BANCA D'ITALIA

ABRIDGED VERSION OF THE

REPORT

FOR THE YEAR

1960

PRESENTED TO THE

ORDINARY GENERAL MEETING OF SHAREHOLDERS

HELD IN ROME ON 31st MAY, 1961

ROME
PRINTING OFFICE OF THE BANCA D'ITALIA
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REPORT OF THE GOVERNOR

I. *General Economic Conditions*

Like its predecessor, 1960 was a year of strong expansion for the Italian economy. Its most prominent features were the rise in employment and the growth of foreign trade.

A number of factors helped to keep prices stable in the face of steadily rising demand: there was still some slack in productive capacity to be taken up, labour supply was abundant, and the resources disposable for domestic use increased faster than national income.

Most conspicuous among the components of a sharply rising total demand were the expansion of foreign demand and of domestic investment demand. Thanks to the flexibility of domestic production and to the rise in imports, supply kept in step with demand without any major strain on prices.

The growth of demand called forth an exceptional expansion of employment, the progressive disappearance of reserve capacity and, at the same time, an increase in imports far in excess of export increments. Reversing the trend of the two preceding years, the sharp drop in the balance-of-payments surplus on goods and services account caused total disposable resources for domestic use to grow more than national income.

In the end result, the general price level hardly changed at all and such movements as did occur were largely attributable to particular factors like the relaxation of rent control and a slight increase in agricultural prices owing to adverse weather conditions.

Condensed national accounts for 1959 and 1960 are shown in table 1 below; full details are contained in the *Report on the Economic Situation in Italy,* which was presented to Parliament earlier this spring.

TABLE 1

Condensed National Accounts

(billion lire, at current prices)

Origin of resources	1959	1960	Use of resources	1959	1960
Agriculture, forestry and fishing	2,780	2,749	Consumption:		
Industry	5,812	6,474	— Private	11,356	12,199
Commerce, transportation and services	4,166	4,661	— Public	1,882	2,053
Net product of the public sector	1,720	1,871			
Adjustments	− 1,030	− 1,101	Total consumption	13,238	14,252
Net product at factor cost	13,448	14,654	Gross investment	3,935	4,732
Taxes not included above in the value of goods and services	2,252	2,407	*Total domestic expenditure*	17,173	18,984
Net product at market prices	15,700	17,061			
Net income from abroad	77	71	Exports of goods and services	2,755	3,378
Depreciation	1,700	1,878			
Gross national income	17,477	19,010			
Imports of goods and services	2,451	3,352			
Total	19,928	22,362	Total	19,928	22,362

Gross national income rose in 1960 by 8.8 per cent at current prices and by 6.8 per cent at constant prices. The export surplus on goods and services account having fallen from 304 to 26 billion lire, total resources disposable for domestic use rose by 10.5 per cent in money terms and by 9 per cent in terms of volume.

The value of private consumption went up by 7.4 and its volume by 6.4 per cent. The increase in food consumption—5.2 per cent in real terms—was relatively large; elsewhere the major increments were registered in purchases of transport vehicles and durable household goods (see table 2).

Gross investment expanded by 20.3 per cent at current prices and by 18.2 per cent in real terms. Fixed investment alone, ex-

TABLE 2

Private Consumption

Items	Value (billion lire)		Percentage change in		
	1959	1960	volume	price	value
Bread and grains	1,055	1,089	*2.7*	*0.6*	*3.2*
Meat, fish, eggs and dairy products	2,125	2,282	*5.6*	*1.7*	*7.4*
Oils and fats	384	411	*6.8*	*0.2*	*7.0*
Potatoes, vegetables and fruit	1,109	1,201	*2.3*	*5.8*	*8.3*
Coffee, cocoa, sugar and other foods	458	469	*5.5*	— *2.9*	*2.4*
Alcoholic beverages	696	699	*11.5*	— *9.9*	*0.4*
All foods and beverages	5,827	6,151	*5.2*	*0.3*	*5.6*
Tobacco	520	555	*4.8*	*1.8*	*6.7*
Clothing and other personal effects	1,179	1,269	*5.9*	*1.7*	*7.6*
Housing, fuel and electric power	1,151	1,275	*5.5*	*5.0*	*10.8*
Durable household goods	266	298	*15.8*	— *3.2*	*12.0*
Transport vehicles	150	196	*33.3*	— *2.0*	*30.7*
Transport, communications and tourism	1,084	1,167	*7.7*	—	*7.7*
Entertainment and other recreational and cultural expenditure	595	646	*4.5*	*3.9*	*8.6*
Miscellaneous	1,038	1,125	*8.0*	*0.4*	*8.4*
Total	11,810	12,682	*6.3*	*1.0*	*7.4*
less Duplicated items	454	483	*4.8*	*1.5*	*6.4*
Total private consumption	11,356	12,199	*6.4*	*1.0*	*7.4*

cluding inventory changes, rose by 16.5 per cent in value and by 14.4 per cent in quantity (see table 3). Investment absorbed 24.9 per cent of gross national income and 21.2 per cent of total disposable income, as against 22.5 and 19.7 per cent, respectively, in 1959. The bulk of fixed-investment increments went into the directly productive sectors, while building construction and public works took hardly more than in 1959. The figures for investment increments in agriculture (18.4 per cent), industry (22.7 per cent) and especially in transport and communications (34.0 per cent) were all very high.

What little increase is shown for building construction (2.5 per cent) is entirely due to higher prices. The 6.3 per cent rise in the value of public-works investment corresponds to an increase of only 3.7 per cent in real terms.

TABLE 3

Gross Fixed Investment

Sectors	Value (billion lire)		Percentage change in		
	1959	1960	volume	price	value
Agriculture	450	533	*17.6*	*0.7*	*18.4*
Industry	1,086	1,333	*20.6*	*1.7*	*22.7*
Transport and communications	561	752	*33.7*	*0.2*	*34.0*
Building construction	1,069	1,096	— *0.5*	*3.0*	*2.5*
Public works	380	404	*3.7*	*2.5*	*6.3*
Other	240	292	*19.2*	*2.1*	*21.7*
Total fixed investment	3,786	3,410	*14.4*	*1.8*	*16.5*

Gross national saving, that is gross domestic investment plus the current foreign surplus, rose by 12.4 per cent from 4,407 billion lire in 1959 to 4,952 billion in 1960. With depreciation up from 1,700 to 1,878 billion, the country's net saving rose by 13.6 per cent from 2,707 to 3,074 billion. Of these, 2,854 billion went into net domestic investment, which was 27.7 per cent higher than the year before.

Seen against the background of the trends and tendencies of the last few years, the developments of 1960 not only confirm that this was a boom year, but also shed some light on the more long-term factors of a strictly economic as well as of an istitutional nature which have pulled our economy up towards higher levels of production.

Between 1953 and 1960 total disposable resources in real terms expanded at an annual compound rate of 6.8 per cent, while gross national income and imports of goods and services grew, respectively, at the rate of 5.7 and 13.2 per cent. At the same time, the annual rates of expansion of consumption, gross investment and exports were 4.5, 9.1 and 14.9 per cent.

Investment and exports were the principal expansionary forces. The fact that not only exports, but imports, too, have risen much faster than national income underlines the very close interdependence between income growth and foreign trade and helps to explain why growth so far exceeded the most sanguine expectations at the beginning of the period.

The general conditions of economic activity in 1960 were, at least in part, the result of prior developments.

High liquidity and low interest rates had prepared the ground for recovery. The sharp expansion of foreign demand in the second half of 1959 and the spurt of private investment during the last months of that year gave further impulse to an upswing which had initially been sustained by public investment and the normal growth of domestic consumption demand.

The response of production to higher total demand was immediate, thanks to the existence of unutilized capacity and improved profit expectations in many branches. At the same time, imports were stepped up and eventually, in 1960, forged ahead at an exuberant rate.

By the end of 1959 some branches of industry were approaching full capacity utilization. With the progressive dwindling of capacity reserves the level of employment began to rise and the upward movement subsequently gathered impetus.

During the first half of 1960 the expansionary forces of the preceding two quarters were still in evidence, though they developed at a varying pace. Foreign demand kept on growing fast during the first two months, then there were some ups and downs as well as shifts, especially towards finished industrial products; but though the expansion slowed down, it still continued. Around the middle of the year there was a decline followed by fluctuations for some months. Quite recently there were promising signs of a revival of foreign demand. Investment in plant came to a halt on a high plateau in the summer, after its earlier rapid expansion; during the last few months it began to move ahead once more.

Stockbuilding, which had begum around the middle of 1959, continued at a brisk pace, especially in the early months of 1960.

The prolonged boom made room for an unprecedented growth of employment which, together with higher wage rates, greatly increased the purchasing power of wage earners. This in turn found expression in a sharp expansion of private consumption.

The workers' purchasing power increased by 10.6 per cent, while the gross earnings of agriculture declined slightly; taking the purchasing power of workers and farmers together, the overall increase for the year was 7.3 per cent (table 4).

TABLE 4

Purchasing Power of Wage Earners and Farmers

(billion lire, at current prices)

Period	Money wages		Gross earnings in agriculture (net of agricultural wages) (1)		Total	
	1959	1960	1959	1960	1959	1960
First quarter	1,322	1,440	327	338	1,649	1,778
Second quarter	1,451	1,596	237	252	1,688	1,848
Third quarter	1,478	1,619	889	809	2,367	2,428
Fourth quarter	1,735	1,965	603	613	2,338	2,578
Total . . .	5,986	6,620	2,056	2,012	8,042	8,632

(1) Agricultural wages are included with other dependent labour incomes in money wages.

Domestic consumption demand kept on growing right through the year; the advance actually speeded up towards the end, notwithstanding a contraction of agricultural incomes during the last two quarters.

Investment in plant and equipment, as described above, recently received a fillip from renewed activity in building and public works.

II. *Production*

Agriculture.— Agricultural output in 1960 was 2.6 per cent below that of the preceding year and about level with 1958.

Weather conditions were exceptionally poor. Unusual rainfall at the wrong time of the year did much harm to certain crops, including one or two major ones like wheat and grapes. This was the second consecutive year of bad harvests due to weather conditions; nevertheless, the average production index for the two years was 118.3 (1952-55 = 100) and thus just above the 1958 index of 117.6. Without wheat, the combined index for the two last years would stand at 125.1, or 7.1 per cent above 1958 (117.9).

In both these last two years a strong increase in livestock products was the principal sustaining and stabilizing factor, which made good the shortfall in the harvest and enabled the combined overall production index to rise at least a little.

1960 brought a marked and welcome accentuation of the tendency to increase agricultural inputs. The rate of increase of agricultural investment and of the use of technical means of production had previously slowed down to the extent of coming to a complete standstill in 1958. The first signs of recovery appeared in 1959, and in 1960 the use of technical means and extra-agricultural services increased at almost twice the rate of the preceding year, namely, by 6.1 per cent in terms of value and by 7.2 per cent in terms of volume.

Agricultural investment rallied to still better purpose, the year's increase amounting to 18.4 per cent in value terms, as against 8.7 per cent in 1959 and practically nil in 1958. Purchases of machinery were 12.4 per cent up at current prices and 15.5 per cent at constant prices. Investment in land reclamation, transformation and improvement increased by 20.9 per cent in value and by 18.4 per cent in real terms.

Almost the entire increment was taken up by land improvement on private account with the help of capital grants by the government and the *Cassa per il Mezzogiorno,* as well as of loans by special credit institutes. To finance the higher investment and the increased use of technical means of production farmers took up more credits in 1960, including short-term advances and ordinary loans.

So far as output is concerned, the incidence of weather conditions varied considerably according to location, crops and farming patterns. The worst sufferer was southern agriculture, while the overall results in the northern and central areas were much the same as the year before—in part because harvests were less damaged than in the south and in part because the shortfall was to all intents and purposes offset by higher livestock production.

The past year has demonstrated once again how much agricultural output is subject to the influence of weather conditions, especially in the south. It has also evidenced the structural weakness of agriculture, particularly in a region such as southern Italy, where the more stable forms of animal husbandry contribute but little to total output. Output variations are generally reflected in instability of farm incomes; these are, in any case, rather low in the south where, at the same time, they have a greater share in total income than elsewhere in Italy.

In the event, the value of gross marketable product was very nearly the same as in the preceding year, since higher farm prices offset the quantitative diminution of output.

In spite of the price rise, the value of field and tree crops dropped, respectively, by 6.3 and 0.5 per cent; livestock products, on the other hand, were worth 7.4 per cent more, this figure being the resultant of a 10.8 per cent rise in the value of meat production and a 3.6 per cent rise in the value of other animal products.

The global figures hide some major divergences, both the volume and the price variations having had greatly differing effects on the value of marketable product according to area and to type of farm enterprise. On balance, the value of marketable product was about 2-3 per cent higher in the central and northern parts of the country, and 4-5 per cent lower in the south.

In absolute and aggregate figures, the value of gross marketable product in agriculture amounted to 3,426 billion lire in 1960, as against 3,418 billion in 1959.

Industry.—The advance of industrial activities in 1960 broke all previous records. The annual index calculated by the Central Statistical Institute leapt forward by 13.7 per cent to reach 179.7 (1953 = 100), starting from a level of 158.0 in 1959. The inclusion of building would depress the figure for the year's advance to 11.9 per cent, but even this would still be the highest since the war. Building construction, in fact, remained almost stationary; a slight contraction in residential building (0.5 per cent) and in public works construction (0.7 per cent) was offset by a 3.9 per cent increase in non-residential building.

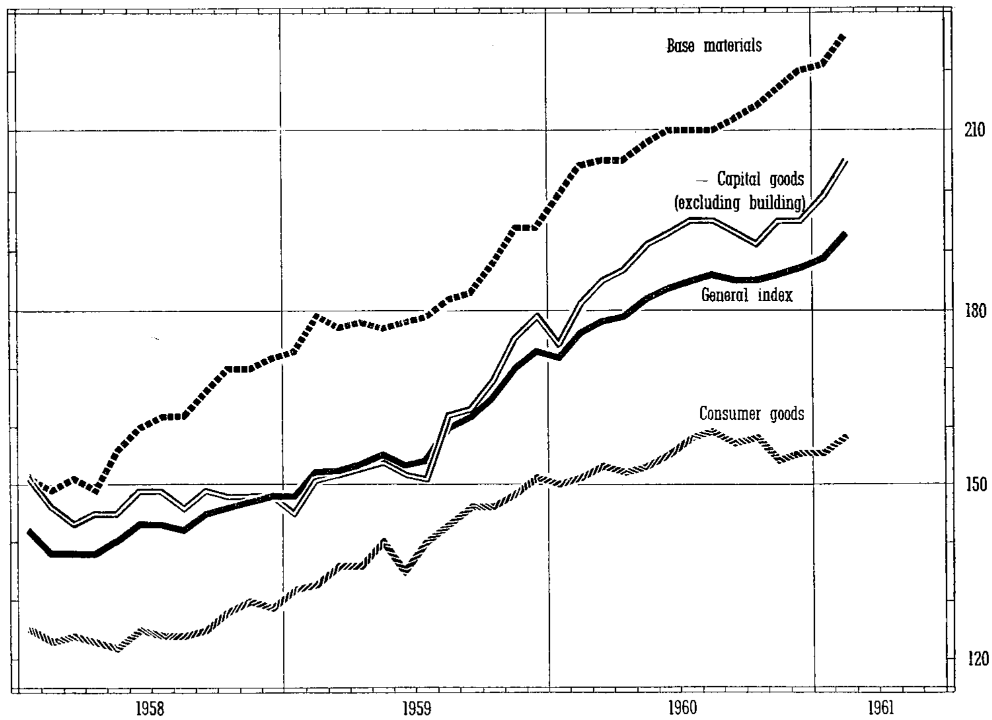
The significance of the quantitative expansion of industrial production in 1960 is enhanced in the light of the fact that the preceding year was already one of booming activity which had lifted the production curve well above the trend line of the period beginning with 1953. While the index of industrial production had risen by an annual average of 7.3 per cent from the base year up to and including 1958, the annual average rise of the last two years was 12.5 per cent.

That our industry has been able to go from strength to strength is due primarily to the extension and modernization of industrial plant and equipment. The other major contributing factors were growing domestic consumption demand buttressed by rising employment and wage rates, higher foreign demand, and stock-building to meet the requirements of higher production. Combined in a causal nexus with the steady expansion of investment, all these factors helped to impart a vigorous forward movement to industrial production.

Capital goods surged ahead at an exceptional rate, leaving behind even base materials. Consumer goods trotted along at a more normal pace. Excluding building, the increase in the production of investment goods was 19.4 per cent, as against 7.7 per cent in 1959 and 9.6 per cent on the average of the period 1953-60 (see chart 1).

The metallurgical and engineering industries were the principal contributors, with metallurgical products up 23 per cent, transport equipment (for non-private use) up 22 per cent, and engineering products up 20 per cent. All these increments were more than three times as big as those of 1959, which in themselves were satisfactory enough. Furthermore, being average sectoral figures, they obscure from view a few even higher peaks: in iron and steel the year's increase in output was 25 per cent, in motor vehicles 43 per cent (which in turn hides a record advance of 71 per cent in industrial motor vehicles), and increases in the range between 35 and 45 per cent were registered by other

CHART 1



General index of industrial production
and indices of production of base materials, capital goods and consumer goods
(1953 = 100; seasonally adjusted)

major engineering products, such as textile machinery, farm tractors and precision instruments.

Only very few branches failed to join in the general forward movement. The most important case in point is shipbuilding, which had another setback amounting, this time, to 18 per cent. Building materials, though below average, increased by 13 per cent, thanks to higher foreign demand which enabled the previous year's rate of growth to be maintained.

The 1960 increase in the production of base materials, too, was in excess of the 1959 figure and even more so of the average rate of increase of the last seven years (11.2 per cent). All the major branches made their contributions to the increment, the biggest coming from the rubber industry (28 per cent), petroleum and coal derivatives (18 per cent) and the chemical industry (16 per cent). The latter owed much to growing demand for plastics and artificial fibres, to increased use of fertilizers in agriculture, to higher activity in the user industries and to larger foreign sales.

Power generation benefited from abundant rainfall and rose by 14 per cent; the proportion of thermo-electric power was rather smaller than the year before.

The increase in the production of consumer goods was, at 6.6 per cent, well below the exceptional rate of 1959 (12.8 per cent); nevertheless, it was sufficient to keep the production curve above the trend line for the period 1953-60, when the average compound rate of annual increase was 6.1 per cent. As in the preceding year, consumer durables led the advance (13.6 per cent), followed

TABLE 5

Percentage Changes in the Indices of Industrial Production

(seasonally adjusted figures; 1953 = 100)

Indices	Periods					
	Dec. 59 / Dec. 58 12 months	Dec. 60 / Dec. 59 12 months	June 60 / Dec. 59 6 months	Dec. 60 / June 60 6 months	Feb. 61 / Oct. 60 4 months	Feb. 61 / Feb. 60 12 months
GENERAL INDEX (excluding building)	16.9	8.5	6.6	1.7	4.7	9.9
Base materials and fuel	*13.1*	*13.5*	*8.2*	*4.8*	*5.8*	*11.1*
— Chemical products and oil and coal derivatives	13.4	14.5	9.4	4.6	7.5	12.9
— Electricity and gas	10.5	12.8	3.8	8.6	2.7	6.6
— Other	15.2	9.6	9.3	0.3	2.8	9.0
Capital goods (excluding building)	*20.9*	*9.3*	*7.7*	*1.5*	*7.3*	*13.0*
— Metallurgical products	19.3	12.0	7.9	3.8	10.4	9.7
— Engineering products	19.3	10.9	10.5	0.4	6.2	15.8
— Transport equipment	28.8	— 2.1	1.3	— 3.4	3.4	5.7
— Building materials	18.4	14.2	9.5	4.3	8.4	21.0
Consumer goods	*16.4*	*2.7*	*3.2*	*— 0.5*	*0.2*	*4.8*
— Non-durables	7.0	7.0	5.2	1.7	— 0.1	8.7
— Semi-durables	15.4	3.7	5.8	— 2.0	1.3	3.2
— Durables	37.4	— 7.9	— 6.3	— 1.7	— 1.6	1.1

by semi-durables (11.4 per cent). Non-durables were almost stationary with an increase of only 0.9 per cent.

To assess the developments of 1960 in their true light, they have to be set against the background of mid-1959, when industrial activity began to resume its advance after a period of faltering. In the span of 18 months the index of industrial production rose by 22.4 per cent from 152.8 (June 1959) to 187.1 (December 1960).

Vigorous as the advance was, it proceeded at steadily declining rates for each successive six-month period. After the remarkable spurt between July and December 1959 (12.9 per cent), industrial expansion settled down to the more pedestrian pace of 6.6 per cent during the first six months of 1960, and finally slowed down to 1.7 per cent during the last two quarters of the year (see table 5).

III. *Prices*

Wholesale Prices.— The almost complete constancy of wholesale prices in 1960 bears witness to the basic stability of our economic system.

The upward movement which had set in after July 1959 and had followed a year's decline, spent itself in January 1960. Wholesale prices then tended to give way a little until June, when they settled down for some months. Towards the end of the year there were signs of a renewed slight increase.

At the end of 1960, the Central Statistical Institute's wholesale price index stood just 0.3 per cent lower than in December 1959 and 0.4 per cent higher than at end of 1958. The average index for the year was 0.9 per cent higher than the average index for 1959, owing to parallel increases in food and industrial prices.

More recently still, during the first quarter of the current year, the wholesale price index remained to all intents and purposes unchanged. In March, the index was a little higher (0.8 per cent) than last June, but almost the same as in December 1959.

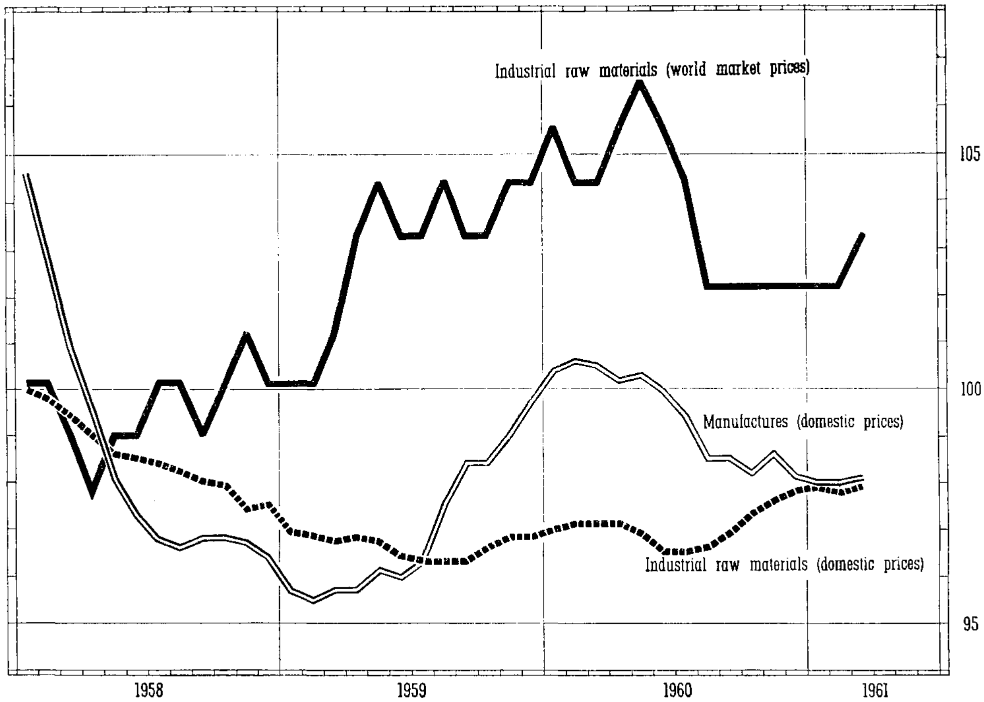
In spite of the poor harvest, domestic wholesale prices for food and agricultural products rose little on the average over the year and were 1.2 per cent lower at the end of 1960 than they had been twelve months earlier. It is true that the harvest shortfall pushed the respective index up by 4 per cent, but this increase was offset by a fall in the wholesale price index for livestock products (about 6 per cent) and for processed foods (2.4 per cent).

There was no appreciable change in the prices of industrial raw materials and manufactures. Complete stability during the first four months was followed by a slight decline during the next four months; towards the end of the year a slight rise lifted the December index to just above (0.3 per cent) its 1959 level.

Separate analysis of the domestic wholesale prices of industrial raw materials and manufactures shows the former to have been sensitive to the fall in world market prices. The domestic index fell by 1.6 per cent over the whole year, most sharply between June and December; during the first quarter of 1961 it remained more or less stable (chart 2). Manufactures did not follow suit, but kept to the relatively stable level of the last few years. There was a slight decline last June and July, and then a slight recovery, involving nearly all products except chemicals.

What little reduction there was in 1960 in the general wholesale price level, is entirely attributable to consumer goods, the wholesale price index of which fell by 0.9 per cent between December 1959 and December 1960. High production demand lifted the prices of capital goods a little (1.2 per cent), while the increase in auxiliary materials was almost negligible (0.5 per cent). Capital goods continued to become dearer during the first quarter of this year (see chart 3).

CHART 2



Indices of wholesale prices for industrial raw materials and manufactures and of world market prices for industrial raw materials

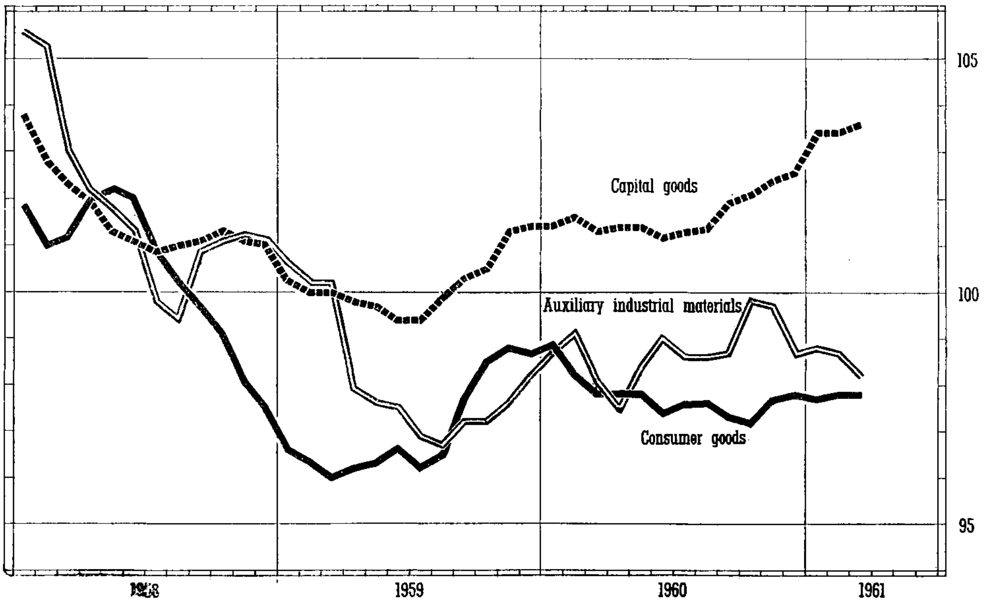
(1953 = 100)

Retail Prices and the Cost of Living.— The general retail price level went up a little less (1.4 per cent) during 1960 than during the preceding twelve months (1.8 per cent). The rise is entirely attributable to higher prices for non-food products and services (3.1 per cent); food prices actually retreated a little (0.3 per cent).

