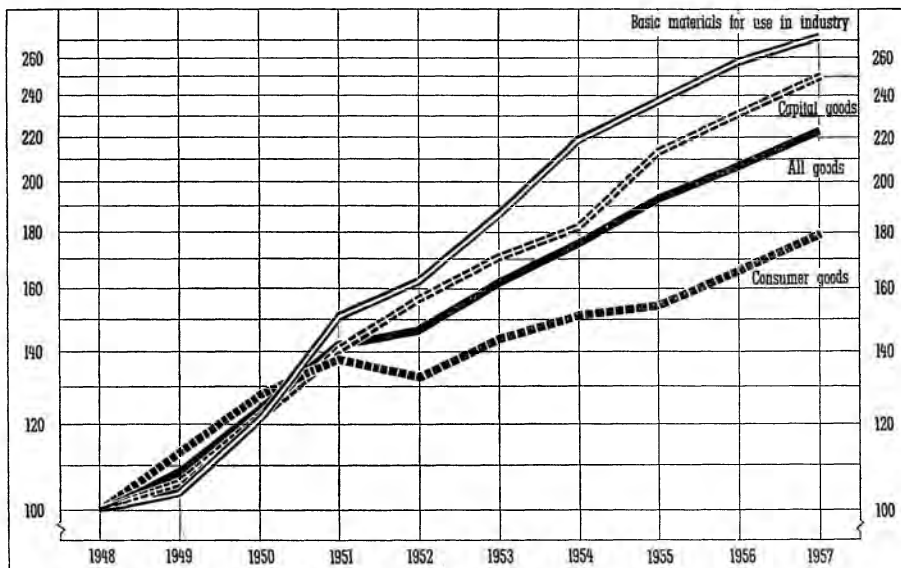
In the consumer-goods sector the 8 per cent increase registered in the index between 1956 and 1957 was attributable mainly to the recovery in the leather and shoe industry (13 per cent) and in the textile industry (9.5 per cent), which were both able to increase their exports to foreign countries, and to the further development of the paper industry (10 per cent).

Improvements of the order of 6 per cent were also shown by the food and furniture industries and those branches of the mechanical-engineering industry that produce durable household goods.

Looking back at the path of industrial progress in Italy since 1948 (by which date the phase of postwar reconstruction can be held to have virtually come to an end), one can see that

production (in manufacturing, mining and power) has shown a very remarkable upswing in this period; in fact, if the year 1948 is taken to equal 100, the index had reached the level of 223 by the middle of 1957, which implies an average annual rate of increase of 9.3 per cent (chart 4). Moreover, it is important to note that this marked rise was an almost continuous development. With the exception of 1952, when the Korea boom was in its declining stage and the increase was down to 3.4 per cent, every other year has shown a rate of growth of more than 7 per cent, though there has been an inevitable gradual falling-off corresponding to the decline in the level of unutilised reserves of productive capacity and in that of unsatisfied demand for certain categories of goods.

CHART 4



Annual indexes of production in the three principal branches of industry
(1948 = 100; logarithmic scale)

The greatest contribution to the increase in the overall index was made by the sector producing basic materials for use in industry. Production of capital goods also rose more than the total index, showing an increase of 150 per cent in the period, or the equivalent of 10.7 per cent per annum. In the consumer-goods sector the rate of development was slower.

III. *Prices*

Wholesale prices.— The general level of wholesale prices fell slightly in 1957. The index of the Central Institute of Statistics (Istat), which had shown a rise of 3.7 per cent in 1956, declined by 1.3 per cent between the end of 1956 and the end of 1957. In the first two months of 1958 there was a further drop in the index (0.9 per cent), so that by February the level of wholesale prices was 2.2 per cent lower than it had been in December 1956.

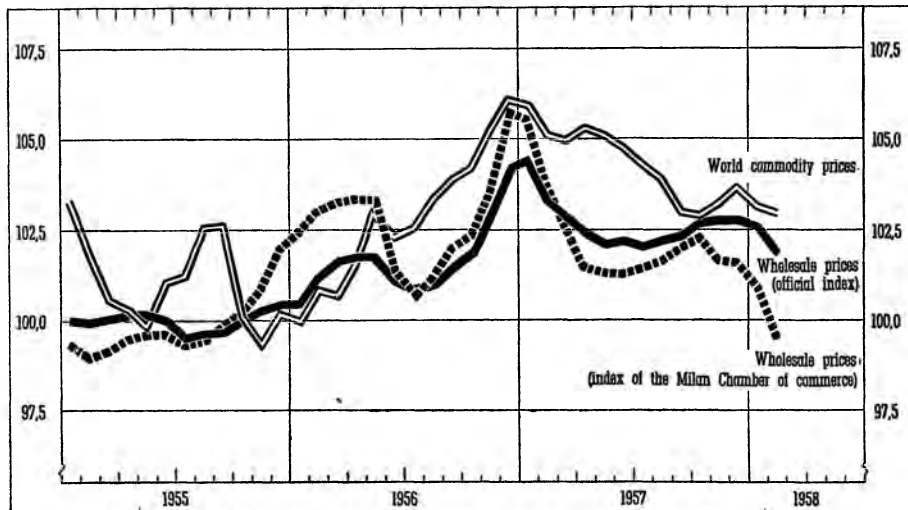
The fall in the level of prices in 1957 was mainly due to a reduction in prices for industrial products (1.8 per cent), although prices of foodstuffs were also a little lower (0.7 per cent) at the end of the year than they had been a year earlier.

It is worth noting that the trend of prices was not uniform throughout the year. The rise in the autumn of 1956, attributable to international events, continued up to January 1957 and subsequently gave way to a decline—at first rather rapid and then slow—which lasted until July, by which time wholesale prices had returned to their pre-Suez level. In fact, the Istat index stood at the same level in July 1957 as it had done in October 1956. In the second half of the year, however, there was a recovery, although only a very slight one.

Generally speaking, and without overlooking the significance of domestic trends, it can be said that world events had a marked effect on the trend of wholesale prices in 1957, just as in 1956. The slight drop in the level of prices in 1957 appears to be attributable in the main to the reduction in raw-material prices on the world markets (chart 5).

The fall in the general level of wholesale prices up to July 1957 was above all due to the considerable reduction in the prices of foodstuffs. The development from July 1957 onwards was the result of a scissors-like movement, with the appreciable rise in the prices of agricultural products contrasting with the general fall in other prices.

CHART 5



Indexes of domestic wholesale prices and world commodity prices
(1953 = 100)

At the beginning of the period the reduction applied mainly to vegetable products, the prices of which dropped by 12 per cent, whereas in the case of livestock and processed food the overall decline amounted to 1-2 per cent. The subsequent recovery likewise affected the prices of vegetable products, which rose by 10-11 per cent between July and February 1958.

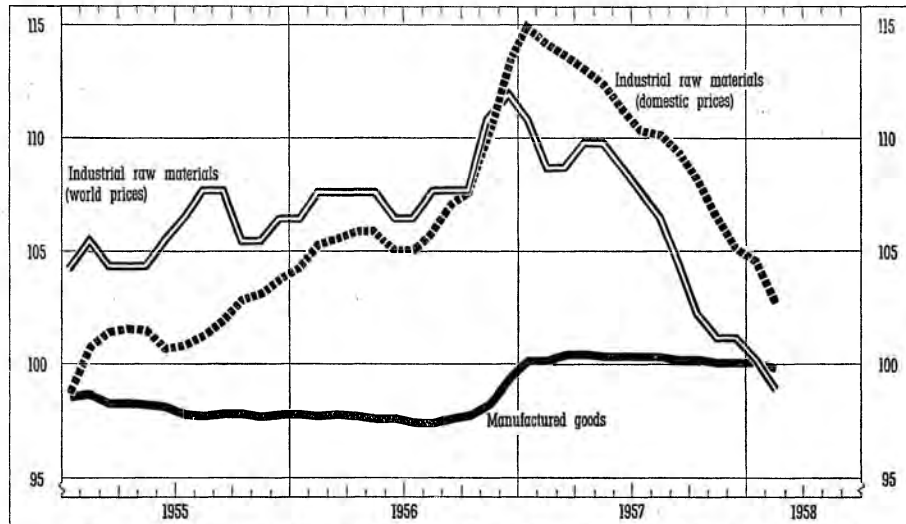
On the domestic market the prices of industrial raw materials moved in line with world market prices. The similarity between the two trends appears even greater if the incidence of freight rates on domestic prices is taken into account. The decline in domestic prices, like that in world prices, was fairly limited in the period from December 1956 to July 1957 (2.7 per cent), but became more pronounced in the following period (6.9 per cent).

Up to the autumn of 1956 the improved efficiency of the productive apparatus served not only to cancel out the increase in the cost of industrial raw materials connected with the rise in world market prices, but also to reduce, albeit slightly, the prices of manufactured products.

The upswing of prices of raw materials in the autumn of 1956 was, however, transferred in part to the prices of manufactured products, as the increase in productivity was not suffi-

cient to cover the rise in the prices of raw materials and in the costs of labor. The subsequent fall in these prices in 1957, although considerable, was reflected to a very small extent (0.5 per cent) by the prices of manufactured products only at the end of the year and in the first months of 1958 (chart 6).

CHART 6



Indexes of domestic wholesale prices for industrial materials and products, and of world-market prices for industrial materials (Volkswirt) (1953 = 100)

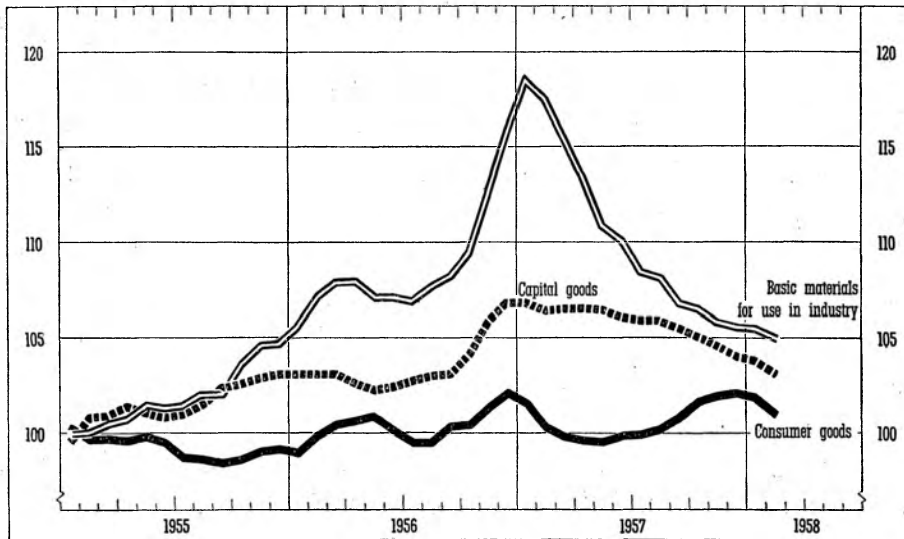
The greater stability of the general level of domestic prices in comparison with that of world prices in the period from July 1957 to February 1958 thus appears to be due also to the marked stability of the prices of manufactured products other than food.

The prices of consumer goods stood at the same level at the end of 1957 as at the end of the previous year. In the first half of 1957 the overall level of these prices fell, but it subsequently rose again in the second half of the year, both movements being due to the trend of foodstuff prices referred to above.

The level of the prices of capital goods (metallurgical and mechanical-engineering materials and products, building materials, timber, plate-glass), which had risen by 3 per cent in 1956, fell by about 2 per cent in 1957, the decline being mainly attributable to the fall in raw-material prices related to the trend on the world market.

There was a distinct downward trend in the prices of basic materials for use in production, the prices of which had risen by about 10 per cent in 1956. The decline between the end of 1956 and the end of 1957 amounted to approximately 9 per cent, equivalent to the previous rise, and was brought about, in effect, by reductions in the prices of coal and petroleum (chart 7).

CHART 7



Price indexes of consumer goods, of capital goods,
and of basic materials for use in industry
(1953 = 100)

Retail prices and the cost of living.— In the first half of 1957 retail prices tended to fall slightly, subsequently rising fairly sharply in the second half, so that they were 2.2 per cent higher at the end of the year than they had been a year earlier.

Retail prices in general scarcely changed for more than a year (from May 1956 to June 1957), remaining practically stable at the previous level. During these 13 months, and in particular in the first half of 1957, a fall—of 2.3 per cent—in the retail prices of foodstuffs offset the increase in the prices of other consumer items and of services. More recently, however, between June 1957 and February 1958, the rise in the retail prices of foodstuffs has steadily pushed up the general level of prices.

Of the total rise—of 2.7 per cent—in the level of retail prices during this period, two-thirds was attributable to articles of

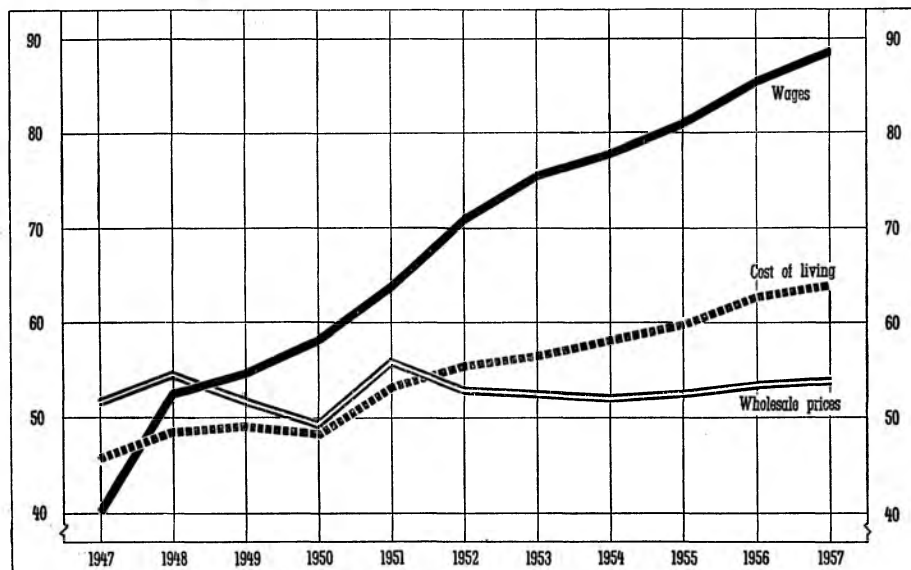
food and one-third to other items. The increase in the retail prices of foodstuffs—3.4 per cent in all—was due in the first place to the rise in the price of fruit and in the second place to rises in the prices of all types of livestock products (meat, fish, milk, dairy produce and eggs).

The national index of the cost of living, which, like that of retail prices, stood at the same level in June 1957 as in May 1956, rose between June 1957 and February 1958 by 3.9 per cent, i.e. by more than the other index rose in the same period. The difference between these increases can be ascribed mainly to the item «housing», which is influenced to a greater extent in the cost-of-living index by the increases in controlled rents and which is, moreover, weighted more heavily in that index.

The trade union index, which serves as the basis for the sliding scale for industrial wages, rose by one point in the two 3-month periods, February to April and August to October, and by another two points in the period from November 1957 to January 1958.

Last year, as in previous years, the gap between retail and wholesale prices tended to become wider (chart 8).

CHART 8



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

IV. *Foreign Trade*

Undoubtedly the most salient feature of Italy's foreign trade in 1957 was the further stepping-up of the rate of expansion of the country's exports; the increase over 1956 worked out at 18.4 per cent, both on the basis of current values and also—having regard to the essential stability of the average price level—in real terms, which was considerably greater than the rate of development in any previous year. Imports, too, showed a marked rise (14.2 per cent) and, in terms of absolute value, grew more than exports; even if account is taken of the fact that price changes helped to raise values, the real increase is still notable, amounting to about 9-10 per cent.

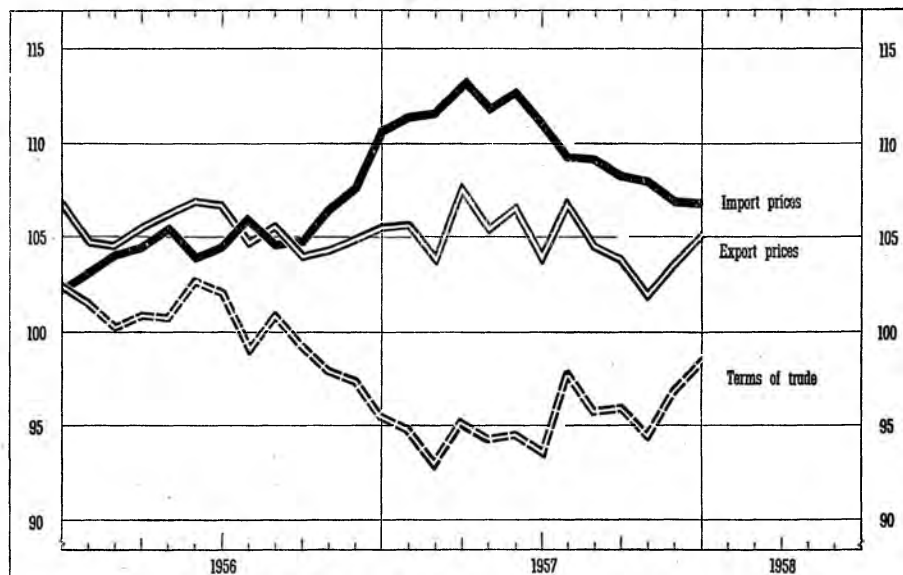
The growth in both streams of trade was thus greater than that in the other items that are usually taken as a measure of the economic progress of the country.

The commercial trade deficit—at 679 billion lire—was 5.6 per cent greater in 1957 than in 1956 and was the largest recorded since the war; nevertheless the ratio of exports to imports (70 per cent) was the highest since the three-year period 1949-51.

Over the year as a whole there was a considerable deterioration in the terms of trade (chart 9); but for this, the trade deficit would have diminished rather than increased by comparison with 1956. It should be noted, however, that this deterioration, in so far as it was caused by an increase in the cost of freights, did not lead to greater net expenditure in foreign exchange, since part of the additional cost was paid in lire to our own shipping companies.

A study of the total value of foreign trade in each of the major commodity groups reveals that the changing pattern of Italian foreign trade reflects the economic development of the country. Apart from see-saw movements in our trade of food products, small annual surpluses or deficits succeeding each other, heavy deficits in respect of basic materials and semi-manufactured goods in non-food industries, partially offset by credit balances in respect of trade in finished goods, are well-

CHART 9



Monthly indexes of import and export prices, and terms of trade
(1953 = 100)

defined structural features of Italy's postwar trade. This development has never been modified or retarded and it thus seems to be becoming increasingly pronounced; in 1957, a deficit of 1,000 billion lire in the sector of raw materials and semi-manufactured goods was coupled with a surplus of 314 billion in respect of finished products, whilst trade in foodstuffs was practically in equilibrium.

Imports of food products rose by 5.3 per cent in value between 1956 and 1957. While there were fluctuations in the trade figures for most commodities—slight upward and downward movements largely offsetting each other—expenditure on livestock, carcase meat, fish and eggs increased further, totalling 133 billion in 1957 and thus doubling in value in the course of three years.

The rise in exports of foodstuffs was far greater than that in imports. With an increase on 1956 of 73 billion, they totalled 382 billion in 1957, which is equal to 24 per cent of the overall figure for Italian exports.

About 85 per cent of this increase (63 billion) was, however, ascribable to circumstances of an exceptional nature, namely

to the existence at the end of 1956 of stocks of soft wheat and sugar greatly in excess of the normal domestic requirement, which were brought down to normal dimensions by means of exports. But a further quite sizable increase (20 billion) took place in the fruit sector. Following the changes in the volume of production, which underwent appreciable fluctuations—in part owing to climatic conditions—exports of individual items in this sector showed considerable rises and falls, though continuing to increase their overall contribution to the balance of trade.

