BANCA D'ITALIA

ABRIDGED VERSION OF THE

REPORT

FOR THE YEAR

1966

PRESENTED BY THE GOVERNOR TO THE

ORDINARY GENERAL MEETING OF SHAREHOLDERS

HELD IN ROME ON 31 MAY, 1967

ROME
PRINTING OFFICE OF THE BANCA D'ITALIA
1967

BANCA D'ITALIA

ABRIDGED VERSION OF THE

REPORT

FOR THE YEAR

1966

PRESENTED BY THE GOVERNOR TO THE

ORDINARY GENERAL MEETING OF SHAREHOLDERS

HELD IN ROME ON 31 MAY, 1967

ROME

PRINTING OFFICE OF THE BANCA D'ITALIA

1967

CONTENTS

LIST OF TABLES

LIST OF CHARTS

I. *International Problems*

The picture which emerges from the results of 1966 and forecasts for the current year is one of world production expanding steadily, but a good deal less fast than before.

The growth rate of industrial countries as a whole was below the long-term trend and is still decreasing slowly, but divergent developments in individual countries enabled foreign trade to make good some part of the shortfall in domestic demand.

Thanks not least to the prices of primary commodities having been higher on the average than in 1965, developing countries had the benefit of increased export earnings, and thus were able to import more and to strengthen their reserves. But the volume of aid remained stationary, even though at high levels, and the burden of debt became yet heavier.

World trade continued to expand at a sustained rate, but some signs of deceleration became visible in the course of the year. Socialist countries took a growing part in world trade; within the European Economic Community (EEC) and the European Free Trade Association (EFTA) trade expanded more than world trade as a whole.

Evidence grew stronger last year that the world is moving closer toward balance in international payments, and capital movements played their part in this and at the same time eased the problems of the supply of finance funds. However, in some particular cases, such as that of the United States, the balance-of-payments disequilibrium worsened in qualitative terms because of a decline in the trade surplus. The previous surpluses of Italy, Japan and France (where external payments got into deficit again during the second half of 1966) were and still are being whittled down by economic recovery at home; the United Kingdom seems to be moving into a position of external surplus which should help it to repay the debts incurred in order to finance the previous huge deficits; Western Germany is again accumulating current surpluses which, if they are not neutralized or if, indeed, they are associated with an inflow of capital, might well create new complications for the somewhat precarious balance of world payments. The United States still have their balance-of-payments problem, even though for the moment the effects of the deficit on reserves are offset by a capital inflow. The chance that capital inflow will continue at the same rate is doubtful, to say the least, and it may well be replaced by a movement in the opposite direction. The country's foreign assets, on the other hand, go from strength to strength; the net foreign assets of the United States amounted to 28 billion dollars in 1961, to 47 billion at the end of 1965 and to about 53 billion at the end of last year.

To gain a broader view, last year's developments must be seen against the background of preceding events and with an eye on those now in course; in this broader view, the problems which more than any others claim the attention of government and central banks alike are those of inflation, of the policy mix of monetary and fiscal measures best apt to contain inflation, of the repercussions of these policies upon the capital market and investment, of financing external disequilibria and of repaying debts previously accumulated. It is in this setting that two other problems find their place, the problems, that is, of the liberalization of international capital movements and of the creation of additional reserve assets, with a view to easing the process of adjustment both for debtors and for creditors, and to approaching an international monetary order in which the growth of reserves comes to depend more and more upon responsible human decisions.

The problem of inflation is always foremost among those of central banks, because of its repercussions upon domestic and external balance. The public sector, including government and local authorities, keeps generating inflationary pressures and often enough reinforces those which already afflict the economy for other reasons; this happened, for instance, in Germany in 1965 and early in 1966. Everywhere wages have risen, and risen not only in response to cost-of-living increases, to which as a rule they adjust quickly, but also—as in Germany and, in annual average terms, in the United Kingdom — in conditions of relatively stable demand and prices. In the light of rising retail prices, the United States government realize that under new labour contracts wages may rise more than productivity this year, so that average cost would go up again and, maybe, also the cost of living. But even where wages do not race ahead of productivity, the market power of large firms and the pressure of organized labour cause productivity gains to spread throughout the system almost exclusively through the income mechanism, so that the general level of prices is always subject to an upward push. The third cause of inflation derives from foreign trade; it made no major impact on European countries last year, though central banks did, in varying degrees, allow it to work out its expansionary effects. On the other hand, the deficit countries which until 1965 had uninterruptedly offset the liquidity-reducing effects of the external deficit, last year adopted a restrictive policy.

Recent events have made it plain how difficult it is to choose just the right moment for containing or reflating domestic demand. There are many who argue that the United Kingdom could have re-established its external balance more efficiently if the measures of last July had been adopted twelve months earlier. Similarly, it has been said that if demand restrictions had been introduced earlier in the United States, it would have been possible to avoid the subsequent overheating of the economy and the departure of prices and costs from the stability they had enjoyed for several years; and as regards Germany, economic activity would perhaps not have experienced the setback it did during the last few months of 1966, if the cyclical wave had not been amplified by the behaviour of the public sector as a whole.

Furthermore, the example especially of the United States and Germany confirms how difficult it is to find the right mix of monetary and fiscal policies in order to counteract creeping inflation and to combine expansion and full employment with domestic stability in the long run. The measures of monetary and fiscal policy do not have the same effects upon the various components of demand; the time required for them to be activated and to produce their effects differs, both as between the two types of policy and for each as between opposite cyclical phases. Sometimes, the two policies are mutually substitutable to good purpose. For instance, in Germany late in 1966, and also in the United States, countercyclical fiscal policy helped the central bank to promote investment. But given the different constraints and limitations to which the two types of policy are subject, it often happens, even in the absence of acute conflicts between domestic and external objectives, that monetary policy is hampered by the behaviour of the external capital account. Japan, for example, found it difficult to keep domestic rates of interest down for the sake of strengthening the domestic recovery, because interest rates were high on nearly all foreign markets and Japanese banks preferred placing their short-term funds abroad.

Another thing that has become clear is that monetary and fiscal measures, even if applied in good time, are slower to work when they are intended to stimulate demand than when, in the opposite cyclical phase, they aim at containing demand. This was very obvious in France and Italy when they began to relaunch economic expansion. Experience in the same two countries showed that private investment, especially in manufacturing industry, does not recover until after all the other demand components have begun to expand. Public investment, finally, which especially in France did much to stimulate demand, has proved slow to get going, with the resulting danger that its effects may come when they are no longer necessary. Thus private investment showed itself to be the most sensitive component of demand in an overheated boom, when instead it was consumption that should have been restricted, and after the turning point the most sensitive element was consumer demand, to stimulate which fiscal policy certainly is more suitable than monetary policy. Germany and the United Kingdom, which at present are in the same situation in which Italy found herself in 1964 and more or less for the same reasons, are good examples by which to illustrate these statements. In Germany, last year's economic events were a faithful reproduction of those that took place in Italy two years earlier; wage rises in excess of productivity rises caused a shift in income distribution to the benefit of wage earners, with resulting adverse effects on the level of private investment and of employment. The use of monetary policy in an attempt to mop up the excess of global demand worked in the same direction in so far as it slowed down the expansion of private consumption and diminished the flexibility of the capital market, and the stringency of the capital market made it hard to finance public investment.

The rise of interest rates certainly started in the United States, where growing demand for finance funds coincided with restrictive monetary policy. Subsequently, interest rates were pushed up to higher and higher levels by the countries of Europe, including some with a balance-of-payments surplus, where capital markets came under double pressure, from firms and from the public sector. This applies especially to Germany, and also to the United Kingdom. In France and, even more so, in Italy, on the other hand, monetary policy succeeded in isolating the domestic market from these influences and this proved a wise choice in the light of their subsequent weakening; otherwise this policy could hardly have been successful for long, for in an open economy neither central banks nor government authorities can permanently isolate domestic money and capital markets. In the long run, of course, capital movements from one country to another, even if they occasionally conflict with domestic policy purposes, are a beneficial influence from the point of view of the reallocation of productive resources and of the discipline and harmonization they entail or impose.

But none of this detracts from the fact that if less use had been made of monetary policies for countercyclical purposes and more reliance had been placed on fiscal policies, interest rates would not have soared as they did in 1966.

The expanding market for Euro-currencies somewhat eased the problem of financing external deficits, because this market relieved reserves of some of the burden of satisfying demand for foreign currencies. In addition, the high yields on Euro-currency investments induced private investors to hold dollars and so diminished the flow of dollars to the central banks; as a result, the United States were able to show a balance-of-payments surplus calculated on an official transactions basis at a time when there was a deficit in the so-called net balance, calculated by the liquidity method. This situation foreshadows difficulties to come, in consequence not only of the persistent external deficit of the United States, which is their main cause, but also of the creditor countries' reluctance to increase their dollar holdings and of the tendency of central banks in some major countries to increase the proportion of gold in their reserves, as they have been doing over the last four years.

The United Kingdom will this year have to repay the £ 320 million it owes to the International Monetary Fund and Switzerland. For the debtor, this will present no great difficulty because reserves are adequate and surpluses are accumulating; but it will be necessary to agree on special arrangements, because these repayments cannot be made in dollars and the United Kingdom will therefore have to buy European currencies against dollars and part of these dollars may be converted into gold. Even bigger difficulties may arise when, before the end of 1970, the United Kingdom has to repay its residual debt of £ 500 million. Given that the largest industrial countries are reluctant to accept deficit positions such as to enable the United Kingdom to accumulate enough surpluses to repay this amount, that will probably be the time to create additional reserves.

The establishment of free international capital movements, which in the EEC will be speeded up by the approval of the so-called third directive and by fiscal harmonization (it is understood that studies have been put in hand with a view to the harmonization of taxation on income from securities on the basis of a system by which the name of the taxpayer would not be automatically disclosed), looks like becoming irreversible. Together with freedom of movement for goods, labour and firms, coupled with fixed exchange rates, freedom of capital movements will effectively commit governments to increasingly close financial and monetary co-operation across frontiers, thus avoiding the dangers of economic policies framed on the narrowly national scale. In addition, freedom of capital movements will enable current disequilibria to be financed in the most economical way by reducing their incidence on reserves.

To sum up, economic developments in the major industrial countries last year provided new evidence to the effect that, however difficult it may be to combine high growth rates and full employment with price stability and external balance, the two former objectives are better safeguarded when the two latter are not sacrificed, and domestic stability can be achieved more easily when the limitations implied by the balance of payments are accepted. As regards the most suitable means for achieving these objectives, it must be recognized that, notwithstanding the validity of the arguments in favour of the more active use of fiscal policy, experience has shown more or less everywhere that credit policy had to be brought into play. Experience has also shown how the inevitable costs of credit policy can be kept down; but these costs, in terms of income and employment, will continue so long as the instruments of fiscal policy are not effective enough and so long as it is not accepted that we need an incomes policy on a scale transcending individual nations.

International Monetary Reform.— In connection with the reform of the international monetary system, the problem of gold clearly had to come up for discussion from more than one point of view.

This problem has in fact moved to the foreground owing to the circumstance that the accrual of gold to currency reserves, which had already sharply diminished in 1965, stopped altogether last year and was replaced by a movement in the opposite direction, that is, an outflow of gold from official reserves.

In the face of a shortfall of gold supply for monetary uses, there have been some public pronouncements to the effect that the price of gold should be raised. Italy, together with the overwhelming majority of other countries, has repeatedly opposed this proposal for the reason that its disadvantages far outweigh its advantages. In addition to all the well-known and oft-repeated arguments against an increase in the price of gold, it may be pointed out that the countries to profit therefrom, apart from the gold producers, would mainly be the United States and the United Kingdom, whose short-term liabilities would thus be greatly diminished. This would definitely entail a transfer of real resources to these two countries, which, it is only fair to add, reject an advantage to be derived in substance by the repudiation of obligations previously assumed.

On the other hand, official circles are more and more coming to accept the view that international liquidity needs must be assessed by responsible collective decisions and that they must be met to some extent by the deliberate creation of new reserve assets. The solutions which, in the light of these latest principles, are now under discussion suggest that in the long run the international monetary system might come to be based on new reserve assets rather than on gold.

But while, in the short run, the creation of new assets could make good the insufficiency of reserves generally speaking, it could do nothing, according to one view, to solve the problem of the shortage of monetary gold, given that central banks are not indifferent to the qualitative composition of their reserves. This view would seem to be the most realistic, in so far as it is based upon the fact that any new non-gold asset is in essence a credit extended by one participating country to another; the solution to the problem of gold shortage is seen instead in an undertaking by central banks not to let the proportion of gold in their total reserves rise beyond a certain limit. In other words, the harmonization of reserve policies, which Italy still considers desirable in the interests of the stability of the present gold-dollar system, would become nothing short of indispensable in a system based predominantly upon gold and the new reserve assets created by deliberate decision, especially if, as some would have it, the use of these assets were not subject to strictly defined rules.

So long as no plan has been worked out for the deliberate creation of new reserves, it will be necessary to do something to relieve the strains due to private gold hoarding and speculation, which strains are acerbated by the continual movement of gold between monetary holdings and the free market. From this point of view there is much merit in the move which the United States now have under consideration, namely, to set their whole gold stock free from coverage of the circulation, and similarly in any other step by which central banks might agree to buy gold only from each other. From the same point of view, any quickening of the pace in working out a plan of deliberate reserve creation would surely do much to relax the climate.

Italy has always played its part in the relevant discussions, and first and foremost in the formulation of the basic principles adopted by the Group of Ten and by the joint group of the Deputies of the Ten and the Executive Directors of the International Monetary Fund.

Italy has, furthermore, made repeated efforts to find a joint position acceptable to the six countries of the European Economic Community. In this connection, a decision to give the new reserve assets the form of drawing rights rather than of reserve units would, in the Italian view, open the way for the participation of those countries which regard the creation of an international currency as a hazardous innovation. What matters is to equip the international monetary system with an adequate mechanism for the creation of unconditional liquidity in a setting of monetary policies and relations which maintain confidence and gain effectiveness in safeguarding the stability of the purchasing power of money; it is obvious that the system will not actually need any injections of unconditional liquidity unless there is a general shortage of reserves.

All the member countries of the International Monetary Fund are agreed that steps must be taken in good time to set up a mechanism of reserve creation in case such a general shortage should arise. It may well be that some of the tendencies that work in this direction could become critical in the not too distant future. Gold has ceased to contribute to reserve formation. The bulk of existing gold reserves is frozen in the vaults of central banks, many of which prefer to draw on credits, on other reserve assets or on currency swaps rather than touch the gold stock. Furthermore, it is getting more important for certain countries to maintain an adequate level of reserves, given that the danger of external imbalance grows because world trade is expanding much faster than income and world reserves, and because the members of the international community are quicker to open their frontiers (the most recent example is the abolition of exchange controls in France) than to coordinate their economic policies. Another point is that for some years now the balance-of-payments deficit of the United States has contributed nothing to reserve formation; in these circumstances there are no longer any factual grounds for insisting that the elimination of this deficit must be one of the conditions for activating any possible plan for reserve creation. Nor is it possible to go on indefinitely creating unconditional liquidity by the empirical devices of the last few years (GAB, swaps, support agreements, etc.).

It may be added that central banks tend to increase their reserves as a long-run proposition, and since not all of them can possibly achieve this aim at the same time, a situation of general shortage cannot be regarded as remote. The very possibility of such a situation inescapably demands the preparation of a mechanism for the deliberate creation of new reserve assets; whether these are to be reserve units, drawing rights or unconditional credit facilities is a question of relatively secondary order.

II. *Economic Conditions in Italy*

The economic recovery which, after a period of difficult readjustments, had slowly but surely set in during 1965, last year gained impetus to such good purpose as to lift Italy's growth rate back to its high long-period average.

With costs by and large stabilized, demand reflation in 1965 stimulated the upswing that was the characteristic feature of last year's economic developments. Monetary demand was readily met by production at reasonably constant costs, which meant that demand expanded almost as much in real as in monetary terms; the ultimate implication is that cost stabilization was in effect the logical premise to the return of economic expansion.

More than once in these Annual Reports recently it was explained how cumulative cost increases eventually depressed real income growth, in so far as the resulting profit squeeze and decrease in the marginal returns from capital caused investment to contract and, concomitantly, employment to fall.

In reverse, once the phase of rising costs was brought to an end by productivity improvements in the system, and thanks also to the

TABLE 1

AGGREGATE DEMAND AND SUPPLY

(annual percentage variations)

Year	Demand					Supply	
	aggregate	domestic			foreign	domestic	foreign
		total	consumption	gross investment	exports of goods and services	gross national product	imports of goods and services
				At current prices			
1958	5.3	5.7	6.6	2.4	2.5	7.4	- 8.7
1959	5.9	5.2	4.2	8.8	11.1	6.0	5.1
1960	11.6	10.1	7.4	19.7	22.0	8.4	37.1
1961	11.1	10.5	9.5	13.7	14.4	10.9	12.3
1962	13.2	13.4	13.4	13.4	12.2	12.7	16.5
1963	16.1	17.0	17.7	14.8	10.3	14.7	24.5
1964	7.7	6.5	9.0	- 1.2	15.4	9.6	- 2.7
1965	6.9	4.6	7.7	- 5.8	20.3	7.6	2.7
1966	9.0	8.4	8.5	8.0	12.0	7.9	16.0
				At 1963 prices			
1958	4.8	4.0	4.3	2.9	12.9	4.9	3.9
1959	7.0	5.7	4.6	9.8	18.4	6.5	11.8
1960	9.2	8.0	5.5	17.0	18.9	6.3	37.3
1961	8.6	7.6	6.5	11.1	16.2	7.8	14.7
1962	7.5	6.8	6.1	8.8	12.3	6.2	16.4
1963	7.8	7.9	8.2	6.9	6.9	5.5	22.4
1964	1.6	—	2.7	- 8.2	11.6	2.8	- 5.1
1965	3.2	0.2	2.4	- 7.5	20.8	3.5	1.9
1966	6.7	5.4	5.3	6.1	12.5	5.5	13.4
				Price variations			
1958	0.5	1.6	2.2	- 0.5	- 9.2	2.4	- 12.1
1959	- 1.0	- 0.5	- 0.4	- 0.9	- 6.2	- 0.5	- 6.0
1960	2.2	1.9	1.8	2.3	2.6	2.0	- 0.1
1961	2.3	2.7	2.8	2.3	- 1.5	2.9	- 2.1
1962	5.3	6.2	6.9	4.2	- 0.1	6.1	0.1
1963	7.7	8.4	8.8	7.4	3.2	8.7	1.7
1964	6.0	6.5	6.1	7.6	3.4	6.6	2.5
1965	3.6	4.4	5.2	1.8	- 0.4	4.0	0.8
1966	2.2	2.8	3.0	1.8	- 0.4	2.3	2.3

Source: Central Statistical Institute figures re-elaborated by Bank of Italy.

burden of certain social charges being shifted from employers to the government, the partial reconstitution of profit margins set in motion a process of reabsorption of unutilized capacity, raised the marginal returns from capital and thus created the conditions for investment recovery in the private sector, followed by higher employment.

Looking at the overall pattern of monetary demand and its components, it will be seen that in 1965 foreign demand was responsible for 42 per cent of the increase in global demand, while in 1966 this proportion dropped to 21 per cent.

In 1965 the contraction of investment demand, in monetary terms, would, by itself, have caused domestic demand to fall by 1.3 per cent, while the rise in consumption similarly would have raised domestic demand by 5.9 per cent—and, in fact, the domestic use of resources did go up by 4.6 per cent. In 1966, by contrast, monetary investment demand alone raised the domestic use of resources by 1.6 per cent, and consumption raised it by another 6.8 per cent (Table 1).

In real terms, the rather modest (3.2 per cent) 1965 increment of aggregate demand came almost entirely from exports; in 1966 more than two-thirds of the high (6.7 per cent) increment of aggregate demand stemmed from a 5.4 rise of domestic demand.

National accounts.— Gross national product at current prices rose in 1966 by 7.9 per cent to reach 38,397 billion lire. In real terms, last year's rise of 5.5 per cent compares very favourably with 2.7 per cent in 1964 and 3.5 per cent in 1965, and in its turn last year's price rise of 2.3 per cent was very much smaller than that of the two preceding years (6.6 per cent in 1964 and 4.0 per cent in 1965).

Thus last year's income growth matched both the long-period (1951-1965) average and the average for the business cycle which began in 1958 (Table 2).

The main contribution to the high increment of real income came from industry, whose gross product rose by 8.0 per cent in spite of stagnation in building.

Imports of goods and services, which had barely risen in 1965, surged ahead last year (+ 16 per cent in value, and + 13.4 per cent in volume), so that total resources rose more than the gross national product

TABLE 2

CONDENSED NATIONAL ACCOUNTS

Origin and use of resources	Billion lire at current prices			Composition per cent 1966	Percentage change				Annual compound rate of change at 1963 prices	
					at current prices		at 1963 prices			
	1964	1965	1966		1965/1964	1966/1965	1965/1964	1966/1965	1952-65 14 years	1959-65 7 years
Origin of resources:										
Value added in agriculture, forestry and fisheries	3,947	4,194	4,225	9.4	6.3	0.7	3.2	0.5	2.2	1.6
Value added in industry	11,784	12,368	13,536	30.3	5.0	9.4	3.1	8.0	7.4	7.1
Value added in tertiary activities	9,962	10,802	11,670	26.1	8.4	8.0	3.7	4.8	4.9	5.4
Value added in public administration	3,548	4,019	4,333	9.7	13.3	7.8	3.0	4.1	3.2	3.3
Gross domestic product at factor cost	29,241	31,383	33,764	75.5	7.3	7.6	3.3	5.4	5.1	5.2
Indirect taxes (1)	3,684	3,984	4,363	9.8	8.1	9.5	3.7	5.4	8.2	7.8
Gross domestic product at market prices	32,925	35,367	38,127	85.3	7.4	7.8	3.3	5.4	5.4	5.4
Net income from abroad	152	208	270	0.6	36.8	29.8	30.8	26.7	21.0	16.3
Gross national product	33,077	35,575	38,397	85.9	7.6	7.9	3.5	5.5	5.4	5.5
Imports of goods and services	5,293	5,435	6,302	14.1	2.7	16.0	1.9	13.4	11.5	13.5
Total resources	38,370	41,010	44,699	100.0	6.9	9.0	3.2	6.7	6.0	6.4
Use of resources:										
Exports of goods and services	5,486	6,602	7,396	16.5	20.3	12.0	20.8	12.5	14.0	15.0
Resources disposable for domestic use	32,884	34,408	37,303	83.5	4.6	8.4	0.2	5.4	5.1	5.1
Consumption	25,477	27,431	29,771	66.6	7.7	8.5	2.4	5.3	4.7	5.2
of which: private	20,869	22,234	24,214	54.2	6.5	8.9	2.2	5.7	4.9	5.3
public	4,608	5,197	5,557	12.4	12.8	6.9	3.6	3.6	3.8	4.4
Gross investment	7,407	6,977	7,532	16.9	- 5.8	8.0	- 7.5	6.1	6.8	5.0

Source: Report on the Economic Situation in Italy.
(1) Less subsidies to production.

in terms both of value (+ 9.0 per cent) and of volume (+ 6.7 per cent). Exports of goods and services expanded less than in 1965 (about 12 per cent compared with 20 per cent, both in value and volume), and last year's external surplus on goods and services account dropped slightly below the 1965 figure (1,094 compared with 1,167 billion lire).

Resources disposable for domestic use remained all but stationary in 1965 in real terms, but last year went up by 5.4 per cent in volume and by 8.4 per cent in value, to 37,303 billion lire.

In detail, private consumption rose by 8.9 per cent to 24,214 billion lire, and public consumption by 6.9 per cent to 5,557 billion. Total consumption went up by 8.5 per cent in value and by 5.3 per cent in volume, and its prices rose by 3.0 per cent, which was very much less than in recent years, when the corresponding percentage increase was 5.2 in 1965, 6.1 in 1964 and 8.8 in 1963 (Table 1).

Gross investment absorbed 7,532 billion lire, and here a rise of 8 per cent in monetary terms and 6.1 per cent in real terms came last year to replace the heavy falls of 1965 (— 7.5 and — 5.8 per cent) and 1964 (— 1.2 and — 8.2 per cent) (Table 3).

Considerable stockbuilding helped to push up the investment figure, quite apart from gross fixed investment, which itself increased last year by 5.3 per cent at current prices and by 3.7 per cent in real terms. By comparison, in 1964 a stationary nominal figure for gross fixed investment meant a real decline of as much as 6.5 per cent at constant prices, and this was followed by a further contraction in 1965, both in real terms (— 8.4 per cent) and, this time, also in monetary terms (— 6.8 per cent).

The most spectacular recovery took place in investment in machinery and equipment on the part of private industry (+ 25 per cent in value and + 21.7 per cent in volume), precisely the category which had earlier seen such heavy falls in real terms (— 27.3 per cent in 1964 and — 35.2 per cent in 1965).

Gross national saving, at 8,898 billion lire, was 6.2 per cent higher than in 1965 and thus failed to match that year's increase of 7.3 per cent. In absolute figures, the formation of savings only just fell short of total gross investment, so that foreign credit balances hardly dropped below their 1965 level (1,366 compared with 1,404 billion lire).

TABLE 3

GROSS INVESTMENT

Sectors and Products	Billion lire at current prices			Percentage change at current prices		Percentage change at 1963 prices		Annual compound rate of change at 1963 prices		
	1964	1965	1966	1965/1964	1966/1965	1965/1964	1966/1965	1952-66 15 years	1959-63 5 years	1964-65 2 years
	Classification by sectors of use									
Fixed investment										
Agriculture	568	598	622	*5.3*	*4.0*	*3.4*	*2.2*	*5.8*	*6.0*	*-6.4*
Industrial activities	2,105	1,713	1,924	*-18.6*	*12.3*	*-20.7*	*9.9*	*4.3*	*13.3*	*-20.4*
Transport and communications	602	643	650	*6.8*	*1.1*	*5.0*	*-0.7*	*6.7*	*11.0*	*1.1*
Trade, banking, insurance and services	775	713	776	*-8.0*	*8.8*	*-8.3*	*7.5*	*9.5*	*12.3*	*-7.9*
Housing	2,547	2,402	2,388	*-5.7*	*-0.6*	*-6.0*	*-0.9*	*10.0*	*9.0*	*-0.2*
Public administration	604	645	713	*6.8*	*10.5*	*0.5*	*5.4*	*6.6*	*5.3*	*8.3*
Total	7,201	6,714	7,073	*-6.8*	*5.3*	*-8.4*	*3.7*	*7.1*	*10.3*	*-7.4*
Changes in stocks	206	263	459	—	—	—	—	—	—	—
Grand total	7,407	6,977	7,532	*-5.8*	*8.0*	*-7.5*	*6.1*	*6.7*	*10.7*	*-7.9*
	Product classification									
Fixed investment										
Construction	4,542	4,435	4,518	*-2.4*	*1.9*	*-4.0*	*0.6*	*8.7*	*8.0*	*-1.0*
Dwellings	2,547	2,402	2,388	*-5.7*	*-0.6*	*-6.0*	*-0.9*	*10.0*	*9.0*	*-0.2*
Non-residential buildings	1,215	1,187	1,200	*-2.3*	*1.1*	*-3.6*	*0.4*	*8.2*	*8.8*	*-6.1*
Public works	780	846	930	*8.5*	*9.9*	*1.8*	*5.1*	*6.5*	*3.9*	*5.5*
Plant and machinery	1,865	1,554	1,792	*-16.7*	*15.3*	*-17.9*	*11.2*	*4.4*	*11.4*	*-18.5*
Means of transport	794	725	763	*-8.7*	*5.2*	*-8.7*	*4.9*	*7.5*	*20.7*	*-11.3*
Total	7,201	6,714	7,073	*-6.8*	*5.3*	*-8.4*	*3.7*	*7.1*	*10.3*	*-7.4*
Changes in stocks	206	263	459	—	—	—	—	—	—	—
Grand total	7,407	6,977	7,532	*-5.8*	*8.0*	*-7.5*	*6.1*	*6.7*	*10.7*	*-7.9*

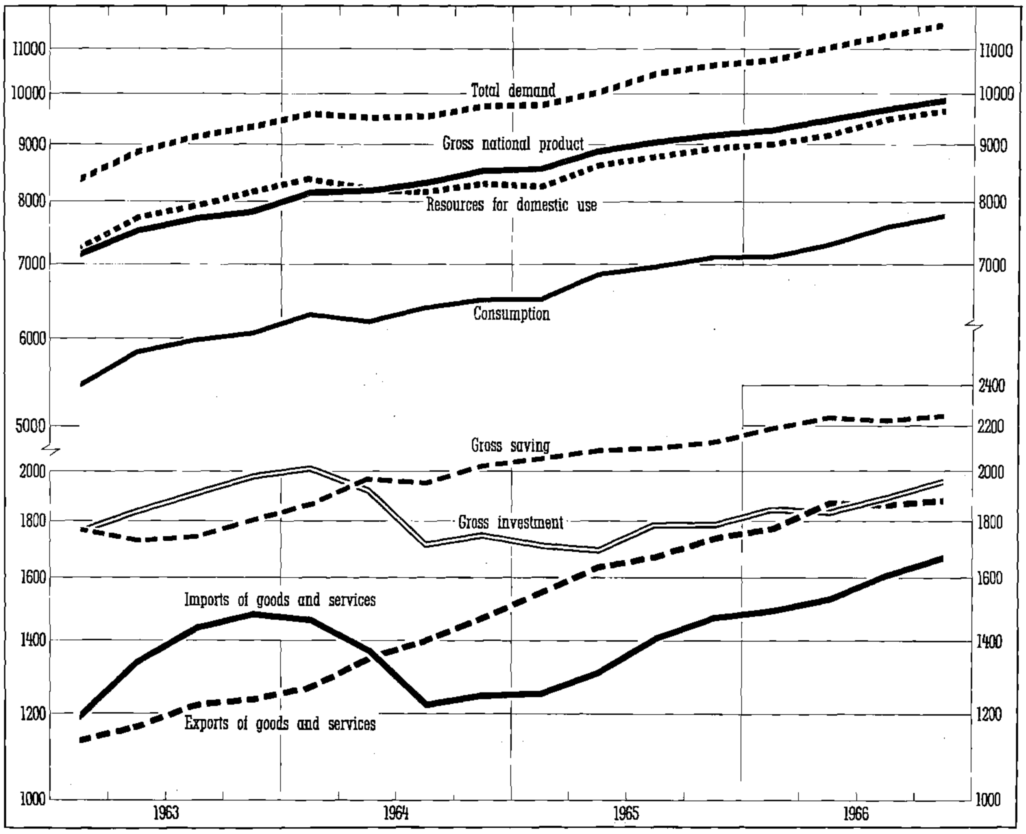
Source: Report on the Economic Situation in Italy.

Allowing for depreciation in an amount of 3,368 billion lire, last year's net saving of 5,530 billion was 4.8 per cent higher than in 1965, compared with an increase of 7.2 per cent in that year.

The average propensity to save calculated on total disposable income (net national income plus net transfers from abroad) worked out at 15.7 per cent last year, compared with 16.1 per cent in 1965 and 16.2 per cent in 1964.

Cyclical Developments.— During the second half of 1965 domestic demand picked up under the combined impact of rising public and private consumption, which latter owed much to higher farm incomes and to transfer payments from public administration to households, and of the first signs of investment recovery in the field of plant and equipment; yet steadily expanding exports were still the most dynamic component of total demand.

CHART 1



Total demand and supply and their components
(Seasonally adjusted quarterly estimates in billion current lire; logarithmic scale)

Much the same pattern continued throughout the first half of 1966, although by then investment demand was picking up more noticeably. During the second half of the year, investment and consumption expanded at a quickening pace and exports virtually came to a pause at their high levels.

In year-on-year figures, comparing the last quarters of 1965 and 1966, the Bank of Italy's estimates (Chart 1) are that in monetary terms consumption demand rose last year by 9.0 per cent, investment demand by 10.2 per cent and exports by 8.4 per cent; in 1965, consumption had gone up by as much, investment had been almost stationary and exports had soared by close to 20.0 per cent.

Gross national product at current prices, in seasonally adjusted figures, rose gently during the first quarter of 1966 and more steeply thereafter, with the curve flattening out somewhat toward the end of the year.

In the last quarter of 1966 GNP was 8.3 per cent higher than twelve months earlier in monetary terms and 6 per cent higher in real terms; in 1965, the corresponding figures had been 7.9 and 5 per cent.

In all, therefore, the cyclical picture looked a good deal rosier at the end of last year than it had done at its beginning, in so far as now aggregate demand was drawing its strength more from domestic sources and especially from more active investment.

Incomes, Costs and Prices.— Costs remained to all intents and purposes stable last year, after having virtually stopped climbing in 1965, and so did prices, which had still risen appreciably during the preceding year.