On the other hand, the annual average retail prices, which had hardly moved at all in 1959, rose by 2.3 per cent in 1960 and the annual average cost-of-living index went up just a little more than that (2.7 per cent).

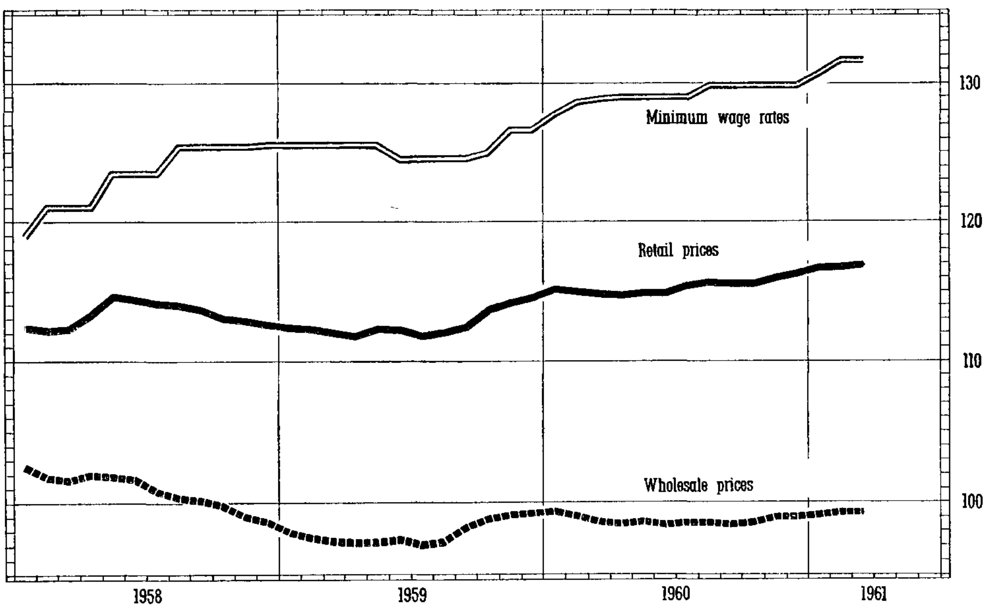
In 1959, retail prices had risen rather more (3 per cent) than wholesale prices during the second half of the year; during the first four months of 1960 they fell back a little, only to resume their gentle climb for the rest of the year. Since January of this year retail prices have not moved (chart 4).

CHART 3



Price indices for consumer goods, capital goods and auxiliary industrial materials
(1953 = 100)

CHART 4



Indices of wholesale and retail prices and of wages in industry
(1953 = 100)

As in the last few years, non-food products and even more so services were the principal determinants of the general retail price level. Actually, the retail prices of manufactures rose by only 0.5 per cent last year, while services increased by 8 per cent on the average. The main items in this group are rent (9.7 per cent as a result of a relaxation of rent control) and miscellaneous services (12.6 per cent).

Food prices, while of course reflecting seasonal supply variations in short-term oscillations, remained almost stationary over the first ten months of the year. In November and December, retail prices rose somewhat in sympathy with wholesale food prices.

As a result of changes in the special index relevant for the application of sliding wage scales in industry and commerce, cost-of-living allowances were raised by two points in the course of 1960, one from May onwards and the other from November. The wage level itself also rose, partly because a good many agreements came up for renewal.

IV. *The Exchange of Goods and Services*

The Exchange of Goods.— The most striking feature of Italy's sharply expanding merchandise trade in 1960 was that imports grew very much more than exports. The resulting deterioration in the balance on merchandise account was to some extent mitigated by an improvement in the terms of trade.

The aggregate value of imports and exports taken together rose by 33 per cent, from 3,926 billion lire in 1959 to 5,232 billion in 1960. Imports (cif) rose in value from 2,105 to 2,951 billion lire, that is by 40 per cent, and exports went up from 1,821 to 2,281 billion, that is by 25 per cent. As a result, the trade deficit widened from 284 to 670 billion, and the proportion of imports covered by exports fell from 86 to 77 per cent.

The relatively larger increase of imports in comparison with exports reversed the position of the previous year, when exports had expanded much more than imports. Compared with 1958, 1960 imports were 47 per cent and exports 42 per cent higher.

According to the indices of the Central Statistical Institute, the cif prices of imported goods fell on the average by about 1 per cent, while export prices were 4 per cent higher. On the basis of these figures, the year's increase in the volume of imports therefore works out at 42 per cent and that of exports at 20 per cent.

Quantitatively speaking, the import expansion was led by industrial manufactures and semi-manufactures, followed by foodstuffs and industrial raw materials (table 6). By contrast, imports of auxiliary materials for industrial use rose at only half the average rate.

TABLE 6

Value of Imports and Exports, by Main Groups

Items	1959 (billion lire)	1960 (billion lire)	1960 Indices (1959=100) Value	Price	Volume
IMPORTS (cif)					
Foodstuffs and livestock	404	547	135	94	144
Industrial raw materials	443	633	143	107	134
Semi-manufactures	369	561	152	101	150
Manufactures	521	792	152	97	156
Auxiliary materials	368	418	113	93	122
Total	2,105	2,951	140	99	142
EXPORTS (fob)					
Foodstuffs and livestock	334	355	106	109	97
Industrial raw materials	56	63	112	103	108
Semi-manufactures	279	333	119	100	119
Manufactures	1,021	1,395	137	105	130
Auxiliary materials	131	135	103	94	110
Total	1,821	2,281	125	104	120

The reasons behind this extraordinary growth of imports were largely cyclical and partly structural; fortuitous factors also played some part in it.

The marked increase (44 per cent) in the quantity of food imported can, up to a point, be attributed to poor harvests of certain crops in Italy, notably wheat and olives; but it also reflects the difficulties and the slowness with which agricultural output is adapting to growing demand and changing consumer tastes. As a result there is a definite tendency for our food imports to increase, especially as regards livestock products and animal feeding stuffs. Cyclical factors connected with the appreciable rise in incomes and consumption are clearly discernible in the rates of increase of some higher-priced items.

The volume of imports of raw materials and auxiliary materials for industry together was 20 per cent higher than in the preceding year. Given the close connection between industrial production and these imports, about half the increment can probably be imputed to stock building, and the other half to structural factors and cyclical income growth.

Of the 50 per cent increment in semi-manufactures, part was no doubt required for our own higher industrial output. Another part is accounted for by processing for re-export, which is growing steadily with the extension and modernization of industrial plant in Italy. Another contributing factor, apart from stock building, was that some branches reached their capacity limits during the year. The incidence of this last factor was particularly notable in the iron and steel industry, which imported 80 per cent more semi-manufactures last year.

The quantitative increase in imported manufactures was 56 per cent in 1960, and for capital goods alone 63 per cent. Here again the structural factor is assuming growing importance, mainly as a result of specialization within the framework of the European Economic Community. Nevertheless, the greater part of the increment can safely be attributed to the boom conditions of the Italian economy and especially to high fixed investment. Domestic supply was not in all cases in a position to satisfy the exceptionally growing demand, so that imports had to be drawn on to meet not only the demand for capital goods not produced in Italy, but also excess demand for domestic ones.

On the export side, the 20 per cent overall increase, in terms of volume, breaks down as follows: manufactures 30 per cent, semi-manufactures 19 per cent, industrial raw and auxiliary materials 8-10 per cent; food exports actually dropped by 3 per cent.

As regards the value of exports, two fifths of the year's increment were contributed by the engineering industries, which stepped up foreign sales by 35 per cent and now account for nearly one third of all our exports, and another fifth by textiles, the foreign sales of which rose by 30 per cent.

Within the engineering sector, there was a clear shift towards products incorporating a higher proportion of value added, and a similar shift took place within textile exports, where raw materials contracted, semi-finished products rose by 20 per cent, piece goods by 26 per cent and finished articles by 51 per cent. All textile branches were able to sell more abroad, but cotton and silk were in the forefront with increases exceeding 35 per cent.

Exports of chemicals continued to expand at a steady pace (26 per cent) and earned 35 billion lire more than in 1959. The same can be said of leather articles and footwear, the foreign sales of which were 37 per cent higher than the year before and five times as high as in 1953. The rubber industry scored very good export gains (67 per cent), thanks largely to strong foreign demand for rubber tyres. The miscellaneous group, which includes the whole range of Italian crafts, exported 30 per cent more. Export increases in foodstuffs (6 per cent) and in petroleum and coal derivatives (4 per cent) were far below average.

Between 1953 and 1959 Italy's share in the total of manufactures exported by the principal industrial countries had risen from 3.3 to 4.5 per cent. This trend was accentuated during the first nine months of last year, when the annual rate of increase exceeded that of all other industrial countries: in 1960 Italy's share rose further to 5.4 per cent, while that of the United Kingdom dropped from 17.3 to 16.3 per cent and that of Germany from 19.1 to 18.8 per cent.

The geographical pattern of Italy's foreign trade underwent marked changes in 1960 (table 7), which reflect the altered composition of foreign trade, Italy's growing integration in the European Economic Community, liberalization of dollar imports, the resumption of trade relations with the Eastern bloc, and finally the measures to promote the export of capital goods to developing countries.

Table 7

Geographical Distribution of Italy's Foreign Trade

(*billion lire*)

Countries	Imports (cif)			Exports (fob)		
	1958	1959	1960	1958	1959	1960
OEEC countries and associated countries and territories	*882*	*1,046*	*1,464*	*861*	*1,026*	*1,293*
EEC countries (1)	430	561	818	380	501	674
EFTA countries (2)	370	383	482	356	403	475
Other countries (3)	27	40	88	70	66	83
EEC associated countries and dependencies	26	33	38	21	22	17
Other associated countries and dependencies	29	29	38	34	34	44
American countries	*492*	*398*	*640*	*347*	*396*	*434*
United States	328	234	417	159	216	241
Canada	30	19	41	19	21	26
Argentina and Brazil	77	91	121	57	63	78
Other countries	57	54	61	112	96	89
Non-participating Sterling Area	*278*	*248*	*307*	*102*	*93*	*143*
Eastern bloc countries	*73*	*105*	*181*	*76*	*98*	*133*
Rest of the world	*285*	*308*	*359*	*225*	*208*	*278*
Total	*2,010*	*2,105*	*2,951*	*1,611*	*1,821*	*2,281*
Industrial countries (4) (5)	*1,272*	*1,297*	*1,897*	*952*	*1,182*	*1,477*
Underdeveloped countries	*665*	*703*	*873*	*583*	*541*	*671*

(1) Belgium-Luxembourg, France, Western Germany and the Netherlands.
(2) Austria, Denmark, Norway, Portugal. Sweden, Switzerland and the United Kingdom.
(3) Greece, Iceland, Ireland, Spain and Turkey.
(4) EEC and EFTA countries, United States, Canada, Australia, New Zealand, Japan, Union of South Africa.
(5) Excluding eastern bloc.

The figures clearly show the effect of European economic integration. Italy bought 46 per cent more from other Common Market countries and sold 35 per cent more to them. The corresponding figures for our trade with EFTA countries are 26 and 18 per cent.

Imports from the United States rose by 78 per cent and exports to them by only 12 per cent, so that the trade deficit widened from 18 to 176 billion lire. This latter figure alone represents 41 per cent of the overall worsening of our balance on merchandise account between 1959 and 1960. The revival of our trade with the Eastern bloc pushed the respective imports up by 72 per cent and the exports by 36 per cent. Our larger exports to the non-participating sterling area (54 per cent) and to the rest of the world owe much to the development of the system of export credits for the supply of capital goods to developing countries.

Separate figures for Italian trade with industrial and underdeveloped countries are shown in the table to confirm that in Italy, as elsewhere in world trade, there is a tendency for exchanges among industrial countries to expand relatively more than trade between countries at widely different stages of economic development.

International Transportation, Tourism and Emigrants' Remittances.— The estimates for the balance on transport account for 1960 put the final overall deficit at 105 million dollars, which is 40 million dollars more than in 1959. The deterioration is principally due to an increase in imports carried by rail and under foreign flags, though on this latter count there was some compensation in the Italian fleet's larger passenger traffic and shipping on account of third parties. The balance in respect of transport by air also improved once more.

Including in foreign exchange receipts also the savings made when imports and Italian passengers are carried under our own flag, shipping earned 319 million dollars in 1960 and air transport 66 million (256 and 51 million dollars, respectively, in 1959).

The number of tourists who visited Italy last year was 7.3 per cent higher than in the previous year, which, however, had a slightly bigger rate of increase (9.8 per cent). Unlike 1959, when there was a considerable inflow of new tourists from Western Europe and much the same as before from America and the non-participating sterling area, the Olympic Games in 1960 attracted many more tourists from Latin America (26 per cent), the non-participating sterling area (22 per cent) and North America (13 per cent); by contrast, few additional visitors came from Common Market countries and the United Kingdom.

Foreign exchange receipts from the tourist trade amounted to 642 million dollars in 1960, which is 21 per cent more than in 1959. It follows that average spending per head was 13 per cent higher. The explanation lies in the relatively larger number of overseas tourists, who generally stay longer and spend more than European ones.

Emigration, both permanent and seasonal, increased substantially during the year. The Central Statistical Institute provisionally estimates that permanent emigration, measured by the excess of Italians leaving over those entering the country increased by about 30 per cent during the year—thanks mainly to larger outflows of people to Germany, France, the United States and Australia. In its turn, assisted seasonal migration, according to Ministry of Labour and Social Insurance estimates, rose by 50 per cent, Germany and Switzerland taking most of the additional migrants.

Emigrants' remittances from abroad amounted to 368 million dollars in 1960, as against 316 million the year before. Of the total, 204 million dollars are shown in the balance of payments under unilateral transfers as remittances from emigrants permanently resident abroad, and the remaining 164 million dollars under services as earnings by temporary emigrants.

Foreign Exchange Operations and Policy. — Since November 1959, Italian banks authorized to engage in foreign transactions have been allowed to build up their own holdings in foreign exchange for purposes such as repaying foreign bank credits, financing foreign trade, investing in foreign money-market assets and keeping bank deposits abroad. Some months later, in August 1960, a new provision enjoined the banks to liquidate any balance of foreign-exchange indebtedness by the end of the year;

the time limit was later extended by a month to January 31, 1961. Banks are allowed a certain ceiling up to which the Italian Exchange Office will cover their net foreign exchange position resulting from spot and forward operations together; under the impact of the obligation to settle the balance of foreign exchange debts, the banks increasingly availed themselves of facilities under this so-called spot-and-forward ceiling and by March 1961 had taken up a total of 516 million dollars on this count. They did so almost entirely by buying spot dollars from the Italian Exchange Office against lire, the Exchange Office undertaking to take the dollars back, *i.e.* repurchasing them forward at the same rate (generally for the end of the second month following the month of sale). This means that the Exchange Office assumed dollar risks in the same amount and so provided indirect support for the US currency on the exchange market. These various operations in turn reduced Italy's official dollar reserves and raised the dollar credits of Italian banks to foreign, other than US, banks (Eurodollars).

The Italian banking system has been increasing its stake in Eurodollars for reasons not all of which are concerned with the foreign exchange market and the domestic and international money markets. What happened was that, legitimately enough, the Italian banks were anxious not to lag behind the banks of other countries in financing international trade—as is clearly demonstrated by the fact that there was often no difference at all between the lending and the borrowing rates of interest.

The obligation to liquidate foreign exchange debt balances caused considerable changes in the volume and composition of the banks' foreign assets, but had negligible effects on their liabilities. The extent of the development of our participation in the Eurodollar market can be seen from a comparison of Italy's dollar deposits recorded by the Italian Exchange Office and those standing in Italy's name in the United States according to the Federal Reserve Bulletin, even though the two series are not fully comparable (table 8).

In the course of 1958 and 1959 Italian banks had taken up a lot of credits abroad, not only because interest was lower than

TABLE 8

Deposits Abroad of Italian Dollar Assets

(end-year figures, in million dollars)

Items	1958	1959	1960
A. *Italian Exchange Office Statistics:*			
a) Official deposits	930.5	1,119.1	730.9
b) Bank deposits	153.1	202.5	477.3
Total . . .	1,083.6	1,321.6	1,208.2
B. *Federal Reserve Statistics:*			
Deposits in Italy's name	1,121.0	1,369.0	934.0
C. = A — B (Eurodollars)	— 37.4	— 47.4	274.2

at home, but also because this helped to attract clients from domestic competitors. This practice diminished after the provisions of November 1959, which were concerned with the best use to be made of excess liquidities, and came to an end altogether after the further measures of last August, which were specifically designed, amongst other things, to ease international liquidity.

Last February it became again possible to take up foreign credits on the basis of new directives to the banking system which, while instructing the banks not to draw any further on spot-and-forward facilities, authorized them to deduct forward commitments in the computation of the debt balances to be liquidated. This made room for borrowing abroad through swaps.

The pattern of the Italian banks' foreign exchange operations was determined not only by domestic regulations, but also by the shifting scene of money rates and spot and forward exchange rates on Italian and foreign markets. The banks accordingly not only varied the total amount of their foreign assets and liabilities, but redistributed them internally as between different currencies.

All in all it may be said that in the course of 1960 comparative interest rates, speculative factors, forward rates and institutional measures combined to induce Italian banks to increase both their dollar assets abroad and their dollar credits to Italian clients. The first development is reflected in a corresponding increase in the banks' foreign assets (table 9), while

TABLE 9

The Italian Banks' Foreign Exchange Assets and Liabilities

(end-month figures, in million dollars)

Currency	1959 December	1960 June	1960 December	1961 March
In dollars				
Assets	270.0	388.1	598.7	687.8
Liabilities	362.0	337.5	457.9	459.5
Balance	— 92.0	50.6	140.8	228.3
Net forward commitments	205.4	94.1	— 16.0	36.8
In Swiss francs				
Assets	44.4	31.6	49.4	72.2
Liabilities	137.5	120.5	70.4	84.2
Balance	— 93.1	— 88.9	— 21.0	— 12.0
Net forward commitments	— 210.3	— 197.2	— 104.0	— 110.4
In sterling				
Assets	78.0	93.0	127.6	144.8
Liabilities	146.5	128.7	150.1	165.9
Balance	— 68.5	— 35.7	— 22.5	— 21.1
Net forward commitments	31.4	59.9	85.6	47.1
In other currencies				
Assets	42.3	38.9	61.5	66.9
Liabilities	50.5	51.7	64.8	77.6
Balance	— 8.2	— 12.8	— 3.3	— 10.7
Net forward commitments	— 62.3	— 15.6	— 21.5	— 19.6
Total				
Assets	434.7	551.6	837.2	971.7
Liabilities	696.5	638.4	743.2	787.2
Balance	— 261.8	— 56.8	94.0	184.5
Net forward commitments	— 35.8	— 58.8	— 55.9	— 46.1

the second happened largely at the expense of Swiss franc and sterling assets and did little to raise the total of foreign-currency credits to Italian residents (table 10).

The volume of the Italian banks' forward transactions fluctuated considerably in the course of 1960, mainly in connection

TABLE 10

The Italian Banks' Foreign Exchange Credits to Domestic Customers

(end-month figures, in million dollars)

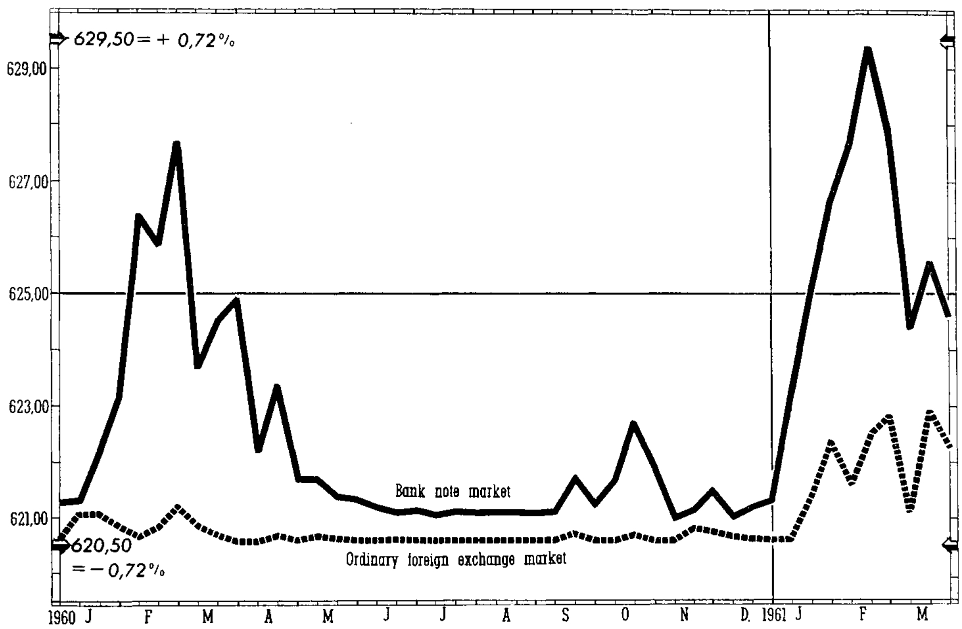
Currency	1959 December	1960 June	1960 December	1961 March
In dollars	51.4	249.1	465.1	478.2
Rate of interest	*5.25-5.50*	*5.25*	*5.25*	*5.25*
In Swiss francs	337.4	304.7	140.8	147.4
Rate of interest	*4.25-5.50*	*5.75-5.00*	*5.25*	*5.25*
In sterling	85.0	36.5	13.7	10.0
Rate of interest	*4.50-5.00*	*5.75-5.50*	*6.25*	*6.25*
In other currencies	95.4	44.2	48.9	53.3
Rate of interest	*5.00-6.50*	*5.25-6.50*	*5.25-6.50*	*5.25-6.50*
Total . . .	569.2	634.5	668.5	688.9

with the lira's forward rate. Since last February, an additional determining factor has been the above-mentioned directive under which swaps became possible.

London is the only market which currently quotes forward rates for the lira; when currencies other than sterling (mostly dollars) were involved in the Italian banks' forward operations, they did a double swap. Spot sales and the connected forward purchases of foreign exchange against lire both go through non-resident lire accounts. Consequently both transactions fall under the provision which requires 50 per cent of the balance on non-resident lire accounts to be held with the Central Bank in the so-called M accounts, which bear interest at 0.50 per cent a year.

Another pattern of operations is possible when non-residents transfer money from ordinary to capital non-resident accounts in lire. In that case the foreign bank gets a much higher interest (3.50 per cent) and the Italian bank has to pay over nothing for compulsory reserves. The choice between the two methods is influenced, among other things, by the comparative rates on the ordinary foreign exchange market and the special bank note market (*Gestione Biglietti*), on which lire balances on non-resident capital accounts can be converted into foreign exchange. The switch to capital accounts becomes more attractive when the gap between the two exchange rates narrows (see chart 5).

CHART 5



The dollar rate on the domestic exchange markets

(*lire per US dollar*)

On February 15 of this year Italy took the last formal step to convertibility by joining other countries in notifying the International Monetary Fund of her acceptance of Article VIII of the Fund's Statutes. Under this article, it will be recalled, countries assume the obligation to maintain currency convertibility for current transactions and to abstain from applying any restrictions on current payments or any currency discrimination without prior approval of the Fund.

With European currencies freely convertible for current transactions, further steps were taken also towards the liberalization of capital movements. Italy has now given effect to the directive of the Council of the European Economic Community which is designed to liberalize capital movements among the member countries in accordance with Articles 5 and 67 of the Rome Treaty.

In September 1960 general authorization was given for all capital movements indicated in Article 1 of the directive, and in February 1961 a Ministerial Decree authorized special medium- and long-term credit institutes and finance companies in Italy to hold foreign securities, as provided by Article 2 of the directive. In accordance with the provisions of this decree, the Interministerial Committee on Credit and Saving then fixed at 20 per cent the maximum permissible ratio between the value of foreign security purchases and the paid-up capital and reserves of the institutes and companies concerned. On this basis, the latters' potential foreign security holdings can be calculated to be up to 170 million dollars.

In the field of aid to developing countries, Italy contributed both real resources and finance. At present, legislation is under preparation to enlarge the potential scope of financial assistance to foreign countries (Draft Bill n. 1347, which has already been approved by the Senate).

The main feature of this bill is that it introduces, alongside the traditional forms of export credit, special long-term credit facilities to the foreign importer, with maturities up to—and in exceptional cases more than—ten years. These facilities are, furthermore, not necessarily tied to Italian exports. The new provision will, in the event of its adoption, also help indirectly to normalize the procedures of the domestic money and capital markets, in so far as it will then be possible to draw on the capital market for consolidating export credits to developing countries. These operations have so far had to rely on finance furnished by the monetary authorities.

However, if Italy will thus possess the institutional facilities to make suitable arrangements for her own contributions to assistance to developing countries, the authorities will have to draw up a foreign aid programme and to decide how much of domestic resources can be deflected to this purpose. From the structural point of view, Italy still has to carry forward her own development policy and to provide training and jobs for a large mass of labour; in the shorter view, the position of our reserves enables us at present to intervene in favour of international monetary equilibrium. Any programme of aid to developing countries will have to allow for these two circumstances as a general principle and in fixing the amount of our contribution.

As regards the past year, Italy transferred about 198 million dollars' worth of resources to developing countries, as against 181 million in 1959. The main factors behind the increase were the export credits for capital goods exports and direct investment; the latter amounted to 57 million dollars, and the former, calculated on the basis of the respective sales contracts, probably to around 125 million dollars.