In the textile sector imports rose by 61 billion lire on 1956, to a total value of 335 billion (table 5). The advance of 22.3 per cent, which is somewhat greater than the average overall growth of imports, was largely due to an increase in supplies of greasy wool, which rose by approximately 42 billion (or 60 per cent) in value and by 44 per cent in volume, and of rags, which rose by 6 billion in terms of value and 30 per cent in volume. Imports of raw cotton, effected at lower prices than in 1956, showed a limited rise in volume (3.4 per cent).

TABLE 5

Composition of Italy's Foreign Trade by Commodities

(billions of lire)

Commodities	Imports (cif)					Exports (fob)				
	1953	1954	1955	1956	1957	1953	1954	1955	1956	1957
Food and beverages	294	234	303	357	376	228	252	262	309	382
Textiles	273	266	244	274	335	221	211	226	243	271
Metallurgical goods	161	180	222	283	340	43	45	63	102	108
Mechanical and engineering products.	223	226	226	243	286	192	202	254	309	408
Fuel.	289	309	339	399	480	92	114	105	109	116
Chemicals	61	74	89	114	111	52	66	78	86	95
Rubber	23	25	37	38	38	12	14	18	18	19
Hides and skins . .	30	29	26	32	39	16	16	22	29	39
Paper	21	26	30	34	40	3	5	6	7	7
Wood and cork . .	45	54	64	71	75	11	13	16	17	17
Other	93	101	114	139	147	72	86	110	112	126
Total . . .	1,513	1,524	1,694	1,984	2,267	942	1,024	1,160	1,341	1,588

In line with the increase in the supply of raw materials, the rise in exports of woollen and worsted yarns and woven fabrics was appreciable, accounting for more than half of the total increase in value of exports from the textile sector (approximately 28 billion). Although there was a fairly general expansion in sales of textiles, the percentage increase over 1956 in textile exports (11.5 per cent) was still considerably less than that in total exports.

The improvement in iron and steel production led to a further marked upswing in imports of scrap iron and iron ores, which amounted to 2.8 and 1.7 million metric tons respectively. The increase in the volume of imports of raw materials was coupled with a marked growth in imports of semi-finished goods, which was greater in terms both of quantity and of value, than the comparable rise in exports. In the sector of non-ferrous metals, too, considerable quantitative changes took place—mostly in an upward direction; expenditure on these did not rise, however, as purchases were made at prices sometimes considerably below those obtaining in 1956.

In the sector of iron, steel and metallurgical materials and products, taken as a whole, imports rose by 20 per cent in value, whereas exports only increased by 6 per cent.

In the mechanical-engineering industries, on the other hand, the rise in exports (32 per cent) was far greater than that in imports (17.7 per cent). The growing importance of mechanical-engineering products in Italy's export trade was particularly evident in 1957; whereas up to 1954 the overall contribution of this sector had ranked third in order of magnitude, coming after that of foodstuffs and textiles, and had subsequently been second only to that of foodstuffs, in 1957 it took over the lead and accounted, in terms of value, for more than one quarter of Italy's total exports.

On the other hand, it should be noted that although textile exports have been steadily decreasing in volume and exports of mechanical-engineering products have been growing continuously, the former still account for a considerably greater and the latter for a considerably smaller proportion of total exports

than is the case in other highly industrialised countries. There would thus appear to be further room for expansion of Italian exports of mechanical-engineering products.

The rise in the value of exports of mechanical-engineering products between 1956 and 1957 amounted to about 100 billion lire. The whole range of products in this group participated in the total increase, about half of which was concentrated in means of transport, following the further development of sales of motor-cycles and automobiles, and an expansion of exports of ships.

Imports of hard coal, crude oil and other petroleum products accounted for two-thirds of the 48 million metric tons of foreign goods imported into Italy in 1957. It was on these goods arriving for the most part by sea — that the change in cif values resulting from the movement of freight rates was largely centred, and on these also that it became most noticeable.

As regards the geographical pattern of Italy's foreign trade, the relative importance of the different outlets did not change to any significant extent in 1957 (table 6). It is, however, noteworthy that it again proved difficult last year to achieve the same degree of success in sterling area markets as in those of the rest of the world. The United Kingdom and its dependencies and the other sterling area countries have, in fact, for some time been absorbing less of Italian exports; between 1953 and 1957 their share in Italy's foreign trade was reduced from 20 to 15.4 per cent.

On the other hand, Italy is steadily penetrating the markets of Central and South America (excluding Argentina and Brazil), making greater progress in this field than it has done, on an average, in other directions. A significant rôle in this expansion was played by Venezuela, which imported greater quantities not only of steel and machinery but also of food, textiles and other commodities.

Trade with the group of eastern European countries grew in intensity last year; in fact, trade with the USSR developed most, purchases by us of large quantities of petroleum products

TABLE 6

Distribution of Italy's Foreign Trade by Areas

(percentage)

Areas	Imports (cif)					Exports (fob)				
	1953	1954	1955	1956	1957	1953	1954	1955	1956	1957
EEC countries and overseas dependencies	23.5	26.0	25.3	23.4	23.0	22.0	23.0	24.7	26.8	26.5
United Kingdom, Ireland and dependencies	12.3	12.4	11.5	11.7	10.7	11.9	11.6	10.4	9.2	9.0
Rest of sterling area	14.8	14.4	13.1	12.6	9.8	8.1	7.6	5.6	6.9	6.4
Other OEEC countries	15.9	15.6	15.3	14.9	14.3	23.1	24.0	22.5	21.2	21.5
<i>EPU</i>	<i>66.5</i>	<i>68.4</i>	<i>65.2</i>	<i>62.6</i>	<i>57.8</i>	<i>65.1</i>	<i>66.2</i>	<i>63.2</i>	<i>64.1</i>	<i>63.4</i>
US and Canada	14.8	13.0	16.0	17.6	20.4	10.4	8.6	9.5	10.4	10.2
Argentina and Brazil	4.2	3.8	4.3	3.4	3.4	3.9	4.9	5.2	3.5	3.4
Other American countries	2.7	2.1	2.4	3.3	3.4	3.5	4.7	4.9	5.4	5.7
<i>America</i>	<i>21.7</i>	<i>18.9</i>	<i>22.7</i>	<i>24.3</i>	<i>27.2</i>	<i>17.8</i>	<i>18.2</i>	<i>19.6</i>	<i>19.3</i>	<i>19.3</i>
<i>Eastern Europe</i>	<i>1.9</i>	<i>2.6</i>	<i>2.5</i>	<i>2.4</i>	<i>3.0</i>	<i>3.9</i>	<i>3.5</i>	<i>3.1</i>	<i>3.2</i>	<i>3.9</i>
<i>Other countries</i>	<i>9.9</i>	<i>10.1</i>	<i>9.6</i>	<i>10.7</i>	<i>12.0</i>	<i>13.2</i>	<i>12.1</i>	<i>14.1</i>	<i>13.4</i>	<i>13.4</i>
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

having been matched by greater exports to the USSR of mechanical-engineering products and substantial quantities of sugar.

As far as imports are concerned, there were some notable changes in the sources of supply last year. As suppliers, as well as purchasers, the sterling area countries have gradually been declining in importance within the framework of Italian trade; in 1957 the blockage of the Suez Canal and of the Mediterranean pipelines caused a sharp drop in imports of crude oil from Iraq, so that, despite a considerable increase in purchases of Australian wool, imports from the sterling area—and consequently from the whole group of EPU countries—declined to an even greater extent.

The reduction in the volume of trade with the sterling area was compensated for by increased trade with countries from

which substitute purchases of petroleum products were made, as well as with the United States and Canada.

Imports from North America amounted to 463 billion lire, accounting for one-fifth of total Italian imports; this represented a rise of 32 per cent compared with 1956 and was due, for the most part, to increased purchases of wheat, cotton, scrap and coal. In the case of coal, the considerable reduction in freight rates in the second half of the year made it more advantageous to procure supplies from America than from Europe, and purchases from that source were consequently stepped up appreciably. Our exports to the United States, however, increased between 1956 and 1957 at a rate slightly below the average; nevertheless, it must be borne in mind that over the longer period from 1950 to 1957 exports to this market trebled in value, developing in relatively the same manner as exports to Germany.

International Transportation, Foreign Travel and Emigrants' Remittances.— According to our estimates, the item transportation (by land, sea and air) in the balance of payments showed a deficit of 54 million dollars at the end of 1957, against nearly 10 million in 1956.

The chief reason for this deterioration in the deficit was the increase in the demand for shipping services for the transport of goods, which was greater than the increase in the transport capacity of the Italian fleet. In fact, the increase in the contribution of the Italian fleet, although considerable (408 million dollars in 1957, against 353 million in 1956), was less than the rise in total expenditure on the transport of goods into Italy.

Foreign tourism in Italy continued to develop; 14.6 million foreign visitors entered the country in 1957 — an increase of almost 2 million over 1956 and the highest figure yet achieved, in absolute terms, within the space of one year. It should be noted, however, that according to estimates made by ENIT the number of tourists entering Italy on day trips was 6.7 million in 1957, which represents 46 per cent of the total inflow of tourists, against 20 per cent in 1948.

Figures regarding permanent emigration from Italy reveal a slight falling-off in the number of emigrants, by comparison with the high level reached the previous year. Against a reduction in overseas emigration, there was a marked increase (36 per cent) in permanent European emigration, so that this actually exceeded overseas emigration — traditionally the more important stream. This increase in the flow of emigrants towards Europe is almost entirely accounted for by a rise in the number of emigrants to France. Seasonal emigration rose in 1957 to its highest level since the war — 170 thousand persons.

There was an increase of 28 per cent on the year in the total of emigrants' remittances flowing into Italy through official channels, which amounted in all to 231 million dollars. Of this sum, 107 million is shown in the balance of payments as unilateral transfers from emigrants permanently resident abroad and 124 million as income from workers temporarily employed abroad.

Trade and Foreign Exchange Policy.— During the period under review Italy pursued its policy of relaxing restrictions in regard to its foreign trade and payments relationships.

A Ministerial Decree, dated 25th June 1957, raised the degree of liberalisation of goods from the dollar area (List A Imports) from 40 to 71 per cent of total private imports. The liberalisation percentage is now 57 in the case of agricultural products, 90 in that of raw materials and 46 in respect of finished goods.

The cautious attitude of the authorities towards dollar liberalisation has, however, been considerably relaxed. In fact, dollar sources were always fully utilised for supplies of raw materials, whereas in the case of less essential goods fairly liberal criteria were generally applied in the granting of licences, so that the theoretical difference between restrictions vis-à-vis the EPU area and those in regard to the dollar area has never corresponded to the actual difference.

In the field of the multilateralisation of payments our country has resolutely pursued the objective of abolishing existing bilateral payments agreements on their expiry.

Having joined the Hague Club and the Paris Club in the course of 1956, two multilateral payments systems for the settlement of transactions with Brazil and Argentina respectively, Italy concluded multilateral lire agreements with almost all countries with which it had previously had bilateral agreements — the sole exceptions being Albania, Ecuador and Paraguay, with which countries, however, arrangements are already being made to put the present agreements on a multilateral basis or on the basis of settlements in freely convertible currencies; as regards Israel, the new system was applied unilaterally.

Under a provision made by the Ministry of Foreign Trade, dated 25th July 1957, countries with which settlements were formerly made on a bilateral basis are to be allowed to import without licences a large number of commodities, almost all falling under the heading of basic materials (List C Imports).

When the bilateral agreements were terminated, provision was made for settling the balances on the various accounts: if these were credit balances in favor of Italy, they were consolidated and a system was devised for their amortisation; if they were debit balances, the counterpart sum was credited to multilateral lire accounts.

The transition from the bilateral to the multilateral system, which began in August 1956, involved an extension of the task entrusted to the banking system of furnishing credit facilities in support of foreign trade; the freedom to grant and receive bank credits, which was already enjoyed by EPU countries, was extended to Argentina and Brazil at the time the multilateral system was applied. In connection with the policy of making this system more general, the freedom to grant and receive credit lines was extended in September 1957 to all countries with which bilateral agreements were in force. At the same time this facility was also accorded to countries in the dollar area, where previously specific ministerial authorisation had been required, so that it now applies to all countries.

The banks were authorised to open credits for exporters, either with their own funds or in foreign currencies supplied by the Foreign Exchange Office, for the financing of goods consigned abroad for sale.

To encourage Italian exports of special supplies of capital goods sold on deferred terms of payment, more funds were placed at the disposal of the Mediocredito for the granting of rediscounts and advances to institutions and banks authorised to offer medium-term credit in respect of such transactions.

The measures adopted in 1957 applied not only to the establishment of credit facilities but also to export credit guarantees. In fact, the proportion of the guarantee that could be undertaken by the Government was raised from 70 to 85 per cent (Law No. 1198 of 3rd December 1957), as it turned out that private insurance companies did not make use of the opportunity, offered by the previous law, to undertake the so-called « collateral insurance », equal to 15 per cent of the credit.

Between the beginning and the end of 1957 the Mediocredito financed export credits to the extent of nearly 46 billion lire, principally in respect of transactions with Venezuela, Yugoslavia, Turkey, Indonesia and Poland.

Finally, new foreign exchange regulations were introduced, as from February 1958, in regard to ordinary foreign accounts and deposits. Of the three categories of such accounts—those of countries with convertible currencies, of EPU countries and of other countries—the first two were grouped under one heading of « foreign capital accounts and deposits », whereas the third remained, but will tend to disappear and gradually flow into the newly created accounts as the programme of abolishing bilateral payments agreements is realised. At the same time the range of in- and out-payments for which these accounts may be used has been extended.

Moreover, certain restrictions—applying to accounts of residents of countries with convertible currencies or of EPU countries—in regard to the identity of the currency area of the account-holder and the beneficiary were dropped. The merging of the two areas made it possible for residents in these countries to convert EPU currencies into free currencies on the Italian market. Such transactions are to be effected at market rates linked with the world market quotations for notes.

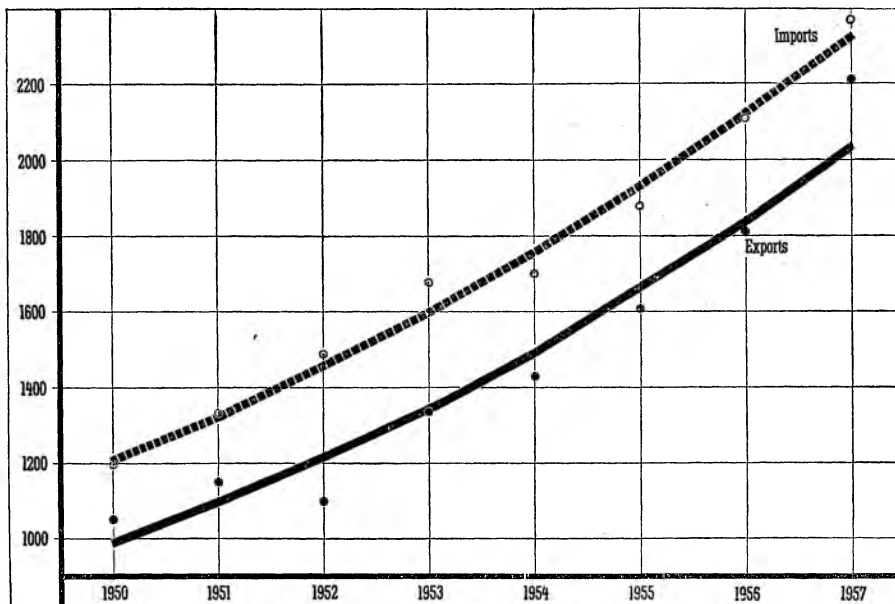
V. *The Balance of Payments*

Exports of goods and services (excluding military transactions) rose by 23 per cent in 1957 by comparison with the previous year (table 7). Trade with foreign countries played a large part in promoting the expansion of economic activity in Italy; even if adjustments are made to take account of changes due to the price factor, the growth in exports was still of the order of roughly 400 billion lire, which is equal to half the increase in the volume of Italy's gross national product.

The favorable development of our export trade was partly attributable to unusual circumstances; but it was largely due to the rise in workers' remittances, to larger supplies of Italian equipment to countries in process of industrialisation, and to the supply of high-quality products and of tourist services, the demand for which is specially apt to expand when incomes are rising (chart 10).

The marked increase in exports of goods and services that took place in 1957 was largely cancelled out by a rise of 372 bil-

CHART 10



Foreign trade in goods and services
(observed values and trend in billions of lire at 1953 prices)

Overall Balance of Payments (1)
(millions of dollars)

Items	Credit		Debit		Balance	
	1956	1957	1956	1957	1956	1957
A. Goods and Services						
Goods (fob)	2,083.0	2,469.9	2,814.8	3,224.9	- 731.8	- 755.0
Transportation	398.7	452.6	408.3	506.6	- 9.6	- 54.0
Insurance	37.8	35.5	23.4	32.0	14.4	3.5
Foreign travel	256.9	381.0	41.7	58.3	215.2	322.7
Investment income	37.6	60.0	64.7	85.4	- 27.1	- 25.4
Workers' remittances	79.3	116.1	7.8	10.8	71.5	105.3
Government services ⁽²⁾	39.7	64.3	40.3	40.0	- 0.6	24.3
Miscellaneous	143.7	207.0	76.3	113.9	67.4	93.1
<i>Total</i>	<i>3,076.7</i>	<i>3,786.4</i>	<i>3,477.3</i>	<i>4,071.9</i>	<i>- 400.6</i>	<i>- 285.5</i>
B. Unilateral Transfers						
Emigrants' remittances	101.3	115.2	-	-	101.3	115.2
Other donations	89.7	116.6	-	-	89.7	116.6
Reparations	-	-	16.5	15.3	- 16.5	- 15.3
<i>Total</i>	<i>191.0</i>	<i>231.8</i>	<i>16.5</i>	<i>15.3</i>	<i>174.5</i>	<i>216.5</i>
C. Total of A + B	3,267.7	4,018.2	3,493.8	4,087.2	- 226.1	- 69.0
D. Government Donations						
Offshore procurements and military services .	130.9	123.7	10.2	0.2	120.7	123.5
Grants	10.9	-	0.2	-	10.7	-
<i>Total</i>	<i>141.8</i>	<i>123.7</i>	<i>10.4</i>	<i>0.2</i>	<i>131.4</i>	<i>123.5</i>
E. Total of C + D	3,409.5	4,141.9	3,504.2	4,087.4	- 94.7	54.5
F. Movement of Capital ⁽³⁾ ⁽⁴⁾						
Contractual repayments	-	-	44.0	85.0	- 44.0	- 85.0
Foreign borrowing and lending:						
<i>a) Public</i>	<i>- 5.3</i>	<i>5.0</i>	<i>- 37.9</i>	<i>- 159.5</i>	<i>32.6</i>	<i>154.5</i>
<i>b) Private</i>	<i>-</i>	<i>-</i>	<i>- 26.8</i>	<i>- 14.6</i>	<i>26.8</i>	<i>14.6</i>
<i>c) Banking transactions</i>	<i>- 2.3</i>	<i>- 10.3</i>	<i>- 24.6</i>	<i>- 90.8</i>	<i>22.3</i>	<i>80.5</i>
Investments abroad and from abroad	12.9	11.9	- 104.2	- 79.5	117.1	91.4
Assets abroad	- 106.4	- 234.2	2.4	51.5	- 108.8	- 285.7
<i>Total</i>	<i>- 101.1</i>	<i>- 237.6</i>	<i>- 147.1</i>	<i>- 207.9</i>	<i>46.0</i>	<i>- 29.7</i>
G. Lags between trade and exchange data ⁽³⁾						
1. Commercial items not financed in foreign exchange	- 130.6	- 157.0	- 164.9	- 160.7	34.3	3.7
2. Lags between imports and payments ⁽⁵⁾ . .	- 2.7	- 54.9	-	-	- 2.7	- 54.9
3. Lags between exports and receipts ⁽⁶⁾ . .	57.1	49.1	-	-	57.1	49.1
<i>Total</i>	<i>- 76.2</i>	<i>- 162.8</i>	<i>- 164.9</i>	<i>- 160.7</i>	<i>88.7</i>	<i>- 2.1</i>
H. Errors and omissions					- 40.0	- 22.7

(1) The data for 1957, 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 1957*.