Wage costs per unit of output went up by 2.0 per cent, compared with 3.2 per cent in 1965 and an average of 11.5 per cent during the period 1961-1964 (Table 4).

Average earnings per wage earner employed rose by 6.8 per cent, given that the country's total wage bill went up by7.5 per cent and employment of dependent labour 0.7 per cent. Last year's figure of 6.8 per cent compares with 10.4 per cent in 1965, when the rise dropped well below the 1961-1964 average of 15.8 per cent but was still high. Incomes other than dependent labour incomes rose last year by 7.7 per cent as a whole and by 2.2 per cent per unit of output; in overall terms the rise was a little smaller than in 1965 (8.2 per cent), but in unit terms it was very much less (4.7 per cent). On the average of the years 1961-1964, the increase had been 8.3 per cent in overall terms and 3.4 per cent per unit of output.

The general level of prices for the gross domestic product at factor cost, as adjusted by the GDP deflator, thus rose by 2.1 per cent compared

TABLE 4

INCOMES, COSTS AND PRICES (1)

(changes per cent)

Items	In the aggregate 1964/1963	1965/1964	1966/1965	Annual aver. compound rate 1964/1961	1966/1964	Per unit of output 1964/1963	1965/1964	1966/1965	Annual aver. compound rate 1964/1961	1966/1964
Dependent labour incomes (2)	12.6	6.6	7.5	16.7	7.0	9.6	3.2	2.0	11.5	2.5
Other incomes (gross domestic)	6.8	8.2	7.7	8.3	8.0	4.0	4.7	2.2	3.4	3.5
Gross domestic product at factor cost	9.9	7.3	7.6	12.6	7.5	7.0	3.9	2.1	7.5	3.0
Indirect taxes (3)	6.4	8.1	9.5	9.8	8.8	3.6	4.6	3.9	5.1	4.3
Gross domestic product at market prices	9.5	7.4	7.8	12.3	7.6	6.6	4.0	2.3	7.1	3.1
Import prices						*2.5*	*0.8*	*2.2*	*1.5*	*1.5*
Incidence of imports on the general price level						*- 0.6*	*- 0.5*	*- 0.1*	*- 0.7*	*- 0.2*
Total costs=general price level						*6.0*	*3.5*	*2.2*	*6.4*	*2.9*

Sources: Yearbook of the Central Statistical Institute and Report on the Economic Situation in Italy.

(1) Percentage changes per unit of output indicate the extent to which annual increases in money incomes and indirect taxes exceeded the growth of gross national product in real terms, calculated on gross domestic product at (1963) market prices. Percentage variations in import prices are calculated on the price index relevant for imports of goods and services. Changes in the general level of costs and prices are the same as changes in the price index calculated as the difference between total disposable resources at current and at constant prices. The incidence of imports on the general price level allows for the weight of imports of goods and services in total disposable resources.

(2) Including social charges taken over by the government and excluding net income from abroad.

(3) Net of subsidies to production.

with 3.9 per cent in 1965 and an average of 7.5 per cent for the period 1961-1964.

The general level of prices for total disposable resources, as adjusted by the appropriate deflator, rose by 2.2 per cent, that is, about as much as the similarly adjusted price level for the domestic product; the reason was that the slight mitigating effect of import prices was more than offset by a 3.9 per cent increase in indirect taxes per unit of output.

Income-cost relationships at the level of the firm have for some years been the subject of an annual survey. Last year this survey had clearly shown how the great investment boom up to and including 1963 suddenly went into reverse in 1964, after the self-financing ratio had tumbled and profit margins narrowed in spite of the growth of risk capital.

This year the survey was not only extended forward to 1965, but also backward to 1959, so as to trace the behaviour of these variables over the course of the business cycle. This involved some change in the group of companies investigated, since not all figures were available from all companies.

Gross capital formation in the 237 companies included in the survey declined in 1965 to about two-thirds of the 1964 figure, and was little more than half of what it had been at the height of the boom in 1963 (Table 5, I).

Both in 1964 and in 1965, and more especially in the latter year, the gross self-financing ratio climbed back from its record low of 34.3 per cent in 1963, and ultimately regained its 1959 level. The net self-financing ratio made a much weaker come-back and still fell far short of what it had been at the beginning of the period under review.

On the average of the years 1959-1965, gross self-financing accounted for 45 per cent of gross capital formation, and net self-financing for about 16 per cent of net capital formation. These are low rates compared with those not only of the United States and the United Kingdom, but also of other countries of the European Economic Community. As a corollary, Italian companies are heavily dependent for capital formation upon sources other than self-financing, that is, upon the financial capacity of other sectors.

Now, if self-financing is structurally low in Italy quite apart from cyclical phases, it drops to extremely low proportions at the height of a boom, just when other sectors have little money to spare. This happened in 1963, when self-financing and investment funds from other sources together covered little more than half of gross capital formation, so that the companies had to borrow exceptionally heavily from the banks.

The latest figures, those for 1966, were available only for 130 out of the total group of 237 companies (Table 5, II). In this restricted group, gross capital formation declined by 7.9 per cent in comparison with 1965. But this diminution is entirely attributable to the steel companies, which have great relative weight in the group; without them, gross capital formation went up by about 19 per cent.

Gross self-financing rose by 16.9 per cent and, because of more than proportional depreciation, net self-financing by only 15.2 per cent.

TABLE 5

CAPITAL FORMATION AND SOURCES OF INVESTMENT FINANCE IN MANUFACTURING INDUSTRY

(billion lire)

Year	Capital formation (a)		Self-financing (b)				Loan and risk capital			Total investment finance	Difference between investment finance and gross investment	Change in debit balance with banks
	gross	net	gross		net		Medium-& long-term borrowing	New money from shareholders				
			billion lire	ratio per cent	billion lire	ratio per cent		billion lire	ratio per cent			
	(1)	(2)	(3)	(4)=(3):(1)	(5)	(6)=(5):(2)	(7)	(8)	(9)=(8):(1)	(10)=(3)+(7)+(8)	(11)=(10)—(1)	(12)
					I. Survey of 237 companies							
1959	336.5	173.6	205.1	*60.9*	42.2	*24.3*	81.7	132.6	*39.4*	419.4	82.9	7.9
1960	590.3	387.6	331.9	*56.2*	129.2	*33.3*	176.1	279.3	*47.3*	787.3	197.0	– 133.6
1961	663.1	438.5	337.1	*50.8*	112.5	*25.6*	174.2	204.1	*30.8*	715.4	52.3	83.6
1962	970.6	716.2	369.7	*38.1*	115.3	*16.1*	305.8	319.8	*32.9*	995.3	24.7	109.9
1963	1,175.8	831.9	403.4	*34.3*	59.5	*7.1*	163.0	68.0	*5.8*	634.4	– 541.4	386.4
1964	996.6	663.1	385.3	*38.7*	51.8	*7.8*	471.8	175.8	*17.1*	1,032.9	36.3	133.3
1965	612.7	276.4	381.5	*62.3*	45.2	*16.3*	165.1	103.5	*16.9*	650.1	37.4	129.6
					II. Survey of 130 companies							
1959	202.3	85.1	148.7	*73.5*	31.5	*37.0*	58.1	59.7	*29.5*	266.4	64.1	2.9
1960	318.0	170.0	252.4	*79.3*	104.4	*61.4*	137.8	175.3	*55.2*	565.5	247.5	– 134.4
1961	417.6	253.8	247.5	*59.2*	83.7	*32.9*	81.3	166.6	*39.8*	495.4	77.8	73.4
1962	654.3	469.9	265.9	*40.6*	81.5	*17.3*	252.7	333.4	*50.9*	852.0	197.7	3.8
1963	752.5	512.3	268.0	*35.6*	27.8	*5.4*	125.1	50.3	*6.6*	443.5	– 309.1	309.9
1964	714.5	486.3	283.6	*39.6*	55.4	*11.3*	308.6	22.5	*3.1*	614.7	– 99.8	45.8
1965	470.3	247.0	271.8	*57.7*	48.5	*19.6*	163.1	26.0	*5.5*	460.9	– 9.4	117.6
1966	436.0	173.7	318.2	*72.9*	55.9	*32.1*	86.4	28.8	*6.6*	433.4	– 2.6	166.4

(*a*) Net of disinvestment, which is not always shown in company balance sheets, but including changes in stocks.
(*b*) Including allocations to staff retirement funds.

The gross self-financing ratio rose from 57.7 to 72.9 per cent and the net self-financing ratio from 19.6 to 32.1 per cent, while the proportion of new loan and risk capital contracted.

Both in 1965 and in 1966 total investment funds roughly equalled gross investment.

The companies' net indebtedness to the banking system rose by 166 billion lire last year, a good deal more than in 1965; however, excluding the steel companies, the group borrowed only 23 billion lire from banks in 1966, and in 1965 actually repaid some of its bank debts.

III. *Production and Prices*

Agricultural Production.— Weather conditions were on the whole unfavourable last year, but not everywhere at the same time and to the same extent, so that the overall effect on agricultural production was not too damaging. The November floods played havoc with machinery and stocks, but caused a comparatively small setback to current production.

The volume of agricultural production had gone up by altogether 9.8 per cent in the two preceding years, that is, at an average annual rate of nearly 5 per cent; starting from these higher levels, it rose by another 1.7 per cent last year (Table 6). The average annual increase for the last three years thus works out at 3.7 per cent, and virtually matches the corresponding average for the preceding three-year period (3.8 per cent).

By contrast, food consumption, which had increased by barely 2 per cent annually over the period 1964-1965, in 1966 expanded by 5 per cent.

The wheat crop was poorer last year than in 1965, and so were the wine and olive harvests, but fruit and vegetables did better and output of animal products as a whole also increased.

The continuing tendency of Italian farmers to specialize was evident last year in a further increase of acreage under vegetables and of certain fruits among tree crops.

Looking at the pattern of agricultural production since 1963, above-average expansion is seen in the output of animal products and, in the

TABLE 6

MARKETABLE PRODUCT AND GROSS PRODUCT OF AGRICULTURE

Items	1963	1964	1965	1966	1965	1966
	Indices (1963 = 100) (constant prices)				*Billion lire (current prices)*	
Agriculture and animal husbandry						
Marketable product	100.0	104.0	109.8	111.7	5,001.6	5,105.1
Field crops (incl. fodder)	100.0	105.4	111.4	113.5	1,838.7	1,831.0
Tree crops	100.0	97.3	103.1	102.8	1,437.3	1,471.4
Animal products	100.0	108.4	114.1	117.6	1,725.6	1,802.7
Purchase of goods and services	100.0	109.0	124.5	133.3	1,063.2	1,152.9
Gross product	100.0	102.9	106.5	106.9	3,938.4	3,952.2
	Annual percentage changes				*Percentage change 1966*	
					value	price
Marketable product	*1.9*	*4.0*	*5.6*	*1.7*	*2.1*	*0.4*
Field crops (incl. fodder)	*1.0*	*5.4*	*5.7*	*1.9*	– *0.4*	– *2.3*
Tree crops	*10.9*	– *2.7*	*6.0*	– *0.3*	*2.4*	*2.7*
Animal products	– *3.7*	*8.4*	*5.3*	*3.1*	*4.5*	*1.4*
Purchase of goods and services	*15.1*	*9.0*	*14.3*	*7.1*	*8.4*	*1.2*
Gross product	– *0.7*	*2.9*	*3.6*	*0.3*	*0.4*	*0.1*

Sources: Report on the Economic Situation in Italy, and Central Statistical Institute.

second place, of field crops, thanks largely to vegetables and industrial crops; on the other hand, tree crops as a whole, starting from a mediocre harvest in the reference year 1963, increased less than total marketable product.

In the European Economic Community, new regulations came into force last year concerning fruits and vegetables, fats and sugar, and new common prices were fixed for several agricultural products.

Industrial Production.— The industrial recovery which had begun in 1965 gained more and more strength in the course of last year and spread to the great majority of branches.

Steady and vigorous progress is evident both in the average and the end-year figures for 1966. The annual general index of industrial production (excluding building) calculated by the Central Statistical Institute rose by 11.2 per cent from 252.0 to 280.2 (1953 = 100), and the rise between the last quarter of 1965 and the last quarter of 1966 was almost as large (10.8 per cent).

These growth rates are second only to those of 1960-1961 and are comfortably above the medium-term trend line; they fit into a cyclical pattern where two years of stagnation were followed by a slight improvement in 1965. Productions rose in response to both domestic and export demand, which latter, while still expanding at a gratifying rate, ceased to exercise compensatory effects as it had done for two years before. In annual average figures as well as from one end of the year to the other, exports expanded in 1966 little more than production itself, and, their absolute increment having been offset by the relatively stronger import expansion, net exports hardly changed.

The one sector which was left out of the recovery was building, which had gone into recession along with the general downswing. In spite of some slight improvement in the second half of last year, the annual index remained virtually stationary and thus held back the rise of the corresponding index of industrial production in its wider sense; even so, last year's figure was 10.0 per cent, compared with 3.8 per cent in 1965.

But the determining influence on the general index came from an 11.5 per cent rise in the output of manufacturing industry, which occupies a predominant position in Italy's industrial system; by comparison, the index for electricity and gas went up by 9.1 per cent, and that for mining and quarrying by 4.7 per cent.

Within manufacturing industry the pattern was very different from 1965. In that year, a total increase of 5.0 per cent was due almost entirely to exceptionally high rates of expansion in two branches, namely, steel and oil refining. Last year, by contrast, all branches registered progress, and while there were differences in degree, their range was fairly narrow.

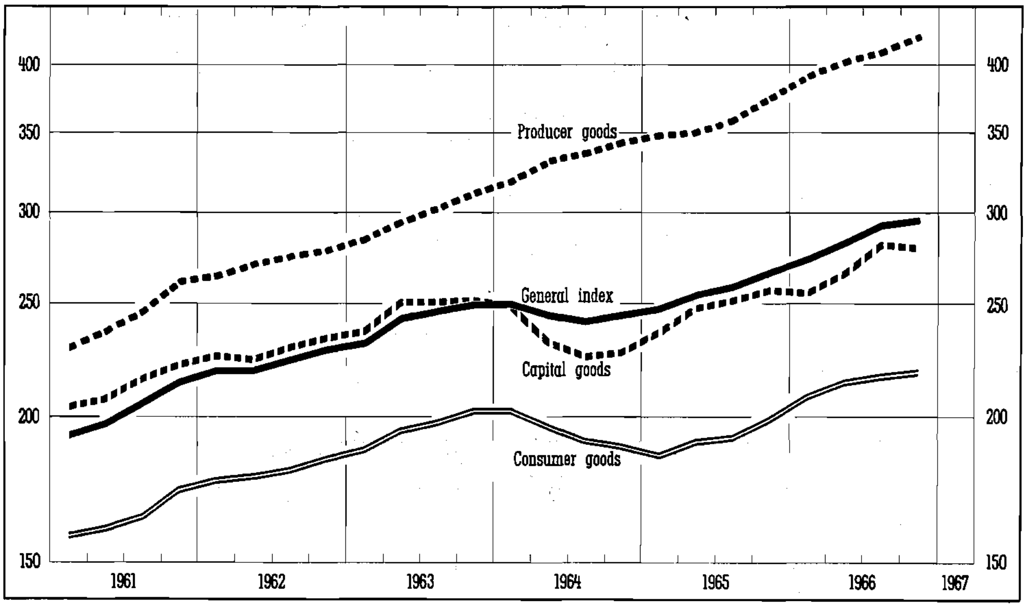
In terms of broad classes of goods classified by their use, producer goods (+ 13.4 per cent) and consumer goods (+ 11.4 per cent) did most to raise the general index; capital goods lagged behind somewhat (+ 8.9 per cent, or, if building is included, + 6.6 per cent).

These differential rates of increase are, of course, largely a reflection of demand schedules during the year, but they also show the influence of previous time lags in the sequence of cyclical phases. In consumer goods, last year's strong expansion, well in excess of the medium-term average, followed a slight decline in 1965; in capital goods, the decline of 1964 was followed already in 1965 by a rise connected largely with buoyant exports; in producer goods, finally, the recession had never done more than slow down the rate of expansion, which now speeded up again.

Looking at the time path of industrial production over the course of last year, it is seen to be a direct continuation of the trends visible since the spring of 1965, reinforced by the mutual interaction of the favourable factors which gradually gained the upper hand both on the supply and the demand side.

By the autumn of 1965 industrial production began to feel the impact of a revival of domestic demand, especially for consumer goods, so that firms were able to take advantage of the organizational improvements they had introduced in the meantime and the incidence of fixed cost decreased. The industrial recovery, which had until then been unsteady and patchy, and confined to the major export industries, began to spread more widely (Chart 2).

Chart 2



General index of industrial production and indices
of production of producer goods, capital goods and consumer goods
(1953 = 100; seasonally adjusted, logarithmic scale)

During the first quarter of 1966 expansion quickened in consumer goods, especially textiles and motor cars, and continued at a steady pace in producer goods, especially chemicals; but the hesitant upward movement in capital goods came to a halt, partly because domestic demand was still weak and partly because the metal and engineering workers' union went on strike on the occasion of the renewal of their collective agreement.

There were still strikes during the following two quarters, but nevertheless production of capital goods started climbing—steadily enough in the second quarter thanks mainly to further export expansion, and more steeply in the third quarter, when domestic demand became much more lively. After prolonged uncertainties, engineering industries now were among the chief beneficiaries, and indeed production of industrial motor vehicles quickly recovered a large part of the ground lost in the preceding two years. The industries making construction materials, however, were left out of the recovery at that stage, and their output remained almost stationary. At the same time, the upward movement gained further strength in motor cars, while the pace of expansion slackened somewhat in other consumer goods and in producer goods.

During the last quarter of 1966, and more particularly in October and November, the general expansion lost some impetus, for a variety of reasons, including some wavering in the production of steel and, even more so, of motor vehicles of all kinds, after the exceptional spurt in the preceding months, and a pause, not to say decline, in a wide range of other consumer goods industries. Additional factors were a weakening of foreign demand and, at home, the floods and the interruptions they caused in production. Much the most encouraging feature of the last few months of 1966 was the continuing recovery in engineering.

Early this year, so far, industrial production was buoyant enough, though some of the factors which had generated the upswing lost much of their force. A sizeable portion of the cost reduction per unit of output has been offset by a combination of new rises in contractual wages in many sectors, the government's decision not to prolong the system by which employers were relieved of part of the social charges, and of new taxes to finance government measures to help flood-stricken areas; in its turn, export growth is greatly slowed down by cyclical weakness in those countries which provide Italian products with their best markets abroad.

Wholesale Prices.— Wholesale prices were remarkably stable in 1966. Between December 1965 and December 1966 the index went up by only 0.1 per cent, though in annual average terms the rise was 1.5 per cent, given that at the end of 1965 the index already stood above that year's average (Table 7).

TABLE 7

INDEX OF DOMESTIC AND INTERNATIONAL WHOLESALE PRICES

(1953 = 100)

Index	Annual aver. index 1966	Percentage change			
		1966 / 1965	Dec. 65 / Dec. 64	Dec. 66 / Dec. 65	March 67 / March 66
DOMESTIC PRICES (1)					
General index	114.4	*1.5*	*1.9*	*0.1*	- *0.6*
Product classification (2)					
Agricultural products	126.7	*1.8*	*5.4*	- *1.5*	- *1.7*
Non-agricultural products	111.1	*1.5*	*0.8*	*0.6*	- *0.3*
Foodstuffs	123.3	*1.5*	*5.2*	- *1.7*	- *2.0*
Industrial raw materials and manufactures	108.2	*1.5*	- *0.7*	*1.5*	*0.3*
Raw materials	99.7	*2.0*	*0.4*	*0.2*	- *2.6*
Manufactures	109.7	*1.4*	- *0.8*	*1.9*	*1.3*
Classification by use					
Consumer goods	116.2	*1.8*	*2.9*	- *0.1*	- *1.0*
Capital goods	112.3	*0.9*	- *0.4*	*0.7*	- *0.4*
Producer goods	106.1	*0.8*	*0.7*	—	*1.7*
INTERNATIONAL PRICES (3)					
General index	103.5	*0.9*	—	- *3.3*	- *5.7*
Foodstuffs	92.9	*1.3*	- *1.8*	- *0.5*	- *2.0*
Industrial raw materials	109.5	*0.6*	*0.4*	- *4.0*	- *7.3*

(1) Central Statistical Institute (ISTAT).

(2) In our re-elaboration of ISTAT indices construction timber, crude petroleum and quarrying products are not included in the index of industrial raw materials, but are included in the combined index of industrial raw materials and manufactures.

(3) *Volkswirt.*

Looking at the product classification, however, it will be seen that overall stability was the resultant of a decline in food prices (— 1.7 per cent) and a rise in the prices of industrial raw materials and manufactures (+ 1.5 per cent).

The overall effects of good domestic harvests in 1965 combined with lower international food commodity prices to bring down food prices in Italy. Food consumption went up very considerably in 1966 and pushed up food imports sharply, while exports remained almost stationary.

Among industrial prices, those for raw materials remained virtually stable, thanks to their easing on world markets, while the rise in the prices of manufactures is attributable to the buoyancy of both domestic and foreign demand.

In broad classes of end use, consumer goods fell slightly and capital goods rose in price. The explanation is that the first figure includes all food consumption, and the second reflects the revival of demand for plant and machinery.

Retail Prices and the Cost of Living.— Both consumer prices (up 2.4 per cent) and the cost of living (up 1.8 per cent) rose less over the course of last year than they had done in 1965 (3.3 and 2.9 per cent, respectively) (Table 8).

Table 8

INDEX OF RETAIL PRICES AND THE COST OF LIVING

Index	Annual aver. index 1966	Percentage change			
		1966 / 1965	Dec. 65 / Dec. 64	Dec. 66 / Dec. 65	March 67 / March 66
Retail price index (1953 = 100)					
General index	150.1	*2.3*	*3.3*	*2.4*	*3.2*
Food products	145.2	*2.0*	*3.9*	*0.9*	*1.2*
Non-food products and services	155.5	*2.6*	*2.7*	*3.8*	*4.9*
Textiles and related products	123.3	*0.7*	*0.4*	*1.1*	*4.6*
Electricity, gas and other fuels	114.5	*0.5*	*0.2*	*1.4*	*4.4*
Housing	308.8	*3.9*	*4.3*	*2.8*	*4.4*
Miscellaneous (1)	163.1	*3.3*	*3.6*	*5.1*	*6.4*
Cost-of-living index (1961 = 100) (2)					
General index	127.4	*2.0*	*2.9*	*1.8*	*1.9*
Food	127.2	*1.9*	*3.1*	*0.7*	*0.7*
Clothing	121.3	*1.5*	*1.1*	*2.2*	*2.2*
Electricity and fuels	111.9	*0.6*	*– 0.5*	*1.8*	*2.6*
Housing	141.8	*3.2*	*3.9*	*2.9*	*3.4*
Miscellaneous expenditure	126.5	*2.3*	*3.1*	*3.9*	*4.0*

Source: Central Statistical Institute.

(1) Hygienic and medical articles; furniture and other household goods and appliances; private vehicles; domestic and similar services; transport, communications and public services; miscellaneous services (Bank of Italy's re-elaboration of Central Statistical Institute indices).

(2) This new index applies as of January 1964.

Both indices followed wholesale prices in rising least for food products (0.9 per cent) and food (0.7 per cent), respectively. By contrast, the prices of non-food products and services went up quite appreciably.

But while not all food prices moved in the same direction, some going up and some down in response, mainly, to harvest results, the price rise was general in the category of non-food products and services, and it was sharpest in the case of miscellaneous expenditure, textiles and clothing, and housing.

IV. *Employment and Wages*

Notwithstanding a number of contradictory aspects, the labour market gradually improved last year, though much less than would have corresponded to the increase in industrial production.

What happened was that the rise in employment was held back by the self-same circumstances which in the downswing had contained its fall. When demand for labour slackened, the brunt of the decline was taken not by lay-offs, but by a reduction in working hours—for a variety of reasons including the obvious advantage for firms in keeping their skilled labour, and more broadly based access to the Wage Equalization Fund.

Quite apart from the usual time lag between production and employment in both the upward and the downward phase of the business cycle, therefore, the improvement on the labour market showed up not so much in the actual level of employment as in a sharp reduction of underemployment and a general increase in working hours. In addition, people once more began to move out of agriculture; the interruption of this structural trend during the recession and its subsequent revival both mitigated the employment effects of cyclical swings.

Moreover, the labour market is influenced not only by economic factors, but to a large extent also by demographic and social ones.

The higher school-leaving age, the development of the pensions system in terms not only of higher benefits but of a larger number of eligible workers, as well as the large-scale population shifts from agriculture to other sectors, all had profound effects on the size and structure of the labour force. The youngest and the oldest age groups work less, and so do women of all ages.

Comparative analysis of what one might call Italy's employment balance, in terms of the sources of labour supply and available jobs, shows in what manner and to what extent cyclical movements affected the basic trends (Table 9).

TABLE 9

EMPLOYMENT BALANCE: LABOUR DEMAND AND SUPPLY

(changes in thousands)

Sources of demand and supply	1963		1964		1965		1966	
	Jobs	Labour supply	Jobs	Labour supply	Jobs	Labour supply	Jobs	Labour supply
				Annual average				
Industry	110		- 134		- 110		- 1	
Building	66		78		- 155		- 34	
Services	63		209		- 53		79	
Agriculture	- 484		- 316		- 28		- 277	
Decrease (+) or increase (—) in unemployment		108		- 71		- 179		- 10
Increase (+) or decrease (—) in the labour force		- 353		- 92		- 167		- 223
	- 245	- 245	- 163	- 163	- 346	- 346	- 233	- 233
				Fourth quarter				
Industry	105		- 212		- 86		101	
Building	97		- 43		- 158		34	
Services	177		65		161		73	
Agriculture	- 411		- 271		- 156		- 227	
Decrease (+) or increase (—) in unemployment		93		- 125		- 161		62
Increase (+) or decrease (—) in the labour force		- 125		- 336		- 78		- 81
	- 32	- 32	- 461	- 461	- 239	- 239	- 19	- 19

In 1963, as for some years past, all the non-agricultural sectors drew manpower both from agriculture and from the pool of unemployed labour, while the above-mentioned structural factors reduced labour supply, in terms of quantitative changes in the labour force.

In 1964 and 1965, the non-agricultural sectors laid off workers, the outflow of manpower from agriculture slowed down to the point of almost coming to a halt, and unemployment grew—but less so than it would have done without the underlying decreasing trend in the labour force.

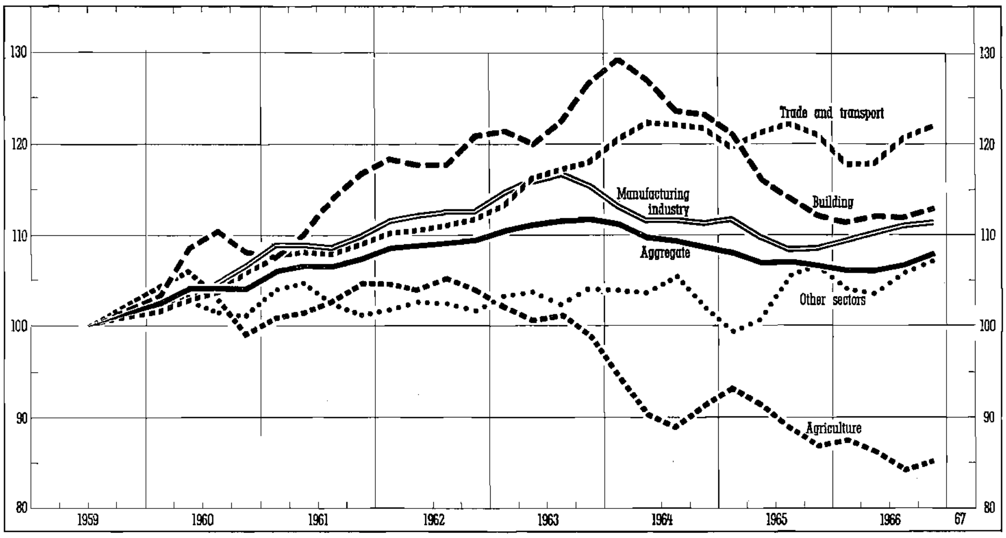
In 1966, finally, with the revival of the flows characteristic of a cyclical upswing, the last quarter's figures showed the system to be functioning once more as it had done in 1963—with all the signs the same, even though the actual figures were still lower.

Employment outside agriculture increased by 208,000 persons, thus almost matching an outflow of 227,000 from agriculture; in addition, many of the employed returned from underemployment to full-time working.

These movements are seen even more clearly if only dependent labour (wage and salary earners) is considered, for here more plentiful statistics facilitate analysis.

The seasonally adjusted series for the economy as a whole (Chart 3) show that the turning point came around the middle of last year; by the fourth quarter, the number of wage (and salary) earners had risen by 165,000, or 1.4 per cent, above the corresponding figure for 1965.

CHART 3



Employment of dependent labour

(seasonally adjusted quarterly index, 1959 = 100)

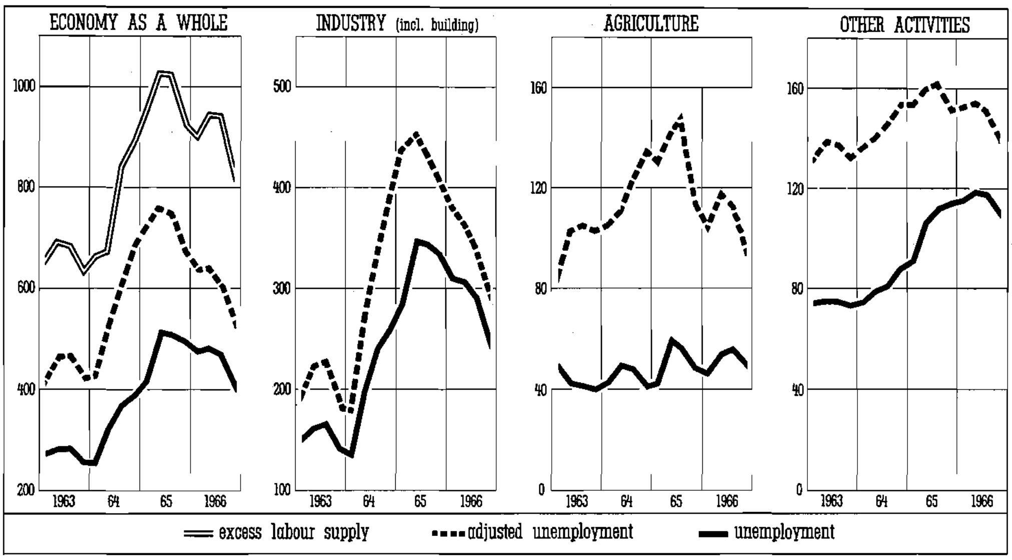
(Source: Sample surveys by the Central Statistical Institute. The heading Other sectors includes public administration, services, banking, insurance, etc.)

Unemployment.— The year 1966 saw a reversal of the rising unemployment trend, which in two years, and more especially in 1965, had raised the number of unemployed persons by almost 300,000.

In point of fact, in terms of annual average figures unemployment still increased slightly last year, but the last quarter's figures show a decrease of 62,000, or 7.4 per cent, in comparison with twelve months earlier. At the same time the number of underemployed persons, which had begun to fall already in 1965, dropped further to levels below those of 1963 both in annual average and in end-year terms.

To arrive at a global measurement of these movements, underemployment can be converted into unemployment equivalents by means of a deflator based upon the ratio of average weekly hours worked by underemployed and full-time workers; this has been done for purposes of Chart 4. Excess labour supply fell in 1966 by 8.5 per cent in annual

CHART 4



Unemployment by economic sectors
(*thousands*)

Unemployment = number of wholly unemployed persons (excluding school-leavers)

Adjusted unemployment = number of persons unemployed plus those underemployed, converted into unemployment equivalents by means of a deflator based upon the ratio of average weekly hours worked by underemployed and full-time workers.

Excess labour supply = adjusted unemployment plus young entrants to the labour force looking for their first job and not classifiable by sectors.

average terms, and by 11.9 per cent in terms of the last quarter's year-on-year figures.

Partly as a result of the decrease in the labour force, the unemployment rate rose on the average of last year from 3.7 to 3.8, if no allowance is made for underemployment, but fell from 4.9 to 4.6 if the unemployment figure is adjusted for underemployment; the last quarter's figures show both rates in decline. In 1963, the average figures were 2.4 for the unemployment rate and 3.3 for the adjusted unemployment rate.

Wages.— Contractual wages in industry rose more in the last two months of 1966 (+ 2.6 per cent) than they had done throughout the preceding 10 months (+ 2.1 per cent), even though the sliding scale had risen by one point three times during those months and did not go up in November. The reason was that all the major industrial wage agreements renegotiated in 1966 took effect late in the year.