V. *The Balance of Payments*

In the balance on goods and services account, duly adjusted to the definitions of the overall balance of payments, merchandise imports amounted to 4,201 and exports to 3,572 million dollars. As a result, the merchandise trade deficit increased from 133 million dollars in 1959 to 629 million (Table 11). Invisible items on current account showed a surplus of 971 million dollars, as against 888 million in 1959. The improvement was largely due to higher tourist receipts and workers' and emigrants' remittances, though part of these increments were re-absorbed by higher disbursements under the headings transport and investment income. Capital movements—including the " balancing items", which account also for the inflow of lire bank notes from abroad and for the leads and lags between trade and exchange data—yielded a net surplus of about 95 million dollars in both years. The surplus on goods and services account, which had risen from 208 million dollars in 1958 to 486 in 1959, tumbled down to a mere 28 million in 1960.

TABLE 11

Overall Balance of Payments (1)

(million dollars)

Items	Credit 1959	Credit 1960	Debit 1959	Debit 1960	Balance 1959	Balance 1960
A. *Goods and Services*						
Goods (fob)	2,860.0	3,571.5	2,993.0	4,200.8	– 133.0	– 629.3
Transport	406.5	495.9	470.9	600.5	– 64.4	– 104.6
Insurance	32.4	38.8	31.6	40.9	0.8	– 2.1
Foreign travel	529.9	642.4	81.8	92.2	448.1	550.2
Investment income	93.4	83.6	98.2	113.4	– 4.8	– 29.8
Workers' remittances	146.1	164.0	18.5	21.0	127.6	143.0
Government services	82.3	67.3	80.8	77.7	21.5	– 10.4
Miscellaneous	256.8	317.8	166.5	207.1	90.3	110.7
Total	4,407.4	5,381.3	3,921.3	5,353.6	486.1	27.7
Offshore procurements and military services	74.8	87.7	1.6	0.6	73.2	87.1
Total	4,482.2	5,469.0	3,922.9	5,354.2	559.3	114.8
B. *Unilateral Transfers*						
Emigrants' remittances	170.2	204.3	—	—	170.2	204.3
Other donations	51.5	41.3	—	—	51.5	41.3
Reparations	—	—	18.9	10.8	– 18.9	– 10.8
Aid to Somaliland	—	—	7.9	6.5	– 7.9	– 6.5
Miscellaneous aid	—	—	—	1.0	—	– 1.0
Total	221.7	245.6	26.8	18.3	194.9	227.3
Intergovernmental grants	0.8	—	—	—	0.8	—
Total	222.5	245.6	26.8	18.3	195.7	227.3
C. *Total of* A + B (excluding extraordinary government transactions)	4,629.1	5,626,9	3,948.1	5,371.9	681.0	255.0
D. *Total of* A + B	4,704.7	5,714.6	3,949.7	5,372.5	755.0	342.1
E. *Capital Movements* (2)						
Contractual repayments:						
a) Public	—	—	67.1	38.0	– 67.1	– 38.0
b) Private	—	—	13.0	13.9	– 13.0	– 13.9
Foreign borrowing and lending:						
a) Public	6.4	4.3	– 107.4	– 81.4	113.8	85.7
b) Private	—	—	– 99.7	– 23.4	99.7	23.4
Investment abroad and from abroad:						
a) Public	– 24.7	– 15.7	—	—	– 24.7	– 15.7
b) Private	– 42.3	– 127.8	– 227.1	– 444.7	184.8	316.9
Total	– 60.6	– 139.2	– 354.1	– 497.6	293.5	358.4
F. *Monetary Movements*						
a) Official gold and convertible currency holdings	– 877.2	– 127,2	—	—	– 877.2	– 127.2
b) Other official assets abroad (3)	– 258.8	20.6	– 199.2	– 1.4	– 59.6	22.0
c) Bank assets abroad	– 151.3	– 410.6	– 238.1	– 77.8	86.8	– 332.8
Total	–1,287.3	– 517.2	– 437.3	– 79.2	– 850.0	– 438.0
G. *Balancing items*	– 317.8	– 252.1	– 119.3	10.4	– 198.5	– 262.5

(1) The 1960 figures, which have been approved by the Committee for the Balance of Payments, have been adjusted in the light of new statistics and estimates during the last two months and therefore differ in certain respects from the provisional figures of the *Report on the Economic Situation in Italy*. The 1959 figures for capital movements differ from the Bank of Italy's own report last year, partly because they are based on new series by the Italian Exchange Office and partly because they have been re-arranged to bring out monetary movements more clearly.

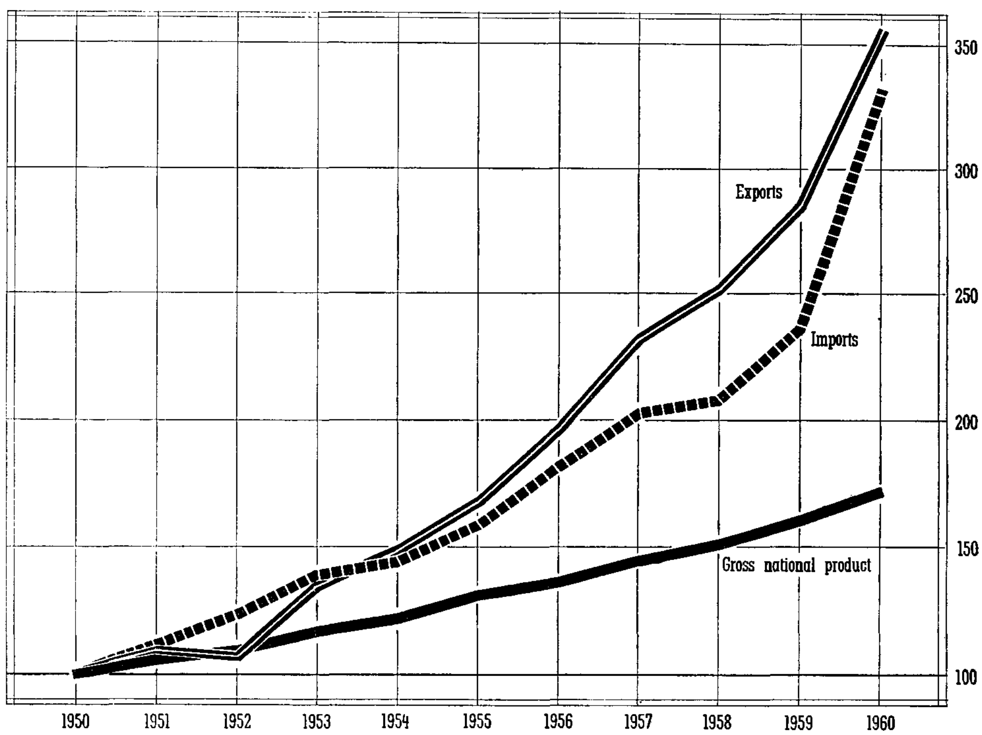
(2) The credit columns show the changes in foreign assets; the debit columns indicate the changes in foreign liabilities. If positive, the amounts indicate a reduction in foreign assets or an increase in foreign liabilities; if negative, they indicate an increase in foreign assets or a reduction in foreign liabilities.

(3) Participation in international organizations and other assets abroad.

In unilateral transfers, larger emigrants' remittances and smaller reparations payments raised the 1960 surplus to 227 million dollars. Together with the surplus on goods and services account, this makes a current surplus in 1960 of 255 million dollars, which is well below the 1959 figure of 682 million.

Looking at Italy's exchange of goods and services with foreign countries over the last ten years, it will be seen that in terms of annual average rates of increase both imports and exports grew about two-and-a-half times as fast as gross national product (chart 6). Apart from the growth of domestic income, the expansion of imports owes much to the progressive liberalization of current transactions and the consequent structural changes in the Italian economy. These, in their turn, were one of a number of internal factors to raise productivity in Italy and thereby to expand exports as well as gross domestic product.

CHART 6



Indices of gross national product, imports and exports of goods and services
(1950 = 100; real values)

The growing incidence of foreign trade in the Italian economy over the last ten years is clearly shown by the ratio of the value of exchanges of goods and services (measured by the average of imports and exports) over gross domestic product: this ratio rose from around 11.5 per cent in 1950 to 18 per cent in 1960.

Besides commercial currents, financial transactions with foreign countries are assuming more and more importance. In 1960, portfolio investment by foreigners gave rise to large two-way movements. The promising outlook on the Italian share market attracted large amounts of foreign capital, some of it for temporary placings. Gross foreign investment doubled in the course of the year to reach 850 million dollars; disinvestment at 406 million dollars was also about twice as high as the year before.

In its turn, Italian investment abroad increased substantially, from 81 million dollars in 1959 to 187 in 1960. The government paid out 16 million for subscriptions to the European Investment Bank and the International Development Association (similar disbursements having accounted for 25 million in 1959). Private investors spent 171 million dollars—three times as much as the year before. Disinvestment went up from 14 to 43 million dollars.

Italy was again fortunate in receiving a steady inflow of foreign loan funds (105 million dollars), mostly instalments on public loans contracted in earlier years. Against this must be set increased redemptions in a total amount of 52 million dollars.

Disparities in the cost of borrowing at home and abroad, together with the strength of the lira rate, induced Italian business men to appeal directly to foreign sources, especially after the banks were required to liquidate their debt balances in convertible currencies. This practice was reflected in the ratio of trade to exchange data, which rose from 0.99 in 1959 to 1.06 in 1960. The variation in the leads and lags was due to a number of factors, including the entry of shipments paid for in advance in 1959, increasing credits of foreign firms to their Italian branches, and above all the sharp expansion of capital goods purchases, which customarily enjoy medium-term credit facilities.

This last factor, incidentally, worked also on the export side, where the ratio of trade to exchange data rose from 1.01 in 1959 to 1.06 in 1960. Here the main cause was the system of export credits for capital goods supplies to developing countries.

On balance, the leads and lags in the commodity and money streams in the two directions practically cancelled each other and their net effect on the currency reserves was a small credit margin in Italy's favour. This is included under " balancing items ".

The final resultant of all the current and capital transactions discussed so far was, in 1960, an overall surplus under the heading *Monetary movements* in the amount of 438 million dollars, as against 850 million dollars in 1959. The separate components of these net changes, however, differed substantially

TABLE 12

Changes in Official Gold and Foreign Exchange Reserves

(million dollars)

Items	1959	1960
1. *Official reserves:*		
Monetary gold	662.6	454.8
Convertible currencies	214.6	— 327.6
Total . . .	877.2	127.2
2. *Other official foreign assets:*		
IMF quota	225.0	—
of which in lire	— *202.5*	—
EMA quota (European Fund)	1.7	1.6
Exchange Office foreign lire accounts	3.0	— 1.7
EPU balance	35.2	— 19.4
Consolidated credits and special accounts	1.2	— 1.0
Argentinian loan reserve account	— 1.4	— 1.4
Bilateral clearings	0.3	0.3
Accounts administered by the Bank of Italy	— 2.9	— 0.4
Total . . .	59.6	— 22.0

TABLE 13

The Italian Banks' Overall Position in Foreign Exchange and Lire Accounts

(end-month figures, in million dollars)

Items	1958 December	1959 December	1960 June	1960 December	1961 March
ASSETS					
A. Assets abroad:					
1) in convertible currencies	*308.8*	*451.1*	*569.8*	*851.1*	*985.9*
Sight deposits	198.9	299.4	266.7	302.8	350.5
Time deposits and short-term investments	97.7	130.9	265.7	487.8	567.5
Short-term claims	12.2	20.8	37.4	60.5	67.9
2) in non-convertible currencies and lire accounts	*28.1*	*37.1*	*41.6*	*47.7*	*50.8*
B. Domestic assets in foreign exchange	395.2	569.2	634.5	668.6	688.9
C. Accounts with the Italian Exchange Office	74.3	93.5	82.1	70.1	70.1
D. Forward commitments	231.7	393.4	381.5	297.2	426.8
E. Total assets	1,038.1	1,544.3	1,709.5	1,934.7	2,223.4
LIABILITIES					
F. Liabilities abroad:					
1) in convertible currencies	*526.3*	*696.5*	*638.4*	*748.0*	*793.6*
Deposits by non residents	442.1	573.5	528.4	666.5	707.8
Short-term debts	84.2	123.0	110.0	81.5	85.8
2) in non-convertible currencies and lire accounts	*115.2*	*183.1*	*196.5*	*209.4*	*270.5*
G. Clients' deposits in Italy in foreign exchange	109.0	157.4	184.1	184.5	190.6
H. Accounts with the Italian Exchange Office	131.4	117.9	116.8	173.3	185.0
I. Forward commitments	229.9	442.1	480.8	360.7	479.2
J. Total liabilities	1,111.8	1,597.0	1,616.6	1,675.9	1,918.9
K. Net position vis-à-vis abroad (A — F)	— 304.6	— 391.4	— 223.5	— 58.6	— 27.4
L. Overall net position (E — J)	— 73.7	— 52.7	92.9	258.8	304.5
M. Net position in foreign bank notes, non-convertible currencies and lire accounts	— 73.7	— 129.6	— 136.8	— 152.6	— 211.9
N. Spot-and-forward facilities drawn (1) (L — M)	—	76.9	229.7	411.4	516.4

(1) For a description of these facilities see p. 27.

in the two years, largely under the influence of the provision mentioned earlier which required Italian banks to liquidate their foreign-exchange debt balances.

Official reserves (table 12), which in 1959 had the benefit of foreign bank credits in the amount of 87 million dollars, were, on the contrary, drawn on to the extent of 333 million in 1960 to increase Italian assets abroad. While capital flows to and from Italy had, on balance, increased the country's official reserves by 182 million dollars in 1959, they reduced them by 237 million in 1960.

A conspicuous increase took place in the Italian banking system's foreign operations both in foreign exchange and in lire. Having already expanded by 49 per cent in 1959, they registered another 25 per cent increase last year (table 13). These high increments show that our system of financing foreign operations is changing rapidly in connection with the process of integration of the domestic market into the international market. As in the commercial sphere, the liberalisation of banking transactions generates an expansion in the volume and a reduction in the cost of operations.

VI. *Government Finance*

The Administrative Budget.— The fiscal year 1959/60 closed with a deficit of 7 billion lire. Net of public debt operations, the finall shortfall to be covered by new borrowing was 408 billion (of which 321 in the current section), or 213 billion more than provided for in the initial estimates (see table 14). The increase was due to a number of changes in the course of the year, and in part was also the effect of the application of Law No. 64, of February 27, 1959, according to which only actual disbursements are imputed to any particular fiscal year, irrespective of the funds set aside for them, which are always credited to the actual year of appropriation.

The initial 1960/61 estimates provided for a deficit of 173 billion lire, of which 291 for the current section of the budget.

Table 14

Budget Position for the Fiscal Years 1959/60, 1960/61 and 1961/62

(administrative budget; billion lire)

Items	1959/60 Initial estimates		1959/60 Subsequent variations		1959/60 Final results (1)		1960/61 Initial estimates		1961/62 Initial estimates	
Current Section:										
Revenue		3,344		340		3,684		3,647		4,030
Expenditure		3,474		531		4,005		3,942		4,315
Surplus or deficit (—)		— 130		— 191		— 321		— 295		— 285
Capital Movements:										
Revenue:										
a) Issue of securities	—		549		549		—		—	
b) Issues for Land Reform	—		4		4		5		3	
c) Issue of Treasury coin	—		12		12		—		—	
d) Balancing items	12		5		17		12		16	
e) Withdrawals from the 1966 Treasury Bonds Special Fund	—		279		279		—		—	
f) Other	36	48	7	856	43	904	44	61	46	65
Expenditure:										
a) Repayment of public debt (2)	158		1		159		200		357	
b) Balancing items	12		5		17		12		16	
c) Allocations to 1966 Treasury Bonds Special Fund	—		284		284		—		—	
d) Other (3)	101	271	29	319	130	590	127	339	142	515
Surplus or deficit (—)		— 223		537		314		— 278		— 450
Overall results:										
Revenue		3,392		1,196		4,588		3,708		4,095
Expenditure		3,745		850		4,595		4,281		4,830
Overall surplus or deficit (—)		— 353		346		— 7		— 573		— 735
Net result of public debt operations (4)		— 158		559		401		— 195		— 354
Net surplus or deficit (—)		— 195		— 213		— 408		— 378		— 381

(1) Provisional figures.
(2) Including the withdrawal of Treasury currency and payments into the Amortisation Fund for Treasury Bonds.
(3) Comprising, in particular, debts incurred and share participations.
(4) Including, for 1959/60 and 1960/61, transactions connected with the 1966 Treasury Bonds Special Fund.

Exclusion of public debt operations brings the estimated deficit down to 378 billion, or 30 billion less than the provisional outturn for 1959/60.

The Finance Bill for 1961/62, which is now before Parliament, budgets for a deficit of 735 billion (285 in the current section) or, net of public debt operations, 381 billion. This is almost the same as forecast for 1960/61, and less than the provisional outturn for 1959/60.

The initial estimates for 1961/62 are well in excess of the 1960/61 estimates on two items: personnel (133 billion) and purchase of services (240 billion). An analytical breakdown of current expenditure shows the largest increases in the estimates for education (with a predominant incidence of salaries), economic and production expenditure (90 billion, largely investment) and internal and international security (predominantly defence expenditure, again with a large incidence of personnel cost).

The item economic and production expenditure includes, among others, the long-term plans now before Parliament and providing for regulation of water courses (23 billion) and Sardinian development (17 billion). Current expenditure in 1961/62 will also have to take care of further instalments on long-term programmes approved earlier but still in execution, including *a*) the *School Plan* (96 billion in all), *b*) the *Green Plan* (including so far only 9 billion interest on bonds to be issued to finance the programme and 4 billion prior commitments for 1961/62), and *c*) extinction of the debt incurred on the administration of stockpiles up to and including the agricultural year 1959/60 and coverage of the deficits of shipping companies (so far only 5 billion interest on the Treasury certificates issued for the redemption of these debts). In the event that the respective legislation is passed in time, the 1961/62 budget would also have to assume another 111 billion for the fiscal year's anticipated instalment for the *Green Plan* and part of the repayments on the above-mentioned debts (429 billion in all), which are to be liquidated within four years. In both cases, the additional current expenditure would be covered by borrowing, to be budgeted for in the capital section.

Since the introduction of the Finance Bill for 1961/62, new long-term programmes have been submitted to Parliament, including the *National Road Programme;* in the event of timely approval, these may occasion further expenditure for 1961/62.

A large part of the rise in current expenditure budgeted for 1961/62 represents personnel cost, long-term programme implementation and prior commitments. These are the most important categories of the so-called " rigid " items of expenditure, which between them accounted for more than 80 per cent of total current expenditure in recent years and have been growing steadily; the present Finance Bill suggests that their incidence will again be higher in 1961/62.

On the revenue side, the estimated increase reflects mainly an anticipated broadening of the tax base and the yield of new taxes introduced to cover specific new expenditure.

In the capital movements section, the Finance Bill for 1961/62 provides for expenditure in excess of the initial estimates for the current fiscal year mainly under the heading of debt redemption (286 billion of 1962 Treasury Bonds as against 147 billion of 1961 ones this year) and of contributions to the endowment fund of the Industrial Reconstruction Institute (IRI), for which 55 billion are appropriated as against 35 in 1960/61. Revenue on capital account shows no significant variation either way.

Looking at the budgetary situation since 1957/58 (table 15), it will be seen that the ratio of revenue to expenditure is climbing up again after its sharp drop in 1959/60 (when, it will be recalled, an additional 279 billion lire went into extraordinary expenditure of an economic nature). 1961/62, with its larger overall budget, promises to have a smaller deficit than the two preceding years. The figure for public investment in 1961/62 is very high, and accounts for nearly 20 per cent of total expenditure.

TABLE 15

Government Finance

(administrative budget; billion lire)

Fiscal years (a)	Net revenue (b)	Net expenditure (b)	Ratio of revenue to expenditure	Net deficit: Current section	Net deficit: Capital movements	Net deficit: Total	Public investment	Surplus of investment over deficit
1	2	3	4=2 : 3	5	6	7=5+6=2—3	8	9=7+8
1957/58	3,162	3,433	*92.1*	— 224	— 47	— 271	656	385
1958/59	3,292	3,466	*95.0*	— 124	— 50	— 174	624	450
1959/60	3,727	4,135	*90.1*	— 321	— 87	— 408	972	564
1960/61	3,691	4,069	*90.7*	— 295	— 83	— 378	805	427
1961/62	4,076	4,457	*91.5*	— 285	— 96	— 381	882	501

(*a*) The figures for 1957/58 and 1958/59 are in the course of being audited by the Court of Accounts; the figures for 1959/60 are provisional, those for 1960/61 and 1961/62 are initial estimates.
(*b*) Current items plus the other capital items shown in Table 14.

The Cash Budget.— The most striking feature of the cash budget results for the calendar year 1960 in comparison with 1959 (table 16) is the appreciable reduction in overall cash requirements. This is in part due to a smaller budget deficit, but even more so to a larger surplus on account of extra-budgetary Treasury operations.

The marked reduction of the budget deficit was attributable to an unusually large increase in receipts (453 billion lire) well in excess of the 249 billion increase in budget payments. However, the Treasury had a quite exceptional windfall in 1960, in the form of the net proceeds (63 billion) of the revaluation of the Bank of Italy's gold reserves. Without this item, the 1960 budget improvement would be not 204, but 141 billion, and the Treasury's overall cash requirements would only have been 155 billion less than in 1959, instead of 218 billion.

Extra-budgetary operations, on the other hand, absorbed more than in 1959, reaching a total of 259 billion as against 228. The entire increment is attributable to increased loans and investments by the Central Post-Office Savings Fund.

TABLE 16

Treasury Cash Requirements and their Coverage

(billion lire)

Items	1959 (calendar years)		1960 (calendar years)	
OVERALL CASH REQUIREMENTS				
1. Budget receipts (*a*)	3,323		3,776	
2. Budget payments (*a*)	3,636		3,885	
3. *Budget deficit* (1 — 2)		— 313		— 109
Treasury operations (*b*):				
4. Current account with the Bank of Italy (*c*)	— 9		17	
5. Sundry transactions with the Bank of Italy (*d*)	36		54	
		27		71
6. *Adjusted cash deficit* (3 + 4 + 5)		— 286		— 38
Operations by Central Post Office Savings Fund and autonomous government agencies (*e*):				
7. Loans and investments by the Central Post Office Savings Fund	— 171		— 225	
8. Expenditure by autonomous agencies of funds raised directly on the market (*f*)	— 58		— 34	
		— 229		— 259
9. *Overall cash requirements* (6 + 7 + 8)		— 515		— 297
COVERAGE OF OVERALL CASH REQUIREMENTS				
10. *External borrowing* (*g*)		—		— 11
Internal borrowing:				
Medium-and long-term debts with:				
11. Bank of Italy (*h*)	25		15	
12. Other banks	108		— 15	
13. Private investors	230		193	
		363		193
of which: government stock sold on the market		*288*		*123*
Post Office Savings:				
14. Savings certificates	134		151	
15. Savings books	42		47	
16. Current accounts	23		14	
		199		212
Treasury Bills:				
17. Bank of Italy	— 194		— 104	
of which: compulsory bank reserves invested in Treasury Bills	— *197*		— *108*	
18. Other banks	501		47	
of which: bank reserves directly invested in Treasury Bills	*280*		*321*	
19. Private investors	— 34		— 2	
		273		— 59
Current accounts and other short-term debts with:				
20. Bank of Italy	— 353		— 73	
21. Other banks	— 5		10	
22. Private investors	26		9	
		— 332		— 54
23. Net new issue of Treasury coin		12		16
24. *Total borrowing* (10 to 23)		515		297
of which: short-term borrowing from domestic banking system:				
25. Bank of Italy (11 + 17 + 20)	— 522		— 162	
26. Other banks (18 + 21)	496		57	
		— 26		— 105
27. Other short-term borrowing (15 + 16 + 19 + 22 + 23)		69		84
28. Total recourse to money market (25 + 26 + 27)		43		— 21
29. Recourse to capital market (12 + 13 + 14)		472		329
30. *Total internal borrowing* (28 + 29)		515		308
31. (Bank of Italy's stockpiling bills)		*45*		*10*
32. (Bank reserves in cash)		— *7*		— *86*

(*a*) Excluding public debt operations and 1966 Treasury Bonds Special Fund. — (*b*) Receipts (+) and payments (—); excluding public debt operations. — (*c*) Including a few adjustment items. — (*d*) Miscellaneous services on account of government, miscellaneous creditors and current account with the Italian Exchange Office to the extent that the Treasury is concerned. — (*e*) Net payments (—). — (*f*) State railways and National Road Agency. — (*g*) Proceeds of "surplus" and railway loans net of foreign budgetary debt redemption. — (*h*) Including Treasury bonds for extinction of debts with the Italian Exchange Office.

The Treasury's overall cash requirements in 1960 were almost wholly covered by the issue of medium- and long-term bonds (193 billion) and by Post Office savings (212 billion). These two sources (plus Treasury coin circulation) yielded more than was needed; the balance was used to redeem Treasury Bills and to reduce other short-term debts. This was a reversal of the 1959 situation, when Treasury Bills actually brought in a substantial amount of cash and the entire excess of cash receipts over cash requirements was used to extinguish other short-term debts.

The Treasury repaid substantial amounts of its debts to the banking system in 1960 (*i.e.,* 105 billion to reduce the Treasury debt to the Bank of Italy). These were partly offset by direct borrowing from the public, so that the net reduction of indebtedness to the money market was only 21 billion. The Treasury's claims on the capital market, through medium- and long-term borrowing from the public and the banks, amounted to 329 billion lire in 1960, as against 472 in 1959; the difference is accounted for by variations in the subscription of government bonds.

Budgetary Arrears.— Table 17 gives a condensed account of budgetary arrears over the last three fiscal years, together with the figures for the administrative and cash budgets, the divergences between which are the cause of arrears in receipts or payments.

In the most recent period, the cash budget showed a clear relative improvement. The table gives some quantitative indications of the budgetary arrears resulting from the complex play of re-assessment and of their partial or final settlement.