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

(3) The credit column indicates changes in assets abroad; the debit column changes in liabilities to foreign countries. For lags between the movements of goods and of foreign exchange (items G 2 and G 3) 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) In addition to the items which make up the total for capital movements shown in the foreign exchange account (table 11), the overall balance of payments includes the following: *a)* the repayment in lire of liabilities towards foreign countries; *b)* the change in the balance of certain clearing and other foreign accounts held at the Bank of Italy; *c)* the change in the balance of the lire counterpart fund available to the US Government for administrative expenditure; *d)* the change in the lire liability for the importation of agricultural surplus goods; *e)* the change in the foreign exchange claims and liabilities of commercial banks; *f)* transfers to foreigners of Italian property abroad on war reparation account; *g)* transactions effected through ordinary lire foreign accounts.

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

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

lion lire in imports. Of the total goods and services supplied to Italy by foreign countries, 79 per cent was accounted for by purchases of goods (fob values), 12 per cent by transport services and the remainder by capital transfers and miscellaneous services.

The increase in imports of goods and services in 1957, compared with 1956, amounted to 17 per cent in money terms, whereas in real terms it was 13 per cent, the rise in foreign prices having caused an increase of nearly 90 billion in costs (excluding, of course, higher costs in respect of transport effected by the Italian merchant marine).

The impact of the world recession on the Italian economy is not yet apparent in the field of the export of goods and services, although sales to the United States eased off somewhat in the second half of the year compared with the high rate of increase achieved in the previous months; but it is probably discernible in changes in the behavior of the business sector—a more cautious attitude having been adopted in the formation of stocks.

Despite the cessation of Government grants, receipts in respect of unilateral transfers increased considerably between 1956 and 1957, as emigrants' remittances rose (from 101 to 115 million dollars) and grants in kind, distributed largely by relief organisations, also increased (from 90 to 117 million). With reparation payments remaining stable (16 million), this increase was sufficient to cover the smaller deficit in respect of goods and services, leaving a surplus of nearly 54 million dollars in the balance of payments on current account, against a deficit of 95 million in 1956.

Of the total inflow of capital in 1957, 174 million was in the form of foreign loans; more than 91 million was accounted for by an extension of foreign bank credits and 112 million by foreign investments (table 8).

The contribution of public loans, which amounted to 160 million dollars, was more than quadrupled compared with the previous year, owing to larger imports of US agricultural surpluses, the raising of the credit amount granted to the Cassa

TABLE 8

Gross Inflow of Foreign Capital
(millions of dollars)

I t e m s	1 9 5 6	1 9 5 7
<i>A. Treasury borrowing ⁽¹⁾</i>		
Cassa del Mezzogiorno - IBRD loan	16.7	49.4
IMI-Eximbank loan	—	15.4
Agricultural surplus loans (short-term)	21.2	72.7
» » » (long-term)	—	22.0
Total	37.9	159.5
<i>B. Private borrowing</i>		
ECSC loans	6.4	1.0
Foreign lira accounts	1.0	12.4
Other	19.4	1.2
Total	26.8	14.6
<i>C. Foreign investment</i>		
In convertible currencies	87.1	72.5
In EPU currencies	12.1	17.2
In lire	24.1	22.5
Total	123.3	112.2
<i>D. Banking transactions</i>		
Utilization of foreign credit lines.	6.5	25.0
Credits granted by Italian banks to customers	21.2	66.2
Total	27.7	91.2
Grand total	215.7	377.5

(1) Includes loans guaranteed by the Treasury.

per il Mezzogiorno by the IBRD and new loans supplied to the IMI by the Eximbank.

The amount of private loans, by contrast, was nearly halved in value compared with 1956—falling to approximately 15 million dollars. Then account must be taken of gross investments on ordinary lire foreign accounts (now called foreign capital accounts), which totalled 23 million dollars in 1957—i.e. almost the same sum as last year.

The proportion of total available funds supplied through the utilisation of foreign credit lines and bank credits in foreign exchange was more than three times as great as in 1956, largely

as a result of an extension of transactions with the United States and the OEEC countries (with the exception of the United Kingdom, with which country such operations were reduced slightly).

Against the growing inflow of foreign capital mentioned above, there was also a greater outflow, both in the form of debt redemption and of disinvestment (table 9).

TABLE 9

Gross Outflow of Foreign Capital
(millions of dollars)

Items	1956	1957
<i>A. Repayment of foreign loans</i>		
War surplus	8.6	13.5
Eximbank.	7.4	8.8
Purchase of Liberty ships	6.8	3.7
Argentina (long-term)	2.5	1.5
Lombardo Agreement	1.9	3.6
Mediocredito (Switzerland)	2.5	2.5
IMI-ERP	1.3	1.3
Cassa del Mezzogiorno - IBRD	0.2	0.3
IBRD (18% lire quota)	6.4	5.4
Agricultural surplus (short-term)	5.8	31.4
Foreign capital accounts in lire	0.6	13.0
Total	44.0	85.0
<i>B. Foreign disinvestment</i>		
In convertible currencies	1.7	8.1
In EPU currencies	3.0	3.5
In lire	14.4	21.1
Total	19.1	32.7
<i>C. Banking transactions</i>		
Accounts with the Bank of Italy.	3.1	0.4
Grand total	66.2	118.1

On balance, movements of foreign capital resulted in a net inflow of 259 million dollars, against 150 million in 1956.

Details of foreign exchange receipts and payments, according to settlement currencies and on a cash basis, are given in table 10.

TABLE 10

Foreign Exchange Accounts

(millions of dollars)

Items	Convertible currencies		EPU currencies						Other currencies		Total	
			Sterling		Common Market currencies		Others					
	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957
<i>Current transactions</i>												
<i>Receipts:</i>												
Exports (fob)	444.0	533.3	463.2	533.2	562.6	669.3	380.3	523.8	228.4	192.2	2,078.5	2,451.8
Freight	60.8	70.7	65.7	80.8	33.8	33.5	17.4	27.4	12.4	12.1	190.1	224.5
Foreign travel	80.1	121.4	44.9	56.5	94.4	145.7	22.7	37.0	7.3	11.8	249.4	372.4
Emigrants' remittances	62.6	64.1	36.0	38.9	52.4	79.5	2.7	4.5	0.8	0.3	154.5	187.3
Other current items	121.5	141.8	42.5	79.0	76.1	106.4	29.7	52.2	8.1	11.5	277.9	390.9
Total	769.0	931.3	652.3	788.4	819.3	1,034.4	452.8	644.9	257.0	227.9	2,950.4	3,626.9
<i>Payments:</i>												
Imports (cif)	719.0	911.3	688.2	718.0	816.8	892.5	450.7	669.0	233.7	141.3	2,908.4	3,332.1
Foreign travel	13.5	23.6	2.1	1.4	13.2	19.6	4.1	4.2	3.5	7.1	36.4	55.9
Other current items	62.6	96.1	31.0	37.9	37.6	55.4	31.6	43.7	17.4	9.5	180.2	242.6
Total	795.1	1,031.0	721.3	757.3	867.6	967.5	486.4	716.9	254.6	157.9	3,125.0	3,630.6
Balance of current transactions	- 26.1	- 99.7	- 69.0	31.1	- 48.3	66.9	- 33.6	- 72.0	2.4	70.0	- 174.6	- 3.7
<i>Movement of Capital</i>												
Receipts	124.3	114.3	7.5	4.2	12.7	19.3	1.1	10.4	0.4	0.7	146.0	148.9
Payments	17.4	41.1	1.4	1.0	0.7	0.7	1.1	1.9	1.8	1.5	22.4	46.2
Balance	106.9	73.2	6.1	3.2	12.0	18.6	-	8.5	- 1.4	- 0.8	123.6	102.7
Items pending and outstanding	12.7	20.6	31.9	17.9	- 0.2	- 5.4	- 11.3	- 8.4	- 24.2	- 43.7	8.9	- 19.0
Overall Balance	93.5	- 5.9	- 31.0	52.2	- 36.5	80.1	- 44.9	- 71.9	- 23.2	25.5	- 42.1	80.0

There was an increase of 286 million dollars in foreign exchange assets, which was due, in the main, to a surplus of 54 million in respect of current items (including offshore procurements and military services) and to a surplus on capital account of 259 million (including loans for the acquisition of agricultural surpluses); lags between trade data and cash data, together with other minor items and errors and omissions, showed a debit balance of 27 million.

In the formation of this substantial increase in foreign exchange assets a predominant part was played, as already mentioned, by exceptionally large sales of wheat and sugar to foreign countries—accounting for the equivalent of 60 million dollars, excluding barter transactions—as well as by the inflow of foreign capital in connection with the import of agricultural surpluses and with bank credits (150 million) (table 11).

TABLE 11

Foreign Aid and Changes in Foreign Exchange Assets

(millions of dollars)

I t e m s	Convertible currencies		EPU currencies		Other currencies		Total	
	1956	1957	1956	1957	1956	1957	1956	1957
Balance of recorded exchange transactions	93.5	- 5.9	- 112.4	60.4	- 23.2	25.5	- 42.1	80.0
Agricultural surplus	32.1	94.7	—	—	—	—	32.1	94.7
Offshore procurements	81.4	69.0	—	—	—	—	81.4	69.0
Military services	44.8	42.2	- 7.4	- 0.2	—	—	37.4	42.0
Total	251.8	200.0	- 119.8	60.2	- 23.2	25.5	108.8	285.7
Transfers within EPU:								
a) Accounts in EPU currencies			1.5	0.3	- 1.5	- 0.3		
b) Lire accounts			15.4	3.9	- 15.4	- 3.9		
c) Free market of notes			- 1.5	0.6	1.5	0.6		
EPU settlements in gold and dollars	- 84.3	50.1	84.3	- 50.1				
EPU agreements on consolidation and repayment	- 51.0	- 36.9	51.0	36.9				
Arbitrage transactions	12.4	2.8	- 8.1	3.0	- 4.3	- 5.8		
Change in foreign exchange assets	128.9	216.0	22.8	53.6	- 42.9	16.1	108.8	285.7

At the end of last year gross foreign assets had risen to a total of 1,558 million dollars, whereas the amount net of the deficit position vis-à-vis the EPU and other liabilities on clearing and lira accounts, reached the level of 1,394 million (table 12).

TABLE 12

Official Foreign Exchange Assets

(as of the end of the period; millions of dollars)

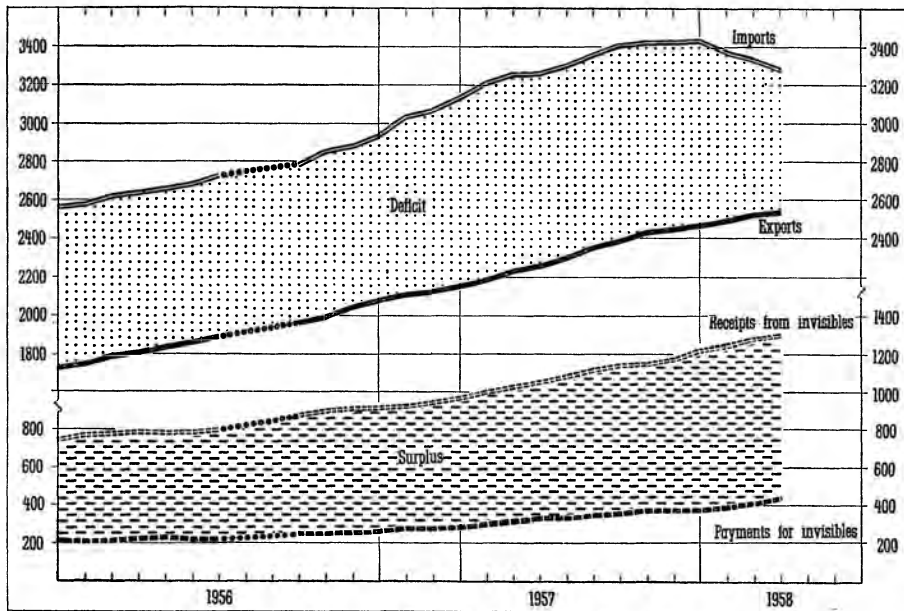
Items	1956			1957			Change		
	Gross hold-ings	Liabil-ities	Net hold-ings	Gross hold-ings	Liabil-ities	Net hold-ings	Gross hold-ings	Liabil-ities	Net hold-ings
Gold	337.4	—	337.4	451.8	—	451.8	114.4	—	114.4
Convertible currencies. .	821.4	4.4	817.0	924.8	8.3	916.5	103.4	3.9	99.5
EPU settlements (4) . . .	—	156.2	—156.2	—	102.6	—102.6	—	—53.6	53.6
Balance of clearing ac- counts and of accounts in EPU currencies not settled through the Agent	164.7	54.8	109.9	181.1	53.0	128.1	16.4	—1.8	18.2
Total . . .	1,323.5	215.4	1,108.1	1,557.7	163.9	1,393.8	234.2	—51.5	285.7

(1) The recorded balances correspond to the net position of Italy as entered in the BIS accounts; therefore they include the deficit in dollars for the month of December actually settled in the following January.

This represented the equivalent of almost 4.6 months of the country's cif imports; although showing a considerable rise, foreign exchange holdings are still, by comparison with imports, at a lower level than in 1949, when the figure was 7 months, as well as in the period from 1928 to 1929 (6 months), and are only slightly above the 1938 level (4.4 months).

The rise of 286 million in the country's foreign exchange reserves in the course of 1957 was further accentuated in the first quarter of 1958, so that in the 12-month period from April 1957 to March 1958 the foreign exchange reserves increased by the exceptional sum of 391 million dollars (chart 11).

CHART 11



Current items of the balance of payments
 (12-month totals of cash data as of the end of each given month; millions of dollars)

VI. Government Finance

The Administrative Budget.— The fiscal year 1956/57 closed with a deficit of 170 billion lire (net of public debt operations amounting to 91 billion), which was 147 billion below the figure estimated at the beginning of the period and 153 billion below the deficit at the end of the previous financial year. The considerable reduction that occurred in the course of the year was almost entirely due to changes in the « current » section.

Revised estimates for the current fiscal year put the deficit (calculated net of indebtedness) at 278 billion lire, which is 58 billion greater than the figure in the initial estimates and 108 billion higher than the deficit at the end of the year 1956/57.

Initial estimates for the year 1958/59 forecast a deficit of 195 billion lire (net of public debt transactions) — i.e. 25 billion less than the initial estimates for 1957/58 and 83 billion less than the revised estimates for that year. The difference is wholly attributable to a reduction in the deficit in the current section as the result of a greater increase in revenue than in

expenditure. In the « movement of capital » section expenditure on debt amortisation is put at 322 billion, of which 314 billion is in respect of the redemption of 9-year Treasury bonds 1959 and 8 billion in respect of the repayment of other debts; this total includes 20 billion to be applied to the sinking fund for Treasury bonds falling due in the future.

It may be seen from table 13 that the amount of expenditure covered by receipts in the 1958/59 budget is proportionally higher than it was in the preceding years (with the exception of 1956/57). Expenditure on investments is also at a higher level; consequently, in view also of the smaller size of the deficit, the excess of such expenditure over the latter, i.e. the proportion of public savings applied to financing investment, is greater.

TABLE 13

Government Finance

(administrative budget; billions of lire)

Financial years	Net revenue (1)	Net expenditure (1)	Ratio of revenue to expenditure %	Total net deficit			Investments
				Current section	Capital movements	Total	
1954/55	2,344	2,736	85.7	— 308	— 84	— 392	519
1955/56	2,547	2,870	88.7	— 294	— 29	— 323	478
1956/57	2,862	3,032	94.4	— 141	— 29	— 170	488
1957/58	2,939	3,217	91.4	— 258	— 20	— 278	552
1958/59	3,159	3,354	94.2	— 135	— 60	— 195	563

(1) Corresponds to the current section together with capital movement items, excluding offsetting transactions and public debt operations.

The Cash Budget.— A comparison of the cash budget results in the last two calendar years and the last two fiscal years shows that, from year to year, the basic features were the same, though the level of deficit was different. In both cases, while there was a smaller deficit in the current section, there was a more substantial reduction in the surplus in the movement of capital section, so that the overall deficit was greater in the later period.

In particular, in 1957 compared with 1956 there was an increase in receipts in the current section (8 per cent) propor-

tionally greater than that in payments (6 per cent). In the movement of capital section the reduction in revenue was almost entirely due to the more limited amount of 9-year Treasury bonds 1966 issued, compared with the previous year; this contraction in receipts was greater, in size, than the reduction in outpayments in the same section, considerable though this was.

The above-mentioned trend in the capital section cancelled out the improvement in the current section and led to a deterioration in the overall deficit of the order of 28 billion lire.

A calculation of the Treasury's cash requirement and an analysis of how it was financed are made in table 14 along the lines followed in previous Reports.

Altogether, the cash deficit on the administrative budget was 72 billion smaller in 1957 than in 1956, the increase in budget outpayments last year (5 per cent) being somewhat less than that in receipts (over 8 per cent). However, the contribution derived from minor Treasury items, which had been considerable in 1956, was smaller in 1957; moreover, expenditure by independent authorities and the Central Post-Office Savings Fund increased. Thus the overall cash requirement was 46 billion lire greater than in the previous year.

Less recourse was had to the domestic capital market and to the banking system in 1957, borrowing from this source falling by 59 billion lire as a result of the limited issue of 9-year Treasury bonds 1966, which was only partly offset by greater sales of Treasury bills. If account is taken, however, of loans contracted abroad by the Treasury (US agricultural surplus) and by the State railways, the above-mentioned figure of 59 billion is reduced to only 26 billion.

For the reasons stated, the Treasury withdrew 41 billion lire from the Bank of Italy in 1957, whereas the previous year it had repaid 34 billion.

Borrowing from banks was maintained, in relative terms, at approximately the same level as in 1956 (36 per cent of total borrowing from the domestic market in 1957, compared with 38 in the previous year).