Consequently, the overall increase in contractual wages (4.7 per cent) exceeded the year's average (3.7 per cent) and virtually equalled the figure for 1965; in that year, however, the incidence of the sliding scale had been larger with a six-point rise, and that of wage agreements less in the absence of major renewals (Table 10).

TABLE 10

GROSS WAGES: MINIMUM CONTRACTUAL RATES (1)

(changes per cent)

Sectors	1965 / 1964	1966 / 1965	Dec. 65 / Dec. 64	Dec. 66 / Dec. 65	Oct. 66 / Dec. 65	Dec. 66 / Oct. 66	March 67 / Dec. 66
Wages							
Agriculture	8.7	6.1	8.1	3.1	3.1	—	2.6
Industry	8.3	3.7	4.9	4.7	2.1	2.6	0.9
Building	8.4	3.2	5.8	3.6	1.9	1.7	0.7
Manufacturing	8.5	3.9	4.7	5.2	2.2	3.0	0.8
of which: textiles	10.9	4.1	4.6	7.1	2.1	4.9	0.6
metals & eng.	6.2	3.4	4.2	6.5	2.0	4.5	0.6
chemicals	8.7	3.4	4.5	4.6	1.9	2.6	0.7
Trade	10.6	3.8	6.8	2.9	2.9	—	2.3
Transport	5.6	2.7	3.6	1.9	1.9	—	0.6
Salaries							
Trade	7.4	3.8	4.8	4.8	2.1	2.6	1.9
Industry	10.7	4.6	6.0	3.8	3.8	—	2.1
Public administration	5.2	5.2	3.0	4.9	4.9	—	1.8

(1) Excluding family allowances. ISTAT indices (1938 = 1).

Outside industry in the private sector, minimum contractual wages went up less than in 1965. In agriculture and transport the index reflects no rises other than those in the sliding scale, while in trade there was also a slight contractual increase.

Salaries in public administration went up by as much as in 1965 on an annual basis (5.2 per cent), and a little more from one end of the year to the other (4.9 per cent, compared with 3.0 per cent over the course of 1965).

Actual earnings in industry closely followed contractual wages last year, to judge from the surveys of the Ministry of Labour and Social Security. These figures are available for industry only, and show an increase of 3.3 per cent both on the average of 1966 and from one end of the year to the other, with higher increases in manufacturng industry and lower ones in building (Table 11).

TABLE 11

EFFECTIVE WAGES IN INDUSTRY (1)

(changes per cent)

Sectors	1965 / 1964	1966(2) / 1965(2)	4th quarter 65 / 4th quarter 64	3rd quarter 66 / 3rd quarter 65
Industry as a whole — excl. building	7.6	3.4	4.6	3.5
Industry as a whole — incl. building	—	3.3	—	3.3
Manufacturing industry	7.4	3.6	4.5	3.6
food	7.0	3.4	4.9	3.5
textiles	8.6	5.3	5.6	5.5
metals & engineering	6.5	3.2	3.5	2.7
chemicals	10.3	5.1	7.0	5.3
Building	—	2.9	—	1.9

(1) Excluding family allowances and fringe benefits. Industries included in the census of the Ministry of Labour and Social Security; figures for building are available only as of 1965.

(2) Average of the first three quarters.

Labour costs.— Changes in the level of employment and working time, changes in wages and social benefits combine in altering the volume of total dependent labour incomes, which latter are an indicator not so much of the workers' disposable income as of the cost of their labour.

During the last three years, a major factor in the determination of wage costs, and one which did much to contain their rise both in the aggregate and per person employed, was the so-called fiscalization of social charges, by which the government took over some of the charges normally payable by employers.

Thanks to this system, the weight of social charges in the total incomes distributed to dependent labour (from sources other than foreign) was only slightly larger than in 1965 and a good deal lower than in 1964; without this system, the incidence of social charges would have been somewhat higher than in 1965 and as high as in 1964 (Table 12). The reduction is even sharper if social charges are considered net of state pensions, which increased by more than one third between 1964 and 1966.

TABLE 12

COMPOSITION OF DEPENDENT LABOUR INCOMES FROM DOMESTIC SOURCES

Components	Billion lire			Composition per cent					
	1964	1965	1966	1964		1965		1966	
				a	b	a	b	a	b
Gross wages	11,386	12,240	13,051	72.0	71.7	73.5	72.3	73.2	71.7
Social charges paid out . .	4,428	4,416	4,771	28.0	27.9	26.5	26.1	26.8	26.2
of which:									
by private employers .	*4,050*	*3,999*	*4,256*	*25.6*	*25.5*	*24.0*	*23.6*	*23.9*	*23.4*
as state pensions . . .	*378*	*417*	*515*	*2.4*	*2.4*	*2.5*	*2.5*	*2.9*	*2.8*
Total income distributed . .	15,814	16,656	17,822	100.0	99.6	100.0	98.4	100.0	97.9
Fiscalized charges	70	277	374	—	0.4	—	1.6	—	2.1
Total . . .	15,884	16,933	18,196	—	100.0	—	100.0	—	100.0
Total social charges . . .	*4,498*	*4,963*	*5,145*	—	*28.3*	—	*27.7*	—	*28.3*

(*a*) With respect to distributed income excluding fiscalized charges.
(*b*) With respect to distributed income including fiscalized charges.

V. *The Balance of Payments*

Italy's balance of payments closed last year with a global surplus of 696 million dollars, some three-fifths short of the exceptionally high surplus of the preceding year (Table 13). The diminution is attributable almost entirely to capital movements, while the balance on current account hardly changed at all.

TABLE 13

GLOBAL BALANCE OF PAYMENTS SUMMARY

IMF-OECD schedule

(million dollars)

PART I

Item	Credit 1965	Credit 1966	Debit 1965	Debit 1966	Balance 1965	Balance 1966
A. Goods and Services	10,562.5	11,830.1	8,695.9	10,089.3	1,866.6	1,740.8
1. Merchandise (fob)	7,104.0	7,924.3	6,458.0	7,576.0	646.0	348.3
2. Freight and insurance on international shipments	398.0	442.7	741.1	792.5	- 343.1	- 349.8
2. 1 Freight	390.2	434.7	732.5	783.5	- 342.3	- 348.8
2. 2 Insurance	7.8	8.0	8.6	9.0	- 0.8	- 1.0
3. Other transportation	442.1	499.3	300.2	333.5	141.9	165.8
3. 1 Passenger fares	228.3	259.3	44.7	52.0	183.6	207.3
3. 2 Other	213.8	240.0	255.5	281.5	- 41.7	- 41.5
4. Travel	1,288.1	1,460.3	226.5	260.9	1,061.6	1,199.4
5. Investment income	198.4	275.3	286.9	315.2	- 88.5	- 39.9
6. Government, not included elsewhere	99.9	96.7	54.3	63.9	45.6	32.8
6. 1 Military transactions	69.5	65.5	—	—	69.5	65.5
6. 2 Other transactions	30.4	31.2	54.3	63.9	- 23.9	- 32.7
7. Other services	1,032.0	1,131.5	628.9	747.3	403.1	384.2
7. 1 Workers' earnings	490.8	550.6	69.5	78.1	421.3	472.5
7. 2 Other	541.2	580.9	559.4	669.2	- 18.2	- 88.3
B. Transfer Payments	486.1	545.5	143.6	155.8	342.5	389.7
8. Private transfers	451.1	483.2	43.1	45.7	408.0	437.5
8. 1 Emigrants' remittances	325.8	353.3	—	—	325.8	353.3
8. 2 Other	125.3	129.9	43.1	45.7	82.2	84.2
9. Public transfers	35.0	62.3	100.5	110.1	- 65.5	- 47.8
9. 1 Reparations	—	2.5	5.4	6.5	- 5.4	- 4.0
9. 2 Contributions to international organizations	14.4	41.5	95.1	103.6	- 80.7	- 62.1
9. 3 Grants	20.6	18.3	—	—	20.6	18.3
Total (A + B)	11,048.6	12,375.6	8,839.5	10,245.1	2,209.1	2,130.5

TABLE 13

GLOBAL BALANCE OF PAYMENTS SUMMARY

IMF-OECD schedule

(million dollars)

PART II

Item	ASSETS						LIABILITIES					
	Credit		Debit		Balance		Credit		Debit		Balance	
	1965	1966	1965	1966	1965	1966	1965	1966	1965	1966	1965	1966
C. Capital and Monetary Gold .	291.0	614.8	3,141.0	2,733.4	-2,850.0	-2,118.6	1,703.9	1,714.6	902.9	1,676.9	801.0	37.7
10. Private long-term (including all direct investment)	123.5	248.0	917.8	1,209.2	- 794.3	- 961.2	1,067.6	1,118.4	480.9	899.7	586.7	218.7
10. 1 Direct investment .	53.7	97.6	231.3	195.2	- 177.6	- 97.6	332.8	362.3	46.6	67.9	286.2	294.4
10. 2 Other common stocks	10.8	36.7	22.4	183.5	- 11.6	- 146.8	154.8	267.2	181.6	345.6	- 26.8	- 78.4
10. 3 Other	6.4	1.7	2.1	2.4	4.3	- 0.7	36.3	39.9	11.0	11.9	25.3	28.0
10. 4 Loans	38.5	55.0	103.8	341.0	- 65.3	- 286.0	352.0	427.3	223.4	340.0	128.6	87.3
10. 5 Long-term trade credits	14.1	57.0	63.6	93.8	- 49.5	- 36.8	107.0	0.4	18.3	134.3	88.7	- 133.9
10. 6 Short-term trade credits	—	—	494.6	393.3	- 494.6	- 393.3	84.7	21.3	—	—	84.7	21.3
11. Repatriation of Italian bank notes	—	—	—	—	—	—	—	—	314.3	558.7	- 314.3	- 558.7
12. Local government	—	—	—	—	—	—	—	—	—	9.4	—	- 9.4
13. Central government	32.0	27.6	85.0	92.5	- 53.0	- 64.9	161.3	46.5	41.2	56.3	120.1	- 9.8
13. 1 Long-term loans . .	32.0	27.6	54.4	71.5	- 22.4	- 43.9	161.3	46.5	41.2	56.3	120.1	- 9.8
13. 2 Other long-term assets and liabilities .	—	—	30.6	21.0	- 30.6	- 21.0	—	—	—	—	—	—
14. Central monetary institutions	132.4	329.9	1,100.4	588.3	- 968.0	- 258.4	40.6	16.6	32.3	46.0	8.3	- 29.4
14. 1 Accounts with IMF	—	—	337.8	85.5	- 337.8	- 85.5	—	—	—	—	—	—
14. 2 Gold	—	—	297.1	9.9	- 297.1	- 9.9	—	—	—	—	—	—
14. 3 Other reserves . . .	108.5	265.6	289.8	256.0	- 181.3	9.6	—	—	—	—	—	—
14. 4 Liabilities to official institutions	—	—	—	—	—	—	40.6	16.6	32.3	46.0	8.3	- 29.4
14. 5 Other foreign assets and liabilities	23.9	64.3	175.7	236.9	- 151.8	- 172.6	—	—	—	—	—	—
15. Other monetary institutions	3.1	9.3	1,037.8	843.4	- 1,034.7	- 834.1	434.4	533.1	34.2	106.8	400.2	426.3
15. 1 Foreign assets . . .	3.1	9.3	1,037.8	843.4	- 1,034.7	- 834.1	—	—	—	—	—	—
15. 2 Foreign liabilities .	—	—	—	—	—	—	434.4	533.1	34.2	106.8	400.2	426.3

TABLE 13

GLOBAL BALANCE OF PAYMENTS SUMMARY

(million dollars)

PART III

Item	Credit		Debit		Balance	
	1965	1966	1965	1966	1965	1966
16. Goods and Services (1 through 7) .	10,562.5	11,830.1	8,695.9	10,090.8	1,866.6	1,739.3
17. Transfer Payments (8 plus 9)	486.1	545.5	143.6	154.3	342.5	391.2
18. Foreign Assets and Monetary Gold (10 through 15, assets)	291.0	614.8	3,141.0	2,733.4	- 2,850.0	- 2,118.6
19. Foreign Liabilities (10 through 15, liabilities)	1,703.9	1,714.6	902.9	1,676.9	801.0	37.7
20. Total Net Transactions (16 through 19)	13,043.5	14,705.0	12,883.4	14,655.4	160.1	49.6
21. Net Errors and Omissions	—	—	—	—	- 160.1	- 49.6

With imports rising by 17 per cent and exports by only 12 per cent, the trade balance, in fob values, showed a much lower surplus than in 1965 and thus returned closer to its long-term pattern.

The surplus on services and unilateral transfers rose from 1,563 to 1,782 million dollars, thanks mainly to tourism, woskers' earnings and emigrants' remittances. A sharp diminution of the deficit on investment income reflects greatly increased capital earnings due both to Italy's improved position vis-à-vis abroad (Table 14) and to higher interest rates. In transportation, finally, higher outgoings for freight were more than offset by increased earnings from passenger fares.

The external surplus was reflected to the extent of 408 million dollars in the foreign position of Italian banks, and of 288 million in the consolidated balance sheet of the Bank of Italy and the Italian Exchange Office.

For the first time in two years, seasonally adjusted merchandise imports exceeded exports (by 14 million dollars) during the last quarter of 1966. Since they touched bottom during the second quarter of 1965 (Chart 5), imports have been climbing steadily, while export growth was less continuous and, on the average, also less steep; the cyclical scissors opened two years earlier by the fall in imports thus closed again during the second half of 1966.

TABLE 14

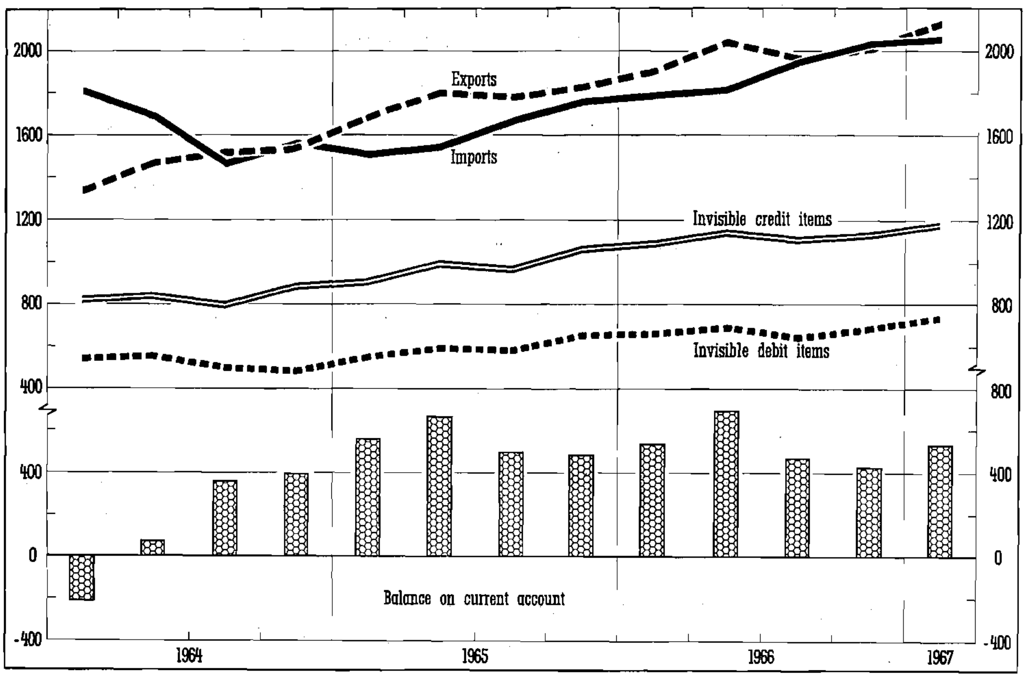
ITALY'S FOREIGN ASSETS AND LIABILITIES

(end-year figures in million dollars)

Items	Assets		Liabilities		Balance	
	1965	1966	1965	1966	1965	1966
Short-term						
Public sector:						
Gold and gold-guaranteed assets	2,952.9	3,298.3	—	—	2,952.9	3,298.3
Convertible currencies and other official assets and liabilities . .	1,690.4	1,430.8	79.2	49.8	1,611.2	1,381.0
Total . . .	4,643.3	4,729.1	79.2	49.8	4,564.1	4,679.3
Private sector:						
Commercial banks	2,473.2	3,307.4	2,650.8	3,077.2	- 177.6	230.2
Total short-term . . .	7,116.5	8,036.5	2,730.0	3,127.0	4,386.5	4,909.5
Medium- and long-term						
Public sector:						
Italian Exchange Office	717.8	889.4	—	—	717.8	889.4
Bank of Italy	4.7	5.7	—	—	4.7	5.7
Loans	284.4	328.3	954.4	935.2	- 670.0	- 606.9
Italian government securities held abroad	—	—	9.1	9.1	- 9.1	- 9.1
Subscriptions to international organizations	146.8	167.8	—	—	146.8	167.8
Total . . .	1,153.7	1,391.2	963.5	944.3	190.2	446.9
Private sector:						
Loans	. .	. .	1,534.4	1,621.4	- 1,534.4	- 1,621.4
Investments	1,685.7	2,216.8	4,319.6	4,843.0	- 2,633.9	- 2,626.2
Trade credits	491.8	528.6	143.9	10.0	347.9	518.6
Total . . .	2,177.5	2,745.4	5,997.9	6,474.4	- 3,820.4	- 3,729.0
Total medium- & long-term . . .	3,331.2	4,136.6	6,961.4	7,418.7	- 3,630.2	- 3,282.1
Grand total . . .	10,447.7	12,173.1	9,691.4	10,545.7	756.3	1,627.4

The deterioration in the trade balance did not show up fully in the balance on current account, because the gap between receipts and disbursements on services and transfer account again widened. Not only did the credit items rise at a slightly higher rate than the debit items, but the effect on the current balance was enhanced by the relatively greater weight of invisible earnings. The combined result of these movements in the trade, services and transfer accounts was an unprecedentedly high current surplus of 692 million dollars in the second quarter of 1966 (in seasonally adjusted terms).

CHART 5



The balance of payments on current account
(quarterly figures in million dollars, seasonally adjusted)

A breakdown of the various balance-of-payments items by geographical distribution (Table 15) shows that Italy's surplus in merchandise trade with other Common Market countries dropped last year by 117 million to 598 million dollars. Italian imports from these countries rose by 22 per cent, with semi-manufactures and capital goods in the lead; exports to the Common Market expanded by 13 per cent, the average rate for total exports. By contrast, exports to the United States, especially of consumer durables and capital goods, expanded at the above-average rate of 20 per cent, and imports from them at the below-average rate of 8 per cent, with the result that Italy's trade deficit with the United States declined by 61 million dollars.

Capital transactions with all developed countries as a whole last year caused a net capital outflow of 645 million dollars from Italy, compared with a net inflow of 102 million dollars in 1965.

As regards developing countries, Italy's trade deficit with them increased by 136 million dollars, but with the services account moving in Italy's favour under the impact, mainly, of lower expenditure on freights and higher tourist receipts, Italy's total current deficit with the developing world increased by only 94 million dollars, to a total of 189

TABLE 15

REGIONAL BALANCE OF PAYMENTS SUMMARY

(million dollars)

Items	Developed countries								Developing countries		Sino-Soviet area		International organizations and unallocated		Total	
	United States		EEC countries		Others		Total									
	1965	1966	1965	1966	1965	1966	1965	1966	1965	1966	1965	1966	1965	1966	1965	1966
Goods																
Credit . .	618.1	743.8	2,893.1	3,264.9	1,511.8	1,619.1	5,023.0	5,627.8	1,670.9	1,856.3	387.5	420.2	22.6	20.0	7,104.0	7,924.3
Debit . .	810.4	874.7	2,178.4	2,667.2	1,247.8	1,451.0	4,236.6	4,992.9	1,767.6	2,089.1	372.6	443.0	81.2	51.0	6,458.0	7,576.0
Balance .	- 192.3	- 130.9	714.7	597.7	264.0	168.1	786.4	634.9	- 96.7	- 232.8	14.9	- 22.8	- 58.6	- 31.0	646.0	348.3
Services																
Credit . .	818.6	961.8	973.9	1,097.9	791.9	881.0	2,584.4	2,940.7	475.6	509.3	47.5	47.3	351.0	408.5	3,458.5	3,905.8
Debit . .	427.6	582.1	426.8	474.3	626.9	598.7	1,481.3	1,655.1	481.3	469.2	63.4	78.1	211.9	310.9	2,237.9	2,513.3
Balance .	391.0	379.7	547.1	623.6	165.0	282.3	1,103.1	1,285.6	- 5.7	40.1	— 15.9	- 30.8	139.1	97.6	1,220.6	1,392.5
Unilateral Transfers																
Credit . .	190.5	206.6	110.8	119.0	112.7	121.2	414.0	446.8	32.9	27.5	0.1	0.1	39.1	71.1	486.1	545.5
Debit . .	13.3	12.6	6.1	6.1	6.0	6.5	25.4	25.2	25.5	23.6	2.0	2.6	90.7	104.4	143.6	155.8
Balance .	177.2	194.0	104.7	112.9	106.7	114.7	388.6	421.6	7.4	3.9	- 1.9	- 2.5	- 51.6	- 33.3	342.5	389.7
Current Account																
Credit . .	1,627.2	1,912.2	3,977.8	4,481.8	2,416.4	2,621.3	8,021.4	9,015.3	2,179.4	2,393.1	435.1	467.6	412.7	499.6	11,048.6	12,375.6
Debit . .	1,251.3	1,469.4	2,611.3	3,147.6	1,880.7	2,056.2	5,743.3	6,673.2	2,274.4	2,581.9	438.0	523.7	383.8	466.3	8,839.5	10,245.1
Balance .	375.9	442.8	1,366.5	1,334.2	535.7	565.1	2,278.1	2,342.1	- 95.0	- 188.8	- 2.9	- 56.1	28.9	33.3	2,209.1	2,130.5
Capital Movements																
Credit . .	268.7	230.5	312.6	520.9	548.1	445.0	1,129.4	1,196.4	97.3	174.7	4.7	5.5	153.0	63.9	1,384.1	1,440.5
Debit . .	147.3	299.3	238.6	354.8	641.1	1,187.8	1,027.0	1,841.9	243.1	345.4	14.6	34.4	554.5	604.1	1,839.2	2,825.8
Balance .	121.4	- 68.8	74.0	166.1	- 93.0	- 742.8	102.4	- 645.5	- 145.8	- 170.7	- 9.9	- 28.9	- 401.5	- 540.2	- 454.8	- 1,385.3
Monetary Movements																
Credit . .	291.1	538.0	85.9	204.4	62.0	103.8	439.0	846.2	67.6	36.2	—	6.5	103.9	—	610.5	888.9
Debit . .	1,409.9	591.3	117.9	226.5	190.0	21.5	1,717.8	839.3	18.0	40.8	38.6	8.1	430.3	696.3	2,204.7	1,584.5
Balance .	-1,118.8	- 53.3	- 32.0	- 22.1	- 128.0	82.3	-1,278.8	6.9	49.6	- 4.6	- 38.6	- 1.6	- 326.4	- 696.3	- 1,594.2	- 695.6
Errors and omissions, multilateral settlements	621.5	- 320.7	-1,408.5	-1,478.2	- 314.7	95.4	-1,101.7	-1,703.5	191.2	364.1	51.4	86.6	699.0	1,203.2	- 160.1	- 49.6

million. Net financial resources furnished by Italy to developing countries on a bilateral basis increased by 31 million dollars to 185 million, while those made available on a multilateral basis more than doubled to reach 90 million dollars.

In transactions with the Sino-Soviet area, finally, Italy had a balance-of-payments deficit of 85 million dollars (13 million in 1965), owing largely to higher imports and connected transport expenditure, and, among capital movements, to long-term credits.

The Exchange of Goods and Services. The cif value of Italy's merchandise imports increased last year by 16.2 per cent from 4,611 to 5,357 billion lire, and her exports rose by 11.6 per cent from 4,500 to 5,020 billion. Consequently, the trade deficit increased from 111 to 337 billion lire, and the proportion of imports covered by exports fell from 98 to 94 per cent.

While the cif prices of imports rose by 1.2 per cent, the fob prices of exports declined by 1.9 per cent, which means that in real terms imports expanded by 14.8 and exports by 13.8 per cent (Chart 6).

The growth of the trade deficit last year must be ascribed to cyclical factors.

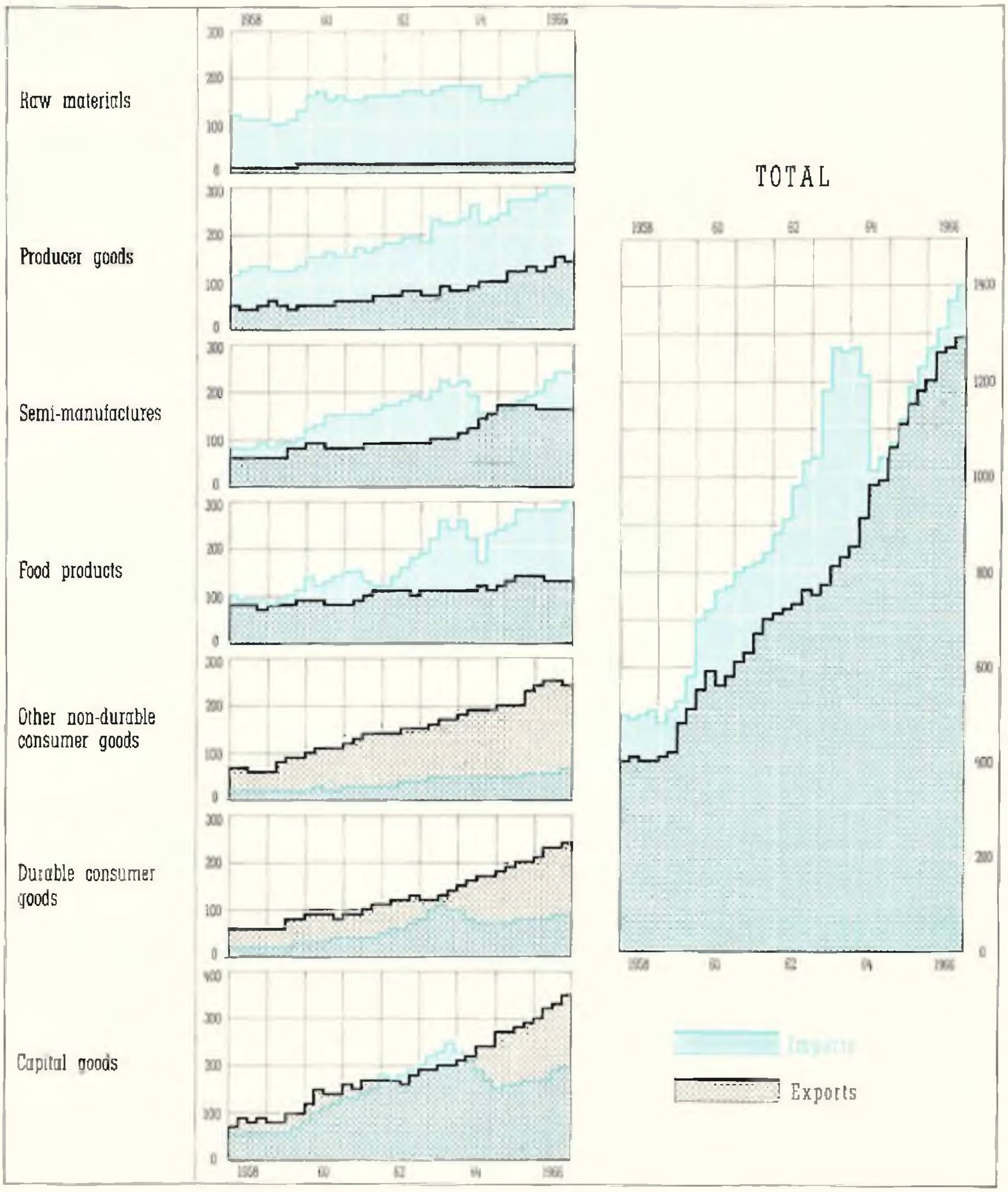
As economic activity at home picked up and previously idle capacity came back into production, additional imports were needed not only in connection with plant modernization and extension, but also to keep the now busier factories supplied with raw materials and semi-manufactures. Stocks had been depleted during the previous two years, so that imports of raw materials and semi-manufactures had to rise much more than industrial production (23 per cent, compared with 11 per cent).

In the private consumption sector, imports felt the expansionary impact not only of recovering domestic demand, but in addition of poor harvests of some crops; food imports were thus a good deal larger than in 1965.

On the export side, things were rather different from the preceding two years. The more sustained volume of total demand made room for domestic output to be sold at home, and this shift to the domestic market was accentuated by a certain slow-down of growth in some

FOREIGN TRADE BY CATEGORIES OF GOODS

(Quarterly changes in billion lire, seasonally adjusted)



countries of Western Europe making its mark on their imports. For these reasons Italian exports last year expanded less than of late.

Even so, the growth rate of exports was still one of the highest among industrial countries, thus confirming the structural trend for Italy's export trade to grow faster than that of other developing countries, with the exception of Japan. Between 1958 and 1966, Italian exports rose by no less than 217 per cent, compared with increases ranging from 121 per cent in the case of the Belgium-Luxembourg Economic Union and 55 per cent in that of the United Kingdom (Table 16).

TABLE 16

TOTAL EXPORTS OF MAJOR INDUSTRIAL COUNTRIES

Countries	Million dollars			Index numbers 1966	
	1958	1965	1966	1958=100	1965=100
Italy	2,536	7,188	8,031	317	112
Belgium-Luxembourg	3,046	6,382	6,724	221	105
France	5,380	10,051	10,898	203	108
Germany (Fed. Rep.)	9,220	17,892	20,135	218	112
Netherlands	3,218	6,393	6,750	210	106
United Kingdom	9,099	13,277	14,124	155	107
United States	17,755	27,057	30,015	169	111
Switzerland	1,539	2,959	3,280	213	111
Sweden	2,088	3,968	4,283	205	108
Japan	2,877	8,452	9,776	340	116
Canada	5,045	8,107	9,507	188	117

Sources: United Nations, *Monthly Bulletin of Statistics,* April 1967, and Statistical Office of the European Communities, *Foreign Trade: Monthly Statistics,* January 1967.

The total increase of 226 billion lire in Italy's trade deficit last year was made up of higher deficits on semi-manufactures, raw materials, producer goods and food, minus a partly offsetting rise in the surplus on other consumer goods and capital goods (Table 17).

Contrary to what happened in 1965, keener competition from countries with excess steel production not only caused part of the growing domestic demand for steel to be met by higher imports, but also held back the growth of Italian exports. For these reasons, combined with a 39 per cent rise in the import price of copper, both imports

FOREIGN

(billion

Items	1965 Exports	1965 Imports	1965 Balance	1966 Exports	1966 Imports	1966 Balance
						Merchandise
Raw materials	81.0	692.2	- 611.2	82.0	796.9	- 714.9
Producer goods	481.2	1,043.5	- 562.3	550.7	1,187.4	- 636.7
fuel and power	238.5	719.1	- 480.6	280.5	789.6	- 509.1
others	242.7	324.4	- 81.7	270.2	397.8	- 127.6
Semi-manufactures	671.6	692.8	- 21.2	648.2	900.4	- 252.2
Consumer goods	2,154.3	1,547.2	607.1	2,432.7	1,733.1	699.6
food	532.0	1,044.3	- 512.3	536.8	1,148.4	- 611.6
other non-durables	841.1	204.7	636.4	991.1	252.6	738.5
durables	781.2	298.2	483.0	904.8	332.1	572.7
Capital goods	1,111.7	635.7	476.0	1,306.3	739.3	567.0
plant, machinery and equipment	819.8	498.8	321.0	1,007.3	610.4	396.9
industrial motor vehicles	222.7	100.2	122.5	222.0	85.3	136.7
others	69.2	36.7	32.5	77.0	43.6	33.4
Total . . .	4,499.8	4,611.4	- 111.6	5,019.9	5,357.1	- 337.2
						Geographical
Developed countries	3,139.0	2,908.9	230.1	3,513.4	3,385.9	127.5
United States	386.7	620.9	- 234.2	464.9	655.7	- 190.8
EEC countries	1,808.0	1,441.2	366.8	2,038.6	1,742.0	296.6
United Kingdom, Iceland, Ireland	218.7	221.6	- 2.9	246.8	257.1	- 10.3
other OECD countries	607.1	466.9	140.2	649.0	546.6	102.4
other developed countries (1)	118.5	158.3	- 39.8	114.1	184.5	- 70.4
Developing countries	1,047.5	1,390.3	- 342.8	1,160.2	1,601.1	- 440.9
countries associated with the EEC	52.9	115.0	- 62.1	56.6	127.0	- 70.4
sterling area	242.2	415.0	- 172.8	259.9	450.3	- 190.4
other developing countries	752.4	860.3	- 107.9	843.7	1,023.8	- 180.1
Sino-Soviet area	241.8	299.7	- 57.9	262.6	356.6	- 94.0
Unallocated	71.5	12.5	59.0	83.7	13.5	70.2
Total . . .	4,499.8	4,611.4	- 111.6	5,019.9	5,357.1	- 337.2

(1) Australia, Finland, New Zealand, Republic of South Africa.