The net balance of payments due grew by 70 billion lire in 1959/60. However, in terms of percentages of the total administrative budget arrears decreased somewhat; the ratio of re-

TABLE 17

Budgetary Arrears in Relation to the Administrative and Cash Budget

(billion lire)

Items	1957/58	1958/59	1959/60
	(fiscal years)		
Administrative budget (a):			
1. Revenue	3,452	3,398	4,588
2. Expenditure	3,715	3,621	4,595
3. Deficit (2 — 1)	263	223	7
Cash budget (b):			
4. Receipts on account of arrears	276	707	365
5. Payments on account of arrears	680	1,129	787
6. Deficit on account of arrears (5 — 4)	404	422	422
7. Surplus on account of administrative budget	194	207	629
8. Overall deficit (6 — 7)	210	215	— 207
Budgetary arrears (c):			
9. Receipts due	1,228	907	965
10. Payments due	2,176	1,801	1,929
11. Balance of payments due (10 — 9)	948	894	964
12. Changes in the balance of payments due	— 10	— 54	70
13. of which: as a result of disbursements (3 — 8)	53	8	214
14. as a result of reassessment and writing off	— 63	— 62	— 144
Arrears in relation to administrative budget:			
15. Receipts due per cent of budgetary revenue (9 : 1)	36	27	21
16. Payments due per cent of budgetary expenditure (10 : 2)	59	50	42
17. Balance of payments due per cent of budgetary expenditure (11 : 2)	26	25	21
Arrears in relation to cash budget:			
18. Receipts per cent of receipts due (4 : 9) (d)	32	58	40
19. Payments per cent of payments due (5 : 10) (d)	38	52	44

(a) The figures for 1957/58 and 1958/59 are in the course of being audited by the Court of Accounts; those for 1959/60 are provisional.
(b) Outturn.
(c) At the end of the fiscal year.
(d) The ratio is calculated on the arrears at the beginning of the fiscal year.

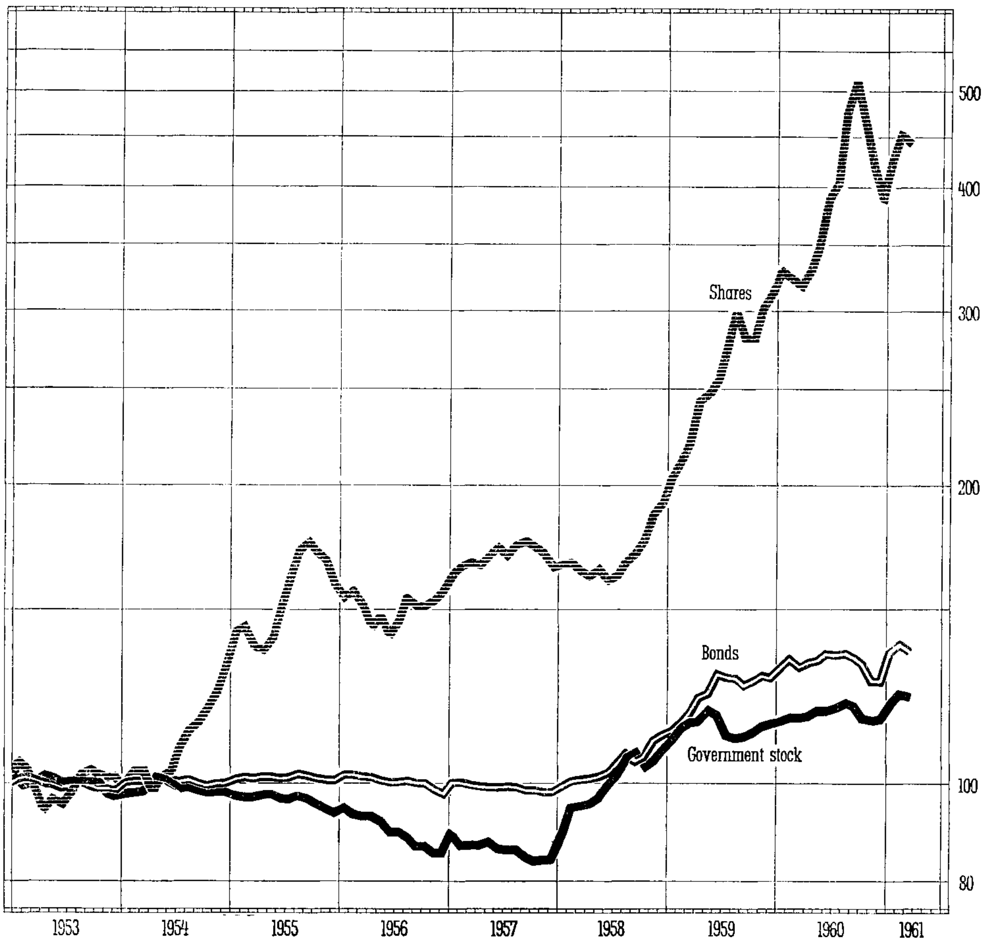
ceipts due to budgetary revenue fell to 21 per cent (27 the year before and 48 in 1951/52, which was the peak in the last ten years); the ratio of payments due to budgetary expenditure is down to 42 per cent (50 in 1958/59 and 92 in 1950/51, the peak of the last ten years).

VII. *The Capital Market*

The stock market, and more especially the share market, had a year of unusual liveliness. Prices went up, yields down, and there was a substantial volume of new bond and share issues, the latter often well above par.

The bull market which started in 1958 and, except for brief interruptions, went on throughout 1959, was still stronger in 1960 in the equity section, where prices advanced very sharply between May and September (chart 7).

CHART 7



Indices of stock exchange prices
(1953 = 100; semilogarithmic scale)

Subsequently, share prices retreated and eventually came to rest at a lower level, still 24 per cent higher in December than a year before; government and other bonds stood at much the same level at the end of both years. This year so far prices have again been climbing and again more markedly in the equity section.

The cost of borrowing continued the steady descent it had begun in 1958. Whereas in 1956-57 the pattern of medium- and long-term interest rates was based on yields of 7 per cent on government and other bonds and of 5 per cent on shares, yields are now about 5.30 to 5.50 per cent on fixed-interest securities and 2.30 to 3 per cent on shares.

Intense demand for capital for productive investment found a ready response on the market. Companies raised the quite exceptional amount of 1,160 billion lire in new issues of shares and bonds, floating them either directly on the market or through special credit institutes. This was nearly twice as much as the year before, and although the government's claims on the market contracted from 343 to 162 billion lire, the total of funds supplied by the capital market rose from 944 billion in 1959 to 1,322 last year (see table 19 below).

Government Securities.— Throughout the first nine months of the year government securities kept rising steadily as they had done during the last two quarters of 1959. In August, the index of government bond prices (1953 = 100) touched 120.5; a subsequent slight decline brought the index back to 116.2 in December, which was still just higher than a year before, though only 1 per cent. Given that the index had risen by 6 per cent in 1959 and by 29 per cent in 1958, the cumulative rise of the government bond index in three years amounted to 38 per cent.

The annual average index was 113.9 as against 117.6 in 1959. All types of government stock contributed in roughly equal measure to the improvement; consolidated bonds did slightly better than the rest, under the impact of the very good performance of 5 per cent Consols, which stood 7 points above par in December, ex coupon.

Treasury Bonds have the greatest weight in the index and their performance therefore has considerable influence on the general behaviour of government stock. Up to August of last year, seven- and nine-year Treasury Bonds had risen by 5 per cent and their index stood at 119.7; but later the entire gain was swallowed up by a setback. Nevertheless their price, ex coupon, remained above par right through the year.

The average annual yield of government stock declined from 5.41 per cent in 1959 to 5.24 in 1960; the average yield of some securities dropped more and that of others underwent almost no change. Taking all government stock together, the yield was 5.30 per cent in December—a mere 0.07 points less than a year before. The volume of stock exchange dealings in government securities increased by 14 per cent to reach 60 billion lire.

The Treasury's nine-year 5 per cent premium bonds 1960 matured on April 1 of last year. To replace them, new Treasury Bonds were issued in the usual form, that is, premium-bearing and for nine years, with interest at 5 per cent. The Bonds were issued at par; of the total amount of 250 billion, 116 (46 per cent) were earmarked for optional conversion of maturing bonds and the remaining 134 billion were offered for cash.

Early this year another 150-billion issue of the same type of Treasury Bonds was made at par; its maturity date is January 1, 1970, and its chief purpose was to replace 147 billion's worth of Treasury Bonds which fell due on January 1 of this year. 145 billion were taken up by the owners of the maturing loan and the rest was subscribed in cash.

Other Fixed-interest Securities.— The overall price index of the bonds of special credit institutes and business companies behaved in much the same way as that of government securities: it rose until August, then dropped sharply and came to rest in November and December at the lowest level of the year. At that point, 126.4, it was a little lower than at the corresponding time in 1959 (127.6), but the average index over the whole year was higher (see chart 7 above).

The bonds issued by industrial credit institutes improved by 6.5 per cent until August and then lost their entire gain. In December, their yield was 5.59 per cent, just 0.02 points more than a year before.

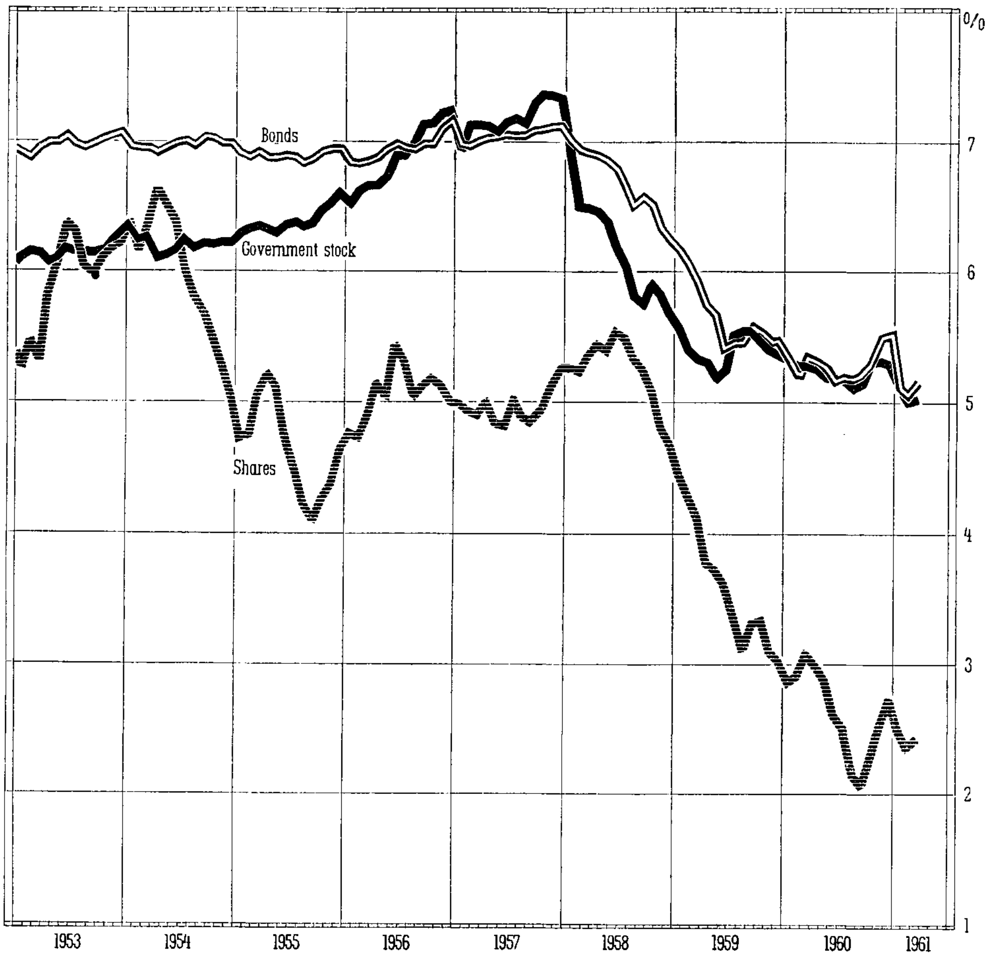
The mortgage bonds issued by agricultural, building and land credit institutes did rather better; at 124, their December index had gained 3 per cent over the year, and their yield at that time was 5.46 per cent.

During the period of falling bond yields since 1958 the yield on government stock had fallen below that of other bonds; the gap reached its maximum width around the middle of 1959 and then narrowed during the second half of the year. Thereafter the two yields continued to drift gently lower at practically identical levels until, during the last two months of 1960, ordinary bond yields again began to exceed those on government stock (chart 8).

Total stock exchange business in bonds during 1960 amounted to 120 billion lire—almost the same as in 1959. The pattern of ownership in fixed-interest securities at the end of the year is shown in table 18. Apart from Treasury Bills, which are held almost exclusively by the Bank of Italy and commercial and savings banks, the year's developments clearly display a change of attitude on the part of the banks and private investors towards medium- and long-term bonds. Contrary to 1959, the banks did not increase their portfolios of Treasury Bonds, but disinvested to the extent of 19 billion lire; of the total increment of 141 billion in Treasury Bonds outstanding, private investors took up 136. The same applies to railway bonds.

On the other hand, the banking system gave a friendlier welcome to the bonds of special credit institutes, especially mortgage bonds; they took in 39 per cent of the total of 430 billion of new bonds outstanding, while private investors and companies absorbed 47 per cent. In 1959, the corresponding percentages had been 28 and 59. Social security funds and insurance companies also showed increased interest in this type of bonds.

CHART 8



Security yields
(per cent per annum)

Nearly nine tenths of the conspicuous volume of new industrial bonds (198 billion lire) were taken up by private investors and companies.

Shares.— The behaviour of the share market has to be assessed against the background of the current strong upswing in the Italian economy, the progressive integration of the Italian in the international market and the trends in the formation and use of monetary and financial assets.

TABLE 18

Ownership of Government and other Bonds

(par values, in billion lire; end-year figures)

Securities	Banca d'Italia	Commercial and savings banks	Special credit institutes	Central Post-Office Savings Fund	Social security funds and insurance companies	Private investors and companies	Total outstanding
Government securities:							
Consolidated and redeemable bonds	31,6	52.5	0.8	12.3	10.7	236.2	344.1
Treasury bonds	142.2	541.9	16.2	58.4	52.0	1,188.4	1,999.1
Treasury bills	27.5	1,591.8	11.6	—	—	138.2	1,769.1
Total 1960 . . .	201.3	2,186.2	28.6	70.7	62.7	1,562.8	4,112.3
1959 . . .	299.4	2,157.6	19.5	70.7	55.0	1,421.6	4,023.8
Other bonds:							
Railway bonds	6.6	100.3	3.2	30.0	7.7	122.1	269.9
Special credit institutes . .	15.4	557.0	40.4	41.0	232.1	1,148.2	2,034.1
IRI, ENI	6.1	196.3	4.3	18.2	37.7	372.9	635.5
Business companies	—	44.6	0.7	4.6	16.3	512.3	578.5
Total 1960 . . .	28.1	898.2	48.6	93.8	293.8	3,155.5	3,518.0
1959 . . .	23.1	680.1	46.0	77.1	255.3	1,707.9	2,789.5
Grand total 1960 . . .	229.4	3,084.4	77.2	164.5	356.5	3,718.3	7,630.3
1959 . . .	322.5	2,837.7	65.5	147.8	310.3	3,129.5	6,813.3

Ever since June 1958 equity prices have had a basic upward tendency which gradually brought share yields into line with the pattern of interest rates on the reconditioned domestic money and capital markets and on major foreign markets. At the levels of June 1958 the average yield on Italian equities was 5.5 per cent, compared with 4.3 in Germany, 3.4 in France 3.3 in Switzerland and 4.1 in the United States.

Foreign demand, which had already shown growing interest in Italian shares throughout 1959, reached unprecedented levels in 1960. A total of 850 million dollars' worth (against 422 in 1959) of securities, mostly shares either quoted or unquoted in the stock exchanges, was acquired by foreign investors under Law No. 43 of February 7, 1956 and under the regulations governing the so-called non-resident capital accounts in lire.

It is true that there was also some disinvestment, amounting to 195 million dollars in 1959 and to 406 in 1960, but on balance net foreign investment still rose from 227 to 445 million dollars in the course of last year.

Increased foreign investment coincided with keen domestic demand, boosted not only by larger saving but above all by the Italian investors' growing interest in this form of investment.

Excluding government bonds, the total of annual new share and bond issues (including those not subscribed by private investors) rose from about 390 billion lire on the average over 1956 and 1957, through 630 on the average over 1958 and 1959, to 1,160 billion in 1960. During the same period, the ratio of new investment in securities other than government stock to new liquid assets went up from 48 through 45 to 71 per cent in 1960.

The markedly higher demand of foreign and domestic investors found the market none too well supplied with stock, even though new issue activity was much livelier than usual in Italy; the resulting strain was naturally reflected in higher prices.

While this was one of the principal sustaining factors in a firm market, it did not work at all times. In the autumn of 1960, for example, a welcome but too sudden and concentrated spurt of new issues depressed share prices.

With reference to the setback in September and October 1960, a similar observation can be made about the effects of the other main determining factor in the equity market, namely the course of productive, and especially industrial, activity.

Once a series of sharp fluctuations had eliminated the exceptional peak of last August and September, the market calmed down and later again developed a reasonably firm tone.

Over the whole year and all its price fluctuations, the share price index (1953 = 100) rose by 24 per cent; taking a slightly longer view, share prices are seen to have doubled in the course of the last two years together.

Equity yields, in their turn, fell from 3.01 per cent in December 1959 to 2.73 per cent in December 1960. At the same time, total dividend distributions (calculated on unit dividends paid out or announced, and allowing for capital increases) in 1960 were 10 per cent higher than in 1959. Active dealings throughout the year raised total turnover in shares to 1,695 billion lire, which is almost twice as much as in 1959 (879 billion).

Total Security Issues.— The flow of funds to the capital market amounted to altogether 1,322 billion lire and far exceeded anything known in the past (see table 19).

TABLE 19

New Security Issues (1)

(billion lire)

Types of security	1959			1960		
	Private investors and companies (2)	Banks (3)	Total	Private investors and companies (2)	Banks (3)	Total
Bonds:						
Industrial credit institutes	105.8	66.2	172.0	156.5	119.2	275.7
Other special credit institutes	67.0	23.8	90.8	68.6	67.8	136.4
IRI	7.9	58.7	66.6	13.5	− 0.4	13.1
ENI	21.3	− 5.0	16.3	20.3	26.0	46.3
Business companies	25.8	4.2	30.0	168.1	24.3	192.4
Total bonds	227.8	147.9	375.7	427.0	236.9	663.9
Shares:			327.1			559.2
less Duplicated items			102.1			63.5
Total shares (net)	225.0	—	225.0	495.7	—	495.7
Total bonds and shares	452.8	147.9	600.7	922.7	236.9	1,159.6
Public securities:						
Railway bonds	9.5	41.5	51.0	35.0	3.5	39.4
Local authorities	2.4	2.4	4.8	− 0.2	− 0.1	− 0.3
Government	200.7	87.0	287.7	135.0	− 12.1	122.9
Total	212.6	130.9	343.5	170.7	− 8.7	162.0
Grand total	665.4	278.8	944.2	1,093.4	228.2	1,321.6

(1) Actual proceeds, net of redemption.
(2) Including insurance companies and social insurance funds.
(3) Including the Central Post-Office Savings Fund.

Excluding 162 billion new issues of government, local-authorities and railway bonds, it follows that companies directly or indirectly raised 1,160 billion on the market, net of redemption and duplications; this is almost as much as in the two preceding years together (1,262 billion).

Special credit institutes channelled 412 billion into business firms, that is, 149 billion more than in 1959. This figure, too, is net of redemptions which, at 104 billion, absorbed 20 per cent of new issues (516 billion); the corresponding percentage was 23 in the two-year period 1958-59 and 28 in the preceding two years.

Direct appeal to the market by companies, including IRI and ENI, produced 748 billion lire, of which 252 through bond and 496 through new share issues.

Many new bond issues approved in 1959 were held back until the early months of 1960 pending the expected new law under which interests on bonds issued before June 30, 1962 were to be liable to income tax at only half the normal rate. The relevant Law No. 1001 was eventually passed on November 25, 1959, and its delaying effects are clearly visible in the concentration in the first six months of 1960 of 83 per cent of the year's total industrial bond issues (192 billion). In most cases, the nominal interest rate was 5.50 per cent and the issue price 99 or 100.

Capital increases in the course of 1960 furnished companies with 559 billion of new money, including 39 billion in capital calls and 121 billion (22 per cent) in above-par prices and expenses paid by shareholders. The corresponding figures for 1959 are 327 billion in new share issues, of which 33 in capital calls and 25 (8 per cent) in above-par prices and expenses.

An analytical breakdown of new bond and share issues shows that 32 per cent of the combined total came from the chemical industry (including Edison and Montecatini, which raised 236 billion as against 38 in 1959) and 18 per cent from engineering industries (including Fiat and Fincantieri, 133 as against 61 billion). Elsewhere in the economy, major increases in new issues occurred in the electricity sector (62 billion as against 56 in 1959), in mineral oil and natural gas (60 against 43), and in textiles (51 billion against 9).

The Operations of Medium- and Long-term Credit Institutes.— In the liquid market of 1960 the special credit institutes had no difficulty in raising funds to meet the booming economy's growing investment demand for medium- and long-term loans. These institutes broadened their ordinary operational base by 591 billion lire last year, thus beating their own record of successfull claims on the friendly enough market in 1959 (476 billion) and 1958 (367 billion). Including special finance through railway bonds and stockpiling bills, the institutes expanded their resources by 625 billion to a total of 4,068 billion lire at the end of the year (see table 20).

TABLE 20

The Special Credit Institutes' Funds by Sources

(end-year figures, in billion lire)

Sources of funds	Institutes for						Total	
	Industrial credit		Land and building credit		Agricultural credit			
	1959	1960	1959	1960	1959	1960	1959	1960
Bonds: Railway	230.0	269.9	—	—	—	—	230.0	269.9
Bonds: Other	1,010.2	1,295.3	538.9	676.3	54.5	62.6	1,603.6	2,034.2
Deposits and certificates	201.2	245.3	—	—	—	—	201.2	245.3
Rediscounts	0.1	—	—	—	206.3	211.1	206.4	211.1
Current accounts with banks	49.8	67.8	3.0	4.3	139.8	148.4	192.6	220.5
Current accounts with parent agencies	—	—	—	—	106.0	95.7	106.0	95.7
Government funds: Mediocredito	80.2	93.0	—	—	—	—	80.2	93.0
Government funds: Other lire funds (1)	197.5	191.3	43.4	48.3	110.5	122.4	351.4	362.0
Government funds: Foreign currency funds	139.6	122.5	—	—	—	—	139.6	122.5
Loans in foreign currencies	139.7	176.4	—	—	—	—	139.7	176.4
Capital and reserves	119.7	155.3	21.2	25.1	21.2	23.6	162.1	204.0
Miscellaneous	11.3	11.4	—	—	18.5	21.9	29.8	33.3
Total . . .	2,179.3	2,628.2	606.5	754.0	656.8	685.7	3,442.6	4,067.9

(1) Including funds supplied by Regional Governments and by the *Cassa per il Mezzogiorno* from its own resources, but excluding direct medium- and long-term loans by the *Cassa* from its own resources (3.9 billion) and from IBRD and European Investment Bank loans (58 billion).

There has been a growing tendency for the capital market to supply this credit sector with the bulk of its finance through the typical sources for its loanable funds, namely, bonds, time deposits and interest-bearing certificates. During the period

1953-57 these sources between them provided about two thirds of each annual increment, then three quarters during the following two years, and finally four fifths in 1960 (475 out of a total of 591 billion). In this way the market furnished 475 billion to be passed on by the institutes in the form of medium- and long-term credits, as against 340 billion in 1959. These results are all the more remarkable in the light of the fact that, contrary to 1959, they were obtained in a year when business companies made particularly heavy direct claims on the market in the form of share and bond issues—many companies having waited for the new law on income tax reduction for bond interests, as noted earlier, before they floated even such loans as had been approved in 1959.

The special credit institutes issued a total of 534 billion in bonds last year (359 and 302 in the two preceding years), with a marked concentration (172 billion) in the last quarter. Bonds drawn for repayment absorbed 103 billion (80 and 63 in the two preceding years), so that the year's net increase of bonds outstanding was 431 billion (279 in 1959 and 239 in 1958).

Notwithstanding the afore-mentioned substantial fund-raising activities of business companies, the market was liquid enough to enable the special credit institutes once more to reduce the cost of their borrowing through bonds—partly through lower nominal interest rates and partly through higher sales prices. The bulk of the bonds were issued at 5 per cent, and there was a growing tendency for all rates to concentrate around this figure.

A matter of particular interest is the development of the volume and the forms of bank finance to special credit institutes, because this is where the cross-currents of short-term and medium- and long-term credit meet. In 1960, banks and banking associations supplied a total of 219 billion new funds (134 in 1959) to the special credit institutes; of these, 170 are accounted for by purchases of bonds (78 billion in 1959), 22 billion by subscription to capital increases (7 in 1959) and 27 billion by overdrafts (49 in 1959).

The cumulative amount of bank funds at the disposal of special credit institutes by the end of 1960 was 1,048 billion lire; this was 10.3 per cent of total bank deposits (9.5 and 9.3 per cent at the end of 1959 and 1958, respectively).

The special credit institutes had 3,134 billion lire outstanding in ordinary loans at the end of 1960 (see table 21). The year's increment was 566 billion (as against 375 in 1959 and 302 in 1958); including loans to the state railways and short-term finance to agriculture the year's increment works out a 619 billion (433 and 337 in the two preceding years). The relative increase of 22 per cent is the highest registered in the last nine years and is a good indicator of the marked expansion of these operations in connection with the growth of fixed investment.

TABLE 21

Special Credit Institutes' Loans Outstanding (1)

Type of institute and loan	End-year figures (billion lire)		Yearly increases (per cent)	
	1959	1960	1959	1960
Industrial credit institutes:				
Total loans	1,770.8	2,160.2	*16.2*	*22.0*
of which: on special funds	219.3	210.1	*— 14.0*	*— 4.2*
Land and building credit institutes:				
Total loans	573.8	715.9	*19.4*	*24.8*
Agricultural credit institutes:				
Land improvement credits	223.4	257.5	*18.6*	*15.2*
Grand total	2,568.0	3,133.6	*17.1*	*22.0*

(1) Excluding loans to railways and railway bonds, short-term agricultural credits for working capital, and stockpiling credits.