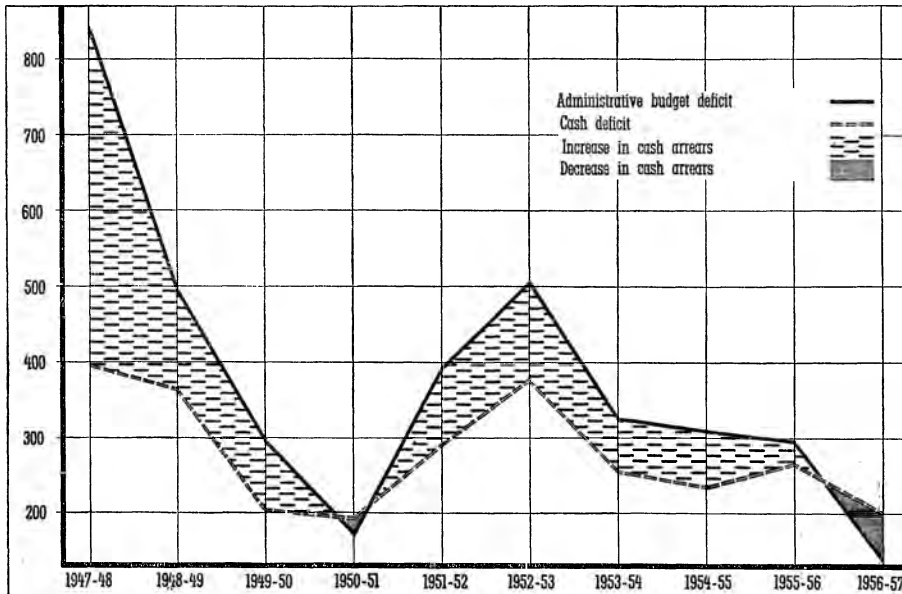
Budgetary and Extra-budgetary Treasury Operations

(billions of lire)

I t e m s	1 9 5 5	1 9 5 6	1 9 5 7
<i>Budget payments</i>	2,707	2,870	3,005
+ Sundry services on behalf of the Government	6	5	16
- Repayment of Debt	7	8	7
	2,694	2,867	3,014
<i>Budget receipts</i>	2,551	2,815	2,922
+ Balance of lire counterpart funds (a)	16	17	9
- Debt incurred	223	188	110
- State currency circulation	8	19	11
	2,304	2,591	2,810
<i>Budget deficit</i>	- 390	- 276	- 204
<i>Net increase in Treasury Indebtedness</i>	131	72	86
+ Budget funds with the Bank of Italy	3	—	1
- Floating Debt	147	18	72
Net inflow from minor Treasury items	- 19	90	13
<i>Adjusted cash deficit</i>	- 409	- 186	- 191
<i>Extra-budgetary Operations:</i>			
Expenditure by independent authorities (b)	- 40	4	- 7
Loans and investments by the Central Post-Office Savings Fund	- 80	- 109	- 139
<i>Overall cash requirement</i>	- 529	- 291	- 337
Coverage of overall requirement:			
<i>Borrowing from abroad:</i>			
US loans in respect of agricultural surplus transactions	—	17	21
Loans received by independent authorities	—	—	29
<i>Borrowing from the market and the banks:</i>			
+ Debt incurred (issue of redeemable debt)	213	182	88
- Debt repaid (medium and long-term)	7	7	6
	206	175	82
+ Floating Debt:			
Treasury bills	68	35	62
Social security institutions	4	8	2
Current accounts with banks and other institutions	22	14	2
Post-Office savings	108	110	108
+ Direct borrowing by independent authorities	72	5	6
	428	309	250
of which:			
From institutional investors and private individuals	264	191	160
From commercial and savings banks:			
Deposits and direct investments, excluding bank reserves	47	20	27
Bank reserves invested directly in Treasury bills	58	108	63
Bank reserves invested by the Bank of Italy in Treasury bills	59	10	—
	164	118	90
<i>Uninvested bank reserves</i>	4	—	45
<i>Treasury withdrawals from or deposits on (-) its accounts at the Bank of Italy Government currency (excluding currency held by the Bank of Italy and the Treasury)</i>	101	34	41
	—	1	4
	101	35	37
	529	291	337
(a) Through the difference between: Deposits	25	29	69
Withdrawals	41	46	60
(b) Financed by direct borrowing from the market.			

A progressive improvement in the administrative budget has been apparent since 1952/53. That year was the culminating point of a phase of growing deficits which had started in 1950/51, interrupting the rapid progress towards equilibrium made from 1947/48 onwards. The changes in the budget are reflected, in broad outline, in the pattern of the cash budget (chart 12).

CHART 12



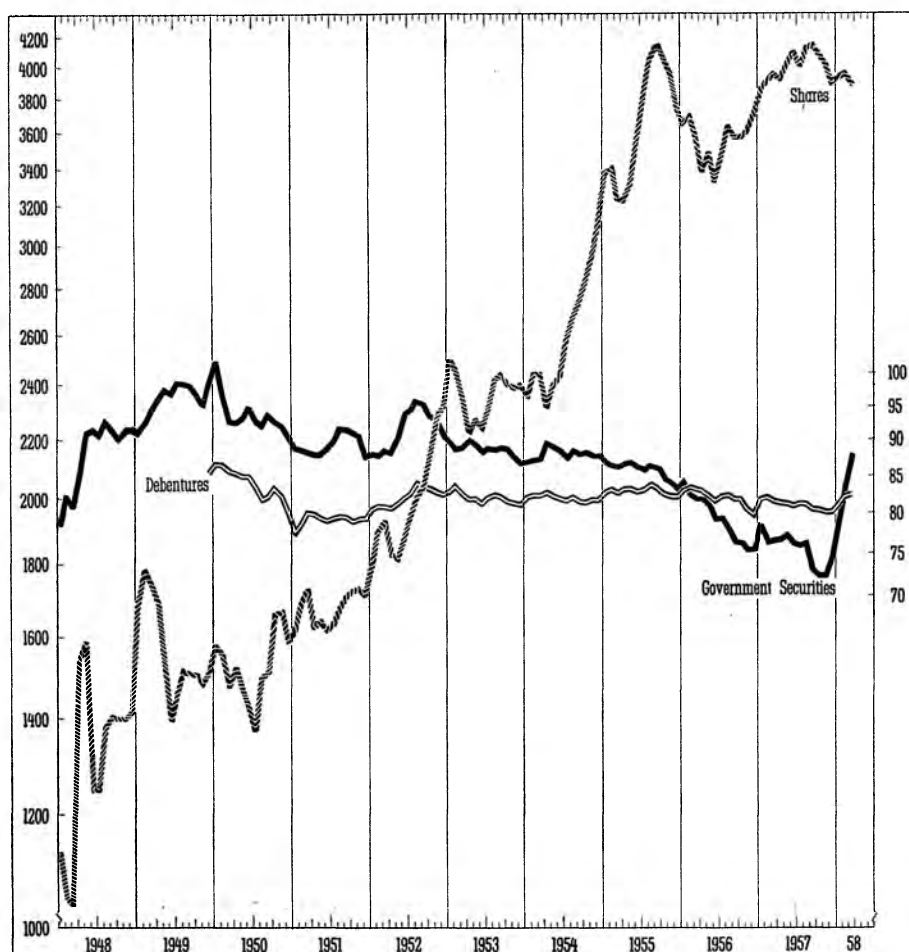
Comparison between administrative budget and cash deficits
(billions of lire)

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

Government Securities.— The downward trend of quotations for Government securities, which had been a feature of the last few years, came to an end in the final quarter of 1957. The price index of Government bonds (1938 = 100), which had declined by 8.8 per cent between December 1955 and December 1956 and which fell by a further 1.9 per cent in the first ten months of 1957, subsequently staged a recovery, rising to 74.3 in December and to 87.5 last March (chart 13).

The steady rise in the prices of funding and redeemable bonds was influenced by the Government's decision to limit sub-

CHART 13



Prices indexes of Government and other securities
(1938 = 100; logarithmic scale)

scriptions to the last issue of multi-year Treasury bonds; by keeping subscriptions to the 1966 bonds (issued at the beginning of 1957) down to a total amount of 100 billion lire, demand was shifted to other types of Government securities obtainable on the market and these thus benefited from the flow of savings that had in the past always been absorbed by the Treasury.

In December 1956 the actual yield of redeemable bonds was 7.29 per cent and that of funding bonds 6.08 per cent, whereas by December 1957 these yields had fallen to 6.95 and 5.53 per cent respectively.

On 23rd January 1958 a Decree Law was issued in respect of the 9-year 5 per cent Treasury bonds maturing on 1st April 1959. This gave holders who did not intend to cash their bonds on maturity the right to renew them before that date. At the same time a fund was set up — to be used for the gradual acquisition of 9-year Treasury bonds on the stock exchange. This fund is to be supplied by annual payments, to be made by the Ministry of the Treasury in two half-yearly instalments; the first annual payment, amounting to 20 billion lire, will be made during 1958/59 and the amount will be gradually stepped up each year until it reaches 50 billion in 1961/62.

As a result of the publication of the above-mentioned decrees the quotations for 9-year bonds rose appreciably in the early months of this year.

Other Fixed Interest Securities.— In 1957, as in 1956, the index of debenture prices followed the same general trend as the overall index of Government securities, though with less sharp fluctuations. An upward movement, which lasted through the first two months of the year, was followed by a slight downturn, but the early rise was not completely reabsorbed by December 1957; consequently, the overall price index of debentures was higher in that month than it had been in December 1956. A comparison of the indexes for the last two years reveals that there was a fall of 3 per cent in 1956, as against a rise of 0.6 per cent in 1957. In the first three months of the current year prices of debentures moved upward, though to a lesser extent than those of Government securities, and the index rose 2.7 per cent above its December level.

This trend was influenced by prices of securities belonging to the group which includes special credit institutions, IRI and ENI, while prices of industrial bonds, which carry less weight in the general index, fell by 2.5 per cent between December 1956 and December 1957, subsequently recovering in the first quarter of this year.

Bond issues, which totalled 227 billion lire in 1957 (35 billion more than in 1956), were well received in the market. Social

security institutions and insurance companies, private individuals and business firms subscribed 196 billion, as against 163 billion in 1956. The total value of debentures dealt in on the stock exchange in 1957 was 39 billion lire — i.e. 12 billion more than in 1956.

The amount of fixed interest securities issued by the Government, the special institutions, IRI and ENI in circulation at the end of 1957 was equal to 4,710 billion lire — 391 billion more than the comparable figure for 1956.

If subscriptions by banks to cover their reserve requirements (619 billion) are left out of the calculation, the social security institutions and insurance companies, private individuals and business firms are found to have increased their portfolios of such bonds; these comprised 64.3 per cent of total bonds outstanding at the end of 1957, or 1 per cent more than in the previous year.

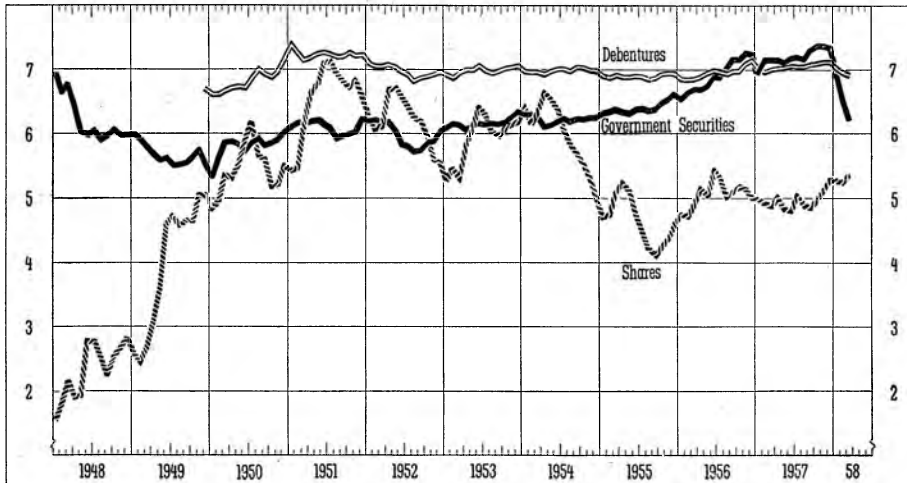
Shares.— Up to September share prices continued the recovery begun in July 1956 and the index (1938 = 1) rose to 41.4 — i.e. approximately the level at which it had stood two years earlier. Thus the losses suffered between September 1955 and June 1956 owing to expectations that the measures prescribed in Art. 17 of Law No. 1 of 5th January 1956 would be enforced were recuperated in the following fifteen months.

In the last quarter of 1957 the index of share prices fell to 39.1, but it then recovered slightly in the first quarter of the current year.

The total value of shares dealt in on the stock exchange last year was 162 billion lire, which is 54 per cent of the amount recorded in 1956, during the first half of which year forward transactions were still carried out on a large scale.

The yield of shares, which averaged 5 per cent in December 1956 rose by 0.26 per cent in 1957 (chart 14); if the increase in share prices is taken into account, however, the improvement appears greater and the yield related to December 1956 quotations works out at 5.55 per cent.

CHART 14



Yield rates of Government and other securities

Total Security Issues.— The total sum raised on the capital market from security issues was 33 billion lire less in 1957 than in 1956 (table 15).

If Government issues are excluded, the market supplied 409 billion lire in 1957, against 377 billion in 1956. Direct and indirect borrowing by businesses on the capital market thus remained at or even above the high levels attained in previous years.

The branches of production which directly drew the largest amounts from the market were the mechanical and chemical industries; considerable funds were also raised by the metallurgical, electrical-engineering and mineral oil and natural gas industries.

The Operations of Medium and Long-Term Credit Institutions.— By the end of 1957 the total amount of funds at the disposal of the special credit institutions had risen to 2,514 billion lire — an increase of 243 billion on the previous year, or 268 billion net of loans to the railways and for the financing of wheat stockpiles.

TABLE 15

New Security Issues (1)*(billions of lire)*

Type of securities	1956			1957			
	Banking system (2)	Other investors	Total	Banking system (2)	Other investors	Total	
Government {	Treasury bills (3) . . .	47.8	- 16.6	31.2	70.6	- 11.7	58.9
	Other securities (4) . . .	85.8	94.8	180.6	23.1	65.5	88.6
	Total . . .	133.6	78.2	211.8	93.7	53.8	147.5
Debentures:							
Railway	- 4.2	- 1.2	- 5.4	- 4.1	- 2.4	- 6.5	
Industrial credit institutions			79.7			73.1	
Agricultural, land and building instit.			53.5			65.2	
IRI			26.9			50.1	
ENI			19.4			21.5	
Corporations			24.4			39.4	
less Redemption			7.4			8.0	
	Total . . .	18.0	178.5	196.5	36.5	204.8	241.3
Shares			237.6			238.2	
less Duplicated items			56.7			70.1	
	Total . . .	—	180.9	180.9	—	168.1	168.1
Grand total.	147.4	436.4	583.8	126.1	424.3	550.4	

(1) Actual proceeds net of redemption.

(2) Including Central Post-Office Savings Fund.

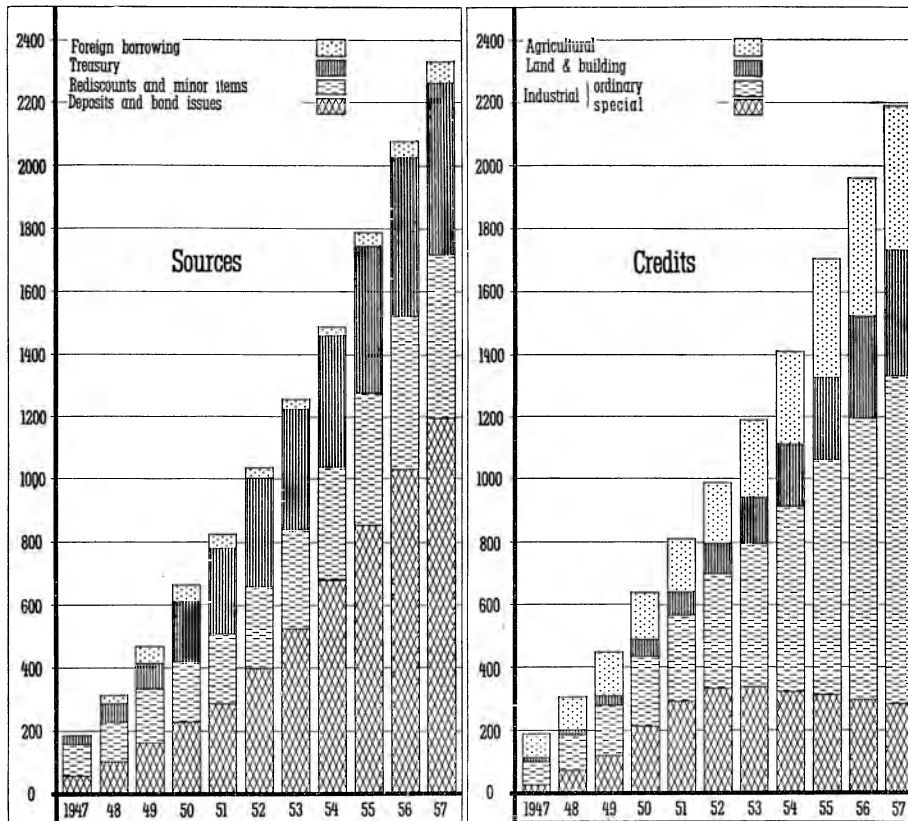
(3) Excluding special IBRD series.

(4) Excluding 9-year 5 % Treasury bonds 1962 surrendered to the Italian Foreign Exchange Office in connection with loans granted by it for imports from the sterling area ; also excluding 5 % redeemable Land Reclamation bonds issued in connection with land expropriation indemnities.

Of this increase of 268 billion, about three-fifths was accounted for by a rise in the volume of bonds in circulation. By 1957 the working capacity of the medium and long-term credit institutions was almost thirteen times as great as it had been in 1947 (chart 15).

At the end of 1957 outstanding loans by the medium and long-term credit institutions totalled 2,375 billion lire, of which 180 billion was the residual amount of the loans granted by the Credit Consortium for Public Works to the State railways,

CHART 15



Sources of funds and credits granted by the special credit institutions
(as of the end of the year; billions of lire)

whereas 304 billion was accounted for by short-term agricultural credits — 95 billion in respect of operating credits and 209 billion for the financing of wheat stocks. Of the remaining 1,891 billion, the industrial and public works sector received 1,334, the land and building sector 401, and 156 was distributed in the form of land improvement loans.

Compared with the previous year there was a greater rise both in loans in favor of industry and public works (137 billion, as against 133 billion) and in those granted to the land and building sector (72 billion, as against 64 billion); agricultural operating credits and loans for land improvement increased at almost the same rate as in the previous year.

VIII. *The Operations of Commercial Banks and Savings Banks*

The amount of bank deposits outstanding at the end of 1957 showed an increase of 682 billion lire over the year, compared with an increase of 661 billion in 1956 (table 16). The rise last year was greater in absolute terms but slightly lower in percentage terms. This smaller percentage increase was a feature common to current accounts and savings deposits both in commercial and savings banks; a slowing-down of the rate of growth became evident in the first nine months of the year and the improvement in the last quarter was not sufficient to make good the fall.

TABLE 16

Bank Deposits

(as of the end of 1957; billions of lire)

Class of banks	Savings deposits		Current accounts			Total
			ordinary	correspondence		
	demand	time		demand	time	
Banks of public law	218.6	371.8	39.5	650.6	180.0	1,460.5
Banks of national interest	183.0	244.0	56.4	687.2	152.8	1,323.4
Ordinary commercial banks.	312.0	452.8	84.1	524.3	92.1	1,465.3
Credit co-operatives	173.4	283.5	27.7	218.4	28.9	731.9
Savings banks (1)	467.2	680.9	70.2	265.7	30.9	1,514.9
Total	1,354.2	2,033.0	277.9	2,346.2	484.7	6,496.0

(1) Including first-class pawn banks.

Savings deposits rose by 484 billion and current accounts by 197 billion; the difference between the percentage increase of savings deposits and current accounts thus became greater, the rate of growth of the latter having fallen in 1957 to under half that of the former.

Total bank deposits, which had increased by 322 billion lire in the first nine months of 1957 (against 376 in the corresponding period of 1956), rose by 359 billion in the last quarter of the year, or by 74 billion more than in the last quarter of 1956.

Savings banks, which collect more than one-third of the savings deposits of the banking system, showed a greater rate

of increase than the other credit institutions. The trend that had been observable over the previous three years was thus continued last year too, though the movement was less marked.

Although the percentage increase in time deposits was smaller in 1957 than in 1956, it was almost twice as great as the general average, as the size of these accounts increased in relation to other forms of deposits. Although the stability of deposits was thus greater, the burden on the banks was at the same time increased on account of the higher interest allowed on time deposits. More recently, in a period of greater bank liquidity (in 1957 the ratio of new loans to new deposits was 62.3 per cent, compared with 94.7 per cent in 1956), a reduction in rates of interest receivable is further narrowing down the margin between the total cost of deposits and the yield received from the loans.

In contrast to the trend of bank deposits, Post-Office savings rose slightly more in 1957 than in 1956. This modest improvement in the development of Post-Office deposits followed a sharp drop in 1953, when the interest rate on postal bonds was reduced. By the end of 1957 funds held in Post-Office savings books and interest-bearing bonds had increased by 107 billion lire, which is equivalent to 7.4 per cent of the amount outstanding a year earlier, whereas in 1956 the increase had been 94 billion (6.9 per cent) (table 17).