TABLE 17

TRADE

lire)

Annual change 1966				Composition per cent 1966		Items
Exports		Imports				
billion lire	*per cent*	billion lire	*per cent*	*Exports*	*Imports*	
composition						
1.0	*1.2*	104.7	*15.1*	*1.6*	*14.9*	. . . . *Raw materials*
69.5	*14.4*	143.9	*13.8*	*11.0*	*22.2*	. . . . *Producer goods*
42.0	*17.6*	70.5	*9.8*	*5.6*	*14.8*	. . . . fuel and power
27.5	*11.3*	73.4	*22.6*	*5.4*	*7.4*	. . . . others
- 23.4	- *3.5*	207.6	*30.0*	*12.9*	*16.8*	. . . . *Semi-manufactures*
278.4	*12.9*	185.9	*12.0*	*48.5*	*32.3*	. . . . *Consumer goods*
4.8	*0.9*	104.1	*10.0*	*10.7*	*21.4*	. . . . food
150.0	*17.8*	47.9	*23.4*	*19.8*	*4.7*	. . . . other non-durables
123.6	*15.8*	33.9	*11.4*	*18.0*	*6.2*	. . . . durables
194.6	*17.5*	103.6	*16.3*	*26.0*	*13.8*	. . . . *Capital goods*
187.5	*22.9*	111.6	*22.4*	*20.1*	*11.4*	. . . . plant, machinery and equipment
- 0.7	- *0.3*	- 14.9	- *14.9*	*4.4*	*1.6*	. . . . industrial motor vehicles
7.8	*11.3*	6.9	*18.8*	*1.5*	*0.8*	. . . . others
520.1	*11.6*	745.7	*16.2*	*100.0*	*100.0*	. . . Total
distribution						
374.4	*11.9*	477.0	*16.4*	*70.0*	*63.2*	. . . . *Developed countries*
78.2	*20.2*	34.8	*5.6*	*9.3*	*12.2*	. . . . United States
230.6	*12.8*	300.8	*20.9*	*40.6*	*32.5*	. . . . EEC countries
28.1	*12.8*	35.5	*16.0*	*4.9*	*4.8*	. . . . . . United Kingdom, Iceland, Ireland
41.9	*6.9*	79.7	*17.1*	*12.9*	*10.2*	. . . . other OECD countries
- 4.4	- *3.7*	26.2	*16.6*	*2.3*	*3.5*	. . . . other developed countries (1)
112.7	*10.8*	210.8	*15.2*	*23.1*	*29.9*	. . . . *Developing countries*
3.7	*7.0*	12.0	*10.4*	*1.1*	*2.4*	. . . . . . countries associated with the EEC
17.7	*7.3*	35.3	*8.5*	*5.2*	*8.4*	. . . . sterling area
91.3	*12.1*	163.5	*19.0*	*16.8*	*19.1*	. . . . other developing countries
20.8	*8.6*	56.9	*19.0*	*5.2*	*6.6*	. . . . *Sino-Soviet area*
12.2	*17.1*	1.0	*8.0*	*1.7*	*0.3*	. . . . *Unallocated*
520.1	*11.6*	745.7	*16.2*	*100.0*	*100.0*	. . . Total

and exports of semi-manufactures reversed course last year, with imports rising by 30 per cent and exports falling by 4 per cent.

As regards foreign trade in food and producer goods, last year's increase in the deficit was due to a combination of further import expansion and slower growth of exports, especially of food. Among producer goods, however, oil derivatives escaped the slow-down of exports thanks to Italy's increasingly strong position on the world market for refined oil.

A point worth special mention is that Italian imports of capital goods rose in 1966 for the first time in three years (+ 16 per cent). But since exports, which since 1964 have considerably exceeded imports, last year rose by a further 18 per cent, Italy once more strengthened her position as a net exporter of capital goods.

In terms of trading partners, last year's deterioration in the trade deficit is almost entirely attributable to Italy's trade with Western Germany and developing countries.

The cyclical climate worsened in Western Germany, with the result that the rate of increase of her imports from Italy dropped back from 36 per cent in 1965 to a mere 6 per cent last year. At the same time, an increase of 26 per cent in Italian imports from Western Germany came to replace the preceding year's decline of 8 per cent. In these circumstances, Italy's trade surplus with Western Germany shrank from 272 to 150 billion lire.

Turning from trade to services, the balance on transport account closed last year with a deficit of 183 million dollars, compared with 200 million in 1965. Given that there was hardly any change on balance in land transport, the improvement was due to a considerably higher surplus on air transport and to some decrease in net shipping expenditure in spite of larger seaborne imports.

Changes in the composition of seaborne imports combined with cargo rates falling in different degree for various categories of merchandise in such a manner that an increase of 14 per cent in the volume of imports landed caused the connected freight expenditure to rise by only 8 per cent, from 731 to 791 million dollars. Given that the proportion of Italian shipping in total import-carrying tonnage remained unchanged, payments to foreign carriers increased further from 515 to 556 million dollars, while the foreign-exchange saving attributable to Italian carriers rose from 216 to 235 million. Italian ships also carried more freight abroad and more foreign passengers, and receipts on this score rose from 460 million dollars in 1965 to 512 million last year.

Expenditure on land transport was 194 million dollars in 1965, and 200 million last year.

Air transport brought in a net surplus of 103 million dollars, an increase of 13 per cent attributable to Italy's particularly high gains in international freight and passenger traffic.

In all, Italian shipping and airlines can claim credit for 708 million dollars (compared with 638 million in 1965), taking together receipts net of their expenditure abroad and also the foreign - exchange savings for which they are responsible; of the total amount, 540 million dollars (490 million in 1965) are attributable to shipping, and 168 million (148 million in 1965) to air transport.

Tourism brought in 13 per cent more foreign exchange than in 1965, with a total of 1,460 million dollars (1,288 million in 1965). Italians, in their turn, spent 260 million dollars on foreign travel, a 15 per cent increase over the 1965 figure of 226 million dollars. On balance, therefore, net foreign exchange earnings on the travel account rose from 1,062 to 1,199 million dollars.

The pattern of foreign tourism was much the same as in 1965. Visitors from EEC countries again accounted for about half of all foreign tourists, and Northern Italy for about 70 per cent of hotel bookings.

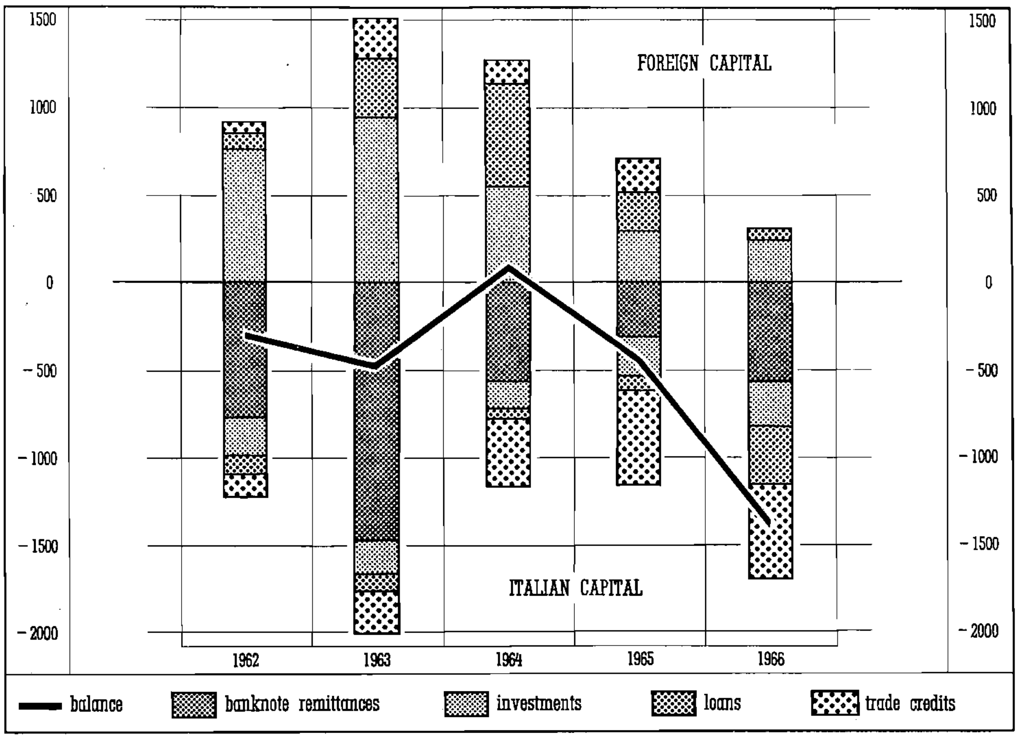
The outward migratory flow from Italy increased last year by a little more than 9,000, or 3 per cent, to reach 292,000 persons. The increase is attributable entirely to emigration to overseas countries (77,000 compared with 50,000 persons), while 17,000 people fewer went to European countries.

In spite of this reduction of European emigration, the inflow of foreign exchange through remittances by Italians abroad rose last year by 11 per cent, thanks in part to more people returning home, when they remit larger savings, and in part to the higher *per caput* remittances characteristic of emigrants overseas. The total amount involved was 904 million dollars, of which the balance of payments shows 551 million under services as workers' earnings, and 353 million as emigrants' remittances under transfer payments.

Capital Movements.— Capital has been moving to an fro very freely in recent years from one country to another, mainly because growing market integration makes interest rate differentials more effective, but to some extent also in response to abnormal factors, such as the fear of devaluation and fiscal reasons.

Over the last five years, a net capital outflow of 2,500 million dollars from Italy offset more than half of the current surpluses accumulated during the same period in the balance of payments. With the exception of 1964, when large amounts of foreign capital came in through direct investment and loans for extraordinary operations, the capital account was in deficit throughout (Chart 7).

CHART 7



Capital movements
(million dollars)

Very large amounts are nowadays involved in trade credits to foreign buyers, in connection with the growth of Italian exports and the prevailing system of settlement, under which 70 per cent of foreign sales are against deferred payment.

In 1966, the capital account closed with a deficit of 1,385 million dollars, compared with 455 million in 1965. The main reason for this increase was the widening of the differential between interest rates in Italy and abroad.

Domestic policies designed to reflate the economy and mop up the current external surplus kept interest rates fairly stable in Italy, while they soared abroad. In these circumstances, capital left the country, mainly under the headings of banknote remittances, foreign portfolio disinvestments, and Italian investments and loans (Table 18).

TABLE 18

CAPITAL MOVEMENTS
(million dollars)

Items	Credit 1965	Credit 1966	Debit 1965	Debit 1966	Balance 1965	Balance 1966
Foreign capital:						
Investments — direct	332.8	362.3	46.6	67.9	286.2	294.4
Investments — portfolio	154.8	267.2	181.6	345.6	– 26.8	– 78.4
Investments — other	36.3	39.9	11.0	11.9	25.3	28.0
Loans — private	352.0	427.3	223.4	340.0	128.6	87.3
Loans — government or government-guaranteed	161.3	46.5	41.2	56.3	120.1	– 9.8
Loans — local authorities	—	—	—	9.4	—	– 9.4
Trade credits — medium- and long-term	107.0	0.4	18.3	134.3	88.7	– 133.9
Trade credits — short-term	84.7	21.3	—	—	84.7	21.3
Total . . .	1,228.9	1,164.9	522.1	965.4	706.8	199.5
Italian capital:						
Investments — private — direct	53.7	97.6	231.3	195.2	– 177.6	– 97.6
Investments — private — portfolio	10.8	36.7	22.4	183.5	– 11.6	– 146.8
Investments — private — other	6.4	1.7	2.1	2.4	4.3	– 0.7
Investments — public	—	—	30.6	21.0	– 30.6	– 21.0
Loans — private	38.5	55.0	103.8	341.0	– 65.3	– 286.0
Loans — government or government-guaranteed	32.0	27.6	54.4	71.5	– 22.4	– 43.9
Trade credits — medium- and long-term	14.1	57.0	63.6	93.8	– 49.5	– 36.8
Trade credits — short-term	—	—	494.6	393.3	– 494.6	– 393.3
Banknote remittances	—	—	314.3	558.7	– 314.3	– 558.7
Total . . .	155.5	275.6	1,317.1	1,860.4	– 1,161.6	– 1,584.8
Balance . . .	—	—	—	—	– 454.8	– 1,385.3

After falling for two years running remittances of Italian banknotes from abroad rose again last year by 245 million dollars, from 314 million dollars in 1965 to 559 million. Part of this increment went into foreign portfolio investments, but the greater part was used abroad in buying foreign bonds whose average yield was higher than could be obtained in Italy.

Apart from the interest rate differential, a good deal of capital was attracted by the growing volume of foreign issues in Luxembourg, where the tax treatment of dividends and interest paid to non-residents is more favourable than anywhere else in Europe.

Little change is evident in the last two years' figures for direct foreign investments, as regards either new investments or disinvestments. An increase of 20 million dollars in direct United States investments was offset by a decrease of equal amount in the United Kingdom figure. Industries which attracted more foreign money last year included metallurgy, mineral oils and building, whereas there was some disinvestment from chemicals and engineering.

The sale of the Shell group's stake in Monteshell for an amount equal to the original purchase price (162 million dollars) did not show up in foreign disinvestments last year, because the proceeds remain with Shell Italiana for the time being.

Foreign portfolio investments rose last year from 155 to 267 million, that is, by 112 million dollars. Switzerland was the origin of 61 million of these and Luxembourg of another 28 million, and the increase is clearly connected with the higher banknote remittances from abroad. At the same time portfolio disinvestments roughly doubled from 182 to 346 million dollars, and here too, Switzerland was the source of the bulk of the movement, which concerned mostly sales of securities in non-resident custody accounts.

Italian investments abroad were on a pattern very different from that of the last few years. Until 1965, direct investments had accounted for more than four-fifths of the total, but last year they declined on balance by 80 million dollars from 178 to 98 million, while the formerly negligible portfolio investments rose to 150 million dollars.

This increase includes 56 million dollars placed in London by Shell Italiana, and another major item was purchases of bonds floated on the international capital market.

In this connection it needs to be stressed that Italian banks greatly stepped up their participation in issuing syndicates for international loans, and this applies both to the number of Italian banks (27) and to the amounts of bonds they took in (142 million dollars). In relative figures, the proportion of total bond issues taken by Italian banks for placement rose from 2 per cent in 1965 to 10 per cent last year (Table 19).

Table 19

SHARE OF ITALIAN BANKS IN PLACING FOREIGN LOAN ISSUES

Items	1964	1965	1966
Loans floated (*No.*)	24	41	69
Italian banks taking part in issuing syndicates (*No.*)	3	6	27
Amount of loan issues (*million dollars*)	433	836	1,411
Amount taken in by Italian banks (*million dollars*)	9	20	142
Share of Italian banks (*per cent of total amount*)	*2.1*	*2.4*	*10.1*

As members of issuing syndicates, Italian banks not merely acted as firm buyers for part of the loan issues, but also took part, often as leaders, in placement.

The proportion of loans subscribed varied according to the nationality and nature of the borrowers. For the two ENI loan issues, in a combined amount of 40 million dollars, Italian banks acted as syndicate leaders and undertook to place close to 85 per cent of the total issue. They also played a very active part in connection with the loans floated by the European Investment Bank and the European Coal and Steel Community, and in some cases acted as syndicate leaders and took on between 40 and 80 per cent of the issues for placement.

Among other loan issues on the international market, Italian banks preferred those floated or guaranteed by governments, but showed little interest in convertible bond issues. They sold 63 per cent of their bonds to Italian clients, another 30 per cent abroad (mostly in Switzerland and EEC countries), and the rest remained in the banks' own portfolios pending sale. Of the bonds placed in Italy a large part went into the portfolios of institutional investors (insurance companies, pension funds, etc.), special credit institutes and banks.

At the end of 1966, 18 per cent of the equity capital of Italian companies were in foreign hands. The branches where the proportion was highest were mineral oil, engineering, chemicals and rubber, which between them accounted for about two-thirds of total foreign equity holdings in Italy (Table 20).

TABLE 20

PROPORTION OF FOREIGN CAPITAL IN THE EQUITY OF ITALIAN COMPANIES AT THE END OF 1966, BY BRANCHES OF ECONOMIC ACTIVITY (1)

(billion lire of nominal value)

Branches	Switzer-land	EEC countries	United States	United Kingdom	Other countries	TOTAL	Equity of Ital. companies	*Ratio per cent*
Banks, bourses, finance & insurance	73.2	11.6	17.7	1.0	8.8	112.3	1,635.6	*6.9*
Retail trade & miscellaneous services	32.9	11.1	1.5	0.6	0.6	46.7	354.7	*13.2*
Land & air transport, inland shipping	2.4	0.8	—	—	—	3.2	218.3	*1.5*
Telephone, telegraphic and postal services	20.7	5.5	—	0.3	0.2	26.7	374.0	*7.1*
Shipping	0.7	—	—	—	0.1	0.8	78.3	*1.0*
Electricity	2.3	—	—	—	—	2.3	79.1	*2.9*
Gas and water supply	6.1	0.2	—	—	0.6	6.9	139.6	*4.9*
Public entertainment & rel. act.	—	—	—	—	—	—	19.2	—
Hotels and rel. act.	12.3	0.4	—	0.6	—	13.3	108.7	*12.2*
Building	54.4	1.2	1.7	1.4	0.9	59.6	683.7	*8.7*
Public works	3.0	4.7	4.0	1.3	1.6	14.6	99.8	*14.6*
Agriculture	12.0	—	2.4	—	0.4	14.8	73.0	*20.3*
Food and rel. prod.	54.6	8.2	6.4	0.9	4.3	74.4	364.6	*20.4*
Wood and rel. prod.	10.9	1.8	—	0.1	—	12.8	46.9	*27.3*
Mining and quarrying	0.6	1.9	6.0	0.2	0.1	8.8	111.8	*7.9*
Non-metallic minerals	31.0	13.5	13.9	1.4	2.4	62.2	277.0	*22.4*
Mineral oils and hydrocarbon gas	19.0	166.6	66.2	32.8	2.3	286.9	616.7	*46.5*
Metallurgy	46.7	5.6	8.9	1.0	3.0	65.2	518.5	*12.6*
Engineering	185.9	25.4	85.4	18.1	27.0	341.8	1,163.5	*29.4*
Chemicals	149.2	32.6	44.5	3.7	11.3	241.3	1,200.3	*20.1*
Rubber	49.5	2.7	2.7	0.1	1.8	56.8	103.9	*54.7*
Paper and printing	43.2	2.2	6.2	1.1	5.3	58.0	333.8	*17.4*
Leather and footwear	2.8	—	2.7	—	—	5.5	23.0	*23.9*
Textiles and clothing	80.6	10.1	1.0	3.2	6.8	101.7	384.0	*26.5*
Misc. industrial products	2.2	1.2	—	1.0	0.9	5.3	34.0	*15.6*
Total	896.2	307.3	271.2	68.8	78.4	1,621.9	9,042.0	*17.9*
Percentage ratio to total — *Italian capital*	*9.9*	*3.4*	*3.0*	*0.7*	*0.9*	*17.9*	*100.0*	
Percentage ratio to total — *foreign capital*	*55.3*	*19.0*	*16.7*	*4.2*	*4.8*	*100.0*		

(1) Elaboration of Italian Exchange Office figures.

As regards the origin of these capital funds, Switzerland leads with 55 per cent of the total, followed by the United States, the Benelux countries, France and the United Kingdom, in that order. The Swiss proportion is especially high in portfolio investments, whereas the other countries go in predominantly for direct investments, usually in the form of setting up companies under foreign majority control.

Foreign loans to private borrowers in Italy made a comeback from the low levels to which they had dropped in 1965 and increased by 75 million dollars last year; however, the 1966 figures include 162 million dollars of an exceptional loan from Bataafse Petroleum to Montedison. In their turn, repayments, partly in advance of redemption date, were 117 million dollars higher than in 1966, so that the net capital inflow on private foreign loan account contracted by 42 million dollars; excluding all the operations connected with the Montedison-Shell deal, the diminution would amount to 190 million.

The largest repayments of foreign loans came from the metallurgical and engineering industries, transport and building. Among lender countries, the United States and Switzerland were those which most reduced their new loans and received the largest repayments.

Foreign public loans to Italy followed exactly the same downward line, with new loans declining by 115 million dollars from 161 to 46 million, and repayments rising by 15 million dollars.

Italian private loans to abroad increased by 237 million dollars last year, thanks mainly to the flotation of more foreign bonds on the Italian capital market and to the large volume of credit (about 90 million dollars) extended by special credit institutes to major foreign companies.

Altogether five foreign bond issues of 15 billion lire each were floated on the Italian capital market in 1966, making a total of 120 million dollars. All of them were floated by international financial institutions, whose bonds enjoy special tax privileges and are admissible as collateral for advances from the Bank of Italy.

One of the issues was taken up entirely by the monetary authorities (the Italian Exchange Office), some slices of the others went into the investment portfolios of Italian banks, and yet others were placed with the public by bank consortia. Last year's issues raised the total amount of foreign bonds floated in Italy since June 1961 to 240 million dollars.

Short- and long-term trade credits on balance occasioned a net capital outflow of close to 543 million dollars last year, compared with 371 million in 1965.

On the import side, repayments exceeded new credits by 113 million dollars, whereas in 1965, conversely, there was a net credit balance of 173 million. The leads and lags between customs and foreign-exchange statistics show imports to have risen by 16.2 per cent on a transactions basis and by 20.6 per cent on a payments basis, and, among import payments, deferred payments (for imports of previuos periods) rose more than advance or contemporaneous payments (26.9 as against 17.2 per cent). Deferred payments accounted for as much as 48 per cent of total import payments last year, but the high total figure includes an amount of 93 million dollars paid out by Shell Italiana for past supplies of imported crude.

On the export side, net trade credits to foreign buyers contracted last year from 544 to 430 million dollars. These high figures are explained by the export expansion and by the prevalent practice of deferred payment for exports.

VI. *Monetary Movements, Reserves and the Exchange Rate.*

Of last year's balance-of-payments surplus of 696 million dollars, three-fifths (408 million) show up in the foreign position of Italian banks and the remaining two-fifths (288 million) in the consolidated balance sheet of the Bank of Italy and the Italian Exchange Office. At the end of the year, the banks had net foreign assets of 230 million dollars, net official reserves amounted to 4,679 million, and medium- and long-term official assets to 895 million (Table 21).

For the third consecutive year, in other words since the global balance of payments turned into surplus, the domestic liquidity effects of the external surplus were greatly mitigated by the foreign operations of banks, mainly in extinguishing their debit positions abroad. In 1964 these operations occasioned an outflow of 442 million dollars, corresponding to 57 per cent of the global balance-of-payments surplus; in

TABLE 21

NET FOREIGN POSITION OF THE ITALIAN EXCHANGE OFFICE, THE BANK OF ITALY AND ITALIAN BANKS

(end-month figures in million dollars)

Items	1965 December	1966 March	1966 June	1966 September	1966 December	1967 March
Bank of Italy and Italian Exchange Office						
Official reserves						
Gold	2,403.7	2,369.4	2,368.3	2,356.3	2,413.6	2,415.3
Convertible currencies	1,462.4	1,270.8	1,456.0	1,353.8	1,287.8	1,136.4
Total . . .	3,866.1	3,640.2	3,824.3	3,710.1	3,701.4	3,551.7
Net position with International Monetary Fund	479.2	518.0	551.2	556.2	564.7	589.7
Other reserves:						
IMF gold certificates	—	—	—	250.0	250.0	250.0
Assets under General Arrangements to Borrow	70.0	70.0	70.0	70.0	70.0	70.0
Net position with European Monetary Fund	3.2	3.2	3.2	3.2	3.2	3.2
Central bank swaps (assets)	100.0	50.0	40.0	100.0	15.0	—
U.S. Treasury Notes	124.8	124.8	124.8	124.8	124.8	124.8
less: Short-term liabilities abroad	79.2	76.7	79.4	59.4	49.8	54.4
Net official reserves	4,564.1	4,329.5	4,534.1	4,754.9	4,679.3	4,535.0
Medium-and long-term assets:						
Medium-term U.S. Treasury Notes	160.0	199.6	188.0	188.0	184.0	184.0
Foreign currency bonds issued by non-residents	47.4	74.2	59.7	68.8	68.8	73.0
Lire bonds issued by non-residents	49.7	72.2	71.8	84.4	84.0	83.3
Consolidated credits and special accounts	108.9	109.4	106.7	88.6	83.9	82.6
Argentinian loan reserve account	13.5	13.5	12.6	12.6	11.5	11.5
IBRD and European Investment Bank bonds held by Bank of Italy	4.7	4.7	4.7	4.7	5.7	5.7
Total . . .	384.2	473.6	443.5	447.1	437.9	440.1
Foreign currency bonds issued by the Italian government	338.3	330.8	340.7	483.6	457.2	439.3
Total . . .	722.5	804.4	784.2	930.7	895.1	879.4
Banks						
Convertible currencies	101.8	354.4	391.1	557.8	502.9	378.2
Non-convertible currencies	5.0	5.7	6.2	5.9	13.0	14.2
Lire	– 284.4	– 307.5	– 329.2	– 318.5	– 285.7	– 290.4
Balance . . .	– 177.6	52.6	68.1	245.2	230.2	102.0

1965 the figures were 634 million or 40 per cent, and last year 408 million or 59 per cent. The annual changes in the Italian banks' foreign position are a measure of their operations' effects in expanding international liquidity. For Italy herself, the effects of these operations were not completely symmetrical and of opposite sign, since sight assets in foreign currencies are counted as liquidities only to the extent that they exceed the limit laid down by the monetary authorities. In the event, the banks' sight deposits abroad contributed 116 million dollars to bank liquidity in 1966, compared with 47 million in 1965 and 138 million in 1964.

The Size and Composition of Official Reserves.— The main problems which reserve administration raises for the monetary authorities have to do with the composition of reserves and with their absolute size. What makes these problems difficult is the need to reconcile a variety of internal requirements without detriment to the good functioning of the international monetary system.

As regards the composition of reserves, the problem is in essence one of combining the reserves' liquidity, the maintenance of their gold value and returns from them in collaboration with other countries with respect to the volume and distribution of international liquidity. Obviously, maximum safety and maximum liquidity, which imply holding the bulk of reserves in the form of gold, absorb most international liquidity and involve the greatest sacrifice of returns.

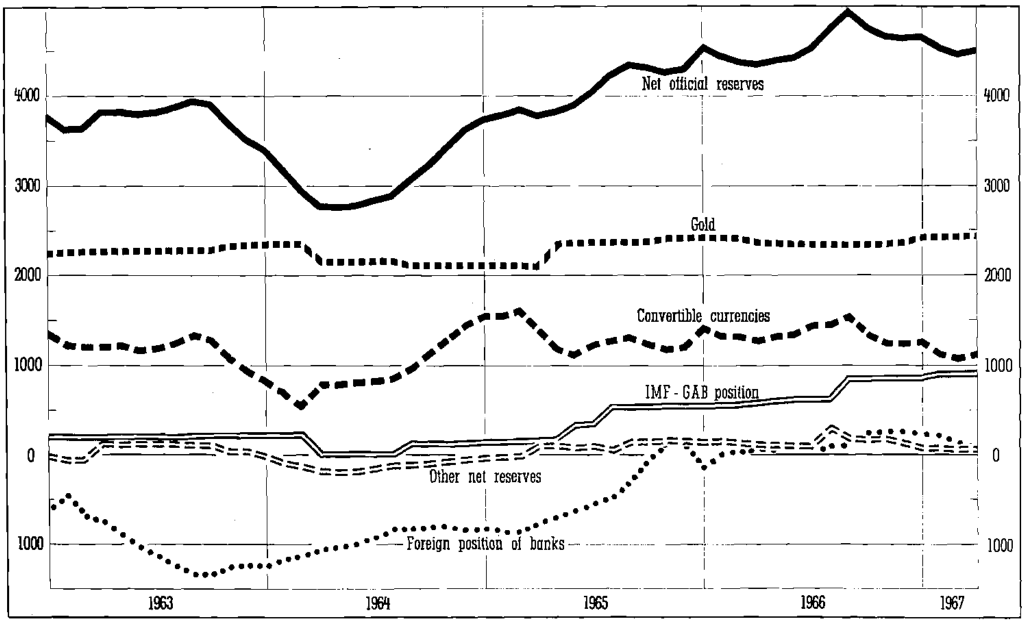
In size, reserves must be large enough to cover normal foreign transactions as well as exceptional and unforeseen ones. This involves a guess resting largely on the judgement of the monetary authorities, which are guided in this guess by the empirical evidence of almost ten years of currency convertibility as well as by institutional factors such as the development of international organizations and central bank co-operation.

At 4,679 million dollars at the end of last year, Italy's net official reserves were 2.5 per cent higher than in December 1965; over the three years 1964-1966 they rose by 1,285 million dollars, compared with global balance-of-payments surpluses of 3,066 million dollars. Thus the monetary authorities let the reserves rise to only a relatively limited extent, and used the greater part of the external surplus to balance the Italian banks' foreign position, to repay debts in advance of maturity and to invest in long-term loans to certain countries and international institutions.

At present, reserves cover just a little more than five months' imports of goods and services, the same proportion as in August 1963, on the eve of the balance-of-payments crisis which caused a reserve loss of 1,230 million dollars in the course of a few months.

Virtually no change at all was made last year in the gold reserves, which rose from 2,404 to 2,414 million dollars to account for 51 per cent of official reserves (Chart 8). In addition, Italy concluded a bilateral agreement with the International Monetary Fund last August, by which she acquired a gold certificate for 250 million dollars against an equivalent amount of lire. Inclusion of this item in the calculation of gold reserves shows the latter at 2,664 million dollars, or 57 per cent of official reserves.

CHART 8



Official reserves and foreign position of banks
(million dollars)

This was the first operation of this kind between the Fund and any member country, and it enabled Italy to obtain a gold guarantee on part of her reserves without detriment to their liquidity and, up to a point, their yield. Furthermore, the International Monetary Fund last year made drawings of 86 million dollars on the Italian quota. Allowing for these, as well as for Italian credits under the General Arrangements to Borrow and for the above-mentioned gold certificate, Italy's net position with the Fund rose to 885 million dollars, accounting for 19 per cent of net official reserves. The whole of this amount is covered by gold guarantees; two other reserve assets in a combined amount of 140 million dollars are covered by a lire guarantee, namely assets under central bank swaps and U.S. Treasury Notes (known as Roosa bonds). Thus 70 per cent of Italy's official reserves are at present covered by a gold guarantee and another 3 per cent by a lire guarantee; the rest is made up of convertible currencies.

These operations with the International Monetary Fund, the banks' foreign operations and certain investments by the Italian Exchange Office had the combined result that, despite the external surplus, Italy's convertible currency holdings declined over the course of last year by 175 million dollars, after a seasonal peak in the summer. Convertible currency balances generally take the brunt of fluctuations in the country's foreign accounts and thus represent the residual component of reserves, after the latters' safety is guaranteed by appropriate measures and by international co-operation agreements. Since these balances are predominantly used for interventions on the exchange market, they must be held largely in liquid form, even though this obviously curtails their yield. In cases when the volume of convertible currency balances is judged to exceed the country's normal requirements, part of them is invested in less short-term assets yielding higher returns. Thus Italy last year added 173 million dollars to its medium- and long-term assets by purchasing special U.S. Treasury Notes as well as bonds issued by international institutions, as mentioned in last year's Report, and by buying in for the portfolio of the Italian Exchange Office 145 million dollar's worth (or 119 million, net of repayment quotas) of Italian foreign-currency promissory notes to the Export-Import Bank. These latter, incidentally, are covered by a repurchasing clause under which all or part of them can be mobilized in case the Italian balance of payments gets into deficit.

Italy's bilateral transactions with the two reserve-currency countries, the United States and the United Kingdom, were on a much larger scale last year than would appear from reserve statistics. As regards the United States, it was agreed to raise from 450 to 600 million dollars the ceiling on swap facilities representing second-line reserves on which each of the two countries can draw to meet exceptional requirements; the United States did, in fact, make three drawings on the Italian credit line in the course of the year, all of them now repaid. The United Kingdom, in its turn, made repeated use of very short-term swaps with Italy under arrangements made by the Bank for International Settlements.

The Foreign Position of Italian Banks.— In line with a previous directive, the Italian Exchange Office last year arranged lire-dollar swaps at par only with those banks which still had net liabilities abroad, with the intention to induce all the separate banks to balance their foreign position and at the same time to use a controlled outflow of bank funds in order to prevent the rise of interest rates abroad from spreading to Italy.