Loans to the industrial, public works and building sectors expanded most during the year; correspondingly, the industrial credit institutes' share in total medium- and long-term loans rose from 56.3 to 57.4 per cent, and the share of building credit institutes from 18.3 to 19 per cent. Land improvement credits expanded no more than the year before, and the agricultural credit institutes' share in the total accordingly dropped from 7.1 to 6.8 per cent. On the other hand, contrary to what happened in 1959, these same institutes increased their short-term lending for working capital.

Insurance Companies and Social Insurance Funds.— According to provisional estimates, gross life premiums received in 1960 by the National Assurance Institute and private insurance companies amounted to 86 billion lire; they increased by 8.8 per cent in comparison with the previous year's total of 79 billion.

Life funds at the end of the year were estimated at 390 billion, having risen, as in 1959, by about 45 billion. But unlike 1959, when the insurance companies invested more heavily in mortgages and loans than in securities, 1960 was a year in which only the latter form of investment expanded appreciably. The main beneficiaries were the bonds of special credit institutes and to some extent also government stock, although in relative terms the latters' share of total insurance investments in fixed-interest securities contracted again to the benefit of non-government bonds.

Gross premiums received in 1960 for general insurance business (excluding re-insurance and operations abroad) are estimated at 210 billion lire.

Retrospective analysis of the situation of the major Italian insurance companies shows that, compared with 1938, the proportion of capital and capital reserves in the companies' total funds (161 billion lire) had, by the end of 1960, dropped by half, while the proportion of contingency reserves doubled, from 21 to 43 per cent.

On the assets side, the most notable changes occurred in the relative position of the two principal forms of investment, namely, real estate and securities. The former accounted for 26 per cent of total assets in 1959, against 16 per cent in 1938; securities, on the other hand, had a smaller share in the total at the end of 1959 than they had before the war, although the proportion has been rising again since 1948. As regards the composition of bond portfolios, the proportion of government bonds fell from 67 to 37 per cent between 1938 and 1959, while the proportion of other fixed-interest securities nearly doubled (33 and 63 per cent, respectively).

A sizeable portion of the insurance companies' assets is also invested in equities and in recent years share portfolios have risen almost as much as holdings of fixed-interest securities.

Social insurance funds collected an estimated amount of 1,370 billion lire in premiums and contributions during 1960, that is, 15 per cent more than the 1959 total of 1,192 billion. Their overall investment increase in the course of the year was of the same order of magnitude as in 1959. Current account deposits with the Treasury rose by only 8 billion, as against 26 the year before. Other investments rose by 94 billion (73 in 1959). Securities, the overwhelming bulk of which were bonds of special credit institutes, absorbed 15 billion, as against a negligible amount the year before. Loans rose by 32 billion (35 in 1959), but there was an internal shift towards building at the expense of local authorities.

Total life funds and the actuarial reserves of social insurance funds together amounted to 1,322 billion lire at the end of 1960; the year's increment of 147 billion was the same as in 1959. Deposits with the Treasury, at 133 billion, rose by only 13 billion during the year, as compared with an increase of 32 billion in 1959. Relatively larger sums, on the other hand, were placed at the disposal of the economy. Investment in non-government securities reached 282 billion, almost the entire 40-billion increment being absorbed by bonds of special credit institutes; this conspicuous increase cut into the year's other additional lending, which expanded less than in 1959 (by 94 billion as against 103) to reach a total of 907 billion at the end of 1960.

VIII. *Banking*

The Sources of Funds.— The funds put at the disposal of commercial and savings banks in the form of deposits rose considerably in the course of 1960, although the rate of increase was somewhat slower than in 1959. The slackening of the pace was more marked in savings deposits, in line with the trend of the last few years, and less noticeable in current accounts.

Savings deposits no doubt felt the impact of lower farm incomes and of savers' heavy buying of securities. Current accounts, on the other hand, were influenced not only by the expansion of bank assets, but also by companies' temporary deposits of self-financing funds and the proceeds of new issues pending the execution of investment programmes.

In absolute and relative figures, the 1960 increase in bank deposits amounted to 1,355 billion lire or 15.4 per cent of the total at the beginning of the year (in 1959, 1,270 billion and 16.8 per cent). The share of savings deposits was 686 billion (up 14.5 per cent) against 666 billion (up 16.4 per cent) in 1959; the share of current accounts was 669 billion (up 16.4 per cent) against 604 billion (up 17.4 per cent) in 1959. Both kinds of deposits advanced most strongly during the second half of the year; during the first two quarters government issues, among other factors, held back new deposits to the extent of almost halving their rate of increase in comparison with the same period of 1959 (about two thirds in the case of savings deposits and two fifths in that of current accounts). At the end of 1960 total bank deposits amounted to 10,177 billion lire, of which 5,424 billion in savings and 4,753 billion in current accounts (table 22).

Although the share of savings deposits in the total has fallen slightly, it is still larger than the share of current accounts. In both cases, the proportion of time deposits keeps growing owing to their more attractive interest rates: time deposit rates have remained unchanged while interest payable on sight deposits above 5 million was reduced from 2.25 to 2 per cent with effect from January 1, 1960.

TABLE 22

Bank and Post-Office Deposits

(end-of-period figures, in billion lire)

Period	Savings deposits		Savings books and postal certificates	Total savings deposits, savings books and certificates	Bank current accounts	Total bank deposits
	Commercial banks	Savings banks				
	1	2	3	4=1+2+3	5	6=1+2+5
1958 - December	2,695.4	1,376.4	1,693.7	5,765.5	3,479.9	7,551.7
1959 - March	2,776.0	1,448.0	1,730.7	5,954.7	3,551.2	7,775.2
June	2,846.1	1,477.9	1,744.6	6,068.6	3,750.9	8,074.9
September	2,917.3	1,531.2	1,766.8	6,215.3	3,797.6	8,246.1
December	3,116.0	1,621.9	1,869.3	6,607.2	4,083.7	8,821.6
1960 - March	3,160.6	1,686.9	1,911.6	6,759.1	4,041.4	8,888.9
June	3,230.2	1,720.8	1,925.7	6,876.7	4,205.1	9,156.1
September	3,337.0	1,781.9	1,952.7	7,071.6	4,529.7	9,648.6
December	3,541.9	1,881.9	2,065.6	7,489.4	4,752.7	10,176.5

Savings on Post Office savings books and certificates together rose by 196 billion (10.5 per cent) from 1,869 billion at the end of 1959 to 2,066 billion in December 1960; the previous year's increase had been 176 billion or 10.4 per cent.

Post Office giro accounts for current payments rose by only 14 billion as against 24 in 1959; altogether they amounted to 155 billion at the end of the year and so represented only a small portion of total Post Office deposits.

The geographical pattern of bank and Post Office deposits is shown in table 23. The figures for the Province of Rome are shown separately, since they are distorted by the presence of central public administration.

The northern regions have a large share in total deposits; Piedmont, Liguria and Lombardy alone account for nearly half the total. In the south commercial banks and the Post Office between them take the bulk of deposits, to the detriment of savings banks.

The year's increments were relatively smaller in predominantly agricultural areas; in Lombardy the small increase is

TABLE 23

Geographical Distribution of Bank and Post Office Deposits at the end of 1960

(percentage composition)

Types of deposits	North-West Italy	North-East Italy	Central Italy	South Italy and Islands	Province of Rome
Savings deposits	42.2	24.6	15.2	11.7	6.3
of which: commercial banks	42.6	19.9	15.5	13.9	8.1
savings banks	41.5	34.1	14.6	7.3	2.5
Post-Office savings books and certificates	36.7	18.9	22.0	15.8	6.6
Current bank accounts	50.1	12.5	10.1	5.8	21.5
Total bank deposits	45.6	19.4	13.1	9.2	12.7
Total bank and Post-Office deposits	44.1	19.4	14.5	10.3	11.7

probably explained by the high figures of the year before. The improvement in other regions was no doubt in general connected with higher economic activity, and in some southern regions with public works expenditure and the construction of new plant.

Sources of funds other than deposits provided altogether 44 billion in 1960; this was slightly less than in 1959 (46 billion). Recourse to the Bank of Italy (in the form of new advances, deferred clearing house payments and rediscounts) rose by 37 billion, cashiers' cheques in circulation furnished an additional 16 billion and funds held in trust increased by 8 billion; on the other hand, there was a contraction of 9 billion in deposits by affiliated special credit sections with the parent banks.

As in 1959, the banking system, and especially public-law credit institutes, greatly strengthened their capital and reserves. The year's effective increase was 74 billion lire which, together with the 1959 increment of 59 billion, brought the total of paid-up capital and reserves to 350 billion at the end of 1960.

In this connection it should be noted that, while in 1959 the banks had an inflow of some 50 billion lire of short-term funds from abroad, they reduced their short-term foreign indebtedness in 1960 by 200 billion.

Compulsory reserves increased during the year by 307 billion to 1,954 billion; 64.4 per cent of the amount outstanding at the end of December were government securities, mainly Treasury Bills (see table 24). At that date total compulsory reserves represented 23.1 per cent of deposits with commercial banks and 2.8 per cent of deposits with savings banks. For ten years now the reserve ratio of commercial banks has remained around the same level, which is just below the legal maximum of 25 per cent.

TABLE 24

Compulsory Reserves and Deposits

(billion lire)

Period	Commercial banks					Savings and pawn banks	
	Compulsory reserves						
	Cash	Govt. securities	Total	Percentage of govt. securities	Deposits	Compulsory reserves (govt. securities) (1)	Deposits
1958 - December	770.0	611.0	1,381.0	*44.2*	6,016.5	6.7	1,805.4
1959 - March	864.1	586.8	1,450.9	*40.4*	6,190.1	17.2	1,883.2
June	910.0	606.9	1,516.9	*40.0*	6,417.8	22.8	1,947.1
September	867.3	657.8	1,525.1	*43.1*	6,527.2	29.7	2,005.4
December	757.9	853.1	1,611.0	*53.0*	6,989.7	36.4	2,140.1
1960 - March	812.0	839.3	1,651.3	*50.8*	7,157.8	48.6	2,198.1
June	704.8	1,005.2	1,710.0	*58.8*	7,351.0	55.3	2,261.7
September	798.8	986.4	1,785.2	*55.3*	7,799.8	63.7	2,352.2
December	671.0	1,212.5	1,883.5	*64.4*	8,156.1	70.6	2,482.9

(1) The small reserves in relation to deposits are explained by the fact that for these categories compulsory reserves were introduced only in September 1958 and are applicable to the extent of 20 per cent of annual increments; the reserves may be deposited with the Central Savings Banks Institute which has to pay half of them over to the Bank of Italy and must observe certain rules in the investment of the other half (Treasury Bills).

Security Investments.— Security holdings by banks and banking associations rose over the year from 2,861 to 3,125 billion lire (table 25). The year's increment of 264 billion amounted to only one third of the preceding year's and was less than the increment of securities deposited as compulsory reserves. Of the total increment, government stock accounts for 32 billion, in sharp contrast with 1959 when the banks added 576 billion to

TABLE 25

Security Holdings of Banks and Banking Associations

(book values at the end of the year, in billion lire)

	Commercial banks		Savings banks and banking associations		Total	
	1959	1960	1959	1960	1959	1960
Treasury Bills	1,317.3	1,423.5	223.9	164.7	1,541.2	1,588.2
Other government stock	376.6	358.2	211.9	215.6	588.5	573.8
Bonds: railway	31.8	32.2	62.2	61.2	94.0	93.4
Bonds: land and agricultural	31.0	52.7	83.3	129.3	114.3	182.0
Bonds: other special credit institutes	106.7	122.3	305.5	416.0	412.2	538.3
Bonds: others	16.8	31.7	2.5	12.3	19.3	44.0
Shares	83.3	91.5	8.6	14.1	91.9	105.6
Total	1,963.5	2,112.1	897.9	1,013.2	2,861.4	3,125.3

their Treasury Bill and other government stock portfolios; on the other hand, the 232 billion increase in other securities, mainly bonds of special credit institutes, exceeds the 1959 figure of 218 billion. The explanation is that in 1959 abundant liquidity had enabled the banks to expand both their commercial lending and their investments, but that the reduction of bank liquidity last year combined with the further expansion of credit to limit security purchases.

Security holdings amounted at the end of 1960 to 27.4 per cent of deposits held with commercial banks and 34.4 per cent of deposits held with savings banks; if compulsory reserves in cash and security holdings of banking associations are included, the ratios climb to 36.2 and 40.3 per cent, respectively; for the whole banking system the ratio of security investments to total deposits was 37.2 per cent, slightly lower than the corresponding ratio at the end of 1959 (40.2 per cent).

Commercial Lending.— Growing economic activity in all sectors and the building up of raw material and other stocks had their counterpart in strong credit demand and hence in a conspicuous expansion of bank assets (see table 26). The growth of total bank assets which had set in early in 1959, quickened its pace in 1960. Foreign currency credits, while expanding faster than lire credits, increased at a slower pace than in 1959, under the influence of the narrowing differential between money rates at home and abroad. Although all categories of banks increased their lending, the movement was most pronounced in public-law credit institutes and the banks of national interest, which started out with larger liquidity reserves and are more particularly concerned with the finance of industry and foreign trade, where credit demand was heaviest.

TABLE 26

Main Items in the Consolidated Balance Sheet of the Banking System

(quarterly changes, billion lire)

Period	Cash and call money	Compulsory reserves		Government securities (1)	Bonds and shares	Loans (2)		Deposits	Recourse to Bank of Italy	Balance of minor items
		Cash	Securities			short-term	medium- and long-term			
1959 - 1st quarter	− 58.4	94.1	− 13.7	335.7	62.9	− 35.5	16.8	247.1	20.6	134.2
2nd quarter	3.1	45.9	25.7	21.4	73.0	129.5	16.5	274.1	15.3	25.7
3rd quarter	− 36.8	− 42.7	57.8	87.9	32.4	200.1	26.8	174.4	− 21.7	172.8
4th quarter	72.6	−109.4	202.0	−143.3	51.7	406.0	26.7	575.5	5.7	− 74.9
Total	− 19.5	− 12.1	271.8	301.7	220.0	700.1	86.8	1,271.1	19.9	257.8
1960 - 1st quarter	− 59.0	54.1	− 1.6	32.3	39.3	57.3	14.2	68.1	4.0	64.5
2nd quarter	10.4	−107.2	172.6	−190.0	90.6	281.4	31.9	265.4	26.2	− 1.9
3rd quarter	− 0.7	94.0	− 10.4	49.5	94.4	286.9	13.8	488.4	3.8	35.3
4th quarter	73.7	−127.8	233.0	−253.7	8.0	548.9	38.6	546.1	3.4	− 28.8
Total	24.4	− 86.9	393.6	−361.9	232.3	1,174.5	98.5	1,368.0	37.4	69.1

(1) Excluding compulsory reserves.

(2) Including loans in foreign currencies and loans to foreign customers, but excluding parent banks' shareholding in affiliated special credit sections and current advances to them.

Total bank assets, including credits in foreign currencies, amounted to 7,410 billion lire at the end of 1960, having risen over the year by 1,273 billion or 20.7 per cent; the corresponding increases in 1959 had been 787 billion and 14.7 per cent. Lire credits were responsible for 1,175 billion of the 1960 increment and foreign currency credits for 98 billion; in 1959 the corresponding figures had been 625 and 162 billion.

Of the two principal forms of assets, the amount of bills discounted rose by 390 billion and overdrafts on current account by 629 billion; together, these items made up more than 80 per cent of the year's total increase. The growing shift from discounts to overdrafts is no doubt due to the incidence of fiscal charges on bills, the lesser need for immediate cash and the greater flexibility of current accounts, which enables the client to use bank credit as and when it suits him.

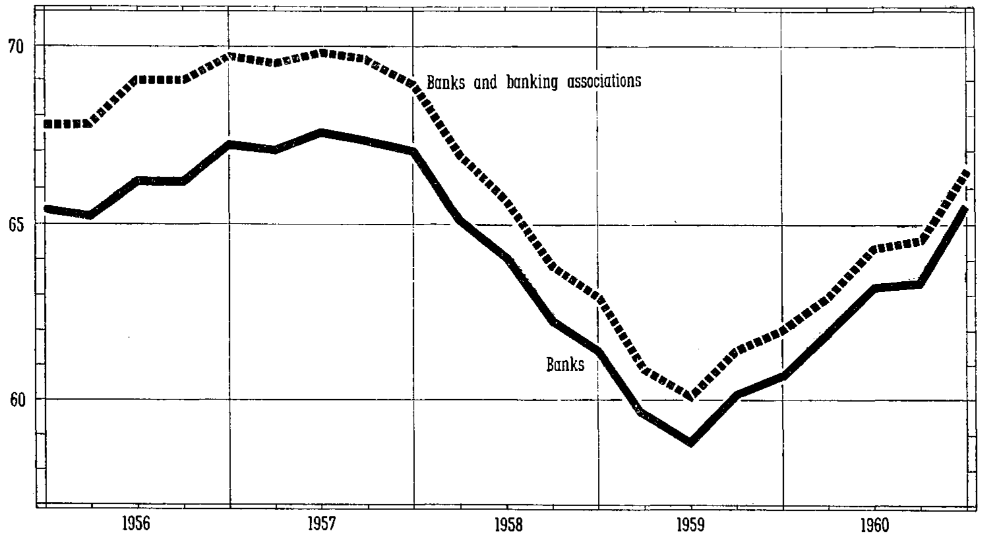
Secured loans and contangoes, mostly against securities, rose by 48 billion (as against 71 in 1959). This is one form of finance available for non-cash stock exchange operations.

Banking associations, which had received 133 billion in new deposits from their members (mostly savings banks) in 1959, paid 155 billion back to them in 1960; 138 billion of this are accounted for by the effect of new regulations concerning the form of the savings banks' compulsory reserves. The banking associations' security holdings diminished by 165 billion, a contraction of 199 billion in Treasury Bills having been partly offset by a 34 billion increase in other securities, mostly bonds of special credit institutes.

As a result of the different rates of increase of new (lire and foreign currency) funds and assets, the loan/deposits ratio (including in deposits also other minor loanable funds) climbed steadily during 1960, as shown in chart 9. Both curves fall from June 1957 onwards, first gently and then more sharply, until the middle of 1959; thereafter, a steady rise brings the curves back to their end-1955 levels. In figures, the loan/deposits ratio was 67.8 per cent in December 1955, 60.1 in June 1959 and 66.4 at the end of 1960 for banks and banking associations together, and for banks alone, at the same dates, 65.4, 58.8 and 65.5 per cent.

Liquidity Reserves.— The commercial and savings banks had an inflow of new funds (deposits, recourse to the Bank of Italy and minor items) in the amount of 1,474 billion lire in 1960 and employed 1,796 billion in new compulsory reserves, security investments and advances. Consequently, their liquidity reserves fell by 322 billion; this is the resultant of a 359 billion reduction in free Treasury Bill holdings and small offsetting

CHART 9



Percentage ratio of bank loans to deposits

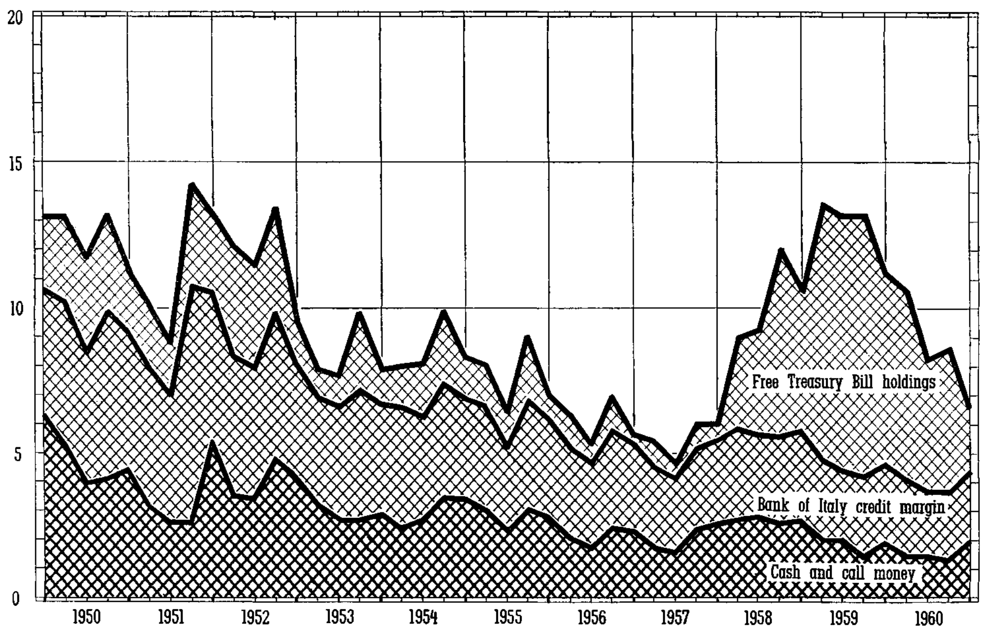
increases in cash and balances with the Bank of Italy, the Treasury, the Central Post Office Savings Fund and the Postal Administration (24 billion) and in unutilized credit lines on Bank of Italy advances (13 billion).

This is a very different picture from 1959, when an excess of new funds came to swell the already abundant bank liquidity. Of 1,549 billion of new funds in 1959, 1,365 were absorbed by compulsory reserves, security investments and advances; the liquidity increment, augmented by a 26 billion reduction in other liquid assets, went into free Treasury Bill holdings amounting to 209 billion.

In both these last two years and also in 1958 Treasury Bills, which have become the main reservoir of excess liquidity, took the brunt of the changes, while cash, call money and the Central Bank credit margin were normally tailored to the volume of business.

Chart 10 shows the ratio of liquid bank assets to deposits over the last ten years. Until the middle of 1957 the ratio kept slipping back, mainly under the influence of reductions in cash and in the Bank of Italy credit margin. These latter items have since continued to fall as a result of an improvement in the organization of the banking system, payment methods and transfer facilities. The increased use of bank money for business payments, more effective utilization of call money through head offices and banking associations, and facilities to transfer money from one location to another through clearance accounts and bank or Treasury money orders all help banking business to get along with smaller liquidity reserves.

CHART 10



Percentage ratio of liquid assets to deposits

At the end of 1960, the banks' liquidity reserves were 677 billion lire, of which 221 were cash and call money, 250 credit margin with the Bank of Italy and 221 Treasury Bills. Together, they amounted to 6.6 per cent of bank deposits, which, while an appreciably lower proportion than the year before (11.3 per cent), is still well above the level touched before the ratio started its steep climb in the middle of 1957.

At the end of last March, liquidity reserves were 690 billion and represented 6.7 per cent of deposits, showing practically no change against last December in spite of the normal seasonal reduction of liquidity in the first quarter of the year.

IX. *The Economy's Total Supply and Use of Funds*

Between them, banks and credit institutes, insurance companies and the capital market furnished the economy with a total of 3,042 billion lire of new funds in 1960—70.4 per cent more than in the previous year, when the corresponding rise had been 1,785 billion. Excluding stockpiling finance, total advances to the economy rose by 3,055 billion in 1960, compared with 1,768 in 1959.

A breakdown by sources (table 27) shows that while all sources of finance increased their advances to the private sector, they did so in varying degrees.

Funds raised directly on the capital market through share and bond issues more than doubled in 1960 with respect to the preceding year (748 against 338 billion); bank advances rose by

TABLE 27

Total Funds supplied to Private Sector, by Sources

(annual changes in billion lire)

Year	Banks (1)		Special credit institutes (2)		Central Post Office Savings Fund and others (3)	Bonds and Shares (4)	Total		Treasury reimbursements for stockpiling
	stockpiling	ex stockpiling	stockpiling	ex stockpiling			stockpiling	ex stockpiling	
1948	29.6	301.0	13.1	104.7	88.1	107.6	42.7	601.4	45.0
1949	36.0	298.3	20.9	119.1	62.8	198.3	56.9	678.5	—
1950	− 19.9	328.0	− 3.4	190.1	71.3	90.0	− 23.3	679.4	34.8
1951	7.4	292.6	7.0	162.6	142.3	81.9	14.4	679.4	—
1952	28.0	475.3	10.3	168.4	144.1	150.6	38.3	938.4	—
1953	37.0	477.0	30.8	167.8	148.9	193.9	67.8	987.6	—
1954	36.2	473.9	10.2	206.6	196.2	152.6	46.4	1,029.3	2.2
1955	31.5	544.0	35.4	256.0	198.3	161.4	66.9	1,159.7	
1956	55.8	612.8	23.0	230.8	187.2	244.2	78.8	1,275.0	24.5
1957	− 6.6	437.7	− 15.7	244.0	244.2	271.1	− 22.3	1,197.0	98.3
1958	51.9	256.6	30.1	307.9	227.3	446.0	82.0	1,237.8	2.0
1959	13.5	764.6	3.8	372.8	292.2	337.9	17.3	1,767.5	15.3
1960	− 8.3	1,386.6	− 4.6	578.9	341.8	747.5	− 12.9	3,054.8	8.6

(1) Including banking associations, minor credit institutes and loans in foreign currencies.
(2) Including loans from Treasury and banking funds.
(3) Including Treasury advances to the private sector, Bank of Italy's private business and insurance funds.
(4) Companies, including IRI and ENI.

1,387 billion, which is 81.3 per cent in excess of the 1959 increase, and those by special credit institutes were 579 billion higher compared with 373 billion in 1959 (55.2 per cent). The Central Post Office Savings Fund, insurance companies etc., finally, contributed additional funds in the amount of 342 billion lire, against 292 in 1959.

Even though the relative increase in bank advances (81.3 per cent) was larger than that in medium- and long-term funds (66.3 per cent), the conspicuous increase in the economy's call on sources of finance generally associated with fixed investment is far and away the most salient feature of the year.

Short-term bank advances do, of course, in the long run adapt themselves to inventories and thereby to the production system's working capital requirements; but in the short run they are strongly subject to cyclical influences, especially inventory fluctuations, and for this reason new bank advances are apt to vary sharply from year to year. By contrast, medium- and long-term funds, which are normally used for fixed investment to the extent that it is not covered by self-financing, tend to fluctuate much less.

During the year under review, companies raised far more medium- and long-term funds than they needed for immediate fixed investment; the excess was used in part to consolidate short-term debts and for the rest flowed into bank deposits pending utilization.