TABLE 17

Post-Office Deposits
(as of the end of the year)

Type of deposits	Changes in				Amount outstanding at the end of 1957 (billions of lire)
	1956		1957		
	billions of lire	per cent	billions of lire	per cent	
Savings books	24.7	15.0	28.4	15.0	217.7
Interest-bearing bonds	69.0	5.8	78.9	6.2	1,346.3
Current accounts	54.9	19.8	22.1	6.7	353.9
Total . . .	148.6	9.1	129.4	7.2	1,917.9

Post-Office current accounts rose by 22 billion lire in 1957; of this amount, only 2 billion was attributable to increases in private accounts, the remaining 20 billion representing greater deposits by the Government or other public authorities — largely in connection with pension payments.

An analysis of changes in the regional totals for bank deposits shows that although the percentage increases were substantially lower than in 1956 only in north-western Italy, the extent of the reduction and importance of the deposits in that region led to a contraction in the overall rate of increase.

In the regional group comprising Puglia, Basilicata, Calabria and Sicily the increase in 1957 was 20 per cent, compared with 12 per cent in 1956.

Post-office savings, which rose, on a national average, more than in 1956, also showed a percentage decrease in north-western Italy.

As regards the total amount of deposits (including bank current accounts), it can be said that the increase was lower in those industrial regions affected by the slowing-down in the accumulation of cash holdings by businesses, while the improvement in last year's harvest encouraged the formation of savings in the predominantly agricultural regions.

TABLE 18

Statutory Reserves and Bank Deposits
(as of the end of the period; billions of lire)

Period	Statutory reserves					Deposits and current accounts	Percentage ratio of reserves to deposits
	Cash	Treasury bills	Total	Percentage composition			
				Cash	Treasury bills		
1955 - December . .	508.1	448.6	956.7	53.1	46.9	4,041.5	23.7
1956 - March	535.4	442.3	977.7	54.8	45.2	4,056.6	24.1
» - June	472.1	528.8	1,000.9	47.2	52.8	4,151.0	24.1
» - September . .	517.5	505.7	1,023.3	50.6	49.4	4,286.7	23.9
» - December . .	500.5	555.8	1,056.3	47.4	52.6	4,511.9	23.4
1957 - March	528.3	558.9	1,087.3	48.6	51.4	4,532.8	24.0
» - June	536.3	565.8	1,102.1	48.7	51.3	4,585.2	24.0
» - September . .	547.8	572.8	1,120.6	48.9	51.1	4,699.6	23.8
» - December . .	545.2	618.7	1,163.9	46.8	53.2	4,981.0	23.4

Statutory reserves deposited with the Bank of Italy aggregated 1,164 billion lire at the end of 1957 and were equal to 23.4 per cent of total bank deposits — the same percentage as in 1956 (table 18). Of this amount, 46.8 per cent consisted of cash reserves and 53.2 per cent of securities — for the most part Treasury bills; this represented a reduction in the percentage of cash, compared with 1956, and an increase in that of securities.

Investments in securities by commercial and savings banks rose from 1,407 billion lire at the end of 1956 to 1,534 billion at the end of 1957 — an increase of 127 billion, as against 153 billion in the previous year (table 19).

TABLE 19

Bank Investments in Securities

(as of the end of the year; billions of lire)

Type of security	Commercial banks		Savings banks		Total		
	1956	1957	1956	1957	1956	1957	
Treasury bills	609.0	681.9	1.4	1.4	610.4	683.3	
Other Government securities	321.6	320.5	142.5	159.5	464.1	480.0	
Debentures {	Railway	25.5	23.6	38.2	37.4	63.7	61.0
	Agric., land and building	14.5	17.4	39.3	49.7	53.8	67.1
	Special credit institutions	52.1	59.8	135.4	148.6	187.5	208.4
	Other	8.8	10.8	0.6	1.6	9.4	12.4
Shares	17.5	21.1	0.3	0.4	17.8	21.5	
Total	1,049.0	1,135.1	357.7	398.6	1,406.7	1,533.7	

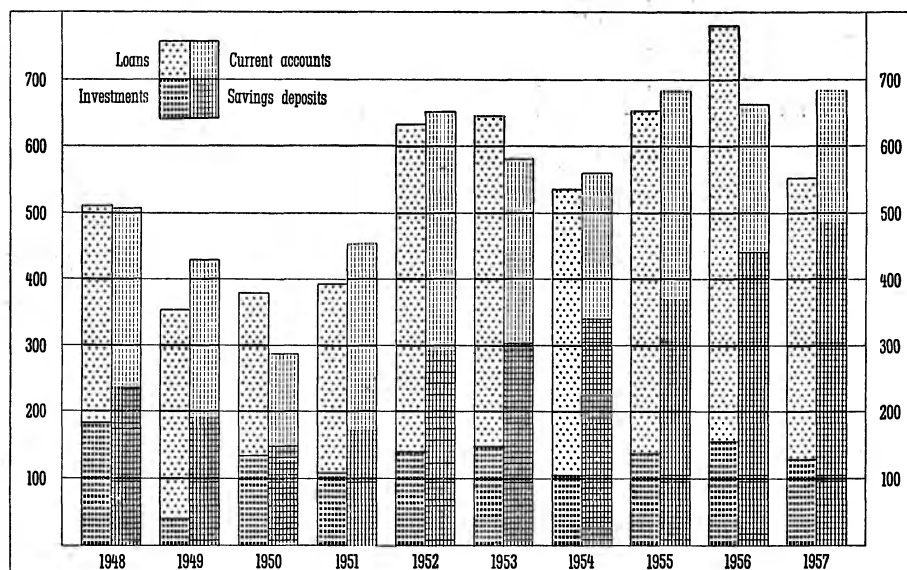
As far as the composition of the portfolios of each category of bank is concerned, there was a definite preponderance of Government securities in those of the commercial banks, which held large amounts of Treasury bills mainly for statutory reserve purposes, while two-thirds of the portfolios of the savings banks consisted of bonds of the medium and long-term credit institutions.

Bank loans and advances (excluding investments in securities and lending abroad or in foreign currencies) amounted to 4,882 billion lire at the end of 1957 — an increase of 424 billion,

or 9.5 per cent, on the amount outstanding at the end of 1956. The rise in 1957 was smaller, in terms both of absolute values and of percentages, than that in 1956 (626 billion and 16.3 per cent); a more modest increase in comparison with the preceding year was evident in each quarter, but was more particularly noticeable in the last quarter of the year. In assessing the difference between the first half of each of the two years, it should be borne in mind that in 1956 new loans granted by the banks were almost twice as great as they had been in the corresponding period of the preceding year and that in 1957 the Treasury repaid to the banks 52 billion's worth of debts relating to wheat stockpiling in previous years. Moreover, in the second half of 1956—particularly in August-September—there was a marked expansion in stockpiling finance transactions owing to the accumulation of considerable wheat stocks.

Over the first nine months of the year, therefore, the smaller increase in loans was attributable to special circumstances, whilst the slower growth in bank loans and advances in the last quarter seems to be related to the increase in the foreign exchange reserves and the change in the economic situation (chart 16).

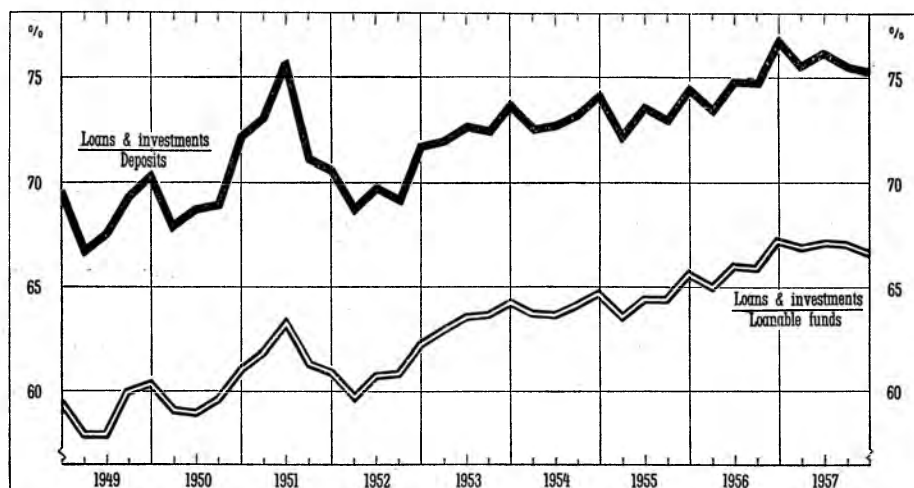
CHART 16



Bank loans, investments and deposits
(annual changes in billions of lire)

The ratio of loans to deposits, which, except during the 1951 credit squeeze, had risen almost uninterruptedly until 1956, thereafter remained practically unchanged up to September 1957, finally falling to 75.2 per cent at the end of the year, compared with 76.7 at the end of 1956 (chart 17).

CHART 17



Percentage relationship of loans and investments to deposits and to loanable funds

Loans in foreign currencies and in foreign countries, which had already developed considerably in previous years, increased further, owing partly to the policy of trade liberalisation pursued by the Government and to the simplification of exchange practices. At the end of the year loans of this type amounted to 206 billion lire, which represents an increase of 50 billion — twice as great as that for 1956. The banks supplied these loans out of funds derived from deposits of foreigners and residents authorised to hold foreign exchange accounts and by utilising foreign bank credit lines.

An examination of the commercial loans granted by the banks, as shown in the statistical survey of their distribution by branch of economic activity, reveals that during 1957 sectors other than agriculture, the foodstuffs industry and related wholesale trade received a slightly larger amount of credit than in the previous year (474 billion, compared with 461 billion).

Credits to agriculture and the foodstuffs industry, on the other hand, were down by 16 billion, as against an increase of 167 billion in 1956. The considerable change was attributable, for the most part, to the refunding by the Treasury of losses suffered in connection with wheat stockpiling in previous years and with the selling of sugar stocks to foreign markets. In addition, minor variations in several items falling under this heading also contributed to the overall decline, as stocks were lightened and smaller investments were made in agricultural machinery and equipment, for which the banks had previously provided a considerable amount of finance.

Loans to finance institutions and companies showed an exceptional rate of increase during 1957.

The smaller increase in credits for telecommunications is to be related to transactions channelled through the aforementioned finance institutions, which in part rendered it unnecessary for the telephone companies to have direct recourse to bank credit.

The mineral oil and natural gas industries borrowed slightly less from the banks than they had done in 1956 (36 billion, as against 39 billion).

The metallurgical and mechanical-engineering industries also increased their indebtedness—by 104 billion—through greater recourse to the special credit institutions. This high figure, which is as great as that two years ago, was due to the considerable expansion in production in the sector (particularly in the steel industry), which, in turn, was related to the increase in internal and external demand and the rise in the prices of raw materials.

The total amount of loans granted to the economy by the credit institutions, the insurance companies and the capital market increased by 1,151 billion lire in 1957, compared with 1,349 billion in 1956 (table 20). The smaller increase in 1957 was solely due to a reduction in the rate of growth of loans by banks and banking associations (425 billion in 1957, compared with 662 billion in 1956) brought about by certain special circumstances and in particular by disbursements on inventory financing and agricultural stocks.

TABLE 20

Total Loans

Description	1956		1957	
	Amount outstanding at end of year	Increase during the year	Amount outstanding at end of year	Increase during the year
	<i>(billions of lire)</i>			
Commercial and savings banks ⁽¹⁾	4,517.4	627.6	4,975.2	457.8
Banking associations	213.6	27.8	174.6	— 39.0
Minor credit institutions	48.9	7.0	54.9	6.0
Total . . .	4,779.9	662.4	5,204.7	424.8
Industrial credit institutions	1,196.8	133.0	1,334.1	137.3
Land and building credit institutions	328.3	64.0	400.6	72.3
Agricultural credit institutions	412.0	56.8	430.8	18.8
Total . . .	6,717.0	916.2	7,370.2	653.2
Central Post-Office Savings Fund	638.0	110.0	778.0	140.0
IRI ⁽²⁾	337.1	26.9	387.2	50.1
ENI ⁽²⁾	49.4	19.4	70.9	21.5
Total . . .	7,741.5	1,072.5	8,606.3	864.8
Bank of Italy (operations with non-bank customers).		— 2.5		— 1.9
Insurance companies (excluding securities).		81.4		88.3
Private debentures		17.0		31.4
Shares		237.6		238.2
Total . . .		1,406.0		1,220.8
less duplicated items in the issue of securities		56.7		70.1
Total . . .		1,349.3		1,150.7
Loans as indicated in the «flow of savings and the money supply»		1,273.6		1,018.0
Difference ⁽³⁾		75.7		132.7

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

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

(3) Includes loans of medium and long-term credit institutions with miscellaneous funds, loans in foreign currencies by banks, loans by minor credit institutions and statistical discrepancies.

In 1957, the total amount of finance provided by loans of the banking and insurance systems and by issues on the capital market was twice as great as in 1947.

If only loans granted by banks and insurance institutions are considered, it may be seen that the amount of these out-

standing at the end of 1957 was almost eight times as great as at the end of 1947. All the major groups of economic activity received a greater volume of credit. The amount of loans outstanding in favor of the public works and building sector (including those to public agencies) and of the group of public utility services increased elevenfold over the ten-year period. Loans to the metallurgical and mechanical-engineering industries also showed a greater rate of development than the general average and were ten times as great as they had been at the end of 1947 (table 21).

TABLE 21

**Funds supplied to the various Branches of Economic Activity
by the Credit System**

(as of the end of the year; billions of lire)

Branch of economic activity	1947			1957		
	All banks	Special credit institutions	Total	All banks	Special credit institutions	Total
Individuals and finance businesses	94.4	9.0	103.4	621.8	9.1	630.9
Public agencies, public works and building	86.7	17.0	103.7	669.3	473.7	1,143.0
Public utilities	33.3	41.9	75.2	228.3	585.7	814.0
Entertainment, retail trade and miscellaneous services	37.9	2.0	39.9	311.0	38.4	349.4
Agriculture and food	229.5	83.8	313.3	1,192.4	525.2	1,717.6
Metallurgy and engineering	75.9	26.8	102.7	760.5	282.7	1,043.2
Mining and other manufacturing industries	175.7	5.9	181.6	1,191.9	250.7	1,442.6
Total	733.4	186.4	919.8	4,975.2	2,165.5	7,140.7

Public investment totalled 987 billion lire in 1957 — an increase of 43 billion (5 per cent) on the previous year. A more considerable part of this amount was contributed last year by the local authorities, the Cassa per il Mezzogiorno and the INA, whose share more than offset the reduction in investments by the Government.

Public savings played a still greater rôle in the financing of such investments in 1957 (table 22). Direct borrowing by the public authorities was greater in 1957 and receipts of the Cassa

TABLE 22

The Finance of Public Investment

(billions of lire)

Sources	1956	1957
Current account surplus of the public authorities ⁽¹⁾	310	412
Foreign borrowing by the Treasury and independent authorities ⁽²⁾	17	50
Government securities placed on the market and minor current items in the floating debt ⁽²⁾	204	148
Post-Office savings ⁽²⁾	110	108
Railway bonds ⁽²⁾	— 5	— 6
Treasury operations with the Bank of Italy and Treasury currency in circulation ⁽²⁾	— 35	37
Finance of overall Treasury cash requirements (for budgetary and extrabudgetary operations) ⁽²⁾	291	337
Other issues of securities	19	22
Other debts of local and independent authorities	43	15
Public works directly financed by credit and insurance institutions	87	97
Total borrowing	440	471
Surplus on other items of the capital account of the public administration	122	7
Receipts of the Southern Development Fund not derived from the Government budget	42	51
Receipts of the National Insurance Institute Housing Fund not derived from the Government budget	30	46
Total	944	987

(1) As given in the official *General Survey of the Economic Situation of Italy for 1957*.

(2) See Table 14 in the chapter on Government Finance.

per il Mezzogiorno and the INA from non-budgetary sources were also greater.

A breakdown of the sources of finance of private investment is given in table 23. The increase in the volume of private investment (which rose by 12 per cent in 1957) was covered by funds supplied by the banking system and the capital market, by depreciation reserves and, to an even greater extent, by savings invested directly by private individuals and self-financing by businesses, which, together with net balances of operations with banks, showed an increase of over 13 per cent.

The Finance of Private Investment
(billions of lire)

Sources	1956	1957
Shares and debentures issued.	244	271
Loans of agricultural, land and building credit institutions ⁽¹⁾	93	102
Loans of industrial credit institutions ⁽²⁾	119	124
	456	497
less funds supplied by the Treasury to banks and credit institutions ⁽³⁾	25	22
	431	475
Loans of insurance companies ⁽¹⁾ ⁽²⁾	40	44
	471	519
Depreciation reserves	1,025	1,145
Savings directly invested by private individuals, self-financing by businesses, and net balances of operations with banks	711	805
Total . . .	2,207	2,469

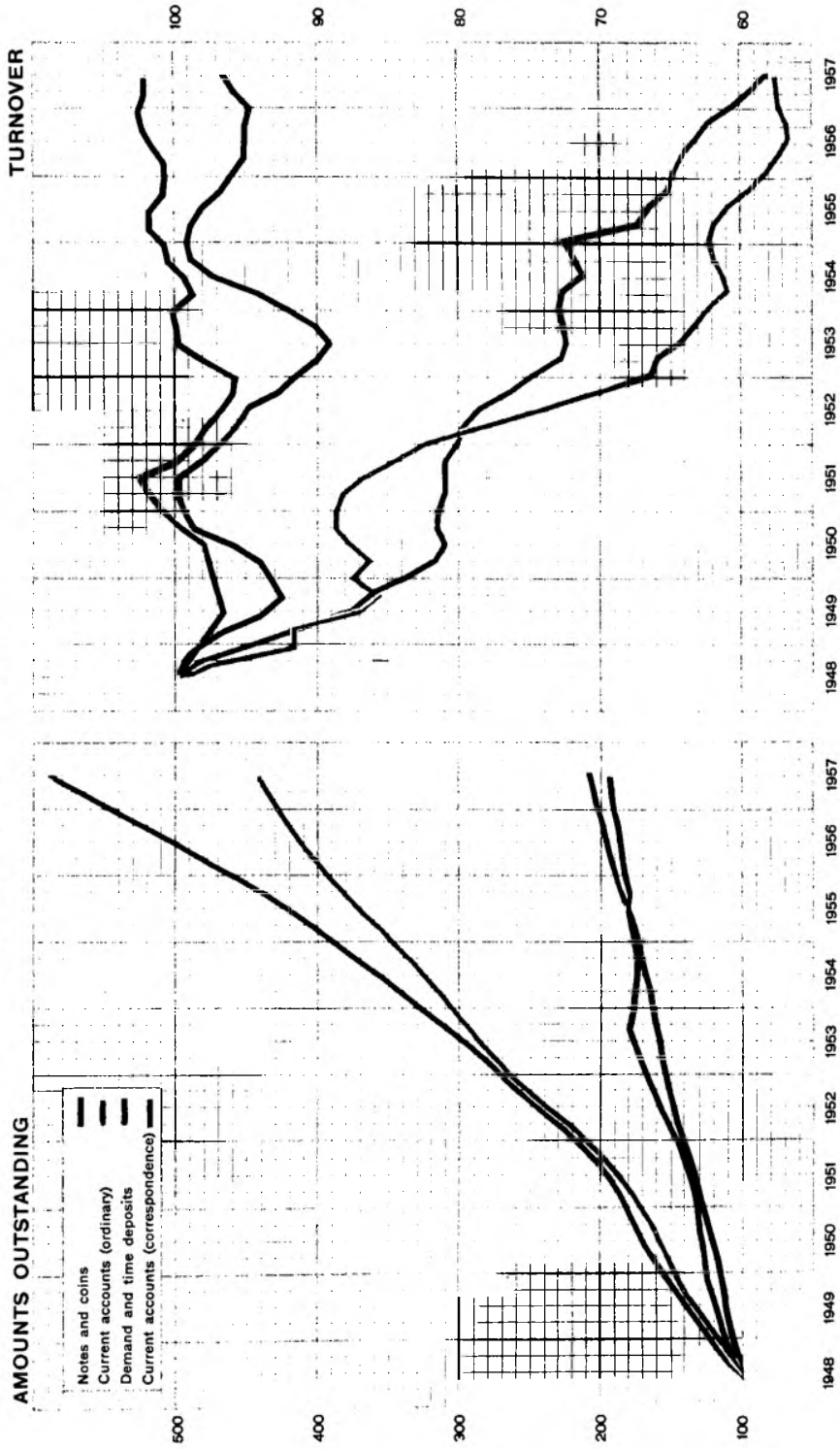
(1) Excluding those to public authorities.
 (2) Excluding those for public works.
 (3) Excluding those supplied for the financing of public investments (11 billion in 1956 and 13 billion in 1957).