The banks' position with the Exchange Office increased by 348 million dollars to a total of 1,879 million (Table 22). Their use of Exchange Office facilities was reflected in an improvement of 408 million dollars in the overall foreign position of the banks (Tables 23 and 24); Eurodollar holdings accounted for 228 million of this total (Table 25).

TABLE 22

FOREIGN EXCHANGE SPOT AND FORWARD POSITION OF ITALIAN BANKS

(end-month figures in million dollars)

Items	1965 December	1966 March	1966 June	1966 September	1966 December	1967 March
Position with Italian Exchange Office	1,531.3	1,734.7	1,758.6	1,883.2	1,879.4	1,882.3
of which						
swaps with guaranteed rate	1,503.2	1,705.3	1,729.1	1,853.8	1,850.1	1,853.5
swaps without guaranteed rate	28.1	29.4	29.5	29.4	29.3	28.8
foreign exchange deposits .	—	—	—	—	—	—
Working balances	13.3	17.3	12.9	14.6	8.4	11.0
Forward position (1)	55.4	90.8	87.8	162.6	149.6	142.7

(1) Balance of the banks' forward commitments at home and abroad. A positive balance means foreign exchange due to be paid, a negative balance means foreign exchange due to be received.

TABLE 23

THE ITALIAN BANKS' OVERALL POSITION ABROAD AND FOREIGN EXCHANGE POSITION AT HOME

(end-month figures in million dollars)

Items	1965 December	1966 March	1966 June	1966 September	1966 December	1967 March
ASSETS						
A. *Assets abroad*						
In convertible currencies	2,297.4	2,107.7	2,112.4	2,762.6	3,057.3	2,690.4
In non-convertible currencies	7.2	8.4	8.8	7.9	15.5	17.0
In lire	153.7	116.9	133.8	156.6	198.7	204.9
Forward commitments abroad	1,339.2	1,904.6	1,512.8	2,089.3	2,325.1	2,350.1
foreign exchange receivable	*1,284.1*	*1,804.5*	*1,410.7*	*1,949.7*	*2,225.4*	*2,267.4*
lire receivable	*55.1*	*100.1*	*102.1*	*139.6*	*99.7*	*82.7*
Total A	3,797.5	4,137.6	3,767.8	5,016.4	5,596.6	5,262.4
B. *Domestic assets in foreign exchange*						
Credits to	1,896.3	1,946.2	1,975.8	2,032.0	2,109.6	2,225.5
clients	*1,824.2*	*1,880.7*	*1,874.6*	*1,904.0*	*1,979.5*	*2,099.6*
others	*72.1*	*65.5*	*101.2*	*128.0*	*130.1*	*125.9*
Forward commitments in Italy	5.5	4.6	5.1	11.6	10.6	6.8
Total B	1,901.8	1,950.8	1,980.9	2,043.6	2,120.2	2,232.3
C. *Total assets* (A + B)	5,699.3	6,088.4	5,748.7	7,060.0	7,716.8	7,494.7
LIABILITIES						
D. *Liabilities abroad*						
In convertible currencies	2,210.5	1,779.1	1,755.9	2,230.8	2,590.3	2,321.8
In non-convertible currencies	2.2	2.6	2.5	2.0	2.5	2.8
In lire	438.1	424.4	463.0	475.2	484.4	495.3
Forward commitments abroad	1,324.3	1,878.9	1,478.3	2,063.2	2,289.2	2,340.4
foreign exchange payable	*1,324.3*	*1,878.9*	*1,478.3*	*2,063.2*	*2,289.2*	*2,340.4*
lire payable	—	—	—	—	—	—
Total D	3,975.1	4,085.0	3,699.7	4,771.2	5,366.4	5,160.3
E. *Domestic liabilities in foreign exchange*						
Deposits from	383.2	432.0	473.0	503.4	539.2	558.1
clients	*297.1*	*364.8*	*365.5*	*372.9*	*407.2*	*427.8*
others	*86.1*	*67.2*	*107.5*	*130.5*	*132.0*	*130.3*
Forward commitments in Italy	20.7	21.0	25.3	60.7	96.4	76.5
Total E	403.9	453.0	498.3	564.1	635.6	634.6
F. *Total liabilities* (D + E)	4,379.0	4,538.0	4,198.0	5,335.3	6,002.0	5,794.9
BALANCES						
G. *Net position vis-à-vis abroad*						
On spot transactions	- 192.5	26.9	33.6	219.1	194.3	92.4
On forward transactions	14.9	25.7	34.5	26.1	35.9	9.7
foreign exchange	*- 40.2*	*- 74.4*	*- 67.6*	*- 113.5*	*- 63.8*	*- 73.0*
lire	*55.1*	*100.1*	*102.1*	*139.6*	*99.7*	*82.7*
Balance (A — D)	- 177.6	52.6	68.1	245.2	230.2	102.1
H. *Net foreign exchange position in Italy*						
On spot transactions	1,513.1	1,514.2	1,502.8	1,528.6	1,570.4	1,667.4
On forward transactions	- 15.2	- 16.4	- 20.2	- 49.1	- 85.8	- 69.7
foreign exchange	*- 15.2*	*- 16.4*	*- 20.2*	*- 49.1*	*- 85.8*	*- 69.7*
Balance (B — E)	1,497.9	1,497.8	1,482.6	1,479.5	1,484.6	1,597.7
I. *Overall position* (G + H)	1,320.3	1,550.4	1,550.7	1,724.7	1,714.8	1,699.8
On spot transactions	1,320.6	1,541.1	1,536.4	1,747.7	1,764.7	1,759.8
On forward transactions	- 0.3	9.3	14.3	- 23.0	- 49.9	- 60.0
foreign exchange	*- 55.4*	*- 90.8*	*- 87.8*	*- 162.6*	*- 149.6*	*- 142.7*
lire	*55.1*	*100.1*	*102.1*	*139.6*	*99.7*	*82.7*

Italian banks, and more especially those with net assets abroad, turned in larger measure than before to the lire/dollar swap market in order to supply themselves with foreign exchange for use either on the Euromarket or to finance credit to resident clients. From one end of the year to the other the amounts outstanding on this kind of operations nearly doubled to reach 100 million dollars, and touched a high of 145 million dollars at times. The effect of these operations on the forward rate of the lira was that the latter's premium against the dollar occasionally rose to beyond 2 per cent on an annual basis. The cost of the lira's forward premium made these swaps less profitable for the banks and thus put a brake on the outflow of domestic liquidity.

TABLE 24

NET FOREIGN POSITION OF ITALIAN BANKS IN FOREIGN EXCHANGE AND LIRE

(end-month figures in million dollars)

Items	1965 December	1966 March	June	September	December	1967 March
Convertible currencies	1,544.6	1,752.0	1,771.5	1,897.8	1,887.8	1,893.3
Position with Italian Exchange Office	1,531.3	1,734.7	1,758.6	1,883.2	1,879.4	1,882.3
Working balances	13.3	17.3	12.9	14.6	8.4	11.0
Non-convertible currencies	5.0	5.8	6.3	5.9	13.0	14.2
Lire position abroad	- 229.3	- 207.4	- 227.1	- 179.0	- 186.0	- 207.7
Overall foreign position . . .	1,320.3	1,550.4	1,550.7	1,724.7	1,714.8	1,699.8

The Spot and Forward Rate of the Lira.— The dollar rate fluctuated more widely last year than in 1965, as a result of the authorities' having widened the range between the upper and lower intervention point.

Throughout the year, the spot quotation of the dollar was below parity, with a maximum discount of 0.25 per cent in the summer months; the position was reversed only in the very last few days of 1966 and at the beginning of 1967, mainly because of unfavourable capital movements.

Similarly, the lira was at a premium in forward quotations against the dollar most of the year, barring a short interval in April; against sterling, the forward lira was at a premium throughout, and most so in

TABLE 25

EURODOLLAR ASSETS AND LIABILITIES OF ITALIAN BANKS (1)

(end-month figures in million dollars)

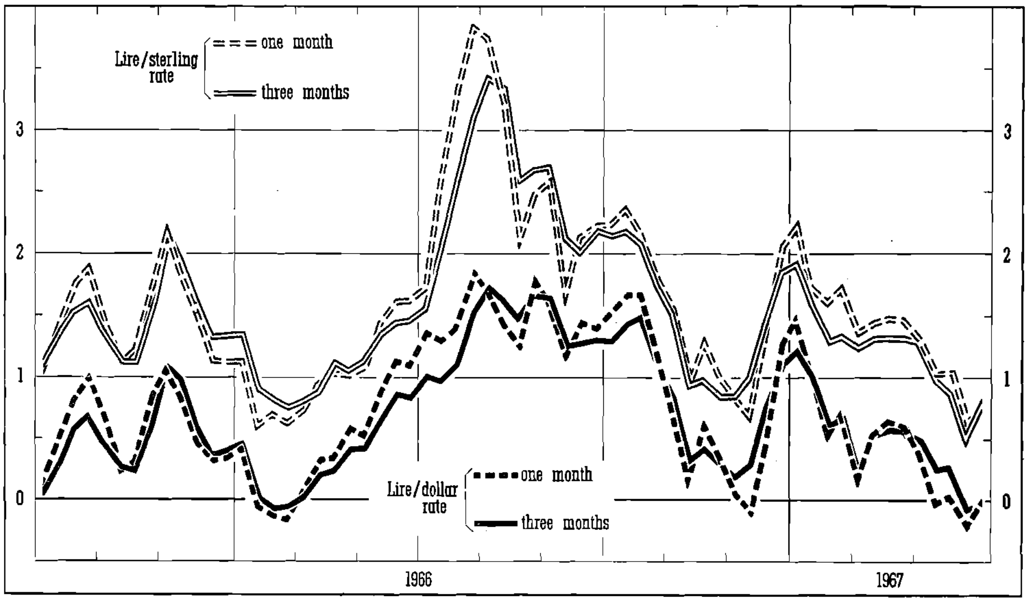
Country	1965	1966				1967
	December	March	June	September	December	March
United Kingdom						
Assets	555.8	393.2	279.0	633.8	704.9	514.8
Liabilities	383.9	161.8	206.6	302.7	501.7	265.8
Balance	171.9	231.4	72.4	331.1	203.2	249.0
Switzerland						
Assets	149.0	167.6	160.3	186.0	244.6	256.6
Liabilities	275.0	223.9	197.7	248.2	320.1	342.4
Balance	- 126.0	- 56.3	- 37.4	- 62.2	- 75.5	- 85.8
France						
Assets	192.6	105.1	108.6	222.1	249.0	163.7
Liabilities	242.5	149.9	149.3	243.6	249.0	222.9
Balance	- 49.9	- 44.8	- 40.7	- 21.5	—	- 59.2
Belgium						
Assets	45.6	44.7	31.2	38.9	52.4	45.2
Liabilities	59.1	43.1	73.6	96.9	127.5	113.6
Balance	- 13.5	1.6	- 42.4	- 58.0	- 75.1	- 68.4
Germany						
Assets	26.7	20.4	26.7	30.4	28.5	16.1
Liabilities	16.1	26.2	4.8	37.0	14.3	46.6
Balance	10.6	- 5.8	21.9	- 6.6	14.2	- 30.5
Netherlands						
Assets	46.5	42.1	48.1	63.1	63.2	44.9
Liabilities	94.6	61.5	45.7	87.8	115.7	96.4
Balance	- 48.1	- 19.4	2.4	- 24.7	- 52.5	- 51.5
Middle East						
Assets	18.3	17.9	16.2	14.7	18.8	17.5
Liabilities	78.1	55.8	63.4	72.4	79.6	71.1
Balance	- 59.8	- 37.9	- 47.2	- 57.7	- 60.8	- 53.6
Latin American countries						
Assets	28.6	32.0	57.2	60.7	54.3	54.8
Liabilities	62.2	72.4	78.9	90.9	86.5	77.0
Balance	- 33.6	- 40.4	- 21.7	- 30.2	- 32.2	- 22.2
Eastern European countries						
Assets	132.9	135.8	193.8	197.8	194.5	208.1
Liabilities	25.2	11.9	24.8	17.5	26.7	21.6
Balance	107.7	123.9	169.0	180.3	167.8	186.5
Other countries						
Assets	169.7	150.0	219.7	220.5	261.0	197.1
Liabilities	184.8	147.2	135.7	187.9	178.0	185.6
Balance	- 15.1	2.8	84.0	32.6	83.0	11.5
Total						
Assets	1,365.7	1,108.8	1,140.8	1,668.0	1,871.2	1,518.8
Liabilities	1,421.5	953.7	980.5	1,384.9	1,699.1	1,443.0
Balance	- 55.8	155.1	160.3	283.1	172.1	75.8

(1) This table is more comprehensive than in previous years. Assets now include balances with foreign correspondents in sight and time deposits as well as short-term investments, and in addition credits to foreign banks to cover temporary overdrafts for mailing intervals, advances to them against securities and credits to non-residents. Liabilities include foreign accounts of banks, financial institutions, companies and personal clients abroad, and in addition debts to foreign banks under the heading temporary overdrafts for mailing intervals and advances against securities.

the summer (Chart 9). As regards the dollar, the basic reason for the strength of forward lire was that interest rates were higher abroad than in Italy, which meant that the outflow of Italian bank funds involved purchases of forward lire to cover the exchange risk. Given the narrowness of the market for forward lire, the premium against the dollar fluctuated widely, and dropped very sharply in October and November, when lire/dollar swaps declined by some 30 million dollars or so because Italian banks needed lire in connection with the Treasury's issue of nine-year bonds.

The forward rate of sterling reflected the pressures to which the pound was subject in 1966. Throughout the year, the lire premium was higher against sterling than against the dollar, and it reached a peak of around 4 per cent in July, when Bank Rate in the United Kingdom was raised to 7 per cent.

CHART 9



Lire/dollar and lire/sterling forward rates
Premium (+) or discount (−) of the lira forward rate against the spot rate (per cent per year)

VII. *The Budget and Public Finance*

To judge by the results of 1966 and those that must be expected for the current year, the long-standing and steady deterioration in the finances of public administration shows no sign of abating.

The Treasury's cash budget did temporarily improve last year, but only at the cost of building up formidable arrears of undisbursed expenditure, for there was still a high budget deficit. As regards local authorities, both their budget and their cash position worsened, even though they, too, carried over a certain amount of expenditure to this year. For Social Insurance and Welfare Funds, finally, actual cash flows have got so wildly out of line with budgeting that a heavy budget deficit still left them with a cash surplus, even though it was small.

Results on both counts are still worse if public administration be defined to include also the autonomous government agencies.

At 1,844 billion lire, the Treasury's cash requirements were a good deal higher last year than in 1965 (Table 26), but not as high as was anticipated in last year's Report (about 2,000 billion, after deducting

TABLE 26

TREASURY CASH REQUIREMENTS AND THEIR COVERAGE

(billion lire)

Items	1965		1966		1967
	1st quarter	Total	1st quarter	Total	1st quarter
Overall cash requirements					
Budget deficit (—)	– 552	– 1,238	– 68	– 922	164
Treasury operations (1)	284	352	– 35	– 142	– 156
Extrabudgetary operations	– 115	– 643	– 110	– 780	– 213
Total . . .	– 383	– 1,529	– 213	– 1,844	– 205
Coverage of overall cash requirements					
Long-term borrowing, excl. Bank of Italy (2)	46	611	220	1,347	363
Postal savings	81	406	52	435	48
Treasury Bills, excl. Bank of Italy	191	209	212	91	26
Short-term borrowing, excl. Bank of Italy	– 20	10	– 21	49	9
Borrowing from Bank of Italy, excl. current account	– 162	– 61	– 154	297	– 62
Bank of Italy advances on current account (3)	247	354	– 96	– 375	– 179
Total . . .	383	1,529	213	1,844	205
Loans					
From budgetary funds	120	262	51	197	2
By Central Post Office Savings Fund	89	451	83	591	198
Total . . .	209	713	134	788	200
Net financial deficit	174	816	79	1,056	5

(1) Receipts (+) and payments (–); including stockpiling bills (rediscounted and otherwise) and current-account advances.
(2) Including foreign debts.
(3) Increase (+) or decrease (—) in the Treasury's debt.

from the gross total of 2,600-2,700 billion the disbursements then expected to spill over into 1967). The reason for the difference is that the budget outturn was better than expected, as a result of corresponding changes in budgetary arrears; in any event, part of the improvement was swallowed up by Treasury operations.

The Treasury's overall cash requirements for 1967 may be estimated at 2,700-2,800 million lire. This is a figure very close to that worked out last year for likely requirements, but whether it will prove accurate depends again on the unforeseeable amount of expenditure carried over to the following year.

The ways in which the Treasury last year financed its cash requirements reflect public debt policy, which was somewhat different from what it had been in 1965.

The volume of public debt operations is conditioned by budgetary requirements, and the choice of methods to finance these latter by the market situation; but the market situation in its turn is influenced by public debt policy, which is one of the main instruments for liquidity control in the economy.

These reciprocal influences explain, for example, how the Treasury was able to cover a major part of its requirements last year by long-term borrowing on a large scale. Admittedly, there was no choice as regards the larger part of the Treasury's bond issues, because the law explicitly made this kind of coverage a condition of certain expenditure items; yet it would not have been possible to place a total of close to 1,350 billion lire of bonds if the market had not been so liquid, and much of the market's liquidity was created by the Treasury itself.

The Treasury's large claims on the capital market, by which 643 billion lire were raised directly from the public and 714 billion from the banking system, are the salient feature of the Treasury's financial methods last year, in line with a policy which was apparent already in 1965.

VIII. *The Capital and Money Markets and the Control of Liquidity*

The Stock Market.— New security issues in Italy amounted to 4,411 billion lire in 1966; net of redemptions and duplications, last year's issues of 3,291 billion lire were 914 milion higher than those of the preceding year (Table 27).

TABLE 27

NET SECURITY ISSUES BY TYPES AND SUBSCRIBERS

(billion lire)

Issuers and type of security / Subscribers	Govt. stock (1)	Bonds						Shares	Total
		Local authorities	Special credit institutes	ENEL ENI IRI	Business companies	International institutions	Total		
				1965					
Bank of Italy and Italian Exchange Office	36.3	—	- 1.0	- 0.4	2.6	0.1	1.3	—	37.6
Banks and Banking associations	418.7	—	289.8	373.1	40.9	3.4	707.2	6.5	1,132.4
Central Post Office Savings Fund and Social Insurance Funds	17.5	—	- 4.1	- 9.9	3.2	—	- 10.8	—	6.7
Individuals and companies .	189.8	- 0.5	361.8	192.1	47.0	10.9	611.3	399.7	1,200.8
Total . . .	662.3	- 0.5	646.5	554.9	(2) 93.7	14.4	1,309.0	406.2	2,377.5
				1966					
Bank of Italy and Italian Exchange Office	185.0	—	1.0	—	—	14.5	15.5	—	200.5
Banks and Banking associations	714.4	—	405.4	151.1	6.5	33.6	596.6	11.0	1,322.0
Central Post Office Savings Fund and Social Insurance Funds	- 16.5	—	- 9.2	- 9.1	- 0.2	—	- 18.5	6.0	- 29.0
Individuals and companies .	668.2	21.1	462.4	171.8	- 3.5	24.0	675.8	453.1	1,797.1
Total . . .	1,551.1	21.1	859.6	313.8	2.8	72.1	1,269.4	470.1	3,290.6

(1) Including bonds issued for Treasury account.
(2) Including 101.3 billion lire of *Autostrade* bonds.

The flow of funds channelled into economic activities through the stock market accounted for 8.6 per cent of gross national product (6.7 per cent in 1965). Not only was this ratio still the highest in the European Economic Community, but it was more in excess of the others than ever before.

The public sector's growing demand for capital pushed net issues of fixed-interest-bearing securities up to 2,821 billion lire last year, 850 billion or 43 per cent more than in 1965. In 1966 alone the bond issue market grew as much as in the two preceding years together.

At 1,886 million lire (1,318 billion in 1965) the public sector's issues accounted, as in 1965, for two third of the year's total bond issues.

Directly or indirectly, the Treasury floated more than twice as many bonds as in 1965; the total rose from 662 to 1,551 billion lire, of which

719 billion were raised on government stock (161 billion in 1965) and the remaining 832 billion lire (501 billion in 1965) on bonds of the Credit Consortium for Public Works.

By contrast, the combined bond issues of E.N.E.L., E.N.I. and I.R.I. dropped from 656 billion lire in 1965 to 314 billion last year.

After a contraction in 1964 and 1965, bond issues by special credit institutes were appreciably larger last year (860 billion lire, compared with 646 billion in 1965 and 714 billion in 1964), in response to higher credit demand from both industry and the building sector, which latter had the benefit of the banks' faculty to include mortgage bonds in their compulsory reserves.

International institutions raised 72 billion lire compared with 14 billion in 1965; the European Coal and Steel Community, the European Investment Bank, the International Bank for Reconstruction and Development and the Inter-American Development Bank had a clear advantage in coming to the Italian capital market, where interest rates were lower than elsewhere.

Company issues, while somewhat higher than in the years 1964-1965, were still very low, and far short of what they had been in 1961-1962, when they enjoyed fiscal reliefs (a 50 per cent cut in the rate of income tax category A on bond interest).

Since 1959, there have been some significant shifts in the structure of demand for funds on the bond market (Table 28). The growth of the bond issue market itself was accompanied by a spectacular growth of the claims of the public sector. The continuous accumulation of new expen-

NET BOND ISSUES

TABLE 28

Bond issues	1959-61 annual aver.	1962-63 annual aver.	1964-65 annual aver.	1966
Treasury and on behalf of Treasury	*26.6*	*– 0.5*	*26.1*	*55.7*
E.N.E.L., E.N.I., I.R.I (*incl.* Autostrade)	*10.5*	*17.7*	*33.0*	*11.1*
Special credit institutes	*48.2*	*69.0*	*39.7*	*30.5*
International institutions	*0.6*	*2.1*	*0.4*	*2.6*
Companies	*14.1*	*11.7*	*0.8*	*0.1*
Total	*100.0*	*100.0*	*100.0*	*100.0*
Total issues (billion lire)	821	1,082	1,711	2,821
Bond issues per cent of total security issues	*66.6*	*66.1*	*77.6*	*85.7*

ditures for investment programmes stretching over several years, for electricity nationalization and, more recently, for the reflation measures introduced at the end of 1964 and in the spring of 1965, combined with a steep decline of public saving, led public sector to raise almost 1,900 billion lire on the capital market in 1966, which was more than two-thirds of last year's total new issues of fixed-interest-bearing securities.

The incidence of the public sector on the distribution of funds raised on the capital market in seen to be even greater if allowance is made for the fact that since 1963 special credit institutes have been using about half the proceeds of their bond issues to finance investment in sectors and areas to which government incentives apply. The growing proportions of these incentives raise quantitative problems as regards both the capacity of the capital market and the budget appropriation for interest equalization grants in connection with subsidized credit; but they also raise other problems, in so far as subsidized credit, as its area widens, impairs the market's flexibility in terms of demand shifts and adjustments in response to changing money costs. In these circumstances companies found it more convenient to borrow and, what is more, their borrowing was largely unselective because it was not competitive; the result was a growing imbalance between equity capital and loan capital.

Share issues recovered a little last year, rising by 64 billion to 470 billion lire. But for the fourth year running, the figure still fell short of the average annual equity issues of around 540 billion lire in the years 1960-1962.

There were few capital increases against cash and, given the greatly increased volume of bond issues last year, the proportion of thare issues in total security issues took a new plunge last year to 14 per cent, compared with annual averages of 24 per cent in 1963-1965 and of 38 per cent in 1960-1962.

On the supply side of capital market funds, last year's salient feature was a massive return of private investors to the bond market (Table 27). Given the enormous expansion of demand for capital funds, it was the public's readiness to invest in securities which was mainly responsible for the maintenance of orderly conditions on the stock market, such as are evident in the virtually stable yields. An important contributory factor for balancing demand and supply on the capital market was the banking system, which not only acquired large amounts of bonds for its own portfolios but was very active in placing securities with the public.

The category of investors labelled individuals and companies took up 1,797 billion lire's worth of securities issued in 1966, which corresponds to 55 per cent of all net bond and share issues together; in 1965, the figures had been 1,201 billion lire and 51 per cent.

In detail, individuals and companies took up 48 per cent of total fixed-interest security issues, as against 41 per cent in 1965 and 20 per cent in 1964; last year's 1,345 billion lire of their subscriptions compare with 801 billion in 1965 and 986 billion for the whole three-year period 1961-1964, when the public showed itself much less willing than before to invest in bonds.

What attracted private investors back into bonds to a vigorously increasing extent since the middle of 1965, was confidence in the purchasing power of money and the stability of yields, which, being the counterpart to stable bond prices, implies a high degree of liquidity of bonds; in addition, individual investors were anxious to diversify and balance their holdings, other types of investments seemed hazardous and bonds do enjoy a specially favourable tax treatment.

Banks and banking associations took up 1,311 billion lire's worth of fixed-interest securities last year, compared with 1,126 billion in 1965; in relative figures, their share in the total dropped from 57 to 46 per cent. Of the increment of 185 billion lire, 157 billion are attributable to the banks' faculty to deposit long-term bonds as compulsory reserves.

The Bank of Italy and the Italian Exchange Office, which had taken up only 38 billion lire of new security issues in 1965, subscribed to 201 billion in the last two months of last year. The main item was the loan issue to finance the first stage of the second Green Plan.

The changing attitudes of investors and the changing policies of the monetary authorities over the period 1959-1966 are reflected in Table 29, which shows the composition of bond subscriptions by subscribers.

During the years 1959-1961, when the economy was expanding in conditions of more or less stable prices and falling interest rates, the bulk of the supply of investable funds came from individuals and companies. During the subsequent inflationary period, when the cost of

BOND SUBSCRIBERS

TABLE 29

Subscribers	1959-61	Jan. 1962 to June 1964	July 1964 to Dec. 1965	1966
Bank of Italy, Italian Exchange Office	2.3	5.4	4.0	7.1
Central Post Office Savings Fund and Social Insurance Funds	4.0	31.2	8.2	- 1.3
Banks and Banking associations	27.2	32.0	55.3	46.5
Individuals and companies	66.5	31.4	32.5	47.7
Total . . .	100.0	100.0	100.0	100.0
Total in annual terms (billion lire)	821	1,126	1,847	2,821

capital went up, the financial institutions intervened on a large scale to make good the insufficient supply of funds from individuals and companies. From the middle of 1964 onward, banks took advantage of their comfortable liquidity position to buy large quantities of bonds, and as a result market rates declined. By the end of 1965, bond yields had come down about 2 points in 18 months and stood at 6.51 per cent. It was at this stage that private investors returned into fixed-interest securities.

On 31 December 1966, just over 26 per cent of the total amount of more than 34,000 billion lire of securities outstanding were in the hands of financial intermediaries (11 per cent at the end of 1961), and the remaining 74 per cent were distributed as follows: 38 per cent (42 per cent in 1961) were owned by the category individuals, which consists largely of households, 26 per cent (39) by companies and 10 per cent (8) by non-residents (Table 30).

The figures appear more significant when they are further disaggregated into fixed-interest securities and shares. Between the end of 1961 and the end of 1966 the total of fixed-interest securities more than doubled and the proportion owned by individuals dropped from 59 to 45 per cent; this decline can be dated to the years 1962-1964, during which financial intermediaries correspondingly increased their share of the total. The category of financial intermediaries consists, in practice, mainly of the banking system, and, within it, largely of savings banks. This ownership pattern with its predominance of the banking system and individual holdings is a characteristic feature of the Italian capital market, where institutional investors and hence contractual saving play only a small part and more of the function of transforming monetary savings therefore falls to the banks.

TABLE 30

COMPOSITION OF SECURITY OWNERSHIP

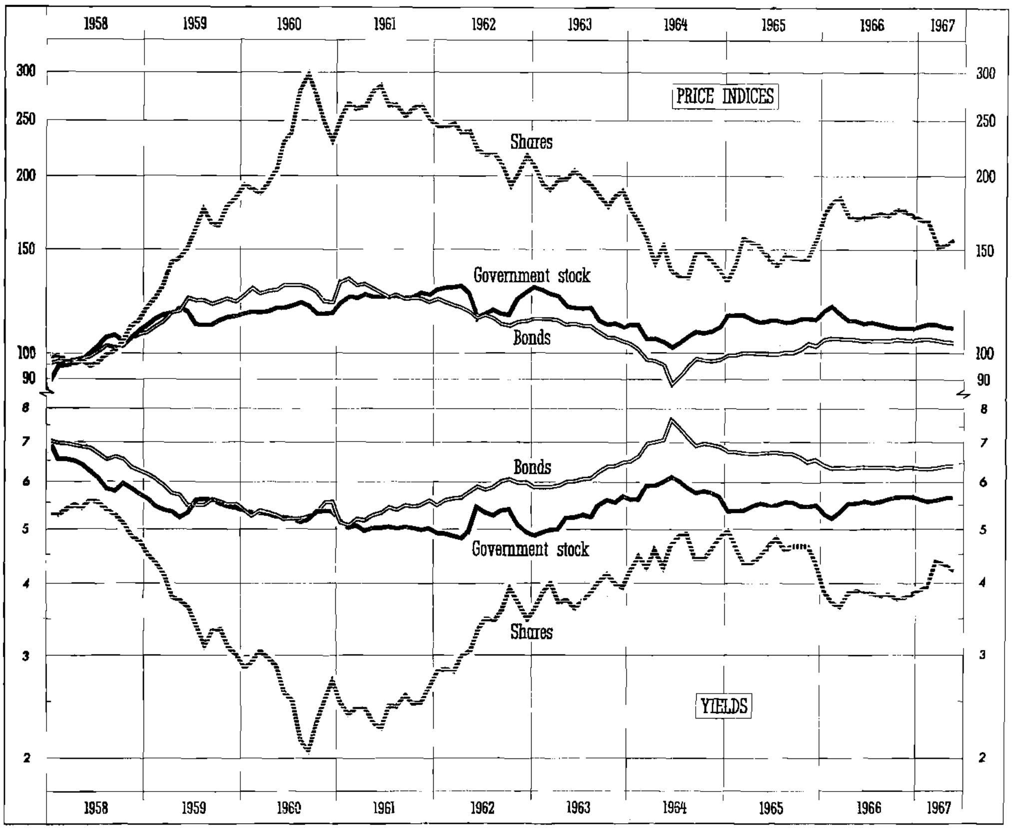
(end-year percentages and totals)

Categories of owners	1961	1962	1963	1964	1965	1966
			Fixed-interest-bearing securities			
Individuals	*58.7*	*53.5*	*50.4*	*45.6*	*44.4*	*44.6*
Companies	*1.3*	*1.5*	*1.4*	*1.4*	*1.4*	*1.4*
Foreign	*0.3*	*0.4*	*0.4*	*0.4*	*0.4*	*0.3*
Financial intermediaries	*39.7*	*44.6*	*47.8*	*52.6*	*53.8*	*53.7*
Total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
Total outstanding at nominal value (billion lire)	6,822	7,976	9,158	10,759	12,900	15,903
			Shares			
Individuals	*36.8*	*38.4*	*39.7*	*37.5*	*34.7*	*32.9*
Companies	*51.2*	*47.0*	*43.0*	*43.2*	*45.4*	*46.5*
Foreign	*9.9*	*12.2*	*15.0*	*16.9*	*17.4*	*17.9*
Financial intermediaries	*2.1*	*2.4*	*2.3*	*2.4*	*2.5*	*2.7*
Total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
Total outstanding at market value (billion lire)	20,772	18,984	17,463	14,973	14,973	18,446
			Total securities			
Individuals	*52.2*	*42.8*	*43.4*	*41.0*	*39.2*	*38.3*
Companies	*38.9*	*33.6*	*28.7*	*25.1*	*25.0*	*25.6*
Foreign	*7.5*	*8.7*	*10.0*	*9.8*	*9.5*	*9.8*
Financial intermediaries	*11.4*	*14.9*	*17.9*	*24.1*	*26.3*	*26.3*
Total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
Total outstanding (billion lire)	27,594	26,960	26,621	24,942	27,873	34,349

As regards the distribution of share ownership, the weight of individual holdings gradually diminished over the six years under consideration, from 37 per cent at the end of 1961 to 33 per cent at the end of 1966, and so did the proportion of shares owned by companies (from 51 to 46 per cent), though the latter movement has gone into reverse since 1965. The relative losses of these two categories show up as a relative gain in the category of non-residents, who now own 18 per cent of equity capital in Italy compared with 10 per cent at the end of 1961. The most sizeable movement of foreign funds into Italian shares took place in the years 1962-1964. Financial intermediaries owned a negligible proportion of less than 3 per cent of total shares in 1966, hardly more than in 1961. The fact that financial intermediaries own so few shares has to do, among other things, with the fact that there are few institutional investors.