Turning now to the breakdown of new advances to the economy by recipient sectors, building construction (including residential building, public works and land reclamation) is seen to head the list. This sector, which was very active during the year and had important foreign orders, received 136 billion lire more from the banks (in 1959: 60 billion) and 199 billion more from special credit institutes, of which 57 for public works (in 1959: 36 billion) and 142 for building (1959: 93 billion). Counting in also the additional funds raised directly on the market, the building construction group took in a total of 353 billion of new money in 1960, as against 199 billion in 1959.

Furthermore, the banking system's advances to public corporations, which increased by 105 billion in 1960 (75 in 1959), also serve in large part to finance construction work. Finally, the Central Post Office Savings Fund and insurance companies again increased their already considerable stake in the building sector—probably by something like 260 billion last year, as against 230 in 1959.

The group labelled " banks, stock exchange dealers, finance and insurance companies " received an additional 124 billion in bank advances (40 in 1959).

Public utilities (including telephones, electricity generation, etc.) and all forms of transport together received an additional 254 billion, as against 187 in 1959 and 236 in 1958. A sizeable part of the increment came from loans by special credit institutes, which stepped up their contribution from 65 billion in 1959 to 116 in 1960.

Agriculture, the food-processing industries and wholesale trade in food borrowed and raised only very little more than in 1959, namely, 252 billion compared with 240. Bank advances accounted for 166 billion of the total 1960 increment and for 187 billion of the 1959 one.

The metallurgical and engineering industries between them raised their claims on all sources of finances by the exceptional sum of 446 billion (184 in 1959).

Nearly as spectacular was the rise in new funds taken in by the rest of industry together: 765 billion in 1960 as against 328 in 1959, with an increase in share and bond issues alone of 387 billion (109 in 1959). All branches of industry were affected and the chemical industry more than any other, having stepped up its fund-raising and borrowing from 84 billion in 1959 to 311 in 1960, mainly by share and bond issues (up from 38 to 236 billion). The textile industry's greater activity last year was reflected in its absorbing 160 billion of new money, against 50 the year before.

Aggregate public investment spending in 1960 was, at 1,223 billion lire, 87 billion above its 1959 level (see table 28). The increment is entirely attributable to the government (58 billion, mostly for transport and communications, industry and public works) and to the *Cassa per il Mezzogiorno* (53 billion), whereas other public authorities and agencies either simply maintained their investment outlays or, like the National Assurance Institute Housing Fund (*INA-Casa*), reduced them. The lower investment of *INA-Casa* reflects the slowing-down of the second seven-year housing programme after the strong initial drive in 1958 and the exceptional spurt in 1959.

TABLE 28

Coverage of Public Investment Expenditure

(billion lire)

Sources	1959		1960	
Surplus of current receipts over current expenditure in the public sector (1)		462		684
Foreign borrowing by Treasury and autonomous government agencies (2)	—		− 11	
Medium- and long-term government bonds (2) (3)	363		293	
Postal savings (2)	199		212	
Treasury Bills (2)	273		− 59	
Treasury's current accounts and other short-term debts (2)	− 320		− 38	
Total borrowing for coverage of Treasury's overall cash requirements (2)	515		297	
Other net borrowing by local authorities and autonomous government agencies (4)	64		18	
Total borrowing of the public sector		579		315
Surplus or deficit (—) of other capital-account items and minor Treasury transactions		− 48		38
Non-government receipts by the *Cassa per il Mezzogiorno*		50		86
Non-government receipts by *INA-Casa*		93		100
Total public investment expenditure		1,136		1,223

(1) Central and local government and autonomous government agencies (quoted from the *Report on the Economic Situation in Italy in 1960*).
(2) Table 16, items 10-24.
(3) Including State Railway and National Road Agency bonds.
(4) Balance of residual debt management accounts (from *Report on the Economic Situation in Italy in 1960*).

More than half of total public investment expenditure was covered in 1960 by the large surplus of current receipts over current expenditure in the public sector (684 billion, that is 222 billion more than the year before).

Private investment in its turn was much higher in 1960 than in 1959. Table 29 shows how private investment spending in the amounts, respectively, of 3,509 and 2,799 billion lire, was financed in the two years. As in the preceding year, the part played by share and bond issues was again larger (410 billion), and so was that of loans by special credit institutes (476 billion in 1960 as against 291 in 1959). Depreciation reserves furnished 133 billion more than in 1959. Of all the sources of finance shown in the table, only loans by insurance companies contracted.

TABLE 29

The Finance of Private Investment

(billion lire)

Sources	1959	1960
Share and bond issues	338	748
Loans by agricultural, land and building credit institutes (1)	128	176
Loans by industrial credit institutes (1)	223	363
	689	1,287
less Funds supplied by the Treasury to banks and credit institutes	60	63
	629	1,224
Loans by insurance companies (1)	106	86
	735	1,310
Depreciation reserves	1,207	1,340
Direct investment by savers, self-financing by companies and net balance of short-term operations with banks (balancing item)	857	859
Total private investment	2,799	3,509

(1) Excluding those to the public sector.

The residual item showing direct investment by savers, self-financing by companies and the balance of short-term transactions between business and banks, was almost the same in both years.

X. *The Liquidity Position of the Market and the Credit System* (1)

The private sector's liquid assets increased in 1960 by 1,625 billion lire, but since, at the same time, its indebtedness to the banking system rose by 1,186 billion, the liquidity surplus was only 439 billion—very considerably less than in 1958 (1,030 billion) and 1959 (855 billion) (see table 30). The slowing down in the formation of net liquid assets after the high levels of 1958 is principally due to a contraction of new borrowing by the public and foreign sectors, which at that time had been the main sources of liquidity. In particular, the net position vis-à-vis foreign countries (gold and convertible currency reserves, the balance of short-term credits and debts in convertible and non-convertible foreign exchange and in lire), which had risen by 73 per cent during the twelve months ending June 1959, rose by only 15.8 per cent in the course of 1960, or just about as much as did total credit and gross liquid assets.

Primary liquidities (notes, coin and current accounts) closely follow short-term credits in the ratio of about 60 : 100. Of the two principal components of primary liquidity, current accounts with the banking system rose relatively more than currency circulation, no doubt because of the growing use of bank money for business payments. Secondary liquidities (largely bank sav-

(1) Since 1948 the Annual Report (though not always its Abridged Version in English) has included a statistical table of all monetary and capital transactions. This so-called *Detailed Statement of the Flows of Money Supply and Finance Funds* recorded year-to-year and quarterly changes in all types of transactions grouped by sources of funds (Bank of Italy, commercial and savings banks, central banking associations, Central Post Office Savings Fund, insurance companies and social insurance funds, special credit institutes and capital market), by users (public sector, domestic private sector, foreign sector) and by kinds of funds (notes and coin, current accounts, savings deposits, securities). On the last two occasions, in 1958 and 1959, the *Detailed Statement* was further refined by the addition of tables classifying money and capital flows by their degree of liquidity and dividing them according to their relevance to the capital or money market. This year a slightly different form has been chosen, although the following tables 30 to 34 preserve the main substance (subject to a few alterations) of the *Detailed Statement* and its supplementary tables. For full details see the Italian edition of the Report, which contains quarterly series since 1956.

TABLE 30

Short-term Credit and Liquid Assets (1)

(annual and quarterly changes, in billion lire)

Items	1958	1959	1960	1960 First Quarter	1960 Second Quarter	1960 Third Quarter	1960 Fourth Quarter
Short-term credit:							
1. Public sector's borrowing (2)	295.3	44.1	— 16.6	— 124.8	— 132.9	54.5	186.6
2. of which from: Bank o Italy	— 273.7	— 470.3	— 2.1	— 188.0	— 0.3	— 79.8	266.0
3. Treasury accounts	— 51.8	— 522.0	— 98.7	— 129.3	— 105.4	4.1	131.9
4. Stockpiling rediscounts	2.9	44.7	10.1	— 5.1	— 1.3	8.6	7.9
5. Compulsory bank reserves in cash (2)	— 224.8	7.0	86.5	— 53.6	106.4	— 92.5	126.2
6. Banks (2)	578.4	487.4	— 17.9	67.4	— 110.7	139.9	— 114.5
7. Private investors and companies	— 9.4	27.0	3.4	— 4.2	— 21.9	— 5.6	35.1
8. Private sector's borrowing	202.7	677.8	1,186.2	48.2	289.1	273.0	575.9
9. of which from: Bank o Italy	— 74.1	11.8	27.6	4.3	30.1	— 3.7	— 3.1
10. Banks	276.8	666.0	1,158.6	43.9	259.0	276.7	579.0
11. Foreign sector's borrowing (3)	459.0	517.9	273.0	— 8.5	76.0	168.9	36.6
12. of which: net position of Bank of Italy and Exchange Office	545,6	572.2	65.0	— 71.1	33.7	113.6	— 11.2
13. net position of banks	— 86.6	— 54.3	208.0	62.6	42.3	55.3	47.8
14. Total short-term credit (1 + 8 + 11)	957.0	1,239.8	1,442.6	— 85.1	232.2	496.4	799.1
Liquid Assets:							
15. Primary liquidities	542.7	805.1	869.4	— 217.2	225.1	388.6	473.0
16. of which: notes and coin	159.7	188.2	203.5	— 198.7	64.2	76.8	261.2
17. current accounts	383.0	616.9	665.9	— 18.5	160.9	311.7	211.8
18. Secondary liquidities	690.3	727.5	756.0	113.7	121.2	173.1	348.0
19. Surplus of credits over primary liquidities (14 — 15)	414.3	434.7	573.2	132.1	7.1	107.9	326.1
20. Surplus of gross liquid assets over credits (21 — 14)	276.0	292.8	182.8	— 18.4	114.1	65.2	21.9
21. Gross liquid assets (15 + 18)	1,233.0	1,532.6	1,625.4	— 103.5	346.3	561.6	821.0
22. Net liquid assets (21 — 8)	1,030.3	854.8	439.2	— 151.7	57.2	288.6	245.1

(1) Short-term credits to the Treasury, the private sector and the foreign sector.

(2) Compulsory bank reserves in cash appear as an asset (with reversed sign) with Bank of Italy and as an asset of Banks. The Bank of Italy's position is shown net of 62.8 billion resulting from the revaluation of gold reserves in February 1960.

(3) The net position of the Bank of Italy and the Italian Exchange Office includes the official gold and convertible currency reserves, non-convertible currency holdings and the balances of multilateral and bilateral clearing accounts (which figure in the balance of payments under the headings Official Gold and Convertible Currency Holdings, and Other Official Assets Abroad).

ings deposits) display higher and more stable rates of increase, sustained by the deposits' interest-earning power.

The annual rate of the Treasury's short-term borrowing diminished throughout the period 1956 to 1959, except for 1958, a year of ample liquidity when no government bonds were floated on the capital market and the Treasury made heavy claims on the banking system. In 1959, still in the presence of high liquidity, the Treasury borrowed only 44 billion lire. In 1960 the Treasury reduced its overall short-term indebtedness by 17 billion.

As a result of these developments, the share of short-term credits to the Treasury in total credits outstanding fell from 45 per cent at the end of 1955 to 30.7 per cent at the end of 1960.

The annual rate of increase of short-term credit to foreign countries kept growing until 1959 and then dropped by half last year. At 2,000 billion lire, these credits constituted 16 per cent of the total volume of short-term credit at the end of 1960, compared with 6.7 per cent at the end of 1955.

The rate of increase of the private sector's borrowing from the banks, finally, diminished until 1958. This was a counterpart to the other two sectors' heavy claims on bank credit, but when first the Treasury and then the foreign sector changed course, the private sector's new bank borrowing picked up to such good purpose that it trebled its 1958 amount in 1959 and then again almost doubled the 1959 amount in 1960.

The capital market expanded greatly during the last ten years and provided a substantial volume of finance for fixed investment by companies (tables 31 and 32). New issues, encouraged by the market's liquidity and the consequent fall in the cost of borrowing during the last three years, were taken up largely by private investors and companies; banks on the whole preferred fixed-interest securities, particularly the bonds of special credit institutes.

Government issues have not been large, except for 1959 when Treasury Bonds were floated as a counter-cyclical measure

TABLE 31

Medium- and Long-term Credit

(annual and quarterly changes, in billion lire)

Items	1958	1959	1960	1960 First Quarter	1960 Second Quarter	1960 Third Quarter	1960 Fourth Quarter
Flow of funds from:							
1. Banks	225.5	383.1	336.0	68.0	124.1	101.4	42.5
2. of which: government securities (1)	16.0	108.4	— 15.3	10.6	15.3	— 10.1	— 0.5
3. other securities (2)	125.2	186.9	253.2	43.1	107.7	97.6	4.8
4. loans and mortgages	84.3	87.8	98.1	14.3	31.7	13.9	38.2
5. Central Post Office Savings Fund (3)	139.3	176.4	230.0	40.4	33.8	46.2	109.6
6. of which: government securities (1)	— 1.3	4.6	4.4	—	—	—	4.4
7. other securities (2)	6.6	11.7	12.9	— 1.3	0.5	— 2.3	16.0
8. loans and mortgages	134.0	160.1	212.7	41.7	33.3	48.5	89.2
9. Special Credit Institutes loans and mortgages	266.1	340.0	474.7	113.0	92.8	124.3	144.6
10. of which financed by: time deposits	26.7	61.0	44.1	18.0	7.3	9.1	9.7
11. bonds	239.4	279.0	430.6	95.0	85.5	115.2	134.9
12. Insurance companies and social insurance funds (4)	121.9	121.1	138.9	41.5	34.9	40.6	21.9
13. of which: government securities (1)	— 7.4	6.0	4.9	1.3	1.3	1.3	1.0
14. other securities (2)	33.7	11.7	39.6	9.8	9.9	9.9	10.0
15. loans and mortgages	95.6	103.4	94.4	30.4	23.7	29.4	10.9
Flow of funds to:							
16. Total public sector (2 + 6 + 13)	7.3	119.0	— 6.0	11.9	— 14.0	— 8.8	4.9
17. Total private sector (5) (4 + 8 + 9 + 15)	580.0	691.3	879.9	199.4	181.5	216.1	282.9
18. Grand total (5) (16 + 17)	587.3	810.3	873.9	211.3	167.5	207.3	287.8

(1) Including railway bonds.
(2) Including direct capital subscriptions.
(3) Postal deposits less short-term investments.
(4) Actuarial reserves less short-term investments.
(5) Excluding "other securities" held by all categories, so as to avoid duplication with the assets of special credit institutes.

TABLE 32

New Security Issues, by Owners

(annual and quarterly changes, in billion lire)

Items	1958	1959	1960	1960 First Quarter	1960 Second Quarter	1960 Third Quarter	1960 Fourth Quarter
1. Non-banking private sector (1)	531.4	665.4	1,093.4	341.1	215.4	241.1	295.8
2. of which: government securities (2)	— 16.7	212.6	170.7	106.8	23.1	4.8	36.0
3. other bonds	325.8	227.8	427.0	139.4	131.1	109.1	47.4
4. shares	222.3	225.0	495.7	94.9	61.2	127.2	212.4
5. Banking system (3)	113.3	278.8	228.2	56.9	9.5	44.7	117.1
6. of which: government securities (2)	0.4	130.9	— 8.7	12.8	— 22.3	— 10.1	10.9
7. other bonds	112.9	147.9	236.9	44.1	31.8	54.8	106.2
8. Total issues (1 + 5)	644.7	944.2	1,321.6	398.0	224.9	285.8	412.9
9. of which: government securities (2)	— 16.3	343.5	162.0	119.6	0.8	— 5.3	46.9
10. other bonds	438.7	375.7	663.9	183.5	162.9	163.9	153.6
11. shares	222.3	225.0	495.7	94.9	61.2	127.2	212.4

(1) Private investors and companies, insurance companies and social insurance funds.
(2) Including railway bonds.
(3) Bank of Italy, banks and banking associations, Central Post Office Savings Fund.

TABLE 33

Flows of Money Supply and Finance Funds

(annual and quarterly changes, in billion lire)

Items	1958	1959	1960	1960 First Quarter	1960 Second Quarter	1960 Third Quarter	1960 Fourth Quarter
By sectors:							
1. Public sector	293.3	369.7	143.2	— 7.4	— 125.1	49.2	226.5
2. of which: short-term credits	295.3	44.1	— 16.6	— 124.8	— 132.9	54.5	186.6
3. securities (1)	— 2.0	325.6	159.8	117.4	7.8	— 5.3	39.9
4. Private sector	1,223.2	1,741.5	2,824.3	428.7	685.6	705.5	1,004.5
5. of which: short-term credits	202.7	677.8	1,186.2	48.2	289.1	273.0	575.9
6. loans and mortgages	580.0	691.3	879.9	199.4	181.5	216.1	282.9
7. securities	440.5	372.4	758.2	181.1	215.0	216.4	145.7
8. Foreign sector	459.0	517.9	273.0	— 8.5	76.0	168.9	36.6
9. Total money supply and finance funds (1+4+8)	1,975.5	2,629.1	3,240.5	412.8	636.5	923.6	1,267.6
By types:							
10. Gross liquid assets	1,233.0	1,532.6	1,625.4	— 103.5	346.3	561.6	821.0
11. Other non-security assets	211.1	431.1	521.7	175.2	74.8	120.9	150.8
12. Securities	531.4	665.4	1,093.4	341.1	215.4	241.1	295.8

(1) Including railway bonds.

TABLE 34

Operations and Liquidity of the Banking System

(annual and quarterly changes, in billion lire)

Items	1958	1959	1960	1960 First Quarter	1960 Second Quarter	1960 Third Quarter	1960 Fourth Quarter
Operations of the Bank of Italy (1):							
1. Advances to the Treasury	— 51.8	— 522.0	— 98.7	— 129.3	— 105.4	4.1	131.9
2. Net position vis-à-vis abroad	594.6	570.9	153.8	— 58.4	51.0	133.3	27.9
3. Balance of other operations	— 8.8	— 15.8	— 9.0	1.7	— 16.6	25.6	— 19.7
4. Note circulation	— 147.2	— 176.4	— 186.8	202.5	— 60.0	— 73.6	— 255.7
5. Advances to special credit institutes	— 19.5	37.3	4.8	— 6.1	2.2	1.9	6.8
6. Advances to banks (2) (3) (1 + 2 + 3 + 4 + 5)	367.3	— 106.0	— 135.9	10.4	— 128.8	91.3	— 108.8
Operations of banks (2):							
7. Recourse to Bank of Italy (4)	— 41.3	19.9	37.4	4.0	26.2	3.8	3.4
8. Deposits	1,052.7	1,271.1	1,368.0	68.1	265.4	488.4	546.1
9. Balance of other operations	7.6	257.8	69.1	64.5	— 1.9	35.3	— 28.8
10. Compulsory reserves (5)	223.8	259.7	306.7	52.5	65.4	83.6	105.2
11. Investments in securities (6)	96.7	318.8	216.5	70.3	84.7	73.1	— 11.6
12. Loans and advances	266.9	786.9	1,273.0	71.5	313.3	300.7	587.5
13. *Liquidity reserves* (7 + 8 + 9 — 10 — 11 — 12)	431.6	183.4	— 321.7	— 57.7	— 173.7	70.1	— 160.4
14. Cash and call money	42.9	— 19.5	24.4	— 59.0	10.4	— 0.7	73.7
15. Credit margin with the Bank of Italy	49.9	— 6.1	12.7	0.1	— 23.7	14.5	21.8
16. Free Treasury Bill holdings (7)	338.8	209.0	— 358.8	1.2	— 160.4	56.3	— 255.9

(1) Net of the 62.8 billion proceeds of the revaluation of gold reserves. Other Operations and Note Circulation are shown with reversed sign.
(2) Including central banking associations.
(3) Ordinary and reserve deposits net of Recourse to Bank of Italy.
(4) Advances, deferred clearing payments and rediscounts.
(5) For savings banks, only the securities deposited with the Bank of Italy.
(6) Excluding securities deposited for compulsory reserve, credit margin with the Bank of Italy and free Treasury Bill holdings.
(7) Including securities deposited by savings banks with the Central Savings Banks Institute for compulsory reserve.

to finance a supplementary investment development programme and other financial requirements. In 1960 government stock and railway bonds accounted for only 162 billion out of total new security issues of 1,322 billion.

Total monetary and financial asset formation in 1960 amounted to 3,240 billion lire, which is more than 600 billion in excess of the 1959 figure. Of this flow of assets, 33.7 per cent were securities (table 33). The new assets were matched by credit and investment in the same amount, the private sector accounting for 87.2 per cent of the total, the foreign sector for 8.4 and the public sector for the remaining 4.4 per cent.

Like market liquidity, bank liquidity fell again in 1960, but was sufficient for the volume of business. During the last two years the Bank of Italy supplied the banks with the liquid funds they needed through issuing domestic currency against foreign exchange receipts, while Treasury debt repayment had a partly offsetting effect (table 34).

As a result of this policy the composition of the Bank of Italy's balance sheet has changed since 1955, when only 26.6 per cent of the note circulation was backed by gold and convertible currencies: at the end of 1960 the proportion was 85.1 per cent.

XI. *Excerpts from the Governor's Concluding Remarks*

Gentlemen,

The concluding part of the Annual Report is the quintessence and synthesis of the detailed and carefully documented analysis presented in the separate chapters, thanks to the team work of our colleagues in the offices of the central administration and the managers of the Bank's branches. It is to them that belongs the merit, if merit there be, for the Report and it is they who have spun the red thread which runs through my concluding remarks. I express my warmest appreciation to them all.

World Economic Conditions and Monetary Policy.— The economic results achieved by the industrial countries in 1960 are amongst the best since the close of the war. Although the resumption of the expansive movement was well under way in 1959, last year production went on expanding at high rates everywhere except in the United States, to reach new peaks far above those of the year before.

The growth of productive activity in the countries of Europe was, at different times, sustained in turn by all components of demand: at first mainly by export and stockbuilding demand, then by domestic consumption and investment demand, and most recently especially by this last-mentioned component of internal demand, that is, new investment by firms. In this sequence lies the origin of the conspicuously high rates of annual increase of all the elements of total demand and also of the relatively more marked expansion of trade among the industrial countries in comparison with other trade flows.

As regards the outlook for the current year, we should wish merely to underline that all the most authoritative forecasts agree in expecting the favourable trend to continue in the months to come, although the results may not equal those achieved in 1960.

The contrast between the recession in the United States and the booming economies of Europe bumping along the full-employment ceiling necessarily led to policy differences and caused certain strains, which were manifest above all in differential money rates and in international payments disequilibrium.

These are problems which concern more particularly the behaviour of money and exchange markets and the development of international payments, all of which concern us closely and engage our responsibility. It is to these problems, therefore, that we shall devote our main attention in the first part of our remarks.

The asynchronous timing of cyclical phases in the United States and in Europe as well as among different groups of countries within Europe enabled extreme fluctuations in both senses to be flattened through the vehicle of international trade, which made room for a redistribution of capacity utilization transcending national frontiers. At the same time, currency convertibility added greatly to the mobility of money flows among industrial countries.

If, then, the past year was one in which the volume of the international exchange of goods and services expanded sharply, especially as between the United States and Europe, it was also a year of huge international movements of short-term funds in directions which did not always suit the economy of the countries concerned. The growing time lags in cyclical developments vastly magnified the flow of funds already called forth by a, sometimes considerable, margin of money rates and this flow was further swelled by sudden movements of hot money in the expectation of parity changes.

The resulting large and, in some cases, persistent accumulation of surpluses by some countries and deficits by others caused unusually heavy balance-of-payments disequilibria as well as large-scale transfers of international liquidity reserves, so that the monetary authorities had to intervene with energetic measures. These events, punctuaded by a number of symptomatic episodes in the gold and exchange markets, have revived the discussion of international liquidity problems and have forced them upon the active consideration of scholars and politicians alike.

The conflict between internal and external needs not only placed a difficult choice before the monetary authorities, but also did much to aggravate still further the operational conditions of various markets already disturbed by the transfer and repatriation of funds. While in the United States the outflow of capital added yet another factor of slackness just when production levelled off and the economy entered a phase of recession, the simultaneous inflow of funds into Europe defeated, at least to some extent, the authorities' efforts to brake the excesses of the boom through the regulation of market liquidity and of credit.

The difficulties of monetary action in the economic and financial setting of 1960 were outstandingly evident in Germany, where eventually a reappraisal of policy culminated in the revaluation of the mark last March.

In other countries monetary measures were perhaps less widespread and frequent, in part because the expansionary forces appeared concentrated and circumscribed within the sphere of private consumption, and in part because large budget surpluses helped to keep demand down to more easily manageable levels. When Central Banks intervened, mainly by altering Bank Rate, their decisions were often inspired by external motives, such as, at first, the desire to strengthen foreign exchange reserves and later that to check the flow of hot money.

Considerations of this kind ultimately prevailed over those of an internal character. This was the case, for example, when, at the end of 1960 and in the first few months of 1961, many countries felt able to relax the credit restrictions they had imposed earlier. But this tendency was also due to considerations as to the possibility and indeed the advisability of influencing the level of demand for goods and services by predominantly monetary means.

From this point of view, the greater stress placed both in academic discussion and in the programming of public activities on general economic measures and fiscal instruments testifies to a growing awareness of the need to surround monetary policy with other appropriate measures if it is to achieve the desired effects.

International Payments and Liquidity Problems.— For ten years now world trade has been expanding by leaps and bounds and the relative balance-of-payments situation of the European continent and the United States has capsized in Europe's favour. These events have raised the problem of the adequacy of international monetary reserves and, in unexpected guise, also that of their distribution. Last year, the intensification of international movements of short-term capital added a new dimension to these problems.

The circumstance that the United States and Western Europe were cyclically out of step in 1960 strongly influenced the leading countries' balances of payments, not only on current but also on capital account. In Europe, the expansion of domestic demand, coupled with a slowing down of the rate of increase of foreign demand, cut into current surpluses. The extent of the diminution varied from country to country; in the United Kingdom, the slight surplus of 1959 turned into a heavy deficit in 1960. In the United States, on the other hand, the progressive slackening of domestic demand made room for a considerable improvement in the current balance and more especially in the merchandise balance, which reaped the full benefits of rapidly growing foreign demand.

In the light of the present situation of international payments and of the geographical distribution of official gold and foreign exchange reserves, it must be stressed that short-term capital movements did not, in general, exercise an equilibrating influence. They were able to grow thanks to progress in the liberalization of capital transactions, especially since the restoration of convertibility, and thanks also to an improved balance-of-payments structure.