IX. The Flow of Finance Funds and the Money Supply

Studies made in previous Reports of the development since the war of the circulation of notes and coins have revealed that fluctuations in this item of the money supply reflect changes in the income and expenditure of householders and that it is less sensitive than bank deposits to changes in business conditions. Evidence of this may be obtained by comparing changes in currency circulation with those in gross national income. If adjustments are made to take account of seasonal factors, the relationship between the two (i.e. the velocity of circulation) is found to show scarcely any variation compared with that shown by other components of the money supply (see colored chart; indexes: 1948 = 100).

The absence of pronounced cyclical fluctuations in the development of the note issue, which has been a feature of the last decade, is in contrast to the wide fluctuations in individual

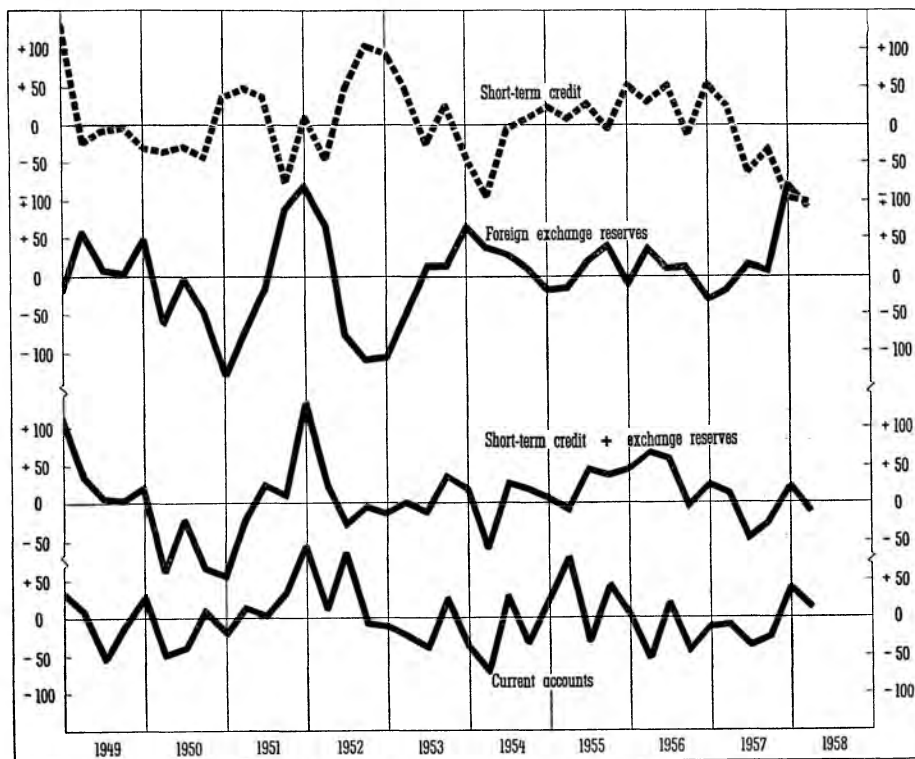
MONEY SUPPLY



factors affecting it, i.e. in central bank assets and liabilities, which may be classed as follows: (a) loans to banks; (b) net loans granted to or net deposits received from the Treasury; (c) loans to the Foreign Exchange Office; (d) commercial bank statutory reserve accounts; (e) bank free deposits (excess reserves). The smooth development of the note issue results from the tendency for expansionary influences emanating from any one of the above factors to be associated with contractionary influences of other factors.

Changes in item (c), namely in the amount of central bank finance of foreign exchange holdings, which reflect the state of the balance of payments, are as a rule mirrored in similar movements in excess reserves (item (e)). This relationship is linked to the fact that the volume of commercial bank loans is inversely related to the balance of foreign payments (chart 18).

CHART 18



Financing of foreign exchange reserves, short-term credit and current accounts
(differences between quarterly changes in each year and the corresponding changes
in the preceding year; billions of lire)

The effect of the supply of liquidity to (or the draining of liquidity from) the market through balance of payments surpluses (or deficits) is to restrict (to expand) the volume of bank loans in such a way that the total supply of liquidity from the two sources will be related to business turnover. In fact, during the last decade, the total of bank loans and foreign exchange financing followed a pattern of development more in line with that shown by current accounts than with that shown by currency circulation.

Recent developments in bank liquidity have been consistent with previous experience. The inflow of foreign exchange in the second half of 1957 and more particularly in the last few months has again been shown to produce a favorable effect on the liquidity of the banks (table 24).

TABLE 24

Primary Liquidity Reserves of Banks

(billions of lire)

At the end of	Cash	Deposits with the B.I. and other deposits	Unutilised balances on B.I. overdrafts	Treasury bills	Total primary reserves	Total bank deposits	Percentage ratio of reserves to deposits
1955 December .	74	69	178	42	363	5154	7,0
1956 March . . .	54	48	168	56	326	5212	6,3
June . . .	59	34	160	30	283	5342	5,3
September .	52	79	191	60	382	5529	6,9
December .	93	39	172	17	321	5814	5,5
1957 March . . .	56	45	167	51	319	5879	5,4
June . . .	54	35	156	36	281	5962	4,7
September .	69	63	178	52	362	6137	5,9
December .	98	66	187	31	382	6496	5,9
1958 March . . .	74	101	210	202	587	6618	8,9

B.I. = Bank of Italy.

Primary liquidity reserves, which had stood at around 250 billion lire (14 per cent of total bank deposits) in 1949, returned to this level in the second half of 1951 after a slight fall and then dropped sharply in the following years, touching their lowest point (4 per cent of total bank deposits) in June 1957;

since then the trend has been reversed. The slight improvement in liquidity at the end of December 1957, compared with the end of December 1956, was followed by a considerable increase in reserves in March 1958 (8.9 per cent), compared with March 1957 (6.3 per cent).

Details of the formation and utilisation of monetary resources are given in tables 25 and 26; these show the sources of funds, the amounts borrowed by the Treasury, by the economy and from abroad, and the related changes in the money supply.

As usual, a greater volume of finance funds was accumulated in the second half of the year than in the first half; in 1957 the contrast between the two halves was marked, as the contraction observable over the year as a whole was entirely due to a smaller flow of funds in the first half, which was not matched by a larger flow in the second half. The capital market contributed an amount that was greater not only than that in the corresponding period of 1956 but also than that in the first half of 1957.

The Treasury drew less from the market, but because it borrowed from the Bank of Italy (instead of paying into it as in 1956) it absorbed, on balance, a greater amount than in the previous year (211 billion, as against 190 billion).

Loans to the economy amounted to 1,018 billion lire — a reduction of 256 billion on the previous year. The decrease in 1957 was, for the most part, due to the fact that the banking system, which in 1956 had granted exceptionally high loans, in 1957 received repayment of credits in respect of stockpiling purchases in previous years and extended credits in foreign exchange that are not included in table 26.

Transactions with foreign countries by the Treasury and the domestic economy resulted in a net money creation of 156 billion lire, which is 100 billion more than in the previous year (60 billion).

As regards the volume of monetary savings during the last decade, in the first four years bank, Post-Office and insurance savings averaged 395 billion lire; in the following four years

The Flow of Finance Funds and the Money Supply in 1956 and 1957 (1)

(changes during the year in billions of lire)

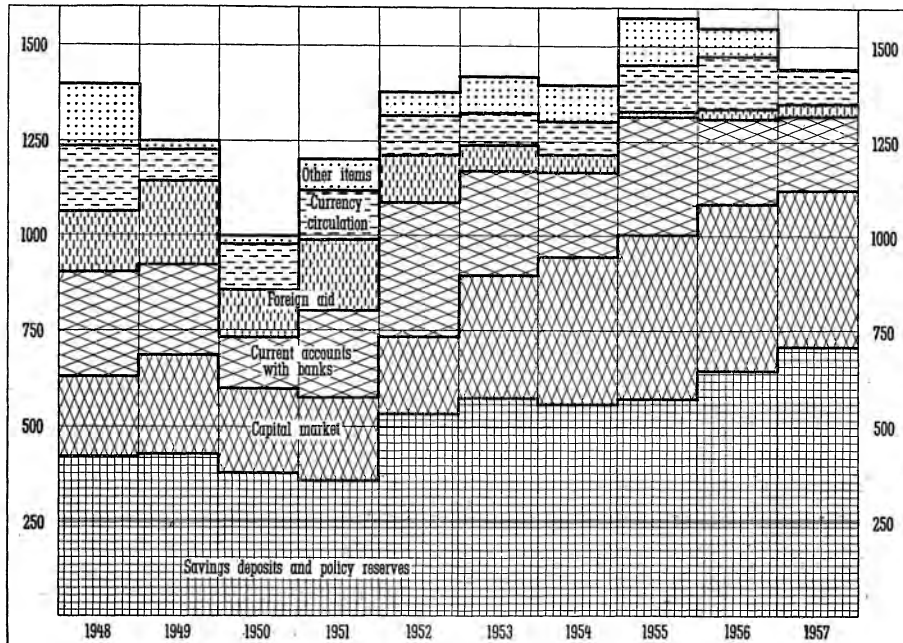
Items	1956			1957		
	First half	Second half	Total	First half	Second half	Total
<i>Funds borrowed by the Treasury from:</i>						
Bank of Italy	1.8	0.1	1.7	—	0.2	0.2
Commercial banks, savings banks, and banking associations	96.2	20.9	117.1	41.4	49.3	90.7
Central Post-Office Savings Fund	19.3	19.2	0.1	52.7	21.8	30.9
Social-security and insurance institutions	1.7	9.1	10.8	13.4	14.9	1.5
Long-term credit institutions and the capital market . .	82.6	8.9	73.7	60.3	8.9	51.4
	163.0	40.2	203.2	35.6	76.9	112.5
Foreign aid	0.3	1.9	2.2	14.9	2.4	12.5
Other accounts at the Bank of Italy	—	21.1	21.1	1.1	13.8	14.9
Italian Foreign Exchange Control Office, gold and foreign exchange	182.8	150.9	31.9	53.1	127.4	74.3
Treasury notes and coins	5.9	5.4	0.5	4.1	—	4.1
	26.0	215.7	189.7	5.6	215.7	210.1
<i>Funds borrowed by the rest of the economy, from or through:</i>						
Bank of Italy	7.8	36.8	29.0	45.1	31.8	13.3
Commercial banks, savings banks and banking associations	185.7	483.9	669.6	90.6	330.0	420.6
Central Post-Office Savings Fund	38.0	72.0	110.0	73.2	66.8	140.0
Social-security and insurance institutions	54.5	47.2	101.7	70.9	42.6	113.5
Long-term credit institutions and the capital market . .	203.3	160.0	363.3	162.4	194.8	357.2
	473.7	799.9	1,273.6	352.0	666.0	1,018.0
Italian Foreign Exchange Control Office, gold and foreign exchange	33.0	50.2	83.2	9.1	165.0	174.1
	506.7	850.1	1,356.8	361.1	831.0	1,192.1
	480.7	1,065.8	1,546.5	355.5	1,046.7	1,402.2
<i>Nature of funds:</i>						
Savings deposits	170.3	267.9	438.2	171.4	313.0	484.4
Other bank accounts	20.4	41.8	62.2	2.7	43.6	46.3
Post-Office savings	18.7	75.0	93.7	26.3	81.0	107.3
Social security and insurance institutions	56.2	56.3	112.5	57.5	57.5	115.0
Long-term credit institutions and the capital market . .	285.9	151.1	437.0	222.7	185.9	408.6
Bank of Italy current accounts and cashier's checks . . .	0.3	5.4	5.1	13.0	2.1	10.9
Banks' current accounts and checks	7.4	251.8	244.4	74.8	253.8	179.0
Post-Office current accounts	—	16.2	16.2	5.8	7.6	1.8
	543.8	865.5	1,409.3	413.0	940.3	1,353.3
Foreign aid	3.8	17.3	21.1	15.4	15.6	31.0
Cash and available balances (2)	55.9	86.0	30.1	82.2	155.4	73.2
Circulation of notes and coins	122.8	269.0	146.2	155.1	246.2	91.1
	480.7	1,065.8	1,546.5	355.5	1,046.7	1,402.2

(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 average rose to 558 billion and in the last two years to 675 billion. There was a falling tendency in the first four-year period, but since then the movement has been in an upwards direction, with a more marked expansion in the last few years (chart 19).

CHART 19



Monetary resources
(annual changes in billions of lire)

The size of the capital market has been growing continuously in the last ten years, except during the Korea crisis, as the public has shown an increasing propensity to invest in shares and other corporate stocks. The share of Government securities in the total has been gradually contracting as the state of the Government's finances has improved, whereas private securities, and in particular industrial shares and bonds, have been gaining in importance.

International aid played an important rôle in the first post-war phase, both by supplying machinery and raw materials and by making it possible for Italy to increase its gold reserves.

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

Gentlemen,

This meeting, at which I am submitting for your approval the balance sheet of the Bank for the year 1957, is being held just over ten years after the memorable events that brought Italy's postwar inflation to an end.

It was on 4th August 1947 that the Interministerial Committee for Credit and Savings, passing its first resolution since its reconstitution, decided to rearrange the system of statutory bank reserves — a measure designed to check excessive credit creation made possible at that time by the high liquidity position of the banks after the war.

The meeting of bank representatives, to whom I had the honor to explain this measure and on whom I called for full and ready co-operation in restoring monetary stability, was held in this room on 20th August.

At our meeting on 31st March 1948 we were able to confirm that the operation had been successful. Many prices had fallen in the meantime; in general, they had at least stopped rising. Currency was once more being saved to meet future requirements or deposited in ever-increasing quantities with institutions for the collection of savings—a sure sign that confidence in it had been restored—and, to use technical terminology, its velocity of circulation had been considerably reduced.

We are convinced that it was largely due to the stabilisation of the currency that the sacrifices made by the people during the past ten years yielded the results which we see before us to-day and on which we have commented from this Chair each year.

According to official estimates, the national income of Italy, in real terms, increased during the last decade as follows: by approximately 7 per cent in 1948, the first year of monetary stabilisation; by between 6 and 7.5 per cent in 1949, 1950 and 1951, years reflecting to a remarkable degree the benefits of

the rapid termination of postwar reconstruction which had been facilitated by generous American aid; by only 2 per cent in 1952; by between 5 and 7 per cent in 1953, 1954 and 1955; and in the past two years by 4 and 5.6 per cent respectively.

In the Report which we are submitting to you and in this « Concluding Survey » a record is given of the progress made in the last ten years in the collection and utilisation of monetary savings by the banks and the capital market; this is also intended to show the close relationship that exists between the good use of credit and the development of the national product, which has never been greater in any other period of similar duration in Italy's economic history.

In commenting on the events of last year and the more recent period we have thus considered it worthwhile to give a brief survey of the financial history of the past decade; for we are convinced that contemplation of past events can help us to find guiding principles for future action.

In recalling the measures adopted to save the lira in the summer and autumn of 1947, I believe that I am interpreting the thoughts of all those present at this meeting when I express —also in the name of the Board of Directors of the Bank—our most profound gratitude to the man who conceived and tenaciously held to them: *Prof. Luigi Einaudi*.

World Economic Situation.— In last year's Report we noted the first signs of a slowing-down of the development of the western economies. It is now our difficult task to comment on a year in which the conflict between the equally desirable objectives of expansion and stability became more pronounced, without, however, taking on an acute form in Italy. This survey, having sketched the international situation in which they evolved, will be confined to a study of the problems arising from this conflict, and in particular to their monetary aspects.

At the beginning of 1957 the development of foreign trade in Italy, as elsewhere, was influenced by the events of the summer and autumn of 1956 — and primarily by the Suez crisis. The upswing of raw-material prices that resulted from this crisis

was reflected in a contraction of foreign exchange reserves in several European countries; it thus also led to a deterioration in their monetary equilibrium, especially as the greater absorption of national currencies for the purchase of foreign exchange caused a drain on internal liquid reserves.

The rise in raw-material prices, which was particularly marked in certain cases, and the sudden substantial increase in freight rates put monetary stability to a severe test, especially as it was already being undermined by inflationary processes nearly everywhere—sometimes scarcely perceptible, sometimes plainly evident—strengthened, particularly in some countries, by the fact that the accelerated rate of increase of wages was greater than the average growth in productivity in those countries.

Nor did Italy remain immune from inflation, as we pointed out at this meeting last year. In particular in 1956 Italy suffered manifestly from inflation, owing primarily to the rapid functioning of the escalator clause; for the sliding wage scale reacted to the rise in the cost-of-living index brought about by the increase in the prices of fruit and vegetables (which became scarce as a result of the frosts in the early months of the year).

The task of the monetary authorities who were called upon to deal with this difficult situation was rendered all the more arduous and unpopular because people were becoming increasingly convinced—and were even finding support for their belief in the writings of eminent proponents of monetary theory—that a slight inflation, measurable in terms of a rise of 2-3 per cent per annum in the general level of prices, was an essential part of any process of productive expansion, especially when this is combined with full employment.

Aware of the serious difficulties which monetary authorities everywhere were encountering in defending stability in these circumstances, we held that the trade unions should also co-operate to this end; otherwise, measures of monetary policy would not have succeeded in checking the inflationary process without at the same time running the risk of halting expansion and bringing about a recession.

A few months later the expansive phase in the US economy, which had been going on since the beginning of 1955, came to an end. Throughout this period the Federal Reserve had tried to limit the supply of money by raising, in successive stages, the official discount rate and carrying out open-market operations intended to tighten the liquidity position of the banks. As a result, there was a more modest increase in the total money supply in 1956 and no increase at all in 1957. This did not, however, prevent a further expansion in the volume of current monetary transactions, and financial requirements for investment purposes were, for the most part, covered, because at the beginning of the expansive phase the commercial banks and businesses still possessed a margin of elasticity, on which they were able to draw. In fact, these banks and productive enterprises sold large quantities of Government securities; the turnover of deposits gradually increased and the ratio of bank credits granted to deposits received rose.

Certain signs of monetary tension became apparent when the productive boom was already tailing off. Whereas the peak of industrial production, the highest rate of investment and the largest volume of orders on hand in industry had been recorded by the end of 1956, capital market and bank loan rates continued to rise until August 1957.

The slight fall in investment activity seemed to indicate that the American economy could come out of the boom without entering a recession; but though the pressure of demand on resources was eased, this was not adequately reflected in price movements. The behavior of prices was still determined by increases in the cost of labor and by the persistence of what is now a radical inflationary psychosis. With the decline in domestic demand for investments, there was also a falling-off in foreign demand, since there was no longer any exceptional stimulus, such as derived from the Suez crisis, and Government defence orders were reduced half-way through the year.

Then came the European monetary crisis of August-September. After Suez the United Kingdom had suffered a considerable loss of gold reserves, owing both to the utilisation

of sterling reserves by India and other sterling account holders and to the flight of capital through some gaps in its system of exchange control. During the summer a further flight from the pound took place, probably because wages and prices were still found to be rising particularly fast in that country and expectations of a revaluation of the German mark and perhaps the dollar were heightened by the devaluation in the meantime of the French franc.