Turning now to stock exchange quotations, it will be seen (Chart 10) that the price movements for government stock and other bonds were by no means parallel last year. Having gone up more or less contin-

CHART 10

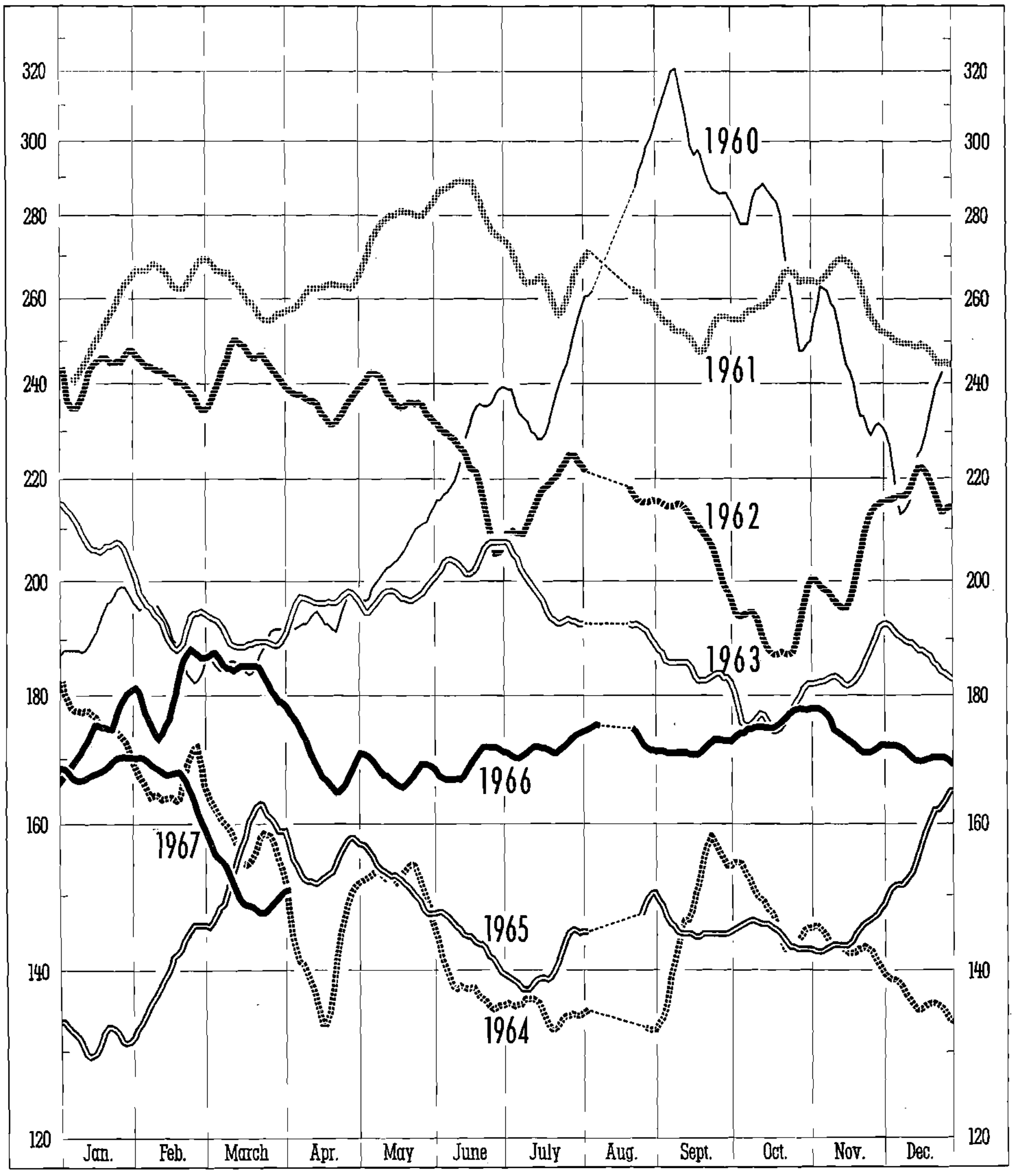


Indices of stock exchange prices and security yields
(1958 = 100; logarithmic scale)

uously since June 1964, the prices of government stock settled down last year at a level slightly below that of December 1965; other bond prices, by contrast, went on rising very gently. Accordingly, the yields of government stock rose slightly and those of other bonds declined a little.

Most of the new bond issues are listed, and investors thus have a wider choice. In this connection it may be mentioned that the European Investment Bank's 6½-1986 dollar loan is quoted at Milan and that this is the first foreign-exchange security to make its appearance in Italian stock exchange lists—a step in the direction of capital market integration.

CHART 11



Daily index of share prices at the Milan stock exchange
(moving five-day averages; logarithmic scale; 1958 = 100)

The recovery of share prices, which had begun in 1965, continued last year at a slower pace and was by no means uninterrupted; after a brisk advance during the first quarter of the year, prices broke, then went up gently until the beginning of November, when they started a retreat which lasted into the early months of this year (Chart 11).

For two months, until the end of February 1966, share prices continued on the steep climb they had started in December 1965, but the subsequent decline swallowed up all the previous gains and by the end of April prices were back where they had been at the end of 1965. They were a good lower than that in March 1967, no doubt mainly as a result of the reintroduction of the withholding tax on dividends last February.

With share prices rising on the whole last year and dividends in most cases the same as in 1965, equity yields dropped by 0.43 points between December 1965 and December 1966, to end up at 3.85 per cent (Chart 10).

It is interesting to trace the relationships between the primary and the secondary market for securities in the return flow of loan repayments and interest.

As the growing flow of new bond issues kept swelling the total volume of bonds outstanding, bond redemptions and interest in their turn swelled the return flow of funds from borrowers to bondholders. Invested savings are thus converted into money again, and the savers' attitude to this money clearly has an important bearing on the orderly functioning of the market—so much so that it was thought useful to make a quantitative measurement of this flow of funds, broken down by types of bonds (Table 31).

The total return flow to bondholders, in the form of redemption and interest payments, became two-and-a-half times as large in six years to reach 1,668 billion lire in 1966; this corresponds to 43 per cent of the year's total gross bond issues (47 per cent in the two preceding years).

Interest payments alone came to 2.0 per cent of gross national product, compared with 1.7 per cent in 1965 and 1.4 per cent in the four preceding years.

Bondholders last year received 912 billion lire as loan repayments and another 756 billion in interest. 51 per cent of the maturing bonds had been issued by or on behalf of the Treasury, and 35 per cent by special credit institutes; a large part of government stock was replaced. During the preceding years, too, combined redemptions of direct and indirect Treasury issues and bonds from special credit institutes accounted for around 86 per cent of the relevant total.

The burden of interest payments was distributed as follows last year: 332 billion lire, or 44 per cent (36 per cent in 1961), were a

TABLE 31

BOND REDEMPTION AND INTEREST PAYMENTS

(billion lire)

Year	Conversion issues for 7 and 9-year Treasury bonds	Government stock and bonds issued on behalf of the Treasury	Total	Bonds: Special credit instit.	Bonds: ENEL ENI IRI	Bonds: Others	Bonds: Total	Total
				Redemption payments				
1961	145	24	169	126	25	23	174	343
1962	284	32	316	158	43	28	229	545
1963	—	230	230	210	43	30	283	513
1964	223	47	270	243	44	37	324	594
1965	190	51	241	276	62	40	378	619
1966	396	65	461	321	76	54	451	912
				Interest payments				
1961	—	129	129	116	37	40	193	322
1962	—	137	137	147	44	45	236	373
1963	—	137	137	188	49	57	294	431
1964	—	145	145	233	68	62	363	508
1965	—	159	159	287	97	66	450	609
1966	—	214	214	332	136	74	542	756
				Total				
1961	145	153	298	242	62	63	367	665
1962	284	169	453	305	87	73	465	918
1963	—	367	367	398	92	87	577	944
1964	223	192	415	476	112	99	687	1,102
1965	190	210	400	563	159	106	828	1,228
1966	396	279	675	653	212	128	993	1,668

change on special credit institutes, 214 billion, or 28 per cent (40 in 1961), on the government and autonomous government agencies, 136 billion, or 18 per cent (12 in 1961) on public enterprises, and 74 billion, or 10 per cent (12 in 1961) on private companies.

Given that no major divergencies are occasioned by the different conditions applicable to various types of loan issues, the proportions of these flows classified by their origin reflect the distribution of fixed-interest securities by issuers.

In the light of the connections between redemption and interest payments, on the one hand, and new security issues on the other, it is reasonable to expect that in an expanding and orderly market the funds returned to bondholders are re-invested in the same form, provided that the investor feels that this does not upset the balanced spread of his portfolio. But not all categories of bondholders can be expected to react in the same way. Households, and especially the less wealthy ones, are likely to spend some of their interest earnings on consumption, and to reinvest only the residual interest, together with repayments. Other factors, too, have a bearing on the extent of reinvestment; as recent experience shows, the most prominent of these are general economic conditions and especially prices.

Special Credit Institutes.— Having begun to pick up again in 1965, demand for credit from special credit institutes expanded further last year. More money was needed not only for government programmes, but also to finance the investment recovery in industry, not to speak of the high credit demand in the residential building sector.

In all, the special credit institutes had 11,728 billion lire outstanding in loans at the end of 1966; the year's increase of 2,065 million lire, or 21.4 per cent, was appreciably larger in both absolute and relative terms than it had been in 1965 (1,340 billion or 16.1 per cent) (Table 32).

Loans to the Treasury expanded more than any others (by 868 billion lire, or 62 per cent), so much so that they absorbed more than two-fifths of the total increment. Another category which expanded

TABLE 32

THE SPECIAL CREDIT INSTITUTES' OPERATIONS AND LOANS OUTSTANDING

Type of loan	Billion lire outstanding 31 Dec. 66	Annual increase in 1965 billion lire	1965 per cent	1966 billion lire	1966 per cent
Medium- and long-term loans	8,610.4	797.2	*11.7*	1,015.1	*13.4*
industry and public works (1)	5,560.8	472.8	*10.5*	568.6	*11.4*
land and building	2,591.9	288.8	*15.2*	403.9	*18.5*
agricultural improvement	457.7	35.6	*9.4*	42.6	*10.3*
Short-term credits to agriculture	698.1	24.6	*4.3*	100.5	*16.8*
Loans for Treasury account	2,271.9	502.5	*55.7*	867.7	*61.8*
Total	11,580.4	1,324.3	*16.0*	1,983.3	*20.7*
Loans to developing countries	92.2	16.0	*32.2*	26.5	*40.3*
Loans to non-residents	55.0	—	—	55.0	—
Grand total	11,727.6	1,340.3	*16.1*	2,064.8	*21.4*
(1) *of which:* tied export credits	251.0	28.9	*15.0*	28.1	*12.6*

more than in 1965 (by 26 billion compared with 16) was loans to developing countries, which in their turn derive from government commitments within the framework of international co-operation.

International concerns which carried out large-scale investment in Italy took up long-term loans of 55 billion lire from Istituto Mobiliare Italiano, in line with the frequent last year practice especially of American concerns having subsidiaries in Europe to raise funds on European capital markets.

Short-term loans to agriculture increased by 100 billion lire, compared with only 25 billion in 1965, and were used in part by farmers for equipment and working capital, and in part to finance the government's price support measures.

Medium- and long-term loans, which more directly reflect the special credit institutes' activities in financing investment, picked up strongly after the preceding year's slacker rate of growth. The amount of loans outstanding rose by 1,015 billion lire, compared with 797 billion in 1965 and an annual average of 985 billion in the years 1962-1964; in relative terms, last year's increase of 13.4 per cent compares with 11.7 per cent in 1965. Loans for building expanded most and accounted for two-fifths of the total increment, and almost three-fifths went to industry and public works, still leaving room for a slight expansion of loans for agricultural improvement.

Industrial credit institutes alone stepped up their lending (excluding loans to the Treasury and export credits) by 569 million lire, or 11.4 per cent (473 billion or 10.5 per cent in 1965), in response to a revival of credit demand on the part of industrial firms. In 1965 the greater part of new loans had been for public works; last year, this tendency reversed course and, beginning with the first quarter and much more so from the third quarter onward, industry again became the chief borrower, as it had been during the years 1961-1964.

At the same time, loans at market rates of interest expanded more sharply last year than they had done in 1965 (by 275 billion lire, or 9.2 per cent, compared with 175 billion, or 6.2 per cent in 1965) (Table 33); however, existing and pending loan commitments at the end of last year suggest that subsidized credit is due for renewed strong expansion in the near future.

TABLE 33

SPECIAL CREDIT INSTITUTES: GEOGRAPHICAL DISTRIBUTION OF SUBSIDIZED AND NON-SUBSIDIZED CREDIT FOR INDUSTRY AND PUBLIC WORKS

(billion lire)

Regions	Loans outstanding at the end of 1966			Annual changes 1965			Annual changes 1966		
	non-subsid.	subsid.	Total	non-subsid.	subsid.	Total	non-subsid.	subsid.	Total
North-west	1,556.5	634.9	2,190.9	84.1	44.9	129.0	325.8	73.9	399.7
North-east	452.6	264.8	717.4	3.1	26.9	30.0	- 47.5	63.7	16.2
Central	623.7	294.5	918.2	35.0	31.3	66.3	43.5	37.4	80.9
South & Islands	640.9	1,093.4	1,734.3	52.5	195.0	247.5	- 47.0	118.8	71.8
Total . . .	3,273.7	2,287.1	5,560.8	174.7	298.1	472.8	274.8	293.8	568.6

Land and building credit institutes had an extremely active year, with a loan expansion of 404 billion lire, or 18.5 per cent (289 billion, or 15.2 per cent, in 1965) (Table 32); this followed a very brisk increase in the years 1962-1963 and a subsequent slow-down in 1964-1965.

Bank Liquidity.— The monetary base, understood as the sum of sight and short-term liabilities of the liquidity-creating institutions (legal tender plus assets immediately convertible into legal tender without loss), expanded last year by much the same amount as in 1965, but in both these years appreciably more than in 1964. Striking changes, on the other hand, were apparent last year in the sources of new liquidity; the Foreign Sector and the Treasury contributed less, Other sectors absorbed more, and Banks moved far and away into first place (Table 34). Liquidity creation last year followed a pattern typical of expanding economic activity, when the Foreign Sector loses its prominence as a liquidity-creating factor and domestic sources take over instead. In last year's particular case, when the Treasury contributed less, demand for liquidity had to be satisfied mainly through the other chief domestic channel, that is, the banking system.

As regards the distribution of liquid assets by uses, last year's changes were very close to those of 1965, and both years differed sharply from 1964 in this respect. In 1964, both the public and compulsory bank reserves absorbed comparatively little, so that a sizeable portion of the admittedly smaller amount of newly created liquidity remained

TABLE 34

THE MONETARY BASE

(changes in billion lire)

ORIGIN OF LIQUID ASSETS	1964	1965	1966	USE OF LIQUID ASSETS	1964	1965	1966
Credits to				*In the form of*			
Foreign sector	293.6	627.0	236.0	Liquidity in the hands of the public (1)	566.6	775.3	806.2
Treasury	833.2	917.7	496.6	Compulsory bank reserves	296.2	629.2	585.9
Banks	6.8	- 5.6	835.5				
Other sectors	- 6.2	- 66.5	- 81.2	Bank liquidity	264.6	68.1	94.8
Total . . .	1,127.4	1.472.6	1,486.9	Total . . .	1,127.4	1,472.6	1,486.9

(1) Of which liquidity directly created by the Treasury. . . . . 318.7 | 430.7 | 483.5

idle in the banking system; in the following two years the newly created liquidity served predominantly to meet the public's increased needs and compulsory reserve requirements—both a reflection, direct or indirect, of the public's higher demand for liquid assets.

Although the banks retained more additional liquidity last year than in 1965, this was not enough to match the increase in deposits or the total supply of bank funds. Consequently the ratio of liquid assets to clients' deposits dropped from 5.4 to 5.1 per cent over the course of the year, and the ratio of liquid assets to the total supply of funds from 4.5 to 4.1 per cent. While these liquidity ratios were certainly not as low as they had been in past periods of the greatest strain, such as late in 1963 and early in 1964, they do indicate a diminished credit potential.

Among the autonomous factors of liquidity creation, the Foreign Sector lost the preceding year's prominence and contributed less even than in 1964 (Table 35); each set of quarterly figures was progressively lower than in 1965, and during the last quarter the sign was reversed to indicate liquidity absorption by the Foreign Sector, as a result of the large external deficit on the capital account.

The figure given in Table 35 for the Treasury's autonomous liquidity creation represents the Treasury's total cash requirements. This is obviously a potential effect which does not always fully materialize, especially when these requirements are as large as they were these last few years. So far as the monetary authorities are concerned, this is an external datum which constitutes a constraint upon them, in so far as it obliges them to engage in capital market operations with a view to reducing this liquidity effect to a level compatible not only with the desired volume of liquidity, but also with a balanced composition of liquidity creation from all sources. Last year the Treasury needed even more funds than it had done in 1965, so that it came to play a heavily predominating part in the whole mechanism of liquidity creation.

TABLE 35

BANK LIQUIDITY
(changes in billion lire)

Causes of change	1964	1965	1966
1. AUTONOMOUS FACTORS			
a) Foreign sector	483.9	994.0	418.1
b) Treasury (incl. Central P.O. Savings Fund)	604.2	1,543.3	1,866.5
c) Other sectors	- 16.3	- 66.5	- 83.1
Total . . .	1,071.8	2,470.8	2,201.5
d) less Liquid assets in the hands of the public	566.6	775.3	806.2
e) less Compulsory bank reserves and deposits	296.2	629.2	585.9
Total 1. . . .	209.0	1,066.3	809.4
2. INTERVENTION BY MONETARY AUTHORITIES			
a) Long-term public debt operations	- 37.4	- 604.3	- 1,118.0
b) Open market operations	276.5	- 21.3	- 250.0
c) Changes in rulings on compulsory bank reserves	128.0	130.9	303.2
d) Rediscounts and deferred clearing house payments	- 191.9	- 33.8	171.8
e) Open credit line with Bank of Italy	60.8	69.7	362.6
f) Foreign exchange operations with banks	9.9	- 172.4	- 2.1
Total *a)* through *f)* . . .	245.9	- 631.2	- 532.5
g) Foreign exchange liquidity controls	109.2	74.4	- 85.5
h) Foreign operations of banks	- 299.5	- 441.4	- 96.6
Total 2. . . .	55.6	- 998.2	- 714.6
3. BANK LIQUIDITY (1 + 2)	264.6	68.1	94.8

The monetary authorities' own interventions are essentially of three kinds, in terms of the channels through which they take effect, as follows: (*a*) operations having an immediate effect on the capital market (public debt and open market operations); (*b*) credits having a direct influence upon the banking system's cash position (rediscounts, advances on the open credit line, deferred clearing house payments and foreign exchange credits); (*c*) interventions designed to control foreign sources of supply (controls on the foreign operations of banks). Rulings authorizing changes in the composition of compulsory bank reserves by substituting long-term securities for Treasury Bills occupy an intermediate position between categories (*a*) and (*b*).

The Treasury issued 1,555 billion lire's worth of bonds last year, largely to finance specific items of expenditure in the form prescribed by the respective legislation; of this total, more than 1,350 billion was placed on the market, in part through open market operations. In all, just under 240 billion lire's worth of government stock was sold in open market operations last year, but the Bank of Italy's own holdings of government stock increased over the year by 200 billion. Even though these are net figures, they add up to a significant indication of the movement of government stock through the accounts of the Bank of Italy, which, apart from taking in some part of the bonds itself, acted as a reservoir in the sense that it released bonds to the market at what was judged to be a suitable time—which was not necessarily the time when they were floated. All told, security operations absorbed a great deal of liquidity, so that the net liquidity-creating effect of the Treasury was reduced to 497 billion lire, compared with 918 billion in 1965 and 833 billion in 1964 (Table 34).

The funds which the banking system needed for the satisfaction of credit demand from the various sectors were mostly furnished to it directly by the Bank of Italy in 1966, in sharp contrast with the two preceding years, when the Bank instead absorbed a certain amount of excess liquidity through its direct transactions with banks. The reason was that the underlying economic situation was entirely different, in so far as last year there was a sustained demand for credit on the part of business. Thus the funds which the Bank of Italy made directly available to banks last year increased by the exceptionally high amount of 532 billion lire, compared with diminutions of 136 billion in 1965 and of 121 billion in 1964 (sum of the items 2d), 2e) and 2f) in Table 35). Adding to this the liquidity released by the authorization to include capital market securities in compulsory reserves, which also served guidance purposes, total liquidity creation by banks works out at 835 billion lire, as shown in Table 34; in the two preceding years, by contrast, the annual changes were negligible either way.

The banks' foreign operations, on the other hand, had a liquidity-reducing effect of altogether 182 billion lire (compared with 367 billion in 1965 and 190 billion in 1964). As things are at present, the Bank of Italy alone decides whether banks may again run up a net debit balance abroad or increase their existing one, and the possibility of letting the banks do so is treated as an alternative to other possible sources of credit. The Bank controls the foreign operations of the Italian banking system in the light of the balance-of-payments situation and of the problems deriving from the increasing integration of capital markets at home and abroad. Last year, those banks which still had net debts abroad were encouraged by the Italian Exchange Office's swap facilities at par to balance their position. These facilities have been denied, since the beginning of 1966, to banks which have already balanced their foreign position or have net foreign assets, and which can supply themselves with foreign exchange against lire only subject to paying a premium, which means that they have to pay the same price as is current on the international market. Control of the foreign operations of banks was again an important part of liquidity control last year, which only goes to show that the high degree of integration between the Italian and foreign capital markets at one and the same time conditions liquidity policy and offers it new possibilities of intervention.

The monetary authorities last year discharged their functions with the instruments already at their disposal, without introducing any major innovations. Rather than adopting radical and spectacular measures, the authorities, furthermore, preferred to achieve their ends through simple administrative rulings or even verbal instructions, which proved no less effective for being inconspicuous; sometimes, indeed, they relied on moral persuasion through recommendations and directives given out informally on the occasion of frequent meetings with representatives of the banking world.

The Public's Liquidity.— The flow of new liquid assets to the public increased by another 3.5 per cent last year and thus continued along the rising trend of 1965, which admittedly followed a year of exceptionally low liquidity creation (Chart 12).

As a result, total liquid assets in the hands of the public were about 14 per cent higher at the end of the year than at the beginning; while this increase fell short of the preceding year's 15 per cent, it exceeded the growth of GNP at current prices. But the public's liquid assets are more meaningfully compared with GNP in terms of moving averages centred on the middle of each year; so calculated, the ratio of total liquid assets to gross national product works out at 78 per cent in 1966, 73 per cent in 1965 and 70 per cent in 1964. The implication is a decrease in the velocity of circulation.

The ratio between newly-created liquid assets (Table 36) and the increase in the monetary base (Table 34) in its turn works out at about 2.7 in 1966, compared with 2.6 in 1965 and 1.8 in 1964. That part

TABLE 36

CONSOLIDATED ACCOUNT OF THE LIQUIDITY-CREATING INSTITUTIONS

(changes in billion lire)

ASSETS	1964	1965	1966	LIABILITIES	1964	1965	1966
Foreign assets	483.9	994.0	418.1	Primary liquidities	868.4	1,984.2	1,899.8
				Notes and coin	*270.6*	*343.1*	*378.1*
Domestic credits				*Current bank accounts*	*578.0*	*1,611.4*	*1,469.4*
to the Treasury	84.4	818.4	1,065.6				
to other sectors	1,614.5	2,398.5	3,481.8	*Current Post Office accounts*	*19.8*	*29.7*	*52.3*
short-term credits	*109.0*	*683.1*	*1,705.6*	Secondary liquidities	1,147.9	1,892.5	2,112.2
loans & securities	*1,505.5*	*1,715.4*	*1,776.2*				
Other assets (net)	- 166.5	- 334.2	- 953.5	*Savings deposits at banks & other bank deposits*	*871.7*	*1,490.0*	*1,736.4*
of which:				*P.O. savings books and savings certificates*	*- 24.4*	*376.1*	*383.2*
public's holding of government stock	*- 30.4*	*- 194.4*	*- 643.1*	*Treasury Bills and deposits with Treasury*	*300.6*	*26.4*	*- 7.4*
Total	2,016.3	3,876.7	4,012.0	Total	2,016.3	3,876.7	4,012.0

of the monetary base which is in the hands of the public constitutes a loss of credit potential for the banking system; if that amount is deducted from total liquid assets, the above ratios become 2.2 for 1966, 2.1 for 1965 and 1.3 for 1964. These ratios are an approximate measure of the *ex post* multiplier of bank deposits, which is thus seen to have risen again in 1966 and to be appreciably higher than in 1964.

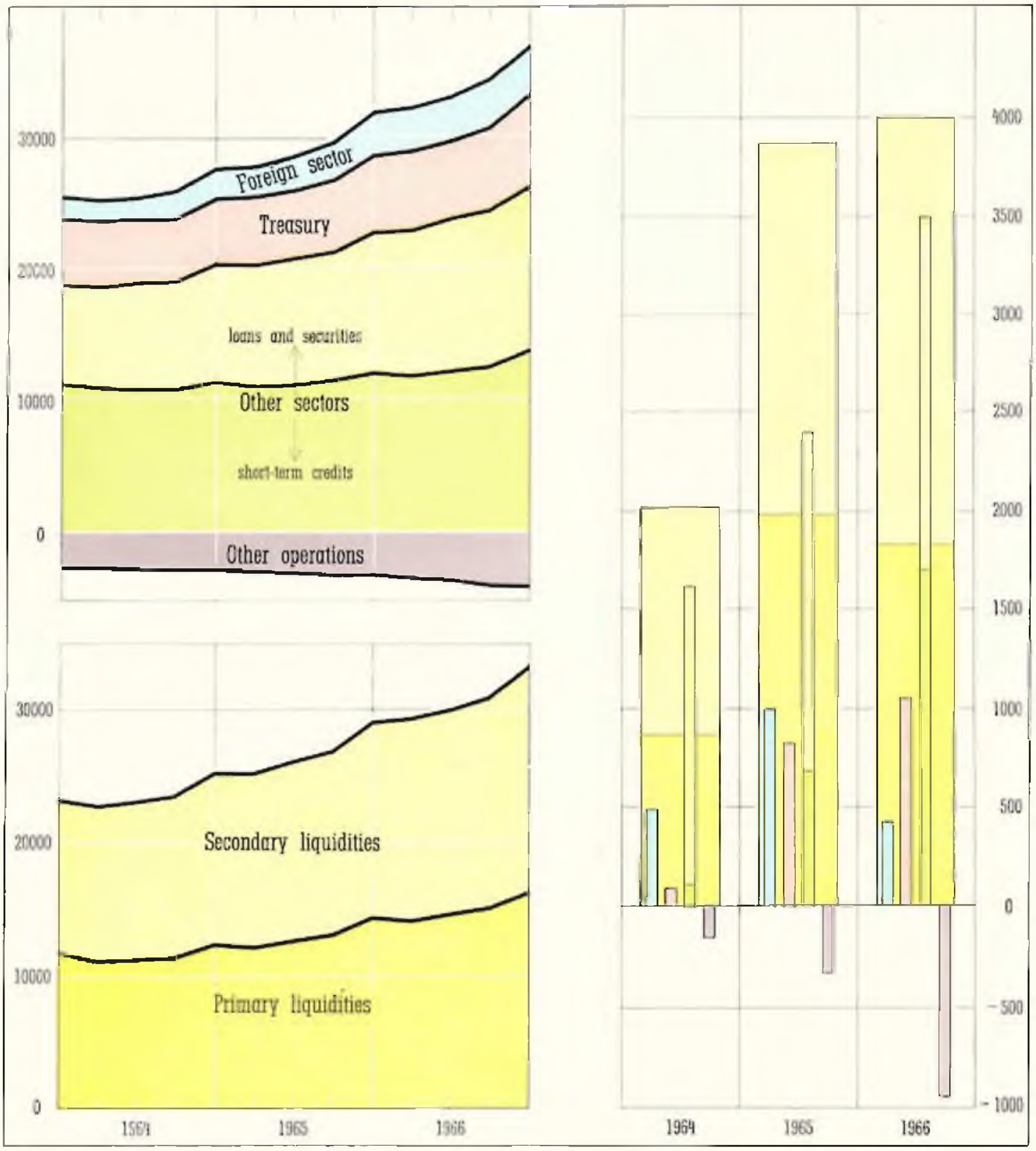
Credits to sectors other than the Foreign Sector and the Treasury expanded to such good purpose, partly thanks to the banks' slightly lower lending rates, that they came to account for more than four-fifths of total new liquid asset formation in 1966, compared with less than two-thirds in 1965. They expanded by 15 per cent over the course of the year (less than 12 per cent in 1965), and thus more than total liquid assets themselves. In absolute figures, the increment was 3,482 billion lire, of which half were short-term credits from the banks (which accounted for little more than a quarter in 1965). The banking system added 1,379 billion lire to its security portfolios, more even than in 1965 (1,171 billion). Bond offerings were so large last year that despite the public's increased propensity to hold bonds there still remained a sizeable gap between the demand and supply schedules for financial assets, and the banks had to fill this gap. Another step was thus taken last year in the monetization of long-term debts through the banking system, and new difficulties were thereby created for the monetary authorities whose task is to reconcile the system's liquidity needs with a balanced structure of its assets and the maintenance of a satisfactory level of interest rates on the capital market.

A striking feature last year was that savings deposits increased very sharply, and more than current bank accounts. Yet savings deposits undoubtedly were under pressure from the public's high bond subscriptions and attractive investment yields abroad, though Italian banks took countermeasures by paying high rates for deposits. Current accounts are always more sensitive to cyclical changes, and their growth was no doubt held back by the higher financial requirements of firms in connection with the general economic recovery; pressure from the same source was evident also in demand for credit, the economy's other liquidity reserve. It is likely that this slow-down in the growth of current accounts will be short-lived, for its main reason is probably that firms have been rebuilding their depleted stocks; stockbuilding, on the other hand, also swelled import demand and thereby reduced the liquidity-creating effect of the Foreign Sector.

The public's liquidity surplus can be calculated from Table 36 as the difference between total liquid assets and short-term credits to domestic sectors other than the Treasury. This figure is really a better measure than gross liquidity of the spendable funds the public will have at its disposal this year. The public's liquidity surplus so calculated increased by 2,300 billion lire in 1966, compared with 3,200 billion in 1965 and 1,900 billion in 1964.

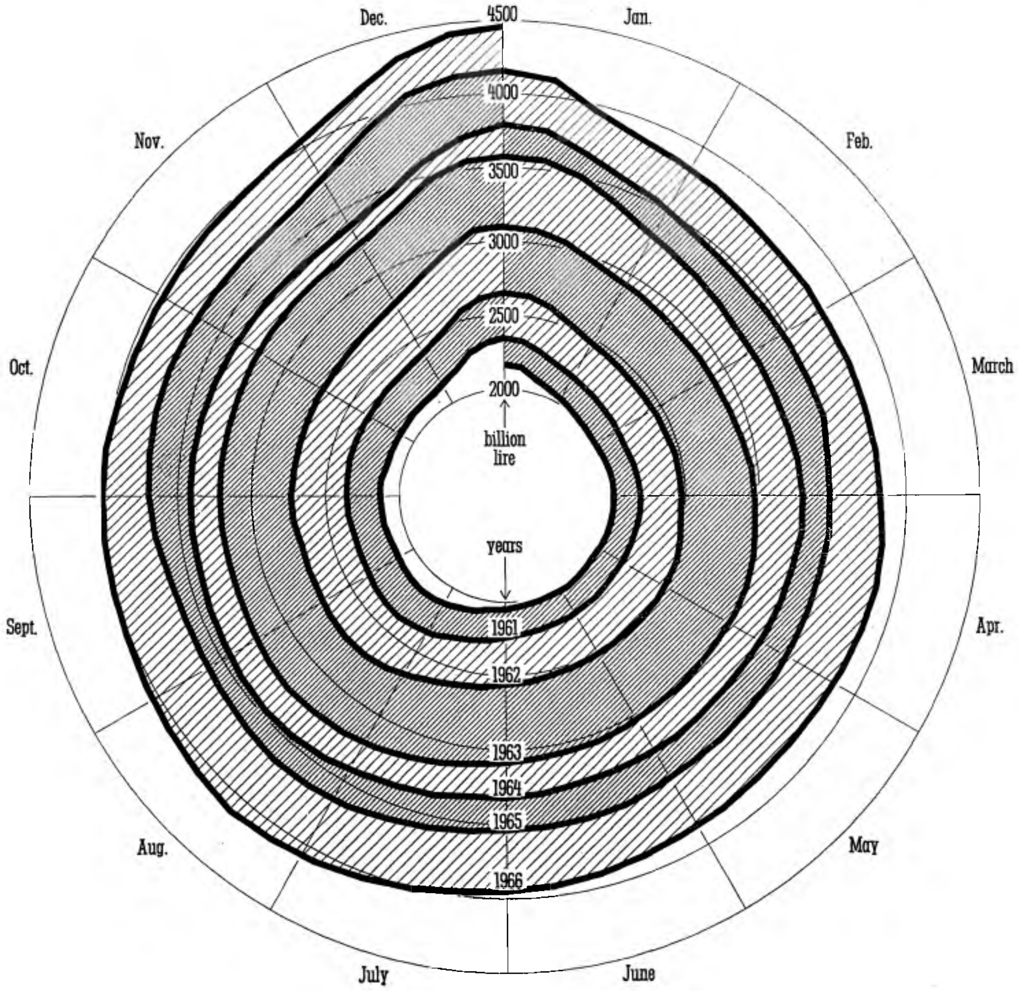
ASSETS AND LIABILITIES IN THE CONSOLIDATED ACCOUNT OF THE LIQUIDITY-CREATING INSTITUTIONS

(amounts and changes in billion lire)



Monetary Circulation.— Between December 1965 and December 1966, the note circulation increased by 312.8 million lire from 4,282.4 to 4,595.2 billion; in 1965 the corresponding increase had been 368.3 billion. The result seems to owe nothing to random factors, such as an exceptionally fast return flow of notes in the last days of 1966, for on the peak day of the note circulation, which normally is the 23rd or the 24th of December, the year-on-year difference was 341 billion in 1966, and 370 billion in 1965.