However, there is not, as yet, anything like unanimous agreement as to the advisability of complete liberalization of capital movements. Above all, it is doubtful whether such liberalization can be achieved without prior co-operation arrangements among the various countries' monetary authorities.

Although great care was taken not to re-create conditions apt to disturb the system of international payments, the progress of liberalization has, at any rate, gone far beyond anything envisaged in the early post-war years, especially with regard to capital movements. Last year the concentration of increases of gold and dollar reserves in a few countries, whose current balance of payments hardly improved at all, clearly shows the importance suddenly assumed by capital movements, and especially short-term ones.

Enormous transfers of funds from one centre to another preceded and followed the rise of the London gold price and the revaluation of the mark and the guilder. These displacements put the spotlight on the perils to which all currencies, and more particularly the key currencies which discharge their international reserve function by piling up short-term debts, are exposed in a world from which administrative controls have gone, one after the other. This situation is full of dangers for the orderly functioning of international payments and accordingly the monetary authorities of some countries have intervened in a number of ways and sometimes by emergency measures.

Apart from their action for immediate purposes, the authorities turned their attention to the two more general and interdependent questions of the adequacy of world external liquidity reserves and of the strength of the present system of international settlements, based on the contribution to reserve formation of the currencies habitually used for this purpose, namely, the dollar and the pound sterling.

The good-creditor policy pursued by the United States during the whole period up to 1957, when their current balance remained especially favourable, ended up with a redistribution of reserves which eliminated the second world war's heritage of distortions and reflects in a much better way the present relative weight of the industrial countries in world trade. The countries whose reserves are patently inadequate are mostly primary-producing countries, and they owe the shortage to their development programmes and to adverse terms of trade. However, even in their case the problem is due not so much to the malfunctioning of the international payments system properly speaking, as to the failure of foreign long-term capital supply to match the requirements of intensive development programmes. This problem was approached in the right way when the industrial countries last year took measures to co-ordinate and amplify their financial and other aid to developing countries.

So far, then, there is nothing to suggest that the international liquidity situation calls for drastic reforms, at least in the short period. However, the problem of ensuring a growth in international liquidity reserves sufficient to give free rein to the expansion of world trade might well arise in a longer-range perspective. If the working of the international settlements system has lately given cause for concern and has put some currencies under strain, this was, we repeat, in large part due to the extraordinary volume of short-term capital movements.

To cope with the upheaval in the wake of the mark and guilder revaluation, Central Banks quickly agreed on effective concerted action. This is proof that the present mechanism of payments is capable of reacting smartly even to large-scale speculative attacks. Moreover, the measures adopted in the heat of the moment have furnished valuable indications on the possible means of strengthening the system's resilience in the future without falling into hard-and-fast automatic patterns which are harmful as a general principle and closed to the benefits of experience.

These indications suggest that if the Central Banks of the leading countries were to co-operate more closely and at more differentiated levels than they have done in the past, they could constitute a strong first line of defence. The aim should be to make wider, though not necessarily less selective, use of various technical means of intervention designed to achieve, in accordance with the needs of each separate case, either a saving of reserves or the activation of excess reserves.

Concerted action of this kind would be an opportune step towards greater solidarity among the institutions directly concerned. It would, of course, presuppose that the monetary institutions of some major countries, which in the past followed the practice of keeping all or very nearly all their reserves in gold, should be willing to keep also other countries' currencies as reserve. That would enable them to pursue more active policies on the exchange markets, where suitable and timely intervention might counteract undesired capital movements before they ever reach unduly large proportions.

Arrangements of this kind might, then, provide a first line of defence to support currencies which may in the future come under pressure as a result of adverse short-term financial operations. However, by its very nature, this type of assistance would be indicated only in the case of operations of not too broad a scope in respect to both amount and duration. It follows that Central Bank co-operation needs to be properly integrated into the existing structure of international financial machinery and institutions.

The existing regional organizations in Europe could furnish a suitable institutional framework for a satisfactory development of direct first-aid arrangements among Central Banks. In its turn, the International Monetary Fund, whose operational principles are now being re-examined with a view to adapting them to the new situation created by the progressive dismantlement of foreign exchange controls, could become a second line of defence. This would be much stronger, given that the Fund's operations are not so limited to the very short period and thus are formally regulated for their entire duration.

Within a coherent scheme designed to make full use of the existing international monetary system's potential capacities both under its technical and its institutional aspects, the resources of the Fund could be used for financial assistance which proved to be necessary beyond the limits of amount and time admissible for direct action on the part of Central Banks. To enable the Fund to discharge its functions effectively, member countries should examine not only how more active use can be made of the Fund's existing resources, but also how they can be strengthened sufficiently to meet any foreseeable needs of the major countries, even beyond the Fund's present limits of intervention.

To sum up, it may not come amiss to stress that, while the Central Banks determination to work together more actively may in itself constitute a sound defence against possible speculative runs on one currency or another, any new technical formula devised to this end would really do no more than reinforce a mechanism which already exists, with the object of assuring countries that lose reserves an adequate margin of time for the adoption of countermeasures to redress its foreign balance.

In some cases, the new techniques would involve no more than institutional changes; in other, more frequent, cases monetary, financial and general economic policies may have to be revised in the light of particular cyclical developments and in accordance with the commitments undertaken by countries when they made their currencies convertible.

It seems obvious enough that whatever measures may be adopted to render the international payments system more resilient and flexible, these cannot solve the problems due to basic disequilibria in the balances of payments. No device of international monetary technique can cure evils deeply rooted in the slow rate of economic development in some countries with respect to others, or in the scant energy deployed in safeguarding internal monetary stability.

The effectiveness of monetary techniques and instruments ultimately depends on political resolve and on the concerned countries' success in their efforts to eliminate the internal causes of structural imbalance in external payments. There is indeed evidence that the principal countries are acutely aware of this—witness the recent and highly promising approach to common problems within the consultative agencies of the nascent Organization for European Co-operation and Development.

Italy's Balance of Payments.— In Italy, too, 1960 was a year of strong economic expansion, but unlike other countries, she escaped the strains and stresses of unbalanced total demand and supply. This she owed to the existing margins of unutilized capacity and labour and to larger imports, unrestrained by balance-of-payments difficulties or scarcity of reserves.

The expansion of global demand called forth, on the one hand, a strong increase in output and employment, and on the other, a growth of imports well in excess of export increments. As a result, the export surplus on goods and services account, which had amounted to nearly 500 million dollars in 1959, dwindled almost to nothing and the total of resources absorbed by domestic investment and consumption grew more than national income.

One of the principal causes of our larger purchases abroad was the strong rise in fixed investment, especially in the private sector. Consequently, the biggest import increments occurred in manufactures, and more particularly in capital goods. While the general volume of imports increased by 40 per cent, the volume of capital goods imports rose by 63 per cent.

A strong increase in food imports—44 per cent in quantitative terms—was due to internal imbalance between demand and supply. While demand rose strongly under the impact of growing incomes, supply was limited in part by poor harvests of a few major crops and in part by the difficulties of adapting the volume and composition of agricultural output to growing consumption and changing consumer tastes. Another import-raising factor during the first half of last year was the rebuilding of stocks of industrial raw materials and semi-manufactures.

The current process of industrialization and specialization naturally has its effects on the structure of our exports. The tendency for the share of manufactures to increase is reinforced by the expansion of credits for capital goods exports to developing countries.

In practice, this means a relatively larger increase in the export of goods which incorporate a higher proportion of value added, with a preponderant contribution by the factor labour. The export figures for engineering products and textiles classified by their degree of processing fully confirm this tendency.

The combination of the two circumstances that structural factors play a considerable part in our imports and that a growing proportion of our manufacturing output is sold abroad imposes upon us the imperative task of keeping our domestic price level in line with world prices and making production flexible enough to adapt itself to the shifting requirements of an open economy.

In effect, if we have been able to sell more abroad and in general to produce more, we owe it to our having rendered our prices internationally more competitive by preventing production costs from rising faster than productivity.

Last year's *Annual Report* warned that after two years of large surpluses the balance of payments on current account was tending to return to equilibrium. In the event, the current surplus dropped in 1960 from 681 to 255 million dollars. This is almost the exact counterpart of the inflow of emigrants' remittances; imports and exports of goods and services were practically in balance and would indeed have shown a deficit if the terms of trade had not improved in the meantime. This year, according to exchange data, the first quarter closed with a deficit of 88 million dollars on current account, compared with equilibrium in the corresponding period of last year.

The year 1960 was also marked by very large capital exports, in the form both of Italian investments abroad and exports against deferred payment. In July 1959, Italian companies were authorized to establish foreign branches at their discretion and to subscribe capital to related firms abroad without prior specific permit. These measures showed their full effect last year.

Total capital exports under these headings, involving foreign exchange transfers and unrequited exports of capital goods to foreign associates, reached the impressive figure of 170 million dollars. In turn, exports against deferred payment amounted to something like 200 million dollars. The two curves of exports and export receipts have shown in 1960 a progressive tendency to diverge from each other.

However, the most salient feature of the year in the field of capital exports was the extraordinarily large increase of 410 million dollars in the Italian banking system's foreign assets following a set of measures which first entitled banks to build up their own foreign currency holdings and then enjoined them to eliminate their net debit positions in foreign exchange.

This considerable outflow of Italian capital was only partly offset by an increase in foreign investment in Italy, large though it was. On balance, capital movements reduced our official gold and foreign exchange reserves by 237 million dollars in 1960, whereas they had added 182 million dollars to our reserves in 1959.

The present tendency for the balance on goods and services account to fall again into deficit makes it plain that last year's capital exports were of a temporary nature and that Italy cannot as yet be numbered among structural capital exporters.

Consequently, if we consider the two most pressing international economic problems now engaging the attention of governments, namely, aid to developing countries and international liquidity, Italy's contribution will have to be more particularly concerned with the latter, which is more appropriate to our present situation.

While Italy has not failed and will not fail to help also in the solution of the former problem, her contributions will have to respect limits and take forms compatible with the requirements of our own economic development. These are the principles behind our recent measures concerned with insurance and credits for projects executed abroad by Italian firms, and also the proposed bill on export credits, which has already been approved by the Senate and provides for new forms of financing to importers in developing countries. These new forms are more suitable for the needs of these countries and at the same time more in line with the principles of sound monetary policy, in so far as it will become possible to raise the required funds on the capital market and so to avoid the danger that the Central Bank may have to foot the bill for export credits, as happened more than once recently.

Given our own need to go on expanding employment at home, our future contributions to developing countries will, in any event, call for a comprehensive foreign aid programme. We shall have to decide not only on the overall volume of domestic resources which can be deflected to this purpose, but also to specify the sectors in which output can be further increased to meet the particular needs of these countries.

In the field of international liquidity, Italy took the helpful step last year of eliminating the debit balance of the foreign exchange position of the banks vis-à-vis foreign countries via an increase in foreign currency lending abroad.

This was accomplished almost entirely by means of purchases of spot dollars from the Italian Exchange Office against lire and subject to a re-purchase agreement; in this way it was the Exchange Office and not the banks which assumed the dollar exchange risk. These various operations in turn led to a reduction of official dollar reserves financed by the Exchange Office with domestic currency issued by the Bank of Italy. At the same time, the Italian banks' dollar holdings increased and the burden of financing total foreign exchange reserves shifted in some measure from the Exchange Office to the banking system.

While these measures were dictated by cyclical developments, they have had the consequence that the Italian banking system is now taking a larger part in the two-way operations of borrowing and lending foreign currencies abroad, and is doing less of its former business of borrowing foreign exchange abroad for domestic lending.

The obligation on the banks to eliminate their foreign exchange debit balances is part of a policy designed to facilitate internal liquidity control by protecting the domestic market from the potentially disturbing effects of certain short-term capital movements.

These are some of the less well-trodded paths along which monetary policy can proceed. The regulation of bank operations with foreign countries offers other opportunities of intervention to this purpose, which have gained in importance with the recent expansion of this type of business.

A point to stress is that the banking system has increased its assets in foreign currencies abroad well beyond the measure which would have been necessary to comply with the requirement to eliminate its net debit position in foreign exchange vis-à-vis foreign countries. In this manner the banking system has built up a liquidity reserve in convertible currencies. On March 31 of this year this reserve, calculated as the difference between the bank's lending and borrowing abroad, amounted to 57 billion lire.

The net foreign exchange credit position of the Bank of Italy and the Italian Exchange Office increased by 572 billion lire in 1959 and by 65 in 1960. This change represents the burden of financing which fell upon the Central Bank. Given that the banks increased their net foreign debit position by 54 billion lire in 1959 and reduced it by 208 in 1960, liquidity creation due to the foreign sector diminished from 518 billion lire in 1959 to 273 billion in 1960.

Production and the Sources of Finance.— The general conditions of economic activity in 1960 were, at least in part, the result of developments during the preceding two years, when high liquidity formation and the reduction of interest rates prepared the ground for the growth which took place during the second half of 1959. The expansion of foreign demand and later the expansion of productive investment gave new impulse to the upswing.

Foreign trade acted both as an expansionary and as an equilibrating factor.

After growing still further in the first few months of last year, foreign demand settled down at the top, though not without faltering somewhat around the middle of the year. In the most recent months it showed promising signs of going ahead once more. In its turn, investment in plant is picking up again after coming to a halt on a high plateau last summer. This tendency was recently reinforced by renewed activity in building, both public and private. The reconstitution and adjustment of stocks to higher activity proceeded at a brisk pace during the first half of last year. Stocks continued to increase later on also, especially for work in progress, in connection with growing output.

The persistence of the boom enabled employment to expand very considerably and, with wage rates rising at the same time, there has been a conspicuous increase in income disposable for consumption.

In response to these various impulses industrial output rose at altogether unprecedented rates. The annual index of industrial production was actually 13.7 per cent higher than the year before and placed our country ahead of all other main industrial nations of Western Europe so far as growth of output is concerned. We are still in the lead, and although the rate of expansion slowed down during the second half of last year, the index for the first quarter of 1961 is nearly 10 per cent higher than that for the corresponding period of 1960.

A signal contribution to the overall advance of industrial production was made by the producer goods sector and more particularly by capital goods, which surged ahead at the average annual rate of 19.4 per cent.

Contrary to what happened the year before, public building provided no further stimulus to demand; indeed, had it done so, it might have over-heated the economic activity. It is in this light that we have to assess the pause in public works construction last year and also its recent revival.

With productive activity expanding all round, the economy had a greater need of working capital, not least for larger stock in trade and work in progress. In response to this need, short-term credit to the private sector rose by the conspicuous amount of 1,186 billion lire, compared with 678 billion in 1959 and 203 billion in 1958.

The banks' investment portfolios rose by 264 billion, which is only about one third of the preceding year's increment of 794 billion. The exceptional increase in 1959 was largely due to Treasury Bill purchases in the considerable amount of 501 billion; with lower liquidity in 1960, the banks bought only 47 billion's worth of Treasury Bills.

In both years, banks invested heavily in private securities and more particularly in bonds of special credit institutes, of which an additional 232 billion were taken in last year, against 217 in 1959.

These loans and investments were largely covered by new deposits, though the banks also had to draw on the liquidity reserves they had built up in preceding years; to a much smaller extent, they had to resort to borrowing from the Bank of Italy.

New deposits in 1960 amounted to 1,368 billion lire (as against 1,271 the year before), but, since 307 billion had to be paid over for compulsory reserve, only 1,061 billion have remained available. In addition, the banks were supplied with 69 billion from sources other than ordinary deposits, 37 billion through borrowing from the Bank of Italy and 322 billion drawn from liquidity reserves; this latter figure is the resultant of a 359 billion reduction in free Treasury Bill holdings and small offsetting increases in other liquid assets.

Ample liquidity on the capital market and the lower claims made upon it by the Treasury enabled the private sector to raise medium- and long-term funds in the total amount of 1,638 billion, partly through loans and mortgages and partly through share and bond issues. In 1959 the corresponding amount was 1,064 billion.

This is a very considerable increase, which alone just exceeds the increase in gross fixed investment during the same period. Simultaneously, companies accumulated larger internal funds from depreciation and other sources of self-financing; all these remained at the companies' disposal and so served to improve their liquidity position, or at least to contain the deterioration which would otherwise have resulted from the financial requirements of increased stockbuilding and higher activity.

However, not all firms were able to take advantage of medium- and long-term funds to strengthen their liquidity position. On the whole, the beneficiaries were companies which could appeal directly to the market through bond and share issues. These companies raised far more medium- and long-term funds than they needed for the year's fixed investment and were, therefore, able to use the excess to consolidate their short-term debts and sometimes to reduce their bank debts, and for the rest to deposit funds with the banking system pending their use in future investment programmes.

If we have dwelt at some length on all these aspects, it was to show that however much the banks' short-term assets expanded, they still do not reflect the full measure of the productive system's short-term increased credit demand. Another important point is that the overall improvement in business liquidity was the resultant of two different developments: companies which were in a position to shift to short-term uses the funds they had raised on the capital market gained while others suffered appreciable liquidity losses.

In all, the private sector in 1960 raised a total of 880 billion lire through loans and mortgages and another 758 billion through share and bond issues. This latter figure was approximately double the 1959 one, while loans and mortgages had amounted to 691 billion in 1959 and to 580 in 1958. Total security issues, excluding government bonds but including bonds floated by special credit institutes which passed the proceeds on to firms in the shape of loans and mortgages, rose from 601 billion lire in 1959 to 1,160 billion in 1960; 664 billion of these were raised through bond and 496 through share issues.

The capital market's friendly disposition enabled the cost of borrowing to continue and indeed accelerate the steady descent it had begun in 1958.

Demand for securities kept growing all the time, boosted not only by larger saving but also, and even more so, by the Italian investors' growing interest in this form of investment and by the strong growth of foreign investment.

Bond and share issues together amounted to 71 per cent of new liquid assets in 1960, whereas the corresponding percentage had been 48 in the two-year period 1958-59 and 45 in 1956-57.

As regards the increase in foreign demand, the figures speak for themselves: net foreign investment, mainly in equities, was 142 billion lire in 1959 and 278 billion in 1960.

Large as it was, the increase in new share issues was not sufficient to match demand and the resulting strain was reflected in stock exchange prices.

The period of steadily rising share prices coincided with the strongest expansion the Italian economy has known since the stabilization of the lira in 1947. It is not by accident that share prices, then, declined most steeply precisely at the end of last summer and in the autumn, when there was some uncertainty about the chances of continued rapid development; similarly, the subsequent recovery of share prices towards the end of the year and the more recent rising trend followed close on the heels of a distinct improvement in the economic outlook both for Italy and the world at large.

Nor were the mentioned basic factors at work in the stock market the only ones to have influenced the equity markets. Other financial and also institutional factors combined with them to cause unusually wide fluctuations in equity prices.

The liquidities left, at the time, at the disposal of the market and the banking system to bolster the production drive, were bound to find their way, directly or indirectly, also to the stock exchange and into stock market operations. This is as such no unsound development, and so long as stock exchange business expands in step with the economy and avoids excesses it provides the basis of a healthy capital market.

But the adjustment process in equity prices went on at a time when the basic bull factors were especially active, while the rapid widening of the market raised new institutional problems which could not be solved so quickly. In these circumstances the market occasionally moved ahead much in excess of its normal rate of development, in spite of the fact that right through the year, including the period from January to September, the market's and the banking system's liquidity diminished steadily.

What happened was that despite large increases in output some companies still found themselves in a liquid position, so that the increase in short-term credits to the private sector, while in itself considerable, was not enough to absorb the full credit potential and left some of it free for other uses.

When eventually bank liquidity fell further, not least because of increased credit demand by firms, this happened to coincide with the period of uncertainty to which allusion was made above, as to whether the basic sustaining causes of the equity firmness were likely to continue. The ensuing reversal of trend, supported also by speculative forces encouraged by the narrowness of the market and the relatively small number of so-called institutional investors, caused the September-October downturn.

Once a series of sharp fluctuations had eliminated the peak of last August and September, the market settled down and later again developed a fairly firm tone.

For the rest, prices on leading stock markets elsewhere in Europe also moved around their highest level since the war. The decisive advance of equity prices throughout the first nine months of the year gave way to a sharp retreat early in the autumn, the fall being most painful where the preceding rise had been largest and most prolonged; later, share prices recovered some of their losses and settled down in a calmer market. The corrective movement, incidentally, also coincided with a spate of new issues in connection with large-scale capital increases, and this was without doubt a contributory cause in the setback and new equilibrium of the stock markets.

Turning now to the medium- and long-term loans of the special credit institutes, we note that they increased by 566 billion lire in 1960, as against 375 in 1959.

The institutes which expanded their credit most are those engaged in financing industry, public works and building. By contrast, land improvement credits by agricultural credit institutes expanded no more that they had done the year before.

The industrial credit institutes owed the broadening of their operational base not only to the liquid position of the market, which enable them to raise funds at a lower cost; a major factor was this credit sector's own structural evolution and technical improvement, as well as its closer collaboration with commercial and savings banks. These latter help both in fund-raising and in lending, and moreover spread the loans more widely and so work to the special benefit of small-scale and regional enterprise.

In 1960 it was not only the major institutes that expanded their activity, but in considerable measure also the newer and smaller institutes. The bank sections concerned with public works and public utility installations had 111 billion's worth of loans outstanding at the end of the year, representing an increase of 53 billion; not the least merit for this belongs to five new sections which only started operating during the year.

This is a useful experience which has its lessons also for purposes of credit assistance to agriculture. If the volume of land improvement credits is to expand as envisaged in the overall investment programme of the Green Plan, it will be necessary not only to adjust interest rates to the peculiar needs of agriculture but above all also raise much more funds through bond issues.

As regards the geographical pattern of the special credit institutes' lending operations, the southern regions and the islands have considerably improved their position, also in relative terms. Nevertheless industrial development in the south will require much more further help from all credit institutes.

The Money Market and Liquidity Control.— The trend towards a widening of the money and capital markets became more pronounced in the course of 1960, when total new assets amounted to 3,240 billion lire. This was more than 600 billion in excess of asset formation in 1959. The flow in 1960 was composed as to one third of securities and as to two thirds of other credits.

With particular reference to the money market, it is common knowledge that the economy's additional demand for liquid funds in connection with a growing volume of money transactions can be met from three distinct sources: one external source, namely balance-of-payments surpluses leading to the net purchase of foreign exchange, and two internal sources, namely the public and the private sector's short-term borrowing.

In the five years from 1956 to 1960 the development of primary liquidities, that is, note and coin circulation plus current accounts, proceeded on exactly parallel lines with the development of short-term credits. Secondary liquidities (including bank deposits other than current accounts, short-term advances to the Treasury and Treasury Bills) expanded somewhat faster, so that their share in total liquid assets has risen from 38.8 to 45.1 per cent. With primary liquidities expanding at higher rates than national income, the velocity of circulation of money supply has been falling, as it typically does in periods of growing confidence in the stability of the value of money.

Together, primary and secondary liquidities have, then, expanded more than short-term credits; the excess was transferred from the money to the capital market. In our credit system, this transfer mainly takes the form of bank funds being made available, in due proportion with other assets, to medium- and long-term credit institutes and sections.

If we look at the relative contribution of the various sources of liquidity to total liquid asset formation during the last five years, it will be seen that the public sector has been playing a progressively smaller and the foreign and private sectors a larger part. In 1960 the private sector was especially predominant.

The annual rate of increase of the Treasury's short-term borrowing diminished throughout the period 1956-1959, except for 1958, a year of ample liquidity when no government loans were floated on the capital market and the Treasury made heavy claims on the commercial banking system. In 1959, still in the presence of high liquidity, the Treasury borrowed at short-term only 44 billion lire, but as a result of a shift in its sources of finance the Treasury became still more indebted to the banks while it repaid some of its debt to the Bank of Italy. In 1960 the Treasury slightly reduced its overall short-term indebtedness.

As a result of these developments, the share of short-term credits to the Treasury in total credits outstanding fell from 45 per cent at the end of 1955 to 30.7 per cent at the end of 1960.

The annual surplus in foreign payments kept growing until 1959 and then dropped by half last year. At 2,000 billion lire, gold reserves and short-term claims to foreign countries constituted 16 per cent of the total volume of short-term credit at the end of 1960, compared with 6.7 per cent at the end of 1955.

The volume of the private sector's new borrowing from the banks, finally, diminished until 1958. This was a counterpart to the other two sectors' heavy claims on bank credit, but when first the Treasury and then the foreign sector changed course, the private sector's bank borrowing picked up to such good purpose that it more than trebled its 1958 amount in 1959 and then again almost doubled the 1959 amount in 1960 (1,186 billion against 678 in 1959 and 203 in 1958). The proportion of bank credits in the total of short-term credits outstanding grew from 48.3 per cent at the end of 1955 to 53.3 per cent at the end of 1960.

The surplus of total new liquid assets accruing to the private sector over its short-term borrowing, the so-called liquidity surplus of the private sector, amounted to 439 billion lire in 1960, as against 855 in 1959 and 1,030 in 1958.

In 1958, bank loans exceptionally grew less than bank money. This was a reflection of the diminished "multiplying" function of the banking system in the presence of a sharp liquidity increase arising from the foreign sector and a slower rate of growth of production. In 1959, bank loans and bank money increased in almost identical measure, and in 1960, finally, the growth of bank loans far exceeded the formation of bank money as a result of higher economic activity and less liquidity formation through foreign surpluses.

The banking system's primary liquidity reserves (that is, cash, Treasury Bills and balances at the Treasury and at the Bank of Italy in the form of voluntary deposits and unutilized credit margins) diminished appreciably both in relation to deposits and in absolute terms. Nevertheless they were still sufficient for the volume of business. Their percentual ratio to deposits dropped from 11.3 per cent at the end of 1959 to 6.6 per cent at the end of 1960, and in absolute terms primary liquidities fell from 999 to 677 billion lire.

This reduction in the banks' primary liquidity reserves is in sharp contrast with their considerable expansion during the two preceding years. The main reason was the contraction in liquidity emanating from the purchase of foreign exchange; at the same time, the Bank of Italy also increased by a lesser amount its net advances to the banking system. Treasury operations were practically neutral in both these last two years, in the sense that they neither created nor destroyed bank liquidity in any significant measure.

The creation of claims on the Bank of Italy through any of the operations mentioned or through transactions of the Treasury is subject to wide cyclical fluctuations; by contrast, factors that tend to absorb these claims, namely, the expansion of the note circulation and of the banking system's compulsory reserves, behave in a more stable manner. This was proved once more by the experience of the last two years. While total note circulation and compulsory reserves together expanded by something like 450 to 500 billion lire in both years, the creation of bank liquidity due to the operations of the Bank of Italy and the Treasury declined from about 650 billion lire in 1959 to about 200 billion in 1960. As a result, bank liquidity expanded by some 200 billion lire in 1959 and contracted by about 300 billion in 1960.