The reduction in the United Kingdom's gold reserves, although not deriving from a balance-of-payments deficit on current account, prompted the monetary authorities there to adopt extremely severe measures in September; in particular, Bank rate was raised by two points, which brought it up to 7 per cent — a level at which it had only stood once before, namely in 1921, when a disinflationary policy was being pursued after the first world war.

This step met with warm approval at the meeting of the International Monetary Fund held in Washington shortly afterwards. By intervening with considerable financial assistance, the Fund and the Export-Import Bank supported the United Kingdom's move to bring the speculative movement of funds under control and its courageous determination to defend the parity of sterling without introducing import restrictions and without impeding the outflow of non-speculative funds. Finally, the German representatives declared—and the German authorities took steps to prove—that movements of « hot money » to their country were not welcome; Germany lowered its discount rate and adopted other measures designed to improve the international liquidity position.

It was clear, in short, that the most important countries of the western world were joining in the battle against inflation and were being fully and promptly supported in their action by the institutions for international financial co-operation. It was particularly clear that, faced with a choice between the risk of seeing inflation rendered more acute by unforeseeable circumstances and that of halting economic expansion, the Governments of the two main Anglo-Saxon countries would decide in

favor of the latter alternative; for they were convinced that to delay would only extend, when the time came, the recessive phase that was bound to come after the inflation.

This would, in our opinion, be sufficient to cause the sense of optimism that had prevailed in business for a long time (when less control was kept over the choice of investments and over costs) to give way to a more reflective attitude, and for producers and consumers to re-examine their positions in an atmosphere no longer veiled in the mists that inflationary processes always produce.

It thus became plain that both investment activity and production had been excessive in some countries and in some branches of industry during the last years of the expansion; and it was evident that, even if sale prices fell, it would not be easy for these sectors to bring consumption into line with the higher level of production and, above all, with the increased capacity of factory plant. In the case of the American automobile industry, which alone absorbs one quarter of total steel production in the United States, the imbalance between productive capacity and consumption was rendered more acute by certain changes in consumer tastes; in the case of other durable goods, there seems to have been a saturation of the market there and a slowing-down of new technological developments likely to create new mass consumption needs.

From this it was a short step to a fall in the rate of growth of investment and certain consumer products. The prices of imported raw materials, which had already dropped as a result of the fall in freight rates after the end of the Suez crisis, declined still further. The fall was rendered greater by the reduction in purchases, many industries being content to use up stocks accumulated previously at high prices.

In short, a recession set in in the United States and a phase of re-adjustment began elsewhere. Industrial production in the United States, which had recovered in 1955 from the depressed level of the preceding year and risen to the exceptional rate of 11 per cent, fell in the period from August 1957 to March 1958 by the equivalent of 19 per cent per annum.

Germany and Italy may be taken as examples of the re-adjustment that occurred in other countries.

In Germany industrial production had shown the highest rate of increase in western Europe up to 1955, when it rose by 15 per cent; the first signs of a slowing-down appeared towards the end of 1956, and by the middle of that year the rate was 8 per cent; during 1957 the slackening-off became more marked and in the first quarter of 1958 industrial production was only 3.6 per cent above its level a year earlier.

In Italy industrial production, which had been rising steadily and appreciably from the beginning of 1956 to September 1957, subsequently fluctuated at around the level attained in the summer of 1957; in the first quarter of 1958 it was 2.1 per cent higher than in the corresponding period of 1957.

This is not the first time that there have been rather long interruptions in the growth of industrial production in Italy, even in the recent years which have been characterised, on the whole, by a pronounced expansive tendency. Such a pause in expansion occurred from the middle of 1955 to February 1956 (as was recorded in our Report at the time), when the index fluctuated around the level reached in June 1955, after having risen rapidly in the first half of the year.

The present phase might have occurred, then, even without the international developments that have taken place, considering, *inter alia*, that it was preceded by a period (December 1955 to September 1957) in which iron and steel output increased at the high rate of 14 per cent per annum and that in the two-year period from 1954 to 1955 the rate of growth was even higher (20 per cent).

Recent Monetary Developments.— At the end of March 1958 the primary liquidity reserves (1) of the banks amounted to 8.9 per cent of deposits, whereas a year earlier (end of March 1957) the ratio had been 5.4 per cent. The increase of 3.5 points contrasts with a decrease of 0.9 points between March 1956 and

(1) This expression is taken to mean total cash on hand, demand deposits at the Bank of Italy, Treasury bills in portfolio, deposits with the Treasury and postal savings banks and unutilised balances of overdrafts (see table 24).

March 1957. In absolute figures, the reserves, which had fallen from 326 to 319 billion lire between March 1956 and March 1957, rose by 268 billion to a total of 587 billion at the end of March 1958.

A level of nearly 9 per cent of deposits for the primary liquidity reserves, though high, cannot be considered excessive; in the first five years after the stabilisation of the currency (1948-1952) this level was, in fact, always widely exceeded, with the sole exception of certain brief periods of the Korean cycle. Nevertheless, it must not be forgotten that in the past five years, when deposits with the banks were always used to a very considerable extent, the liquidity level was generally lower than it is at present; moreover, the transition in the past few months from very limited reserves to very high ones has been so rapid as to make necessary an analysis of the origins of the change and its significance.

At first sight, an increase in the liquidity of a banking system may be considered as evidence of an economic recession; for greater liquidity is normally attributed to a reduction of bank loans caused by a contraction of productive activity, or to a marked propensity towards monetary saving on the part of the public.

If this holds true as a rule for economies that are clearly self-sufficient, it may not be true—or may be only partly true—in the case of economies in which international trade plays an important rôle, since balance-of-payments fluctuations and, in particular, changes in the prices of imported raw materials may be reflected to a large extent in the degree of liquidity of the economic system, even if there is no considerable change in the rate of development of the country in question.

Such changes prompt producers to alter the volume of their stocks of raw materials, enlarging them when prices are rising and reducing them when prices are falling. In both cases the financial effects resulting from the change in the volume of the stocks are widened by price movements in the same direction and by alterations in freight rates, which generally also move in line with fob prices of raw materials.

Needless to say, the liquidity of an economic system also feels the impact of changes in the national budget, when a deficit or surplus leads to the issue or sterilisation of money.

In the case of Italy monetary equilibrium seems to have been greatly influenced towards the end of 1956, during 1957 and particularly in the early months of 1958 by the balance of transactions with foreign countries, which is reflected in the movements of the foreign exchange reserves held by the Italian Foreign Exchange Office, these movements being largely determined by the behavior of prices of imported raw materials and by adjustments made by businessmen in the volume of their stocks of these materials.

Monetary equilibrium was also influenced by changes in the national budget.

Finally, the study which we shall devote to the capital market and to loans by medium and long-term credit institutions will show that a greater amount of funds was applied to investment in 1957 and the first quarter of 1958 than was the case a year ago. We may, therefore, conclude that observation of financial facts does not allow us to call the present economic trend a recession; it is rather, as we have said above, a period marked by a pause at a still high level of production.

After the usual growth in foreign exchange holdings due to the summer tourist season, the outbreak of the Suez crisis caused a decrease equivalent to 138 million dollars between November 1956 and January 1957. The five months from February to June witnessed a resumption, though to a modest extent, of the upward movement; from June onwards, however, this rise assumed sizable proportions and did not cease or diminish with the end of the tourist season, but continued throughout the winter and is still operative.

Italy has thus experienced, though to a considerably lesser extent, the same expansion of its foreign exchange holdings that has characterised the German economy in the last few years, where, too, it gave rise to important problems of monetary policy.

In 1957, foreign exchange holdings increased by 286 million dollars, against 109 million in 1956. Mainly as a result of this increase, the net disbursement of the Bank of Italy for the financing of foreign exchange movements reached 196 billion lire in 1957 — a figure which was 128 billion higher than in 1956. The consequent improvement in market liquidity was also accentuated by the reversal of the position of the Bank of Italy in its relations with the Treasury.

In 1956 the current account for Treasury services, in which the Bank of Italy records its collections and payments for the account of the State, had shown a reduction of 45 billion lire in the Treasury's indebtedness to the Bank.

In last year's Report we said that this occurrence, which was quite unusual, had resulted not only from the improvement of the situation of the national budget, but also because there was a rise upwards of 90 billion lire in deposits with the Treasury of funds paid out under the budget but not yet used.

In 1957, although the position of the national budget continued to improve, the increase in such budget appropriations re-deposited at the Treasury was only 13 billion lire and, in contrast to 1956, the credits of the Central Post-Office Savings Fund for its institutional operations exceeded the savings received, with the result that there was a final charge of 30 billion lire on this account — something that did not happen in 1956. Moreover, the Treasury's borrowing on the market was more limited in 1957.

On balance, the Treasury's current account showed an increase in its indebtedness to the Bank of Italy of 39 billion lire compared with the beginning of the year — a figure which is not in itself very substantial, but which is superimposed on the large figure for new credits to the Italian Foreign Exchange Office.

The afore-mentioned increase in the money supply arising from the Bank's financing of foreign exchange holdings and its operations vis-à-vis the Treasury was only partly offset by the trend of other lending transactions, rediscounts and advances and the deposits with the Bank of counterpart funds derived from surplus American commodities received in Italy.

The portfolio of rediscounted bills was reduced during the year by 23 billion lire and advances on securities were lower by 26 billion. The reduction in rediscounts was connected—as will be seen better later on—with the decline in bank financing of wheat stockpiles. The account for American surplus counterpart funds showed an increase of 24 billion lire on the year.

In correlation with the increases in foreign exchange holdings, there was a marked increase in the creation of liquidity by the central bank during the early months of 1958. Up to March the amount involved was a further 90 billion lire; in the corresponding months of 1957, which were still influenced by the Suez crisis, there was a contraction of about 1 billion lire.

The first three months of 1958 also differ from the corresponding months of 1957 in regard to relations between the Treasury and the Bank. This year the Treasury's indebtedness to the Bank was reduced by 3 billion lire, whereas in the corresponding months of 1957 it was reduced by 54 billion.

A closer look at the position of the banks reveals that in the twelve months from June 1956 to June 1957, in which the Suez crisis began and ended, their liquidity reserves fell from 5.3 to 4.7 per cent of deposits.

The pressure on reserves arising from the demand for new financing was kept within bounds by the limitation of the usual issue of 9-year Treasury bonds in the first quarter of 1957 to almost one half of the issue in the corresponding quarter of 1956 (100 billion lire instead of 194 billion).

A contribution was also made in this direction by the large use made by the Italian banks in this period of credit lines opened in their favor by correspondents abroad and of foreign exchange deposited with them.

The monetary authorities did not hold it necessary to restrict such transactions, nor to modify the decision to limit Treasury borrowing from the market; it was not even felt that monetary measures should be adopted, as was being done in other countries, to check the tendency to make greater purchases abroad and enlarge inventories at home that develops when an international crisis arises and price increases are feared.

Above all it was considered that any disturbance of the process of absorption of unemployment then in progress should be avoided, as far as possible.

Restrictive measures were also made inadvisable by the behavior of prices of foodstuffs; these fell in the first half of 1957 by about 5 per cent, reaching their lowest level for three years.

Lastly, although production costs in 1956 had felt the full impact of the rapid increase in wages resulting from the operation of the escalator clause, the sliding wage scale having leapt up by 7 points in the first nine months of the year, the rise up to the summer of 1957 was limited to one point.

In the three months from July to September industrial production continued to develop at the same vigorous rate as in the preceding six months; nevertheless, there were no signs of monetary strain. The supply of money by the central bank increased by about 90 billion lire as a result of the financing of foreign exchange derived especially from the favorable development of the tourist trade; this not only neutralised any pressure on the banking system arising from the growth of production, but led to an increase in the primary reserves of the banking system.

Thus, at the outbreak of the international monetary crisis, Italy had not taken the restrictive measures that had been adopted nearly everywhere else to arrest inflation or check international capital movements prompted by the fear that such restrictions would spread.

In the last quarter of 1957 and the first quarter of this year the supply of money by the central bank continued, as already mentioned; for the most part, however, this was reflected in an increase in bank liquidity.

Turning now to examine the development of loans and advances of banks and banking associations, it appears that these increased in 1957 by the substantial sum of 425 billion lire. This figure was certainly lower than the increase in 1956 (662 billion), but it still represents a rise of 8.9 per cent over the volume outstanding at the end of the preceding year. Moreover, the dif-

ference from one year to the other is largely explicable by circumstances not directly related to industrial production.

In 1956, as we recorded in our Report last year, loans and advances had increased considerably as a result of the financing of stockpiles of agricultural commodities, especially wheat, the increase in unsold stocks and the accumulation of storage expenses and interest charges; in 1957, however, stocks were not enlarged and the position of the credit system was eased by the high payments made by the Treasury in respect of losses on old accounts.

If operations of agricultural credit institutions are included, the financing of stockpiling in 1956 led to an increase of 92 billion lire in total loans, despite the repayment of 23 billion by the Treasury towards the end of the year in respect of losses on old accounts. In 1957, however, Treasury repayments rose to 93 billion and credits during the year, though limited on account of the smaller amount of wheat stockpiled from the new crop, came to 73 billion, so that the total amount of bank credit outstanding was reduced, if only to a small extent (20 billion).

Sales abroad of large stocks of sugar last year also served to reduce bank loans and credits, which, however, had previously been increased to finance these same stocks.

As to the first quarter of 1958, it can be said that bank loans are usually well restrained in the first months of each year, and frequently the volume by the end of March is below that of the preceding December. This happened in 1954 and 1955, when decreases of 29 billion lire and 28 billion lire occurred. In 1956 and 1957, however, there were increases of 28 billion lire and 45 billion lire, respectively (the 1957 figure takes into account repayments of 41 billion lire made by the Treasury in respect of losses on stockpiles). In 1958 there was again a decrease, but in the rather high amount of 76 billion lire. It should be noted, however, that the effects of the profound change in Italy's terms of trade and the adjustments in the volume of inventories of imported raw materials have been felt particularly in recent months.

It has been estimated that if the 14 principal raw materials of foreign origin were imported in the first quarter of 1958 in the same quantities as those imported in the first quarter of 1957, this would mean a decrease in expenditure, at the present cost level, of more than 60 billion lire.

In particular, in the first quarter of 1958 there was a marked fall in the cif prices of petroleum, scrap iron and iron ores, and textile materials, which have been arriving at a rate sufficiently in line with the tendency in recent years. The decrease in expenditure has certainly had a direct repercussion on bank loans and advances, especially in the case of the banks that mainly finance industries engaged in the processing of imported raw materials.

A further reduction in expenditure has resulted from the decreased stocking of other raw materials caused by the desire to bring the volume of existing inventories back to a normal level. The recent slackening of purchases abroad of some materials and products, which has been evidenced by customs statistics, does not, however, appear to result from a contraction in economic activity, but rather from the caution that normally accompanies a decline in prices at origin of imported raw materials and products.

If there had been no other factors to consider, this growth in bank liquidity, not derived from a contraction of productive activity, would have obliged the monetary authorities to adopt measures for the absorption of excessive liquid funds.

Even without resorting to a raising of the banks' minimum reserve requirements, the central bank could have sold Government securities held by it; the banking system could have been asked to restrict its utilisation of credit lines opened by foreign banks, or even not to grant new finance with foreign exchange received on deposit; and, of course, banks could also have been required to reduce their existing foreign exchange advances.

It must be borne in mind, however, that the management of monetary policy cannot consist in the adoption, with almost automatic synchronisation, of measures to expand or restrict

the liquidity of the market, to be put into operation whenever the statistical indexes show a contraction or an expansion of liquidity.

This automatism would preclude the consideration of all the objective data that determine the actions of entrepreneurs and would not take into account their expectations, in which those relating to the probable policies of the monetary authorities play a prominent part.

Technical measures of restricting bank liquidity, even if necessitated by an excess of liquidity, are, however, always a presage that difficulties will probably be encountered in developing a larger volume of production.

It was therefore felt that measures designed to absorb a part of the liquidity, even if technically justified, would have been ill-advised during recent months, in view of the fears that the American recession might spread to the Italian market also and in view of the fact that Italy's industrial production was no longer expanding rapidly.

The task to be accomplished in the months ahead will certainly be connected with what will take place in the field of production. If, as is to be hoped, the rate of expansion rallies, the degree of liquidity in the banking system will be determined by the need to buttress the expansive trend without losing sight of the equally important need to counter possible speculative movements.

And, above all, it will be necessary to see that the relatively easy credit position does not lead us to overlook the fundamental requirements of economic development in Italy, namely that costs here should rise less than elsewhere, so that we may, as is necessary, further increase our exports, attract a greater number of tourists to this country and benefit from the opportunities that are being unfolded with the opening of the Common Market or the creation of a wider Free Trade Area.

Watchful waiting would naturally have to give way to bold action if pathological symptoms appeared; in that regrettable event, the most appropriate measures would have to be brought

into operation to absorb any liquidity that exceeded the sound requirements of the market.

This, essentially, is what can reasonably be demanded of monetary policy: to act at the right time and in a measure appropriate to the circumstances, without fear and without running into excesses.

Money Savings.— Money savings (1), as recorded by the statistics of the Bank of Italy, had amounted to 1,064 billion lire in 1955 and to 1,144 billion in 1956; in 1957 they were somewhat higher, being equivalent to 1,162 billion lire.

Considering these figures, it cannot be overlooked that while the advance was appreciable in 1956, and certainly in line with the increase in national income, it was barely discernible in 1957.

Taking into account the fact that the two years differ also because the collection of savings in the first half of 1957 was lower than that in the first half of 1956, while the opposite was the case in the second half, it may be warranted to believe that the benefit of favorable crops in 1955 was felt to some extent in 1956, and that there was not only no such benefit in 1957 but the adverse conditions derived from the Suez crisis were experienced during the first half of the year.

Money savings, which amounted to approximately 1,200 billion lire in 1957, represented about 8 per cent of gross national income, as shown in the « General Survey of the Economic Situation of Italy ».

With the qualification that international comparisons on this subject are very difficult and of little significance, because the volume of money savings is especially influenced by the state of economic development and by the degree of tax pressure in various countries, it can be said that Italy's percentage of money savings appears to be among the highest in the western world.

(1) This term is taken to include deposits and other funds collected by the banking system (excluding correspondence current accounts with customers, ordinary current accounts, checks and cashier's checks); postal savings books and interest-bearing bonds; the increase in policy reserves of social security and insurance institutions; issues of Government bonds and of Government, quasi-Government and private debentures, and shares, net of securities held by credit institutions.

The portion of money savings that was deposited in banks (excluding, of course, ordinary and correspondence current accounts with customers and minor items) amounted to 371 billion lire in 1955, to 438 billion in 1956 and to 484 billion in 1957.

There has thus been a steady growth from year to year in new savings flowing to the banks, even though the annual percentage increase was slightly smaller in 1957 than in 1956 (16.7 per cent, as against 17.8 per cent).

An increase in the formation of savings deposited at banks in comparison with 1956 occurred mainly in the last quarter. In the first three months of 1958 this savings formation was clearly higher than that of the first quarter of 1957 (156 billion lire, as against 111 billion).

Thus, while the formation of savings in the nine months from July 1956 to March 1957, a period influenced by the Suez crisis, amounted to 379 billion lire, that of the nine months from July 1957 to March 1958, a period characterised by increasing liquidity, was clearly higher, i.e. 469 billion.

Should one rejoice at this greater formation of savings, or should one consider that it is in some way an expression of a tendency to contract consumption?

Though recent developments are very difficult to interpret fully, it may already be observed that receipts in agriculture were higher in the last part of 1957 than they had been a year before and that the changes in the liquidity of many medium and small enterprises is reflected also in savings deposits, of which these enterprises avail themselves to draw higher interest allowances.

The rates of interest paid on savings did not undergo significant changes in 1957. Before the monetary developments of last year, they had been somewhat higher than those prevailing in the principal countries, in view of the need here in Italy to encourage the formation not only of savings for long-term investments, but also of savings deposits in banks, despite the fact that the latter enjoy the greatest mobility.