CHART 13



Monetary circulation
(monthly averages at weekly intervals, in billion lire)

An overall view of the course of the note circulation during the whole of the year may be gained from Chart 13, which shows moving monthly averages of daily circulation. Last year's increase is measured by the distance of the outermost ring from its 1965 position. Since the moving monthly averages are centred on the middle of the span, the average increase of the circulation in, say, January with respect to January 1965 is measured by the mid-month interval. Looking at the curves for 1965 and 1966, it will be seen that the distance between them decreased in the early part of January and then remained virtually constant until the end of March. A subsequent gradual widening of the distance culminated in August with a year-on-year increase of 448.4 billion lire. Thereafter, the margin narrowed steadily, with interruptions only in November and the last weeks of December.

These developments would seem to confirm the view expressed in last year's Report, namely, that the greater expansion of the note circulation during the last quarter of 1965 was due to the payment of pension arrears by the National Social Insurance Institute (I.N.P.S.), quite apart from more widespread industrial recovery. Last year the note circulation seems to have been closely connected with the rate of increase in industrial production, which was very high in the second and third quarters, and relatively lower in the first and fourth ones. In the summer months, furthermore, demand for notes is swelled by foreign visitors as well as by holidays and Italians travelling within their own country, two factors which were strengthened by the general economic recovery; all this explains why the note circulation expanded most in August.

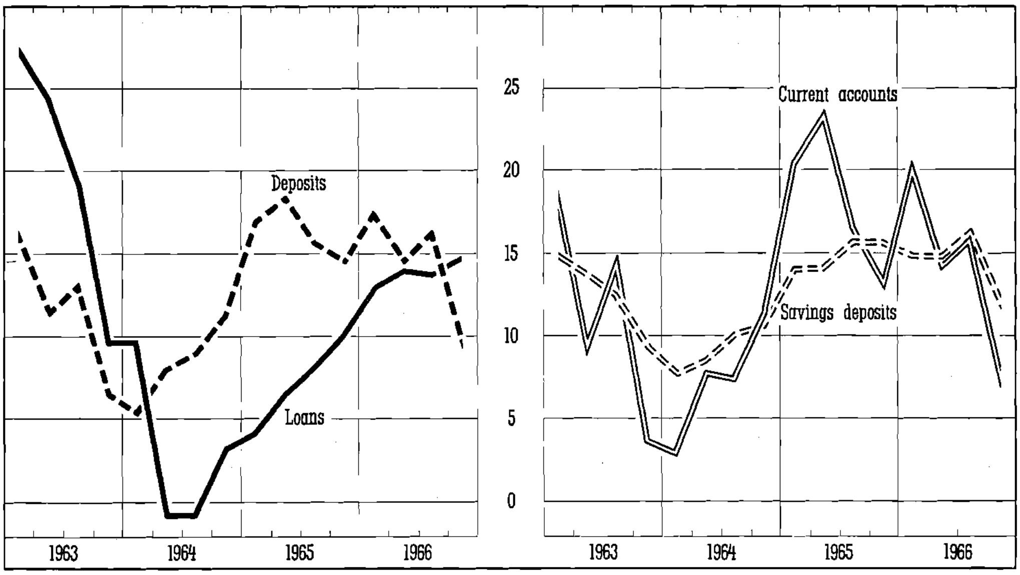
In annual average terms the note circulation increased more last year than in 1965. Taking the whole circulation, that is, not only bank notes but also Treasury notes and coin, net of cash holdings by the Bank of Italy and the Treasury, last year's average circulation was 4,176.2 billion lire, compared with 3,805.1 billion in 1965; the two year's percentage increases were 9.8 and 6.9 per cent, respectively.

IX. *Banking*

Bank credits expanded strongly in 1966, and deposits came in at a slower rate, as is typical of a phase of economic recovery, when firms need additional working capital and therefore have to borrow more and draw down their own liquid resources.

Bank Credits and Deposits.— Loans to domestic clients had begun to pick up in the second half of 1964 and went on expanding steadily throughout 1965; last year their rate of increase doubled from 7.2 to 14.6 per cent. But the upward curve was not continuous; it flattened out in the second and even more so in the third quarter, when instead deposits, both on time and current accounts, picked up in connection mainly with tourist earnings during the summer months. However, the vigorous credit expansion last autumn and even more so during the early months of the current year confirms the continuing upward trend of demand for bank credit (Chart 14).

CHART 14



Bank loans and deposits
(rates of change in quarterly averages, per cent per year; seasonally adjusted figures)

By the end of 1966, the banking system had 15,939 billion lire outstanding in domestic loans; the year's increase of 2,027 billion compares with 933 billion in 1965 (Table 37). Short-term lire credits increased more than three times as much as in 1965 (at a rate of 14.5 per cent compared with 4.2 per cent) and accounted for 1,585 billion lire of the total increment. Foreign-exchange credits, on the other hand, expanded by only 121 billion lire, compared with 239 billion in 1965; one reason was that comparative interest rates at home and abroad made it less profitable to borrow foreign exchange domestically, and in any event the banks were no longer able to supply themselves with funds for such credits by means of lire/dollars swaps at par with the Italian

TABLE 37

OVERALL POSITION OF BANKS

ASSETS

(changes in billion lire)

Period	Liquid assets	Assets tied by monetary author.	Total lending					Other assets
			Loans		Securities		Other lending	
			domestic	foreign	pledged	free		
1964	264.6	145.1	378.7	119.8	167.3	179.7	84.2	979.3
1965	68.1	519.8	933.4	691.5	177.7	875.7	134.0	1,237.3
1966	94.8	703.1	2,027.4	363.1	482.4	522.5	101.3	1,142.7
1966 – 1st quarter .	156.2	252.9	– 99.2	– 197.9	– 63.1	115.6	– 17.4	– 597.1
2nd » .	– 307.3	139.9	440.0	0.7	173.7	173.4	45.9	220.1
3rd » .	402.3	91.5	386.5	375.3	– 80.2	187.5	– 22.2	1,251.8
4th » .	– 156.4	218.8	1,300.1	185.0	452.0	46.0	95.0	267.9

LIABILITIES

Period	Total supply of funds							Other liabilities
	Domestic deposits			Foreign liabilities	Credits fr.Bank of Italy and Italian Exchange Office	Capital	Total	
	Clients' deposits	Other deposits	Total					
1964	1,422.1	124.4	1,546.5	– 179.7	– 121.2	38.9	1,284.5	1,034.2
1965	3,091.5	147.6	3,239.1	250.1	– 136.5	37.3	3,390.0	1,247.5
1966	3,135.8	351.5	3,487.3	266.5	532.3	118.3	4,404.4	1,032.9
1966 – 1st quarter .	283.0	227.9	510.9	– 278.0	– 77.1	20.4	176.2	– 626.2
2nd » .	535.6	– 53.9	481.7	9.6	160.3	14.1	665.7	220.7
3rd » .	747.9	47.8	795.7	304.1	– 101.5	53.7	1,052.0	1,540.5
4th » .	1,569.3	129.7	1,699.0	230.8	550.6	30.1	2,510.5	– 102.1

Exchange Office. Medium- and long-term loans, finally, expanded more than before, under the impact, mainly, of larger loans to the public sector and, to a lesser extent, of loans to households against assignment of a fifth of wages.

The expansion of deposits followed the downward trend begun in the second half of 1965, with the result that the rate of increase dropped from 17.7 to 15.3 per cent and the absolute increment was hardly larger than the year before (3,136 billion lire, as against 3,092 billion). At the end of 1966 total bank deposits amounted to 23,678 billion lire.

With loans expanding at very nearly the same rate as deposits, the loan/deposit ratio declined only fractionally from 67.7 to 67.3 per cent, in striking contrast with a drop of 11 points between the end of 1963 and the end of 1965. An interesting feature to note is a change of direction in the fourth quarter of the year, when the loan/deposit ratio rose in 1966, but declined in 1964 and 1965.

Looking at the changes in loans and deposits classified by categories of bank clients (Table 38), the behaviour pattern of major private companies is seen to have differed on both counts from that of other firms.

TABLE 38

BANK LOANS AND DEPOSITS BY CATEGORIES OF CLIENTS

(annual changes)

Categories of clients	Loans				Deposits				Net position	
	billion lire		per cent		billion lire		per cent		billion lire	
	1965	1966	1965	1966	1965	1966	1965	1966	1965	1966
PUBLIC SECTOR	255.4	342.5	10.5	12.7	270.1	126.2	18.1	7.2	- 14.7	216.3
Local authorities . . .	*182.9*	*133.2*	*26.6*	*15.3*	*65.5*	*83.5*	*40.5*	*36.8*	*117.4*	*49.7*
Autonomous government agencies . . .	—	—	—	—	*1.3*	*7.8*	*7.8*	*43.3*	- *1.3*	- *7.8*
Social Insurance Funds	- *18.5*	*26.2*	*-94.9*		*21.4*	*10.4*	*8.0*	*3.6*	- *39.9*	*15.8*
Other public agencies	*64.7*	*93.4*	*14.0*	*17.7*	*94.9*	*99.3*	*10.3*	*9.8*	- *30.2*	- *5.9*
Public enterprises . .	*26.3*	*89.7*	*2.1*	*7.0*	*87.0*	- *74.8*	*67.4*	*-34.6*	- *60.7*	*164.5*
PRIVATE SECTOR	678.0	1,684.9	6.4	15.0	2,821.4	3,009.6	17.7	16.0	- 2,143.4	- 1,324.7
Major companies . . .	*53.9*	*12.5*	*4.4*	*1.0*	*192.4*	*51.8*	*47.8*	*8.7*	- *138.5*	- *39.3*
Other companies (1) .	*502.3*	*1,493.3*	*6.2*	*17.4*	*1,202.8*	*1,352.5*	*17.5*	*16.8*	- *700.5*	*140.8*
Households (1)	*121.8*	*179.1*	*10.0*	*13.4*	*1,426.2*	*1,605.3*	*16.4*	*15.9*	- *1,304.4*	- *1,426.2*
Total . . .	933.4	2,027.4	7.2	14.6	3,091.5	3,135.8	17.7	15.3	- 2,158.1	- 1,108.4

(1) Disaggregation by estimate.

Even more markedly than in 1965, the banks' relations with medium- and small-sized firms followed the course of cyclical developments, in so far as they faithfully reflected the more widely spread economic recovery together with these firms' structurally stronger dependence upon bank credit.

The cyclical correlation is confirmed by the fact that, with few exceptions, firms in all branches of economic activity borrowed more from the banks last year, and more especially industrial firms, which had borrowed little or even repaid some of their bank debts in 1965; this applies both to all public and private firms as a combined group, and more particularly to the category of small and medium-sized firms. The bulk of the new bank credits went to firms in mineral oil and hydrocarbon, in engineering, textiles, clothing, leather, footwear and chemicals.

A vigorous expansion of loans to small and medium-sized firms lifted the respective rate of increase from 6.2 per cent in 1965 to 17.4 per cent last year, the highest among any group of firms; their deposits increased less in absolute terms than their borrowing, and last year's rate of increase of 16.8 per cent fell slightly short of the 1965 rate of 17.5 per cent. The total bank debts of this category of firms had greatly increased (by 940 billion lire) in 1963 and then tumbled in two years from 2,055 to 540 billion lire; last year they rose again by 141 billion to a total of 681 billion, which however is still far short of the end-1961 level of 964 billion (1961 is the furthest year back for which the figures can be analysed).

By contrast, the rate of increase of loans to major private companies slowed down again in 1966 (from 4.4 to 1.0 per cent), bringing the total decline since the end of 1963 to 30 points. The distribution of new loans by branches of economic activity shows a rather mixed pattern, partly in connection with the particular situation of certain companies. On the deposit side, last year's sharp reduction in the rate of increase (from 47.8 to 8.7 per cent) is explained by the very strong expansion of the preceding year. What happened was largely that the companies at once spent their receipts which in 1965 had gone to swell current accounts. Large firms in most sectors of economic activity either drew down their current accounts or deposited less on them, but the movement was most marked in the chemical industry; exceptions were the food sector and the textiles, clothing and engineering industries, whose deposits increased sharply.

In all, the group of major private companies slightly reduced its overall indebtedness to the banks (by 39 billion lire), and certainly a good deal less than in 1965 (139 billion). By the end of last year, their total net bank debts were back to what they had been in December 1963 (649 billion lire), but even so were still more than three times as high as at the end of 1961.

Public enterprises, in their turn, also saw their net bank debts rise greatly over the course of the last five years, but, given their easier access to the capital market, less so than large private companies. The net indebtedness of public enterprises to the banks little more than doubled between the end of 1961 and the end of 1966 (from 580 to 1,237 billion lire).

Credits used by public enterprises increased at a much higher rate than in 1965 (7.0 per cent, compared with 2.1 per cent). On the deposits side, these firms withdrew 75 billion of the 87 billion they had temporarily left with the banks in 1965.

Excluding public enterprises, the rest of the public sector had a net credit balance of 216 billion lire with the banking system at the end of 1965, and reduced it last year to 98 billion. Contrary to all the other components of this group, local authorities are deeply in debt to the banking system, their total debts having risen from 201 to 693 billion lire since the end of 1961; however, last year's increase of 50 billion was a good deal smaller than the 117 billion of 1965, mainly because regional authorities were accumulating large unspent revenues.

Together, the public sector and companies (excluding households) incurred net new bank debts of 318 billion lire last year, thus raising their total indebtedness to the banks from 1,523 to 2,469 billion lire in the five years ending in December 1966. The combined total had reached a peak of 3,284 billion lire in 1963, then contracted for two years, and more especially in 1965, by altogether 1,100 billion, and started rising again last year. The public sector, including public enterprises, was responsible for about two-thirds of last year's total increase of 318 billion lire.

Households, on the other hand, probably again increased their net credit balance with the banks, though less so than in 1965. Over the two last years together, their net credit balance rose by something like 2,700 billion lire, which is almost twice as much as in the two preceding years; at the end of 1966 it was well over 10,000 billion lire. Last year's slower growth of the households' net credit balance is the result of a lower rate of increase in deposits (15.9 per cent, compared with 16.4 per cent in 1965) and a higher rate of increase in credit use (13.4 as against 10.0 per cent). The explanation of this deceleration probably lies in the households' higher bond subscriptions, in rather middling harvests and, to some extent, in larger consumption.

The Flow of Funds to and from the Banks.— In all, new deposits exceeded new loans by 1,108 billion lire in 1966, an amount more than 1,000 billion short of the corresponding excess in 1965 (Table 38). Other credit and debit transactions with resident clients (the category Clients in Table 39), among which purchases of securities were outstanding, caused a net outflow of 97 billion lire from the banks (432 billion in 1965), so that the true excess came down to 1,011 billion lire, compared with 1,727 billion in 1965 (Table 39). New security subscriptions absorbed 220 billion lire, about half of this amount being attributable to the Savings Banks Association's subscriptions of bonds for inclusion in the saving banks' compulsory reserves; in 1965, bank portfolios had risen by twice as much, owing mostly to the banks taking in higher amounts of E.N.E.L. bonds and to large purchases of E.N.I. and private company bonds.

The banks' clients as a whole had a liquidity surplus of 1,500 billion lire vis-à-vis the banking system; this was 900 billion lire less than in 1965, but almost 150 billion more than in 1964. Their medium- and long-term deficit amounted to 488 billion lire last year, compared with 687 billion in 1965 and 516 billion in 1964.

The banks used about 80 per cent (35 per cent in 1965) of the excess funds deriving from their transactions with clients to finance the Treasury by buying government stock (329 billion lire), bonds issued on behalf of the Treasury (385 billion) and Treasury Bills (91 billion). In 1965, the total amount channelled to the Treasury was 200 billion lower, and two-thirds of it consisted of purchases of government stock (137 billion) and bonds issued on behalf of the Treasury (282 billion), while the remaining third was used to buy Treasury Bills (212 billion). The reason why the banks purchased fewer Treasury Bills last year was that they needed fewer for compulsory reserves since the monetary authorities had decided in September 1965 that mortgage bonds may be used to cover additional savings deposits; on the other hand, the banks last year added 26 billion lire's worth of Treasury Bills to their free portfolios, whereas they had reduced their holdings in 1965.

The supply of bank funds to special credit institutes exceeded the preceding year's by more than 100 billion lire (388 compared with 273 billion), but credits in the strict sense—excluding, that is, bonds purchased for compulsory reserves—were rather lower (205 as against 268

TABLE 39

BANK ASSETS AND LIABILITIES

(net changes in billion lire) (1)

Categories of assets and liabilities / Sectors	Foreign Sector	Treasury and Central Post Office Savings Fund	Bank of Italy and Italian Exchange Office	Special Credit Institutes	Clients	Unclassifiable and discrepancies	Total
				1965			
a) Notes and coin	2.6		35.7				38.3
b) Sight deposits	20.6	- 8.8	30.9	- 13.3	- 1,607.4	54.1	- 1,523.9
c) Other deposits	- 80.0		276.6	- 99.8	- 1,490.0		- 1,393.2
d) Short-term securities	12.0	212.0					224.0
e) Short-term credits	441.4	- 9.6	136.5	- 1.9	683.6		1,250.0
f) Medium- and long-term credits				85.5	249.8		335.3
g) Bonds		418.9		289.5	417.4		1,125.8
h) Shares and equity participations				12.5	20.0	9.5	42.0
i) Other assets and liabilities						- 98.3	- 98.3
Total . . .	396.6	612.5	479.7	272.5	- 1,726 6	- 34.7	—
Total lending	*441.4*	*442.3*	*136.5*	*268.1*	*- 1,841.5*	*- 34.7*	*- 587.9*
Free reserves	*29.6*	*- 28.1*	*66.6*				*68.1*
Tied reserves	*- 74.4*	*198.3*	*276.6*	*4.4*	*114.9*		*519.8*
				1966			
a) Notes and coin	- 0.1		- 22.0				- 22.1
b) Sight deposits	72.7	- 0.2	18.0	- 42.6	- 1,468.2	8.9	- 1,411.4
c) Other deposits	88.1		217.6	- 67.7	- 1,736.4		- 1,498.4
d) Short-term securities	- 2.5	91.2					88.7
e) Short-term credits	96.6	0.2	- 532.3	3.1	1,705.6		1,273.2
f) Medium- and long-term credits				40.2	321.8		362.0
g) Bonds		714.3		405.4	191.5		1,311.2
h) Shares and equity participations				49.8	- 25.5	- 10.2	14.1
i) Other assets and liabilities						- 117.3	- 117.3
Total . . .	254.8	805.5	- 318.7	388.2	- 1,011.2	- 118.6	—
Total lending	*96.6*	*668.1*	*- 532.3*	*204.8*	*- 1,116.5*	*- 118.6*	*- 797.9*
Free reserves	*72.7*	*26.1*	*- 4.0*				*94.8*
Tied reserves	*85.5*	*111.3*	*217.6*	*183.4*	*105.3*		*703.1*

(1) Surplus (+) or deficit (−) of assets compared with liabilities.

billion). In all, the banks' portfolios of bonds from special credit institutes rose by 405 billion lire (290 billion in 1965) and, for the reasons mentioned, their holdings of mortgage bonds increased most.

The banks' net foreign position again improved appreciably last year, thanks to increases of 521 billion lire in their foreign assets (647 billion in 1965) and of only 266 billion in their foreign liabilities (250 in 1965).

More than one third of the 255-billion increment in net credits to abroad consists of non-liquid assets; another third, in liquid form, remained tied because banks were not allowed to build up or increase any net debit position abroad, and the rest was used to increase convertible-currency liquidities. In 1965 the banks, then in a better liquidity position, had used for credits (non-liquid assets) part of the liquid funds which were gradually released in the course of the transition from a minus to a plus position, with the result that credits increased faster than total assets abroad (by 692 and 647 billion lire, respectively); in 1966 they represented 70 per cent of total assets. Convertible currency holdings counted as liquidities increased only a little in 1965, but by 73 billion lire in 1966 and thus came to account for more than 75 per cent of the overall increase in bank liquidity.

The Banks' Cash and Liquidity Position.— The gap between the banks' supply of funds and their disbursements was filled last year by recourse to the central bank in an amount of 319 billion lire (net of deposits for free and tied reserves. which came to 213 billion) (Table 39).

In all, the Bank of Italy made 532 billion lire available to the banks, two-thirds of them in open credit lines, which the banks used almost fully but as a rule for short-term advances only, and the rest through rediscounting trade bills. These credits were concentrated largely in the last quarter of the year, when the balance of payments and government bond issues exercised a liquidity-restricting effect.

In 1965, by contrast, when the banks' transactions with clients generated a higher excess supply of funds and they supplied less to other sectors, they transferred 480 billion lire to the Bank of Italy, partly for tied reserves (277 billion) and free reserves (66 billion, of which 44 billion as disposable margin on their credit line with the Bank), and the rest to repay lire and foreign-exchange loans (137 billion).

In consequence, credits from the Bank of Italy and the Italian Exchange Office came to account for 5.1 per cent of the banks' total supply of funds last year, after the ratio had fallen from 6.6 per cent in 1963 to 3.8 per cent in 1965 (Table 40). The banks' large-scale recourse to the central bank was a symptom of the liquidity strain resulting from the strong credit expansion and continuing large purchases of securities. Excluding securities tied for reserves, the banks' portfolios rose almost as much as in 1965 (by 1,005 compared with 1,053 billion lire), but while 83 per cent of the increment remained in free portfolios in 1965, only 52 per cent did so last year. The ratio of securities to clients' deposits, which had already risen from 16.6 to 19.3 per cent in 1965, climbed further last year to end up at 21.0 per cent in December.

TABLE 40

FINANCIAL RATIOS

(per cent of end-month totals)

Date	liquid assets / clients' deposits	domestic loans / clients' deposits	securities / clients' deposits	foreign loans / credits	free portfolios / credits	clients' deposits / total supply of funds	Bank Italy-Exch. Off. credits / total supply of funds
1963 – Dec. . . .	4.9	78.6	15.9	2.5	9.6	79.5	6.0
1964 – Dec. . . .	6.0	74.4	16.6	3.1	10.1	81.4	5.0
1965 – March . .	7.5	71.3	16.6	3.2	10.8	82.2	3.8
June . . .	6.4	69.8	18.4	3.7	12.2	82.4	4.0
Sept. . .	7.6	68.3	18.5	5.4	12.7	83.1	3.8
Dec. . . .	5.4	67.7	19.3	6.1	13.1	82.7	3.8
1966 – March . .	6.1	63.3	19.2	5.2	13.9	83.3	3.5
June . . .	4.5	66.7	20.4	5.0	14.1	83.2	4.0
Sept. . .	6.2	66.2	20.2	6.6	14.5	82.7	3.5
Dec. . . .	5.1	67.3	21.0	6.8	13.4	81.0	5.1

The residual effect of the banks' various operations with the central bank was to raise bank liquidity by 95 billion lire, but nevertheless the liquidity ratio (liquid assets over clients' deposits) declined again (from 6.0 in 1964 through 5.4 to 5.1 last year).

The credit utilization ratio fell last year from 69.8 to 69.0 per cent, credits extended having risen more than credits used, especially in the higher size classes of individual credits. At the end of 1966, 7,782 billion lire of credit extended were undrawn, compared with 6,560 billion a year earlier.

The banking system's share in the total flow of funds keeps expanding steadily. Between 1958 and 1966, the flow of funds—that is, the annual increase in the economy's financial assets—increased from 1,862 to 6,223 billion lire, and the value of real resources used—that is, the sum of consumption, investment and exports—rose from 20,659 to

44,699 billion. The ratio between the two increased from 9.0 to 13.9 per cent, but the proportion of bank credits rose faster than that of other funds. This latter trend was reinforced during the last two years, when the ratio of bank funds to total resources rose from 4.0 per cent in 1964 to 9.0 in 1966, while the corresponding proportion of non-bank funds increased from 3.9 to 4.9 per cent (Table 41).

TABLE 41

REAL RESOURCES AND FLOW OF FUNDS

(billion lire)

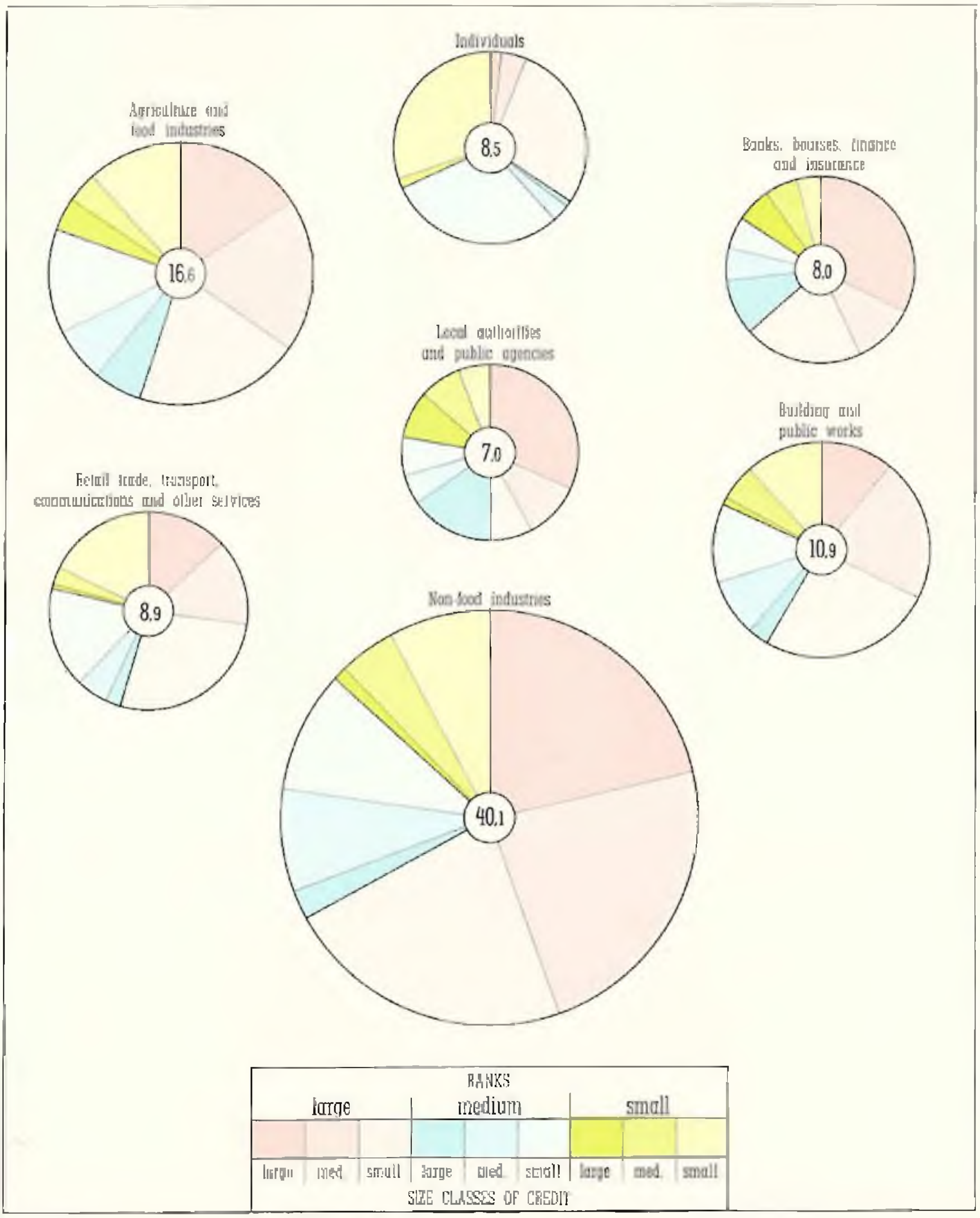
Items	1958	1959	1960	1961	1962	1963	1964	1965	1966
Total resources (1)	20,659	21,874	24,411	27,113	30,698	35,631	38,370	41,010	44,699
Total flow of funds (2)	1,862	2,367	2,977	3,335	3,949	3,068	3,022	5,161	6,223
bank funds (3)	*1,114*	*1,448*	*1,675*	*2,004*	*2,681*	*2,516*	*1,519*	*3,150*	*4,028*
non-bank funds	*748*	*919*	*1,302*	*1,331*	*1,268*	*552*	*1,503*	*2,011*	*2,195*
Ratios per cent									
Total flow of funds / *Total resources*	9.0	10.8	12.2	12.3	12.8	8.6	7.9	12.6	13.9
Flow of bank funds / *Total resources*	*5.4*	*6.6*	*6.9*	*7.4*	*8.7*	*7.1*	*4.0*	*7.7*	*9.0*
Flow of non-bank funds / *Total resources*	*3.6*	*4.2*	*5.3*	*4.9*	*4.1*	*1.5*	3.9	*4.9*	*4.9*
Flow of bank funds / Total flow of funds	59.8	61.2	56.3	60.1	67.9	82.0	50.3	61.0	64.7

(1) Sum of consumption, investment and exports.
(2) Annual increase in the economy's financial assets; foreign assets are included net of foreign liabilities.
(3) Including free and tied reserves.

The growing proportion of bank funds in the total flow of funds is only in part justified by relatively high working capital requirements in the improved economic, and especially industrial, situation of the sixties. Leaving aside other structural changes, the outstanding contributing factor was the persistent weakness of the capital market. This was why the share of finance credits in the banks' facilities to their clients increased so much; the banks still seem to carry part of the prefinancing credits for investment programmes put in hand before the recession, even though the steady increase in the large firms' indebtedness to banks did slow down somewhat in 1964 and 1965 as a result of other financial

BANK CREDIT

Percentage composition on 31 December 1966 by branches of economic activity and size classes of credit and banks



operations carried out by some companies. Another weighty factor influencing the structure of bank assets in the same direction is the expansion of credits to public administration. These two factors combine with the normal effects of a credit expansion to cause a shift of credits toward the higher size classes, where clients have more bargaining power and often succeed in borrowing at lower rates.

The Structure of Bank Credits.— An analysis of bank credits in terms of size classes of individual credits and lending banks shows that, at the end of 1966, 74 per cent of credit risks of 1 billion lire or more were carried by large banks, 17 per cent by medium-sized banks and 9 per cent by small banks. The three groups of banks accounted, in that order, for 61, 23 and 16 per cent of credit risks between 100 and 999 million lire, and for 49, 26 and 25 per cent of those below 100 million.

In the group of large banks alone, the three above size classes of credit account, respectively, for 32, 30 and 38 per cent of total credits; for the group of medium-sized banks the figures are 18, 29 and 53 per cent, and for small banks they are 12, 25 and 63 per cent.

Thus banks of all sizes are represented in all three size classes of credit, but the differential distribution pattern shows a clear correlation between the size of banks and the size of the individual credit risks they assume, with the implication that the present credit structure satisfies, and reconciles, the requirements of competition and specialization.

This pattern is also in line with the provisions of the Bank Law, by virtue of which each individual bank's capital is the yardstick for its freedom to extend credits without prior authorization of the Bank of Italy's Bank Supervisory Department (loans exceeding one fifth of the bank's capital). This does not mean, incidentally, that the correlation between the size of credits and lending banks is necessarily reflected in the dynamics of bank credit; the big banks account for so large a proportion of all credits in all size classes (for almost 50 per cent of credits in the lowest size class), that they obviously are sensitive also to the credit demand of small and medium-sized firms.