No change took place in 1960 in the proportion in which primary and secondary liquidities contributed to total liquid assets. In 1959, by contrast, primary liquidities had expanded much more in relative terms. This was especially true of bank money and can be regarded as a reflection of the distinct change in the cyclical climate. The previous years' tendency to switch over to more durable forms of investment hardened in 1960, when the shift went even beyond the maturity limits of secondary liquidities well into the field of equity and bond investments.

Among the sectors which exercised a demand for money in 1960, the private sector was outstanding. The Treasury maintained a neutral position as a creator of liquidity, and the foreign sector's liquidity deficit was about half as big as the year before. This means that, contrary to what happened in 1959, when the foreign sector played the leading part in liquidity creation, or in 1958, when the foreign and the public sector together took the limelight, the market's increased liquidity demand was, in 1960, met mainly by the banking system's activation of the liquidity reserves it had previously accumulated. This circumstance confirms the alternative functions which, in normal conditions, devolve upon the separate components of liquidity creation, and shows up in particular the high degree of substitutability between the external component and the domestic private sector, according to the shifting pattern of cyclical influences emanating from internal and international trade.

To this observation we might add the other, obvious one, that the expansion of bank credit is limited by the banks' liquidity situation, which in turn depends largely upon the Treasury's and the Central Bank's operations. It follows with all desiderable clarity that an orderly control of liquidity requires constant and close collaboration between the Treasury and the Central Bank. This seemed perhaps less urgent in the past, when the dominant part in liquidity creation was played by the foreign sector—that is, when large-scale sales of foreign exchange to the monetary authorities created far more liquidity than the operations of the Treasury and the banking system. But collaboration between the Treasury and the Central Bank is once more assuming its full importance now that the falling balance-of-payments surplus is reducing the foreign component's relative weight. The shift from foreign sources of liquidity to internal sources is of course, as need hardly be recalled, the result of a change in the order of priorities of our country's economic policy objectives. Having built up our reserves to an adequate level, we can now afford to assign to domestic uses the real resources which in the last three years gave us an export surplus in goods and services, as well as those which we can buy abroad with the proceeds of emigrants' remittances and of other unilateral transfers we receive.

We all know that the strengthening of our reserves, especially in the first few years after the stabilization of the lira, was a matter of paramount importance for the orderly progress of liberalization in the field of foreign trade and payments. Now, if we look from the point of view of liquidity creation at the environmental factors and economic policy measures which did most to help us build up our reserves, pride of place belongs to the sound proportion we kept between the growth of government spending and government revenue, as well as to the Treasury's strict financial practices in covering the budget deficit, which were intended to reabsorb, from time to time, a large part of the liquidity created by the deficit. There can be no doubt at all that the containment within moderate limits of liquidity creation by the Treasury and the at least equally strict principles which the Central Bank observed in its lending operations have pushed the market mechanism into producing balance-of-payments surpluses and thereby shifting liquidity creation to the external sector. In turn, the balance-of-payments surplus was achieved without imposing unduly deflationary pressures upon the Italian economy, largely because to the said surplus contributed generous unilateral transfers to our country and our exporters' conquest of foreign markets was favoured by the slight inflation which, for the past five years, has reigned throughout the world.

In recent *Annual Reports,* it has already been noted that liquidity creation through the rapid expansion of the gold and foreign exchange reserves in 1958 and 1959, and through the Treasury's short-term borrowing in 1958, was somewhat in excess of the market's normal needs. This happened because of the limited elasticity inherent to the other internal source of liquidity, that is, because the volume of bank credit did not vary sufficiently in offsetting directions; in 1958 an additional cause was the slower rate of productive expansion.

Equally, it has been noted that the excess liquidity was deliberately not reabsorbed, so that it could bring about a reduction of the general level of interest rates and provide a stimulus for economic recovery. Both purposes were achieved. The years 1958 and 1959 will most likely be remembered in the future as those when, under the additional impact of our country's growing integration in the world economy, the structure of interest rates in Italy finally moved more closely to the levels prevailing in more capital-intensive countries.

Once economic recovery was well on the way and liquidity creation in the foreign sector still continued strong, the Treasury resumed its financing on the capital market towards the middle of 1959. In little more than six months, in July 1959 and again in January 1960, two Treasury Bond issues produced 434 billion lire of new money for the Treasury. This sum was roughly the equivalent of the Treasury's own cash requirements from the beginning of 1959 to the end of the first quarter of the current year. Therefore, all the remaining funds raised by the Treasury in the meantime, mostly through the sale of Treasury Bills made especially to the banks, were available for repayments to the Bank of Italy.

In 1961 so far the absolute level of bank liquidity has not shown appreciable changes. In these circumstances, the monetary authorities did not consider it advisable to proceed to any further issues of government bonds, the proceeds of which would, in the current favourable position of the cash budget, have served to destroy liquidity in the same amount.

Looking at the near and not quite so near future, it is safe to assume that the balance of payments will be more or less in equilibrium. The Treasury's present favourable position, on the other hand, may well change when a number of extraordinary expenditure programmes, which are already planned or are being planned, reach the stage of implementation. Given that the Treasury's increased requirements will be predominantly for higher investment, it is to be hoped that when they arise they will be financed in the most orthodox manner, namely by recourse to the capital market. This is the only way to avoid that the public sector becomes a source of inflationary pressure, just as in the recent past it has avoided becoming a source of deflationary pressure.

In the conditions we have described, the Central Bank may be called upon to regulate the process of liquidity formation by action also on the other internal component, namely bank credit to the private sector, through the multiplier effect of the increased funds which may be put at the disposal of the banking system. It may happen that the anticipated change in the relative weight of the various sources of liquidity will provide an opportunity for tailoring money supply more closely to the market's real needs. Obviously, any measures of monetary policy which it may be thought right to apply will be put into effect with all due caution, especially with regard to their repercussions on the balance of payments. A balance-of-payments deficit would be acceptable only on condition that it is seen to be the effect of purely transitory causes and therefore strictly related to the short period.

The changes which are taking place in our money and capital market testify to our country's progress towards advanced forms of economic order more in keeping with her new position as an industrial nation, and one of the most dynamic at that. Even so, our economy has, in some cases, run ahead of its own institutions.

These changes also confirm the greater role played by short- and long-term credit in the finance of the domestic economy's development. To finance a process of development in a regime of stable money in an open economy presents the monetary authorities with anything but an easy task.

Conscious as we are of the limis of monetary and credit policy, we are nevertheless convinced that a policy alert to new needs, differentiated in its methods and ready to adapt itself at all times to the shifting aspects of economic life and to the new forms which old problems may assume, is an indispensable supporting and stimulating element in the process of development.

In its time we had the danger of large-scale and open inflation; now we have less eye-catching but for that reason no less harmful varieties of it. In these circumstances the conduct of monetary policy requires a patient and painstaking effort of continuous adjustment both of policy instruments and of their use to the multitude and mutability of the problems at hand.

A monetary policy, which is firm in its ends but flexible in its means and manifestations, obviously requires a high operating efficiency on the part of the money and credit system as a whole. The valuable and fruitful co-operation which banks and other credit institutes extend to the Central Bank has been in the past and will continue to be the best guarantee of the smooth functioning of the system, in harmony of purpose with the activities of the Central Bank, for the achievement of objectives which are common to us all.

Gentlemen,

Italy is this year celebrating the centenary of her political unity. The act of unification in 1861 was so momentous an event in the history of our country that other, related, anniversaries are necessarily overshadowed. But we may be forgiven if, in this house, we think it worth commemorating also the birth of the lira, which took place on the very morrow of the proclamation of the unitary state. Nor should we forget that national unity also stood at the cradle of a trade policy intent on opening the Italian economy more widely towards the world market.

This policy, as we know, has had its vicissitudes and setbacks. But we should always remember that the very makers of our unity, conscious as they were of the initial shortcomings of the national production system, always upheld the doctrine that the economy of Italy could draw stimulus and vigour from international competition and that her development stood to gain more from free trade than from protectionist restrictions.

The same principles later inspired our greatest statesmen and were propounded and defended, with scientific objectivity and polemical ardour, by an uninterrupted line of our foremost economists.

The trade liberalization policy of the post-war years has, therefore, a more direct and closer link with Italy's original foreign trade policy than might appear at first sight. It is not by accident that the man who firmly set our country going on the road of freer foreign trade after the war, who dispelled all the recurrent fears awakened by this policy and constantly preached its certain and durable benefits, who had the vision to point the way towards new and bolder forms of international integration—that the man who did all this should have been no less outstanding a scholar than he was a statesman: Luigi Einaudi, whose firm, unswerving and untiring support of free trade is enshrined in an impressive row of published works.

If international competition is indeed the most powerful incentive towards our country's economic development, there can be no doubt that, in turn, its strongest pillar is monetary stability. This, too, is a lesson handed down to us through a century of Italy's—sometimes painful—experiences as a nation state. At the outset, six issuing banks discharged a function of direct entrepreneurship in financing the slow and arduous early stages of development. Slowly they withdrew from this forward position to become the pivots of a new credit system which gradually enriched its structure through institutional evolution. This in turn affected the issuing banks, whose number was reduced to three in the nineties of the past century and eventually to one in the last stage of unification.

Faced with the requirements of the more rapid pace of growth which, towards the end of the nineteenth century, marked Italy's first steps as a modern industrial nation, our original credit system ran into some troubles and occasionally fell into grave excesses, especially during the difficult years of the great depression. When eventually it became imperative to take corrective action, this took the shape of a comprehensive banking reform, which will always be associated with the name of its foremost architect, my distinguished predecessor Donato Menichella.

He has deserved well of his country and of the banking world by carrying through the above-mentioned structural reorganization of our credit system and by introducing into it such changes as the course of economic events called for. Later he earned—and, with truly impressive warmth and unanimity, was accorded—the highest recognition for his astute, swift and firm action to restore the internal and external stability of our currency after the last world war.

Today we can look back and state that, while real income per head has tripled in Italy since 1861, more than half the improvement took place in the years between 1951 and 1960. These are the years when, not least by virtue of new technologies which attenuated some of our economy's structural weaknesses, we attained the goals set by the fathers of Italian unity: our country has at last definitely become a centre of manufacturing industry, firmly established in the great currents of world trade.

Our unity, it is true, has still to be consummated on the plane of economic conditions and living standards in the different parts of our country. Never have we been more conscious of this than in the present centenary year. But for all that it is both a right and a duty for us to give due recognition to the results achieved so far, if only to acknowledge the means which have been given us to make a more decisive attack on this grave and ancient problem. Nor must we fail to learn the lessons which the road we have travelled in the past may hold for our progress in the future.

XII. *The Bank's Activities and Balance Sheet*

The Balance Sheet as of December 31, 1960.— A number of modifications in the traditional form of the Bank's balance sheet were introduced last year, with the intention of facilitating analysis of the accounts. The current account with the Italian Exchange Office is now shown separately and the gold reserve is valued at the new parity; this has made the *Miscellaneous debtors* item more transparent. Furthermore, the various accounts with the Treasury have been rearranged in a simpler manner by eliminating or merging former items.

Ordinary assets show an increase of 37.7 billion lire, made up of 12.2 billion more domestic bills, 18.1 billion more advances and 7.4 billion of credits granted in December in the form of deferred Clearing House payments.

The *bill portfolio* did not change in composition during 1960; it is still made up almost exclusively—*i.e.* to 99 per cent—of stockpiling bills with respect to the compulsory pools of agricultural products.

The item *Miscellaneous debtors* stands at 119.1 billion in the latest balance sheet, as against 2,191.4 billion at the end of 1959. The change is mainly the result of separating out the Bank's transactions with the Italian Exchange Office under the heading *Italian Exchange Office—current account.* This latter shows a balance of 1,257 billion lire on December 31, 1960. Without the Bank's advances to the Exchange Office, the Miscellaneous debtors item would have been 210.4 billion at the end of 1959, and the year's difference would therefore be only 91.3

billion—the resultant of the elimination of 103.8 billion for gold price equalization which were absorbed in February into the item *Gold* and of an increase of 12.5 billion in the remaining debtor's accounts.

The above-mentioned balance in the *Current account with the Exchange Office* relates as to 1,054.9 billion to the financing in lire of gold and foreign currency purchases by the Office; this figure is 682.3 billion less than in December 1959. Allowing for a credit entry to the Exchange Office of 827.7 billion in connection with gold transfer to the Bank, the Bank's credit balance with the Exchange Office actually rose, therefore, by 145.4 billion, as against 571.4 billion in 1959. The change reflects the altered balance-of-payments position of the country.

Gold is shown at 1,000 billion lire. This is the effect of two provisions adopted at the beginning and at the end of the year under reviev. Decree No. 14, of January 28, 1960, authorized the Bank of Italy to revalue its own gold reserves at the rate of 703.297,396 lire per gramme of fine gold, whereas previously they had been valued at 21.381,227 lire. The net proceeds of the revaluation were 62.8 billion lire and in February, the item *Gold* accordingly became 171.8 billion - that is, 5.2 billion shown in the previous balance sheet, plus 103.8 billion representing the difference between the purchase and the book value of the gold reserve (previously figuring under the heading Miscellaneous debtors), plus the revaluation of 62.8 billion. The second provision, in December 1960, laid down that the Bank's gold holdings be raised to 1,000 billion lire by transfer of part of the Exchange Office's gold holdings plus another half billion's worth of gold bought from the public.

As regards the Bank's accounts with the Treasury (including those showing a credit balance for the Treasury), the Treasury's debt to the Bank is seen to have fallen during the year by 161.5 billion lire, namely, 62.8 billion net proceeds of the gold revaluation and 98.7 billion repayments; in 1959 the Treasury's indebtedness to the Bank had fallen by the far greater amount of 522 billion lire.

The Bank's investments in government securities rose by 10.3 billion lire over the year, of which 4.7 are shown under *Government or government-guaranteed securities.* On the other hand, *Investments in securities for account of the Treasury* with bank funds on time deposit (compulsory reserves) fell by 108.0 billion, as against the much more conspicuous contraction of 197.0 billion in 1959.

In rearranging the Bank's accounts with the Treasury, the item *Notes issued by Allied Forces or for their account* has been transferred to the heading *Extraordinary advances to the Treasury,* and the item *Gold deposited abroad and owed by the government to the Bank* has been struck altogether, as a result of the utilization of funds previously set aside.

The amount of temporary and extraordinary advances to the Treasury together diminished by 15.7 billion lire, as a result of the partial use of the gold revaluation proceeds and the writing-off of out-of-date bank notes.

Among the accounts showing a credit balance for the Treasury, the *Treasury current account* shows a slightly smaller balance than the year before (3.4 billion). *Miscellaneous services for account of government* on the other hand shows 11.4 billion more to the credit of the Treasury, largely as a result of tidying up a few old debit and credit items.

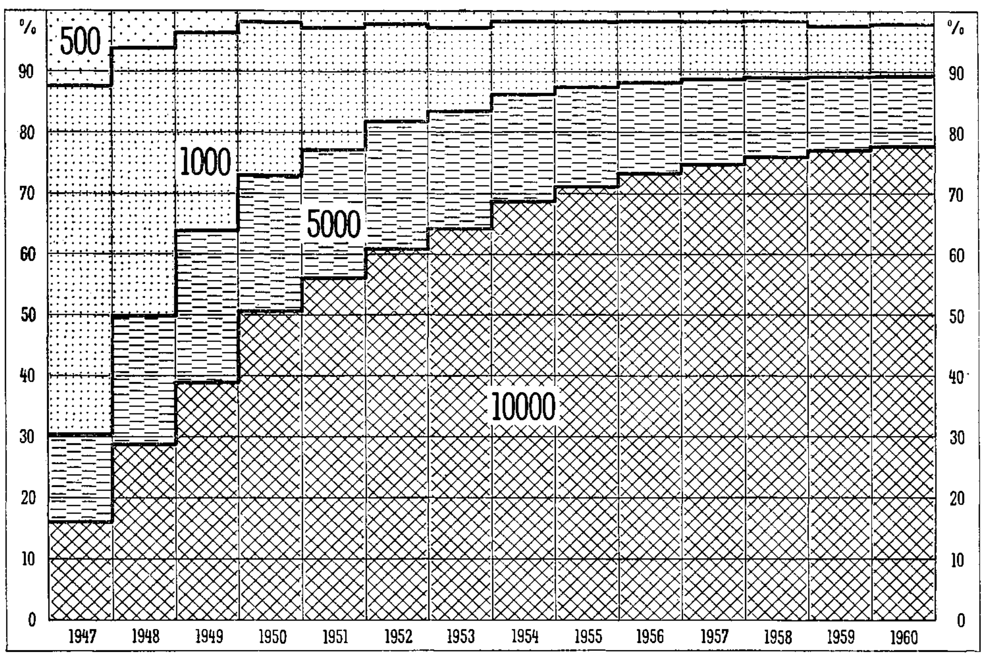
Compulsory bank reserves rose by 303.8 billion lire during the year. This comprises the remarkable rise of 233.1 billion in the last quarter of the year in the banks' security deposits and a decrease in their cash deposits for compulsory reserve, figuring under the item *Time deposits.* The banks' tendency to deposit compulsory reserves more largely in the form of Treasury Bills (plus 390 billion in 1960 and plus 277 billion in 1959) rather than of cash has changed the composition of the reserves, 65.5 per cent of which were, at the end of 1960, directly invested in securities by the banks. The cash component of compulsory reserves fell by 86.5 billion last year and, at 676.5 billion, constituted only 34.5 per cent of the total. Of this latter amount, only 20 billion were invested by the Bank of Italy for account of the Treasury.

Deposits on current and time accounts, these latter including compulsory bank reserves, contracted by 91.6 billion lire. Deposits from banks other than compulsory reserves, dropped by 16.2 billion, and those by other agencies and institutions rose by 11.1 billion.

Note circulation increased by 186.8 billion lire, as against 176.4 billion in 1959. Last year's increase is a reflection of the expansionary effect of the Bank's operations deriving from the foreign sector (153.8 bilion) and of its transactions with the banking system (140.7 billion); as against that there has been a partially offsetting contractive influence from the operations with the Treasury (98.7 billion). The residual new note issue of 9.0 billion is attributable to minor items.

The composition of the note issue last year showed a further slight shift in favour of the largest denomination, which now accounts for about 78 per cent (50 per cent ten years ago) of the total value of the note circulation (see chart 11).

CHART 11



Percentage composition of the note circulation by denominations

Personnel matters.— At the end of 1960 the Bank's staff consisted of 7,233 employees, 429 more than a year before. This was the first time since 1949 that more staff was taken on than left the Bank's services during the year.

Retirement from active service brought the number of pension recipients up to 3,357, from 3,058 at the end of 1959.

In accordance with its tradition, the Administration again paid active attention to staff training, the improvement of working conditions and assistance to employees and their families.

Apart from the usual annual competition for the four Bonaldo Stringher foreign fellowships in economics and banking, a special competition was held for the assignment of six fellowships for graduates wishing to specialize in economics and statistics. Furthermore, the Bank instituted at its own cost a three-month lecture course of general and professional instruction for young graduates wishing to enter a career in banking; after public competition, 50 young people were admitted to this course.

Capital, Reserves, and the Profit and Loss Account.— None of the Bank's shares changed hands in the course of 1960.

Ordinary reserves, which stood at 2,482.3 million lire on December 31, 1959, rose during the year to 3,060.8 million. This is the result of an appropriation of 99.8 million from 1959 profits, 522.7 million investment income from the reserve fund itself, and a diminution of 44 million, which represents distribution to shareholders of part of the 1959 investment income from the fund (under Article 56 of the Statute).

Extraordinary reserves rose from 1,576.4 million lire on December 31, 1959 to 1,789.5 million at the end of 1960. This is the result of an appropriation of 99.8 million from 1959 profits, 141.2 million investment income from the reserve fund itself, and a diminution of 28 million, representing distribution to shareholders of part of the 1959 investment income from the fund (under Article 56 of the Statute).

In application of Article 54 of the Statute, the Board of Directors proposes, and the Treasury authorizes, the following appropriation of the Bank's net profit of Lit. 535,8 million for the year 1960:

	(million lire)
To Ordinary Reserve, 20 per cent	107.2
To shareholders, 6 per cent on capital	18.0
To Extraordinary Reserve, 20 per cent	107.2
To shareholders, a supplementary dividend of 4 per cent on capital	12.0
To the government, the residual of	291.4
Total net profit . . .	535.8

In accordance with Article 56 of the Statute, the Board of Directors further proposes a distribution to shareholders of another 26 per cent on capital, or 78 million lire, out of investment income from ordinary and extraordinary reserves. This amount corresponds to 1.92 per cent of the overall reserves on December 31, 1959, and is, therefore, below the 4 per cent laid down in Article 56 as the upper limit of distribution under this heading.

THE GOVERNOR
G. CARLI

BALANCE SHEET
AND GENERAL PROFIT AND LOSS ACCOUNT

BALANCE SHEET AS

ASSETS

Gold	L.	1,000,000,000,000
Cash in hand	»	10,264,175,168
Domestic bills of exchange	»	442,472,379,507
Bills for collection	»	145,577,643
Advances	»	64,255,886,951
Deferred clearing house payments	»	7,359,750,000
Foreign exchange balances abroad	»	62,566,161,593
Italian Exchange Office—current account	»	1,257,033,245,276
Government or government-guaranted securities	»	74,473,055,077
Premises	»	1
Miscellaneous debtors	»	119,148,096,693
Sundry items	»	2,437,588,592
Advances to the Treasury: temporary	»	64,151,106,022
Advances to the Treasury: extraordinary	»	485,000,000,000
Investments in securities for account of the Treasury	»	20,000,000,000
	L.	3,609,307,022,523
Securities and other valuables deposited	»	4,407,053,969,702
	L.	8,016,360,992,225
Items written off in past years	»	22,077,051
GRAND TOTAL	L.	8,016,383,069,276

Audited and found correct — Rome, 13th May, 1961

The Auditors

ALESSANDRO BACCAGLINI
BRUNO DE MORI
MARIO MAZZANTINI
FELICE PAPPALARDO
RAFFAELE PILOTTI

p. p. **The Accountant Generc**

ARNALDO FALSINI

OF DECEMBER 31, 1960

LIABILITIES

Note circulation	L.		2,424,121,762,500
Bank drafts, cashier's cheques and other sight liabilities	»		22,976,574,967
Current accounts	»		117,288,438,588
Time deposits (incl. compulsory reserves)	»		693,589,730,469
Miscellaneous creditors	»		170,165,788,188
Treasury current account	»		159,033,072,442
Miscellaneous services for account of government	»		16,445,564,943
Net profit for 1960	»		535,784,493
Capital	L.	300,000,000	
Ordinary reserves	»	3,060,835,740	
Extraordinary reserves	»	1,789,470,193	
			5,150,305,933
	L.		3,609,307,022,523
Depositors	»		4,407,053,969,702
	L.		8,016,360,992,225
Items written off in past years	»		22,077,051
GRAND TOTAL	L.		8,016,383,069,276

The Governor

GUIDO CARLI

GENERAL PROFIT

FOR THE

EXPENDITURE			
Administration and contributions to staff retirement fund . . .	L.	22,086,798,593	
Directors' emoluments	»	319,186,540	
Transport of notes, coin and other valuables	»	90,052,921	
Note printing	»	2,770,420,125	
Expenditure on premises	»	562,350,182	
			25,828,808,361
Circulation tax on notes and demand drafts	L.	6,117,300,862	
Income and company taxes	»	3,500,000,000	
Sundry taxes and dues	»	246,136,619	
			9,863,437,481
Amounts written off	L.		7,061,331,605
Interest payable	»		326,755,373
Charity and other contributions	»		55,459,000
	L.		43,135,791,820
Net profit for distribution	»		535,784,493
TOTAL . . .	L.		43,671,576,313

APPROPRIATION

To ordinary Reserve . . . .
To Extraordinary Reserve . . . .
10 % Dividend to shareholders . . . .
To the government . . . .

TOTAL DISTRIBUTABLE

Audited and found correct — Rome, 13th May, 1961

The Auditors

ALESSANDRO BACCAGLINI
BRUNO DE MORI
MARIO MAZZANTINI
FELICE PAPPALARDO
RAFFAELE PILOTTI

p. p. **The Accountant Gener**

ARNALDO FALSINI

AND LOSS ACCOUNT

YEAR 1960

RECEIPTS

Discounts	L.	15,252,531,223	
Interest on advances	»	2,858,589,304	
Interest on other assets	»	16,504,744,978	
Commissions and custody fees	»	1,223,635,167	
Profits on foreign transactions	»	3,035,033,143	
Sundry profits	»	699,043,682	
			39,573,577,497
Interest on government securities	L.	3,865,793,785	
Revenue from real estate	»	232,205,031	
			4,097,998,816
Total . . .	L.		43,671,576,313

OF NET PROFIT

	L.	107,156,899
	»	107,156,899
	»	30,000,000
	»	291,470,695
profit for the Year	L.	535,784,493

The Governor

Guido Carli

THE ADMINISTRATION OF THE BANK OF ITALY

BOARD OF DIRECTORS

CHAIRMAN: Guido **CARLI** – GOVERNOR OF THE BANK

Paolo BAFFI – GENERAL MANAGER

Ernesto BINDOCCI – DEPUTY GENERAL MANAGER AND SECRETARY TO THE BOARD

Paolo BLUMENSTIHL
Renato BRANZI
Gaetano CARBONE *
Gian Luigi DONES *
Antonio FONDA SAVIO *
Francesco MAILLER
Paolo MONICO
Eugenio VACCARI *
Ernesto VACCARINO
Giambattista VIRGA
Leone MAGLI

* Member of the Executive Committee.

BOARD OF AUDITORS

Alessandro BACCAGLINI
Bruno DE MORI
Felice PAPPALARDO
Raffaele PILOTTI
Mario MAZZANTINI

ALTERNATE AUDITORS

Domenico AMODEO
Raffaele D'ADDARIO

THE CENTRAL ADMINISTRATION

MANAGERS

Ciro de MARTINO
Paolo VECCHIA
Vincenzo ONORATELLI
Emilio RANALLI
Tullio RICCIO
Salvatore GUIDOTTI