The increase in interest rates for borrowers undertaken abroad with the intention of combating the dangers of inflation and in line with increases in the official discount rates has caused the average interest rate level in some countries to be higher than that in Italy; but the fall which has already begun nearly everywhere is restoring, at least in part, the margins that had previously existed between borrowing rates in Italy and those elsewhere.

Thus, Italy was able to avoid the sudden movements in rates—rapid increases and abrupt reductions—which are not without inconvenience for the majority of depositors, especially from the psychological point of view; this was probably the consideration that prompted savings institutions in some countries, such as the United Kingdom, for many decades to keep their interest rates almost unchanged.

Italy has been able to carry out this policy of limiting interest rate fluctuations also because it has been relatively less exposed to the destabilising influence of international movements of short-term funds which have occurred on several occasions with sterling, the Deutsche Mark, the Netherlands guilder and other currencies. This stability of policy naturally does not prevent the Italian rate system from tending to adapt itself to the internal state of affairs.

Savings invested direct by the public in Government securities and in bonds and shares were respectively 431, 437 and 409 billion in the last three years. Thus the funds raised on the capital market were smaller, though only slightly, than in the two preceding years.

Disregarding funds arising out of issues of Government bonds—which were deliberately limited and which yielded, excluding subscriptions by the banks, 154 billion lire in 1955, 74 billion in 1956 and 51 billion in 1957—funds invested direct by the public in bonds and shares totalled 277 billion in 1955, 363 billion in 1956 and 358 billion in 1957. Thus this source of medium and long-term funds for the private sector was less animated in 1957 than in the preceding year.

A more complete picture of the private sector's requirements of medium and long-term capital in 1957 is obtained by totalling the funds raised on the capital market direct by enterprises, by their holding companies and by the special credit institutions, those obtained by these special institutions from banks and those granted by the Central Post-Office Savings Funds — in a word, by examining all « loans and advances » other than those made directly by banks, which are mentioned in the first part of this « Concluding Survey ».

Resources acquired by business firms as a result of share issues were not smaller in 1957 than they had been in 1956. Net of duplications that occur when the increase in the capital of a company is undertaken, wholly or partly, by another company which is also increasing its capital, the amount involved in 1957 was 208 billion, as against 202 billion in 1956. The total afflux of funds to businesses through the direct issue of bonds was higher in 1957 (31 billion) than in 1956 (17 billion).

The net increase in loans of the special institutions for credit to industry and public works, financed in the main by bond issues, was—at 137 billion lire—also slightly higher last year than in 1956 (133 billion); the increase in 1957 represented 11.5 per cent of the loans outstanding at the end of 1956. The change from one year to the other reflected the growth in credits to the electrical, mechanical-engineering and chemical industries.

Funds raised by the IRI and ENI through the issue of long-term bonds, net of funds invested in shares of dependent companies and already included in the volume of share investments mentioned above, also showed an increase in 1957 (32 billion lire, as against 25 billion).

The volume of land improvement credits of the special credit institutions showed practically the same net increase as in 1956 (30 billion lire, as against 29 billion); the increase in 1957 was equal to 23.4 per cent of the volume of loans of these institutions outstanding at the end of 1956.

The volume of outstanding loans of land and building credit institutions rose by 72 billion lire in 1957, compared with 64

billion in 1956; this increase represented 22 per cent of the loans outstanding at the end of 1956.

Altogether, the total increase in medium and long-term loans and share issues worked out at 510 billion lire, or 40 billion more than the comparable figure at the end of 1956.

Finally, it is comforting to note that the increase in medium and long-term loans and advances of the special credit institutions was also greater in the first quarter of 1958 than it had been in the corresponding period of 1957 and that the same holds true for fresh funds raised by means of share issues.

To judge by the volume of funds which flow from abroad to enterprises to be used in the process of creating new instruments of production, there were no signs in 1957 or in recent months of a tendency on the part of enterprises to slow down investment in progress.

Lastly, it should be pointed out that investments made by the Cassa per il Mezzogiorno amounted to 145 billion lire in 1957, compared with 130 billion in 1956, and that the volume of loans of the Central Post-Office Savings Fund increased by 140 billion lire in 1957, as against 110 billion in 1956.

Moreover, Italy cannot presume to be free from the ups and downs that are characteristic of any process of economic development, especially when it is carried out with great intensity.

For instance, although the amount of unfilled orders, as a result in part of orders received during the Suez crisis, assures lively activity in Italy's shipyards for some years yet, it has been noted that with the changed situation in regard to ocean freights the flow of new orders has been interrupted. Therefore, it seems that it can be said of Italy, too, that forces are not lacking that might lead to a certain slackening in some industrial sectors in the future, independently of any impact that might be exerted on the economy by a decrease in the rate of development of other economies closely linked with Italy's.

To gain a better idea of the present situation, however, it may be worthwhile to review the great efforts made in the past ten years in the formation and employment of money savings by the banks and the capital market.

In 1947 savings deposits with the banks rose by 134 billion lire; in 1957 the increase of 484 billion was about 3.5 times as great. In 1947 funds raised on the capital market (Government securities, bonds and shares taken up by the private sector) amounted to 122 billion lire; in 1957 the figure was 409 billion and thus also 3.5 times greater. If investments in Government securities in these two years are left out of account, it appears that, whereas 73 billion lire's worth of bonds and shares were taken up by the public in 1947, in 1957 the amount was 358 billion, i.e. five times as much. These coefficients of development are only slightly reduced if account is taken of the slight depreciation of the lira over the ten-year period.

It must then be noted that, in contrast to the quite remarkable growth in share and bond investments, there was very little change, between 1947 and 1957, in investments by the private sector in Government securities (49 billion in 1947 and 51 billion in 1957) and in post-office savings deposits (59 billion in 1947 and 107 billion in 1957). These two items amounted, together, to 108 billion in 1947 and 158 billion in 1957.

This fact appears more significant if it is borne in mind that, whereas there was a steady rise in savings deposits with banks during the decade and whereas the same was true for bonds and shares acquired by the private sector, funds raised from this sector by the State (including the railways), by means of security issues and through post-offices, rose from 108 billion lire in 1947 to 271 billion in 1953 and then gradually dropped to 158 billion in 1957.

Thus the results of the policy pursued in the past ten years in regard to the raising of funds from the private sector are quite clear: the Treasury has relied increasingly on the growth of tax receipts to satisfy its requirements and has deliberately restrained its direct calls on private savings, with the result that gradually, and particularly in the last five years, the collection of savings by banks and subscriptions to bonds and shares by the public have been facilitated; the banks, in their turn, encouraged such subscriptions, which, as we have seen, increased fivefold during the decade.

Government requirements have, however, always been greater than tax receipts and savings obtained by the Treasury direct from private individuals, so that it has been necessary for the banking system to help by subscribing for Government securities; bank reserves have had to be invested partly in Treasury bills and sometimes, too, direct intervention by the central bank has been required.

Such practices have fortunately been limited in recent years by the Government's firm resolve first to reduce the deficit and then finally to balance the budget. Nevertheless, in deciding which instrument of indebtedness it should use less as a result of the diminished requirements, preference had to be given to the one which has been most widely employed since the war — the 9-year Treasury bond, the price of which was too strongly influenced by the substantial volume of bonds in circulation.

The creation of a system for the annual amortisation of these bonds led to an improvement in the price and it was thus possible to make a renewal offer more than a year in advance in respect of the largest series of bonds — the 314 billion lire's worth issued in 1950 and maturing on 1st April 1959.

The renewal operation is meeting with the success expected; according to the latest available data, bonds to the value of 200 billion have already been renewed. Our warm thanks go out to the banks which have been carrying out this operation and doing so with the greatest care.

The Government's decision to stop raising funds by new issues of 9-year Treasury bonds makes it all the more necessary to balance the budget, as it is essential that short-term indebtedness vis-à-vis the private sector and the banking system should reassume its real function of providing only for temporary lags between Treasury expenditure and receipts and not for structural deficits in the budget.

And the present liquid position of the market (which has been causing subscriptions to Treasury bills to rise in the last few months) should not lead us to overlook this necessity. This is clearly a transitory phase; when it comes to an end, the Treasury may be confronted with an inverse trend.

In assessing the pressure of official needs on private savings, not only the requirement deriving from the Government budget but also the no less important one—and one that has increased considerably in the last few years—arising from deficits in the provincial and municipal budgets should be taken into account.

Moreover, there remains the problem of the financing of losses on wheat stockpiles.

Finally, the stepping-up of many public works as an anti-cyclical measure will inevitably raise Treasury requirements in the near future.

Achievements and Problems of Currency Stabilisation.— At the end of a decade in which reconstruction was accomplished with surprising rapidity, and a long-term phase of productive development at an unprecedented rate set in—a phase characterised by the decisive orientation of international trade on principles of the broadest trade and currency liberalisation—Italy is confronted with the need to continue and possibly increase its efforts to solve its fundamental problems in an international climate which will be less propitious, perhaps for some time.

The anti-cyclical instruments now known inspire confidence that, where wise men and the spirit of international co-operation are present, the slowdown now in progress may yield in the near future to a renewal of productive development. One can certainly count on that spirit of co-operation after the many proofs which have been given in the western world in the postwar period, and by which Italy has also benefited.

No one can say, however, whether the high rates of increase of production that marked the decade just ended can be reached again, and reached soon. This will depend on cautious and appropriate economic policies, as well as on the rapidity of technical progress, the future extent of which is unpredictable.

Italy is making ready to cope with the new tasks in an adequately balanced monetary situation; in addition, the trials undergone heretofore impart confidence that when any difficulties

occur, the lessons learned from experience will stand the country in good stead.

A comparison of the monetary conditions at the beginning of the decade with those of the present day shows conspicuous progress. From a broad inflation, which caused a 50 per cent increase in prices in the few months from March to September 1947, we advanced to a condition in which we could successfully withstand the devaluation of sterling in September 1949, the violent expansion of prices caused by the Korean war, the disturbances caused by the Suez events, and, finally, the international monetary crisis of last September.

We have never had to have recourse to the International Monetary Fund, and the gold and dollar reserves, which had practically been wiped out in the autumn of 1947, reached a total of about 1,450 million dollars at the end of March 1958. This amount represents 51 per cent of the currency circulation of the Bank of Italy and is sufficient to cover five months of imports, which in the meantime have increased two and one-half times since 1947.

Therefore, Italy can face calmly enough any temporary phase in which an increase in imports is not accompanied by a parallel movement of exports.

And it must be added that the credit Italy enjoys in international circles is solid and will certainly be maintained if the economic policy of the country continues to be based on respect for the fundamental balances which are a prerequisite of any sound development. It is up to Italy to safeguard the asset of monetary stability from new attacks.

It should be remembered that inflation, which is the crafty enemy of any progress, can reappear on the scene at any moment, both when the economy is growing at a rapid rate and when it is stagnating.

Many policies of the American authorities are now dictated, despite the recession, by the existence of certain symptoms which suggest the possibility of a new spurt of inflation. And the monetary policies of the United Kingdom and Germany are

cautious in abandoning those measures which have had to be adopted to check the inflationary tendencies of production costs.

Italy, too, is in a position in which vigilance against the dangers of inflation cannot be relaxed. It still has the advantage of recording a general level of wholesale prices not higher, but rather slightly lower than the average level of 1948, the first year of the recovery of monetary stability. This level is the result of slightly higher prices of foodstuffs and lower prices of industrial products. In the very recent period from July 1957 to March 1958 as well, there was a slight reduction in the general wholesale price index, also resulting from a drop in industrial prices and an increase in agricultural prices, which have recovered almost entirely the loss of the first part of 1957.

The behavior of the cost-of-living index is not so satisfactory: between 1948 and 1957 it rose by more than 30 per cent. More recently, although the months from September 1956 to June 1957, which marked the beginning and end of the Suez crisis, had elapsed without substantial variations in the index, there was a further increase of 4.1 per cent from June 1957 to March 1958.

There are many explanations for this development. To mention a few, in the last decade, there were: the influence exerted on the index by legal increases in controlled rents, arbitrarily held for too long a time at very low levels, as well as the adjustment of prices of other public services, also kept low by law; the repercussions of the increase in indirect taxes on consumer prices; failure to consider, or inadequate consideration of, the improved quality of goods consumed and services enjoyed in the computation used as a base for the index. Finally, devoid of the causes of variation indicated above, the cost-of-living index is still influenced by the weight of foodstuffs, which is more than proportional to the relative importance of foodstuffs in the composition of domestic production.

As to the very recent period, it is noted that the increase is derived from the poor fruit crop, scanty wine production, and an increase in meat consumption not offset by an increase in supply, in addition to the last increase in controlled rents.

The supply of high quality foodstuffs is becoming increasingly inadequate in relation to demand for export and for internal consumption, so that the measures that are being adopted and will have to be adopted to bring about changes in agriculture to end this inadequacy are understood.

There are many reasons to explain the increase in the cost-of-living index. It must be said, however, that while some of these are not, or only slightly, related to the conditions governing the development of Italy's economic growth, the increases in the cost of living are fully reflected in the cost of labor. This prevents the realisation of more moderate prices for the materials used in domestic investment and at the same time makes exports more difficult.

This fact assumes particular importance in the present economic situation, in which the slowing-down of production that has occurred to some extent everywhere sharpens the conditions of international competition and requires that nothing be done within the country that might shift those incentives that should remain in the area of investment to the area of consumption.

On the other hand, consumption of goods other than food, and especially of industrial goods which can be mass-produced at decreasing costs, is not so well developed in Italy as to cause fear that it will contract substantially, so that it is primarily through a decline in the volume of investment or foreign demand that a pronounced slowing-down of production might originate and continue.

A stimulus to consumption, when not derived from natural reductions of the prices at which consumption is satisfied, would therefore be harmful rather than beneficial; it would not be a way to get out of a weak cyclical situation as rapidly as possible, but a way to aggravate the difficulties that obstruct a clear and lasting recovery.

Therefore, it is not without serious concern that we have recently witnessed the increase of four percentage points in the sliding scale; and the most recent data confirm the cause of

our concern, since the cost-of-living index, for the reasons indicated above, is still rising.

The edifice of monetary stability, even if it has solid foundations, must be safeguarded each day not only from open attacks but also from the many insidious attacks that are capable of undermining it, however slowly.

If this is true in the short run, not many words are needed to point out that monetary stability is indispensable for continuing the savings drive we have been making in recent years, and it is all the more necessary for strengthening this effort, as required in the « Plan for Development of Employment and Income in Italy in the Decade 1955/64 » linked with the name of the late Minister Vanoni. The present abundance of the money supply is in fact only the framework within which that effort can produce more rapid and firm results, but this framework cannot take the place of new capital formation to be used for investments.

If it were permissible to compare stages of economic development that are widely separated in time, one comment would be spontaneous on comparing the progress made in the last ten years with that of the first decade of this century, which was also a period of strong expansion in the formation of national income. Although the rate of increase in income in that period was certainly lower than the rate Italy has been able to record in the last ten years or even in the last five years, on the other hand the portion of income then allocated for capitalisation in new instruments of production was higher.

The achievement of higher quotas of savings to be used for productive investment therefore does not appear impossible for Italy, on the basis of its own experience. The setting of this goal seems necessary, moreover, to make our productive equipment in agriculture and industry not only more capable of keeping pace with the increase in food consumption, but also of coping better with the changes that will take place in Italy's international trade as a result of the establishment of the Common Market.

And let us think also of the effort the State in particular can make, in equipment and endowment, to enlarge the base of scientific research and to promote widespread vocational training, which alone can assure final success in the battle against unemployment.

The experience of the last ten years tells those of us who have followed economic developments closely that, thanks to the saving effort made by the citizens, on many occasions in the course of the development process the inadequacy of capital for carrying out new projects has been felt less than the lack of men to execute them at all levels.

BALANCE SHEET
AND GENERAL PROFIT AND LOSS ACCOUNT

BALANCE SHEET AS

ASSETS		
Gold in the Bank's Vaults	L.	4,229,002,500
Gold deposited abroad, and owed by the Government to the Bank.	»	1,772,798,105
Cash in Hand	»	6,124,154,100
Domestic Bills of Exchange	»	404,875,249,696
Bills for Collection	»	233,137,256
Advances	»	81,443,913,032
Deferred Payments to Clearing Houses	»	4,887,500,000
Available Foreign Balances	»	71,037,494,942
Government or Government-guaranteed Securities	»	72,281,660,942
Premises	»	1
Sundry Debtors	»	1,038,969,437,102
Sundry Items	»	3,310,505,868
Advances to Treasury: Temporary.	»	77,000,000,000
Advances to Treasury: Extraordinary.	»	342,697,000,000
Notes issued by Allied Forces or for their account:		
A.M. Lire issued direct by Allied Forces	L.	113,896,481,370
Italian Currency supplied to the Allied Forces	»	31,245,348,495
	L.	145,141,829,865
		145,141,829,865
Treasury Current Account	L.	169,700,271,565
Investments in Securities for account of the Treasury.	»	345,000,000,000
Sundry Services for account of the Government	»	32,260,029,336
	L.	2,800,963,984,310
Securities and other Valuables Deposited.	»	3,429,551,032,270
	L.	6,230,515,016,580
Items written off in past years	»	31,140,111
	L.	6,230,546,156,691
GRAND TOTAL	L.	6,230,546,156,691

Audited and found correct — Rome, 14th May, 1958.

The Auditors

ALESSANDRO BACCAGLINI
 ALESSANDRO CARETTONI
 BRUNO DE MORI
 FELICE PAPPALARDO
 RAFFAELE PILOTTI

The Accountant General

GUIDO PIERINI

AT 31st DECEMBER, 1957

LIABILITIES

Notes in Circulation	L.		1,913,734,142,000
Bank Drafts, Cashier's Checks and other Sight Liabilities	»		26,454,244,863
Current Accounts	»		139,876,997,748
Time Current Accounts	»		548,144,548,902
Sundry Creditors	»		159,621,867,973
Treasury - Foreign Aid:			
Italian Government - Counterpart Funds (net)	L.	53,955,366,390	
Italian Government - Special Advances Account (Decree Law No. 781 of 7th May, 1948) for the formation of Counterpart Funds, less repayments	»	44,630,429,049	
			9,324,937,341
Net Profit for 1957	L.		426,342,941
Capital	L.	300,000,000	
Statutory Reserves	»	1,855,081,059	
Extraordinary Reserves	»	1,225,821,483	
			3,380,902,542
	L.		2,800,963,984,310
Securities and other Valuables Deposited	»		3,429,551,032,270
	L.		6,230,515,016,580
Items written off in past years	»		31,140,111
	L.		6,230,546,156,691
GRAND TOTAL			

The Governor
DONATO MENICHELLA

**GENERAL PROFIT
FOR THE**

EXPENDITURE

Administration and Contributions to Employees Fund	L.	19,206,445,167	
Board of Directors	»	259,409,083	
Transport of Notes, Coins and other Securities	»	76,028,483	
Printing Notes	»	2,589,500,192	
Premises	»	548,161,362	
			22,679,544,287
Circulation Tax on Notes and Demand Drafts	L.	4,340,433,816	
Income and Corporation Taxes	»	3,154,490,087	
Sundry Taxes and Dues	»	674,171,931	
			8,169,095,834
Bad and Doubtful Debts incurred during the year	L.		3,045
Amounts written off	»		8,619,913,590
Interest and Annuities Payable	»		547,248,563
Charity and other Contributions	»		33,342,630
			L. 40,049,147,949
Net Profits available for Distribution	»		426,342,941
			L. 40,475,490,890
TOTAL	L.		

APPROPRIATION

To Statutory Reserves
To Extraordinary Reserves
10% Dividend to Shareholders
To the Treasury
TOTAL DISTRIBUTABLE	

Audited and found correct — Rome, 14th May, 1958.

The Auditors

ALESSANDRO BACCAGLINI
 ALESSANDRO CARETONI
 BRUNO DE MORI
 FELICE PAPPALARDO
 RAFFAELE PILOTTI

The Accountant General

GUIDO PIERINI