Looking at the distribution of bank credit by branches of economic activity at the end of 1966 (Table 42), non-food industries had the lion's share of 40.1 per cent, followed by the group labelled Agriculture and

TABLE 42

THE STRUCTURE OF BANK CREDIT

(percentage composition by branches of economic activity and by size classes of credits and banks)

Branches of economic activity	BANKS (1) large	medium	small	total	large	medium	small	total
	CREDITS OF							
	1 billion and more				100 to 999 million			
Individuals (2)	0.1	0.1	—	0.2	0.4	0.3	0.1	0.8
Local authorities and public agencies	2.2	1.1	0.6	3.9	0.8	0.4	0.5	1.7
Banks, bourses, finance & insurance	2.6	0.8	0.5	3.9	0.9	0.4	0.5	1.8
Retail trade, transport & other services	1.1	0.1	. .	1.2	1.2	0.5	0.3	2.0
retail trade	*0.2*	. .	—	*0.2*	*0.4*	*0.2*	*0.1*	*0.7*
transport	*0.8*	. .	. .	*0.8*	*0.5*	*0.2*	*0.2*	*0.9*
Building, public works & land reclamation	1.3	0.3	. .	1.6	2.3	1.0	0.7	4.0
building	*0.7*	*0.2*	. .	*0.9*	*2.0*	*0.8*	*0.6*	*3.4*
Agriculture & food industries (3)	2.6	0.9	0.7	4.2	3.1	1.1	0.6	4.8
food & rel. prod.	*2.3*	*0.9*	*0.7*	*3.9*	*2.6*	*0.9*	*0.5*	*4.0*
Non-food industries (3)	8.6	1.0	0.4	10.0	9.2	3.1	1.8	14.1
wood & rel. prod.	. .	*0.1*	—	*0.1*	*0.4*	*0.1*	. .	*0.5*
mining & quarrying	. .	—	—	. .	*0.2*	. .	. .	*0.2*
mineral oils	*2.1*	*0.2*	*0.1*	*2.4*	*0.4*	*0.1*	*0.1*	*0.6*
metallurgy	*2.5*	*0.2*	*0.1*	*2.8*	*1.0*	*0.5*	*0.2*	*1.7*
engineering	*2.3*	*0.3*	. .	*2.6*	*3.1*	*0.9*	*0.6*	*4.6*
chemicals	*0.7*	*0.1*	. .	*0.8*	*0.8*	*0.3*	*0.2*	*1.3*
textiles, leather & clothing	*0.5*	*0.1*	. .	*0.6*	*1.9*	*0.6*	*0.5*	*3.0*
Total	18.5	4.3	2.2	25.0	17.9	6.8	4.5	29.2
Number of clients	. .	. .	. .	. .	*0.4*	*0.2*	*0.1*	*0.7*
	0 to 99 million				Total			
Individuals (2)	2.4	2.5	2.6	7.5	2.9	2.9	2.7	8.5
Local authorities and public agencies	0.5	0.5	0.4	1.4	3.5	2.0	1.5	7.0
Banks, bourses, finance & insurance	1.6	0.4	0.3	2.3	5.1	1.6	1.3	8.0
Retail trade, transport & other services	2.6	1.4	1.7	5.7	4.9	2.0	2.0	8.9
retail trade	*1.7*	*1.0*	*1.1*	*3.8*	*2.3*	*1.2*	*1.2*	*4.7*
transport	*0.5*	*0.1*	*0.3*	*0.9*	*1.8*	*0.3*	*0.5*	*2.6*
Building, public works & land reclamation	2.8	1.3	1.2	5.3	6.4	2.6	1.9	10.9
building	*2.2*	*1.2*	*1.2*	*4.6*	*4.9*	*2.2*	*1.8*	*8.9*
Agriculture & food industries (3)	3.4	2.2	2.0	7.6	9.1	4.2	3.3	16.6
food & rel. prod.	*1.9*	*1.0*	*1.1*	*4.0*	*6.8*	*2.8*	*2.3*	*11.9*
Non-food industries (3)	9.0	3.9	3.1	16.0	26.8	8.0	5.3	40.1
wood & rel. prod.	*0.8*	*0.4*	*0.4*	*1.6*	*1.2*	*0.6*	*0.4*	*2.2*
mining & quarrying	*0.3*	*0.2*	*0.2*	*0.7*	*0.5*	*0.2*	*0.2*	*0.9*
mineral oils	*0.1*	*0.2*	. .	*0.3*	*2.6*	*0.5*	*0.2*	*3.3*
metallurgy	*0.8*	*0.2*	*0.2*	*1.2*	*4.3*	*0.9*	*0.5*	*5.7*
engineering	*2.8*	*1.1*	*0.8*	*4.7*	*8.2*	*2.3*	*1.4*	*11.9*
chemicals	*0.7*	*0.3*	*0.2*	*1.2*	*2.2*	*0.7*	*0.4*	*3.3*
textiles, leather & clothing	*1.9*	*0.8*	*0.8*	*3.5*	*4.3*	*1.5*	*1.3*	*7.1*
Total	22.3	12.2	11.3	45.8	58.7	23.3	18.0	100.0
Number of clients	*24.5*	*37.4*	*37.4*	*99.3*	*24.9*	*37.6*	*37.5*	*100.0*

(1) 365 banks surveyed, excl. banking associations, classified as follows: (*a*) large banks: 12 major banks accounting individually for not less than 2 per cent of total assets or liabilities of the group; (*b*) medium banks: remaining 38 major banks belonging to the group of 50 required to file supplementary statistical information with the supervisory authority; (*c*) small banks: remaining 315 banks in the survey group. — (2) Net of loans on collateral. — (3) Including wholesale trade.

food industries with 16.6 per cent, of which the bulk was attributable to the food industries. Building, public works and land reclamation accounted for 10.9 per cent of bank credits, retail trade, transport and other services for 8.9 per cent, and individuals for almost as much (8.5 per cent). The credits of large banks show a maximum frequency of large credits to Public Administration and finance and insurance firms (Chart 15).

Bank Costs and Earnings.— On the basis of a survey of the costs and earnings of a group of banks responsible for 60 per cent of deposits it would appear that costs directly attributable to the total supply of funds again rose more than general costs, as they had done in 1965.

In both years direct supply costs went up by close to 20 per cent, of which 13 per cent were due to the growth of deposits, and the rest to their higher unit costs, which rose from 3.09 per cent in 1964 through 3.28 per cent to about 3.50 per cent last year.

Total general costs went up last year by about 13 per cent, and their main ingredient, personnel costs, by about 8 per cent. In 1965 the disparity between increases in direct supply costs and general costs was even more marked, given that the latter rose by only 9 per cent; personnel costs also rose relatively less in 1965.

The rise of general costs during the last two years had a lot to do also with the growth of commission business.

If general costs are imputed to the various sections of bank business in proportion to the earnings each of them brings in, general costs imputable to supply operations, loan operations and investment operations went up by 9 per cent last year, compared with 5 per cent in 1965. Consequently, the incidence of general costs per 100 lire of total supply of funds dropped from 2.79 per cent in 1964 through 2.60 in 1965 to 2.54 per cent last year. Adding direct supply costs, the banks' total supply costs worked out at 5.88 per cent in 1964 and 1965, and at 6.04 per cent last year. In both years, funds from abroad were responsible for much of the cost increase.

On the earnings side, interests on ordinary loans rose proportionately a little less last year than the loans themselves, which means that the average unit yield on loans dropped a little, whereas it had been virtually stationary in 1965.

As against that, foreign-exchange assets earned proportionately more; their volume grew by 22 per cent, but earnings from them by about one third.

Taking lire loans and foreign-exchange assets together, unit receipts were the same as in the preceding year.

As in 1965, bank profits owed much last year to earnings from commission business, which increased by almost 25 per cent in both years. This is a section of bank business which is assuming growing importance from year to year; this applies both to intermediation in securities, especially with respect to their placement, and to the whole range of general banking services, which the banks are making a great effort to adapt to all their clients' requirements.

Interest on capital market investments also increased at a higher rate than total receipts, but the rate of increase rose less steeply than in 1965.

X. *The Economy's Total Financial Assets and Supply of Funds*

At 4,020 billion lire, the financial surplus of households was 1,040 billion lire larger in 1966 than in 1965, thanks in great part to a higher surplus on long-term operations. Non-financial enterprises had a lower deficit on long-term operations, but since their surplus on short-term ones disappeared completely, their total financial deficit increased (Tables 43 and 44).

Summing the figures for these two sectors, which together make up the Economy, we get a long-term surplus of 390 billion (compared with a deficit of 560 billion in 1965) and a short-term surplus of 2,360 billion, considerably short of the 1965 surplus of 3,150 billion.

The total financial surplus of the Economy thus works out at 2,750 billion lire, compared with 2,580 billion in 1965. As against that, Public Administration had a higher deficit, due to long-term operations, and the Foreign Sector a smaller one.

Short-term funds channelled by financial enterprises into long-term uses amounted, net, to 1,530 billion lire (Table 43), and the Central Post Office Savings Fund made another 570 billion lire of short-term funds available for long-term finance (Table 44).

TABLE 43

SHORT- AND LONG-TERM FINANCIAL SURPLUSES AND DEFICITS

(changes in billion lire)

Items	Economy			Financial enterprises	Public administration		Foreign Sector	Unclassifiable and discrepancies
	Households	Non financial enterprises	Total		Treasury and Central Post Office Savings Fund	Local authorities and Social Insurance Funds		
1965								
Balance of:								
short-term operations	2,097.2	1,048.1	3,145.3	- 1,304.1	- 828.9	- 97.2	- 905.4	- 9.7
long-term operations	886.3	- 1,448.1	- 561.8	1,241.2	10.5	- 795.5	- 117.1	222.7
Net financial surplus (+) or deficit (−)	2,983.5	- 400.0	2,583.5	- 62.9	- 818.4	- 892.7	- 1,022.5	213.0
1966								
Balance of:								
short-term operations	2,411.4	- 50.3	2,361.1	- 1,589.7	- 250.3	- 133.6	- 325.5	- 62.0
long-term operations	1,612.1	- 1,218.8	393.3	1,534.9	- 815.3	- 915.7	- 541.2	344.0
Net financial surplus (+) or deficit (−)	4,023.5	- 1,269.1	2,754.4	- 54.8	- 1,065.6	- 1,049.3	- 866.7	282.0

The Economy's Financial Assets.— The size and structure of changes in the Economy's financial assets and liabilities are the result of spending decisions and choices as regards saving and borrowing. In 1966 the increase in the Economy's financial assets, that is, the Economy's gross saving, amounted to about 6,490 billion lire, compared with 5,310 billion in 1965 (Table 45).

Large parts of the increment are attributable to the deficit of Public Administration and to finance furnished to the Economy itself. The ratio of the increase in the Economy's financial assets to gross national product rose again last year to reach 17 per cent, with the largest increases in the respective ratios of fixed-interest securities and foreign assets.

Liquid asset formation accounted for 60 per cent of total new financial assets and thus for a lower proportion not only than in 1965 (70 per cent), but also than in the years 1961-1963 (around 64 per

(changes in billion lire;

Sectors / Classes of assets and *liabilities*	1965											
			Financial enterprises				Public administration					
	Households	Non-financial enterprises	Bank of Italy and Ital. Exch. Office	Banks	Special credit institutes	Insurance companies	Treasury	Central Post Office Savings Fund	Local authorities	Social Insurance Funds	Foreign Sector	Unclassifiable and discrepancies
A) Gold	—	—	**185.7**	—	—	—	—	—	—	—	*185.7*	—
a) Notes and coin	**274.8**	**70.0**	**-1.2**	**38.3**	**-0.7**	**0.5**	**-0.6**	—	—	**-1.5**	—	—
Notes and coin	—	—	*368.3*	—	—	—	*8.7*	—	—	—	*2.6*	—
b) Sight deposits	**480.0**	**1,034.8**	**3.4**	**464.3**	**46.3**	**46.7**	—	—	**65.5**	**11.5**	**11.5**	**102.8**
Sight deposits	—	—	*68.1*	*2,073.8*	*6.2*	—	*-4.1*	*28.4*	—	—	*20.6*	*73.8*
1) Bank deposits	468.0	1,005.8	—	*1,607.4*	—	46.7	—	—	65.5	21.4	—	—
2) Cheques in clearing	—	—	—	115.3	—	—	—	—	—	—	—	*115.3*
3) Cashiers' cheques outstanding	—	—	—	*61.2*	—	—	—	—	—	—	—	61.2
4) Postal deposits	12.0	29.0	—	—	—	—	—	*29.7*	—	-11.3	—	—
5) Interbank accounts	—	—	—	306.3	19.5	—	—	—	—	—	—	37.2
Interbank accounts	—	—	—	*405.2*	*6.2*	—	—	—	—	—	—	*-48.4*
6) Dep. w. Bank of Italy and Ital. Exch. Off.	—	—	*68.1*	30.9	19.9	—	—	—	—	1.4	11.5	4.4
7) Foreign & other sight dep.	—	—	3.4	11.8	6.9	—	*-4.1*	*-1.3*	—	—	*20.6*	*6.9*
c) Other deposits	**1,392.3**	**553.8**	**3.1**	**562.4**	**99.8**	**-13.7**	**-0.1**	**-54.2**	—	**-54.2**	**12.3**	—
Other deposits	—	—	*288.8*	*1,896.7*	*61.4*	—	*-24.6*	*376.1*	—	—	*-76.9*	*-20.0*
1) Bank deposits	958.2	531.8	—	*1,490.0*	—	—	—	—	—	—	—	—
2) Postal deposits	338.9	35.0	—	—	—	—	—	*376.1*	—	2.2	—	—
3) Interbank accounts	—	—	—	365.8	99.8	—	—	—	—	—	—	—
Interbank accounts	—	—	—	*485.6*	—	—	—	—	—	—	—	*-20.0*
4) Spec. cred. inst. sav. cert.	95.2	—	—	—	*95.2*	—	—	—	—	—	—	—
5) Foreign deposits	—	—	3.1	-80.0	—	—	—	—	—	—	12.3	—
Foreign deposits	—	—	*12.3*	—	—	—	—	—	—	—	*-76.9*	—
6) Others	—	-13.0	—	276.6	—	-13.7	-0.1	-54.2	—	-56.4	—	—
Others	—	—	*276.5*	*-78.9*	*-33.8*	—	*-24.6*	—	—	—	—	—
d) Short-term securities	**-2.2**	—	**-200.7**	**224.0**	**-1.0**	—	*75.2*	—	—	—	*-55.1*	—
e) Short-term credits	—	—	**585.8**	**1,373.7**	**22.4**	**14.8**	—	—	—	—	**231.4**	**59.8**
Short-term credits	*47.7*	*610.5*	*-18.7*	*128.3*	*-4.7*	—	*814.3*	—	*73.2*	*45.3*	*1.083.7*	*8.3*
1) from banks	*48.2*	*576.7*	—	683.6	—	—	—	—	*73.2*	*-14.5*	—	—
2) from spec. credit inst.	—	*33.8*	—	—	33.8	—	—	—	—	—	—	—
3) From Bank of Italy & Ital. Exch. Office	*-0.5*	—	193.6	*-136.5*	*-4.7*	—	*335.3*	—	—	—	—	—
4) Foreign and others	—	—	392.2	690.1	-11.4	14.8	—	—	—	—	231.4	59.8
Foreign and others	—	—	*-18.7*	*264.8*	—	—	*-21.0*	—	—	*59.8*	*1,083.7*	*8.3*
f) Medium- and long-term credits	—	**59.6**	**19.8**	**355.6**	**801.3**	**16.0**	**74.5**	**463.4**	**1.8**	**53.4**	**150.6**	**-4.4**
Medium-and long-term credits	*220.9*	*743.7*	—	*20.3*	*174.7*	—	*37.2*	—	*735.0*	*-0.1*	*58.3*	*1.6*
1) from banks	*73.6*	*65.8*	—	249.8	—	—	—	—	*109.7*	*0.7*	—	—
2) from spec. credit inst.	*120.0*	*489.2*	—	—	765.0	—	—	—	*155.8*	—	—	—
3) to spec. credit inst.	—	-0.1	—	105.8	20.3	—	—	—	1.8	—	—	-3.6
to spec. credit inst.	—	—	—	*20.3*	*103.9*	—	—	—	—	—	—	—
4) Foreign credits	—	59.7	-17.4	—	16.0	—	—	—	—	—	150.6	—
Foreign credits	—	*111.5*	—	—	*39.1*	—	—	—	—	—	*58.3*	—
5) Others	—	—	37.2	—	—	16.0	74.5	463.4	—	53.4	—	-0.8
Others	*27.3*	*77.2*	—	—	*31.7*	—	*37,2*	—	*469.5*	*-0.8*	—	*1.6*
g) Bonds	**664.4**	**70.0**	**158.2**	**1,125.8**	**34.4**	**25.5**	—	**2.3**	—	**4.3**	**13.3**	—
Bonds	—	*648.6*	—	—	*646.4*	—	*672.5*	—	*-0.5*	—	*127.9*	*3.3*
1) Government stock	137.9	25.0	51.6	418.9	15.0	3.3	*672.5*	14.6	—	3.3	2.9	—
2) Bonds of spec. credit inst.	322.1	25.0	-0.9	289.5	0.4	14.7	—	-8.5	—	4.1	—	—
Bonds of spec. credit inst.	—	—	—	—	*646.4*	—	—	—	—	—	—	—
3) Other bonds	204.4	20.0	1.7	417.4	8.0	7.5	—	-3.8	—	-3.1	10.4	—
Other bonds	—	*648.6*	—	—	—	—	—	—	*-0.5*	—	*11.1*	*3.3*
4) Foreign bonds	—	—	105.8	—	11.0	—	—	—	—	—	*116.8*	—
h) Shares and equity participations	**-64.3**	**237.6**	—	**33.4**	**21.4**	**14.6**	**187.0**	—	**45.0**	**0.2**	**136.4**	—
Shares and equity participations	—	*455.0*	—	*3.5*	*107.3*	—	—	—	—	—	*36.0*	*9.5*
i) **Other assets and liabilities**	**507.1**	**32.0**	—	—	—	—	—	—	—	**6.2**	—	—
Other assets and liabilities	—	—	—	—	—	*167.3*	—	*7.0*	—	*172.0*	*192.8*	*6.2*
1) Actuarial reserves	314.3	25.0	—	—	—	*167.3*	—	—	—	*172.0*	—	—
2) Others	192.8	7.0	—	—	—	—	—	*7.0*	—	6.2	*192.8*	*6.2*
j) Unclassifiable & discrepancies	—	—	—	**37.2**	—	—	—	—	—	—	—	**210.5**
Unclassifiable & discrepancies	—	—	*47.6*	*92.1*	*32.6*	—	—	—	—	—	*2.4*	*73.0*
Total assets	**3,252.1**	**2,057.8**	**754.1**	**4,214.7**	**1,023.9**	**104.4**	**260.8**	**411.5**	**112.3**	**19.9**	**555.5**	**368.7**
Total liabilities	*268.6*	*2,457.8*	*754.1*	*4,214.7*	*1,023.9*	*167.3*	*1.079.2*	*411.5*	*807 7*	*217.2*	*1,578.0*	*155.7*
Net financial surplus or *deficit*	**2,983.5**	*400.0*	—	—	—	*62.9*	*818.4*	—	*695.4*	*197.3*	*1,022.5*	**213.0**

ASSETS AND LIABILITIES

italic figures denote liabilities)

TABLE 44

Total assets	Total liab.		1966 Households	Non-financial enterprises	Financial enterprises: Bank of Italy and Ital. Exch. Office	Banks	Special credit institutes	Insurance companies	Public administration: Treasury	Central Post Office Savings Fund	Local authorities	Social Insurance Funds	Foreign Sector	Unclassifiable and discrepancies	Total assets	Total liab.
185.7	***185.7***	A)	—	—	**6.4**	—	—	—	—	—	—	—	***6.4***	—	**6.4**	***6.4***
379.6		a)	**358.5**	**20.0**	**21.1**	**- 22.1**	**- 0.5**	**0.5**	**- 0.8**	—	—	**- 0.1**	—	—	**376.6**	
	379.6		—	—	***313.1***	—	—	—	***63.7***	—	—	—	***- 0.2***	—		***376.6***
2,266.8		b)	**458.3**	**933.5**	**- 10.2**	**318.9**	**95.1**	**36.6**	—	—	**83.5**	**8.2**	**- 23.2**	**53.2**	**1,953.9**	
	2,266.8		—	—	***22.2***	***1,727.2***	***1.0***	—	***- 11.4***	***53.3***	—	—	***72.7***	***88.9***		***1,953.9***
1,607.4	*1,607.4*	1)	441.3	896.4	—	*1,468.2*	—	36.6	—	—	83.5	10.4	—	—	1,468.2	*1,468.2*
115.3	*115.3*	2)	—	—	—	59.4	—	—	—	—	—	—	—	*59.4*	59.4	*59.4*
61.2	*61.2*	3)	—	—	—	*50.5*	—	—	—	—	—	—	—	50.5	50.5	*50.5*
29.7	*29.7*	4)	17.0	37.1	—	—	—	—	—	*52.3*	—	- 1.8	—	—	52.3	*52.3*
363.0		5)	—	—	—	169.0	43.6	—	—	—	—	—	—	- 3.1	209.5	
	363.0		—	—	—	*208.5*	*1.0*	—	—	—	—	—	—	—		*209.5*
68.1	*68.1*	6)	—	—	*22.2*	18.0	22.0	—	—	—	—	- 0.4	- 23.2	5.8	22.2	*22.2*
22.1	*22.1*	7)	—	—	- 10.2	72.5	29.5	—	*- 11.4*	*1.0*	—	—	*72.7*	*29.5*	91.8	*91.8*
2,501.5		c)	**1,672.6**	**605.2**	**15.4**	**463.0**	**67.7**	**0.3**	**0.1**	**-131.9**	—	**-160.1**	**5.0**	—	**2,537.3**	
	2,501.5		—	—	***222.7***	***1,771.1***	***160.7***	—	***-139.1***	***383.2***	—	—	***103.5***	***35.2***		***2,537.3***
1,490.0	*1,490.0*	1)	1,164.0	572.4	—	*1,736.4*	—	—	—	—	—	—	—	—	1,736.4	*1,736.4*
376.1	*376.1*	2)	348.2	35.0	—	—	—	—	—	*383.2*	—	—	—	—	383.2	*383.2*
465.6		3)	—	—	—	157.3	67.7	—	—	—	—	—	—	—	225.0	
	465.6		—	—	-	*189.8*	—	—	—	—	—	—	—	*35.2*		*225.0*
95.2	*95.2*	4)	160.4	—	—	—	*160.4*	—	—	—	—	—	—	—	160.4	*160.4*
- 64.6		5)	—	—	15.4	88.1	—	—	—	—	—	—	5.0	—	108.5	
	- 64.6		—	—	*5.0*	—	—	—	—	—	—	—	*103.5*	—		*108.5*
139.2		6)	—	- 2.2	—	217.6	—	0.3	0.1	-131.9	—	-160.1	—	—	- 76.2	
	139.2		—	—	*217.7*	*-155.1*	*0.3*	—	*-139.1*	—	—	—	—	—		*- 76.2*
20.1	***20.1***	d)	**4.8**	—	**- 92.4**	**88.7**	**- 5.0**	—	***124.5***	—	—	—	***-128.4***	—	**- 3.9**	***- 3.9***
2,287.9		e)	—	—	**325.0**	**2,079.1**	**79.8**	**10.7**	—	—	—	—	**266.5**	**- 15.6**	**2,745.5**	
	2,287.9		***82.8***	***1,609.0***	—	***792.4***	***5.6***	—	***-356.5***	—	***53.2***	***11.9***	***519.8***	***27.3***		***2,745.5***
683.6	*683.6*	1)	*82.8*	*1,542.1*	—	1,705.6	—	—	—	—	*53.2*	*27.5*	—	—	1,705.6	*1,705.6*
33.8	*33.8*	2)	—	*66.9*	—	—	66.9	—	—	—	—	—	—	—	66.9	*66.9*
193.6	*193.6*	3)	—	—	168.3	*532.3*	*5.6*	—	*-369.6*	—	—	—	—	—	168.3	*168.3*
1,376.9		4)	—	—	156.7	373.5	12.9	10.7	—	—	—	—	266.5	- 15.6	804.7	
	1,376.9		—	—	—	*260.1*	—	—	*13.1*	—	—	*- 15.6*	*519.8*	*27.3*		*804.7*
1,991.6		f)	—	**117.4**	**15.4**	**382.5**	**1,071.5**	**10.5**	**145.3**	**603.8**	**3.7**	**44.7**	**30.2**	**27.9**	**2,452.9**	
	1,991.6		***297.0***	***974.5***	—	***20.5***	***190.8***	—	***48.8***	—	***754.3***	***- 0.1***	***165.6***	***1.5***		***2,452.9***
249.8	*249.8*	1)	*96.3*	*144.8*	—	321.8	—	—	—	—	*80.0*	*0.7*	—	—	321.8	*321.8*
765.0	*765.0*	2)	*180.0*	*679.4*	—	—	969.5	—	—	—	*110.1*	—	—	—	969.5	*969.5*
124.2		3)	—	- 0.1	—	60.7	20.5	—	—	—	3.7	—	—	28.7	113.5	
	124.2		—	—	—	*20.5*	*93.0*	—	—	—	—	—	—	—		*113.5*
208.9		4)	—	117.5	- 33.4	—	81.5	—	—	—	—	—	30.2	—	195.8	
	208.9		—	*26.8*	—	—	*9.3*	—	—	—	*- 5.9*	—	*165.6*	—		*195.8*
643.7		5)	—	—	48.8	—	—	10.5	145.3	603.8	—	44.7	—	- 0.8	852.3	
	643.7		*20.7*	*123.5*	—	—	*88.5*	-	*48.8*	—	*570.1*	*- 0.8*	—	*1.5*		*852.3*
2,098.2		g)	**1,223.1**	....	**324.4**	**1,311.2**	**37.8**	**44.2**	—	**- 35.0**	—	**4.7**	**2.9**	—	**2,913.3**	
	2,098.2		—	***316.6***	—	—	***859.6***	—	***1,532.0***	—	***21.1***	—	***150.3***	***33.7***		***2,913.3***
672.5	*672.5*	1)	602.1	....	197.5	714.3	14.4	6.5	*1,532.0*	- 16.5	—	13.7	—	—	1,532.0	*1,532.0*
646.4		2)	461.4	....	1.0	405.4	- 9.0	19.9	—	- 9.2	—	- 9.9	—	—	859.6	
	646.4		—	—	—	--	*859.6*	—	—	—	—	—	—	—		*859.6*
662.5		3)	159.6	....	14.4	191.5	32.0	17.8	—	- 9.3	—	0.9	2.9	—	409.8	
	662.5		—	*316.6*	—	—	—	—	—	—	*21.1*	—	*38.4*	*33.7*		*409.8*
116.8	*116.8*	4)	—	—	111.5	—	0.4	—	—	—	—	—	*111.9*	—	111.9	*111.9*
611.3		h)	....	**377.4**	—	**62.0**	**- 11.3**	**26.3**	**51.8**	**6.0**	**32.0**	**1.9**	**109.1**	—	**655.2**	
	611.3		—	***458.9***	—	***54.1***	***68.7***	***0.9***	—	—	—	—	***82.8***	***- 10.2***		***655.2***
545.3		i)	**686.0**	**36.4**	—	—	—	—	—	—	—	**37.6**	—	—	**760.0**	
	545.3		—	—	—	—	—	***183.0***	—	***6.4***	—	***265.0***	***268.0***	***37.6***		***760.0***
339.3	*339.3*	1)	418.0	30.0	—	—	—	*183.0*	—	—	—	*265.0*	—	—	448.0	*448.0*
206.0	*206.0*	2)	268.0	6.4	—	—	—	—	—	*6.4*	—	37.6	*268.0*	*37.6*	312.0	*312.0*
247.7		j)	—	—	—	**- 3.1**	—	—	—	—	—	—	—	**381.8**	**378.7**	
	247.7		—	—	***47.1***	***314.9***	***48.7***	—	—	—	—	—	***16.7***	***- 48.7***		***378.7***
13,135.7			**4,403.3**	**2,089.9**	**605.1**	**4,680.2**	**1,335.1**	**129.1**	**196.4**	**442.9**	**119.2**	**- 63.1**	**390.5**	**447.3**	**14,775.9**	
	13,135.7		***379.8***	***3,359.0***	***605.1***	***4,680.2***	***1,335.1***	***183.9***	***1,262.0***	***442.9***	***828.6***	***276.8***	***1,257.2***	***165.3***		***14,775.9***
—	—		**4,023.5**	***1,269.1***	—	—	—	***54.8***	***1,065.6***	—	***709.4***	***339.9***	***866.7***	**282.0**	—	—

TABLE 45

THE ECONOMY'S FINANCIAL ASSETS AND THEIR COUNTERPART

(changes in billion lire)

Items	Total on 31 Dec. 1965	1961-63		1964		1965		1966	
		aver. flows	per cent	flows	per cent	flows	per cent	flows	per cent
FINANCIAL ASSETS									
DOMESTIC ASSETS									
1. Liquid assets	28,236.9	2,588.2	64.2	1,958.8	58.0	3,721.3	70.1	3,894.7	59.9
a) notes and coin	*4,183.2*	*396.0*	*9.8*	*266.1*	*7.9*	*344.8*	*6.5*	*378.5*	*5.8*
b) sight deposits	*9,412.0*	*897.6*	*22.3*	*533.0*	*15.8*	*1,514.8*	*28.5*	*1,391.8*	*21.4*
c) sav. dep. & short-term securities	*14,641.7*	*1,294.6*	*32.1*	*1,159.7*	*34.3*	*1,861.7*	*35.1*	*2,124.4*	*32.7*
2. Other deposits & savings certificates	674.9	97.9	2.4	49.9	1.5	82.2	1.6	158.2	2.4
3. Fixed-interest-bearing securities	5,881.0	376.8	9.3	262.3	7.7	723.5	13.6	1,199.2	18.5
a) government stock	*1,591.0*	*- 60.2*	*- 1.5*	*27.1*	*0.8*	*162.9*	*3.1*	*602.1*	*9.3*
b) bonds of special credit institutes	*2,620.0*	*269.8*	*6.7*	*182.9*	*5.4*	*347.1*	*6.5*	*461.4*	*7.1*
c) industrial & other bonds	*1,670.0*	*167.2*	*4.1*	*52.3*	*1.5*	*213.5*	*4.0*	*135.7*	*2.1*
4. Shares and equity participations	12,879.0	97.8	2.4	350.4	10.4	137.7	2.6	289.4	4.5
5. Other financial assets	3,070.6	245.4	6.1	344.7	10.2	346.2	6.5	454.3	7.0
Total domestic assets	50,742.4	3,406.1	84.4	2,966.1	87.8	5,010.9	94.4	5,995.8	92.3
FOREIGN ASSETS									
6. Loans	259.7	29.2	0.7	33.1	1.0	59.7	1.1	117.5	1.8
7. Fixed-interest-bearing securities	25.0	4.9	0.1	2.2	0.1	10.9	0.2	23.9	0.4
8. Shares and equity participations	1,045.8	59.7	1.5	41.1	1.2	35.6	0.7	88.0	1.4
9. Other financial assets	2,416.4	534.4	13.3	333.9	9.9	192.8	3.6	268.0	4.1
Total foreign assets	3,746.9	628.2	15.6	410.3	12.2	299.0	5.6	497.4	7.7
TOTAL (1)	54,489.3	4,034.3	100.0	3,376.4	100.0	5,309.9	100.0	6,493.2	100.0
COUNTERPART: FINANCE TO									
Economy	41,843.8	3,771.5	93.5	2,701.8	80.0	2,726.4	51.3	3,738.8	57.6
Foreign sector (2)	2,885.0	- 58.9	- 1.5	203.9	6.0	1,022.5	19.3	866.7	13.3
Public administration	10,395.4	364.4	9.0	526.3	15.6	1,711.1	32.2	2,114.9	32.6
Unclassifiable and discrepancies	- 403.2	- 42.7	- 1.0	- 55.6	- 1.6	- 150.1	- 2.8	- 227.2	- 3.5
TOTAL	54,489.3	4,034.3	100.0	3,376.4	100.0	5,309.9	100.0	6,493.2	100.0

(1) Gross financial saving of the Economy.
(2) Current surplus or deficit in the balance of payments.

cent). This falling trend is a reflection of the relative diminution of notes and coin, which in 1965 was more than offset by an increase in sight deposits equivalent to 29 per cent of total new financial assets, as against 22 per cent both in 1966 and in 1961-1963. The high proportion in 1965 was a result of monetary policy, in so far as the authorities deliberately raised the Economy's liquidity so as to stimulate its demand for securities. In 1966, when prices were stable and the real value of cash holdings again matched their nominal value, the authorities' continuing policy of expanding liquidity attracted a large amount of the Economy's liquid funds into bond investment.

The proportion of savings deposit and short-term securities in the Economy's total new financial assets fell last year (Table 45). This was a new trend, or rather the reappearance of a trend already evident between 1958 and 1963; it was attributable, in 1966, to a reduction in the relative weight of postal deposits and the disappearance of Treasury Bills from the Economy's portfolios; the proportion of savings deposits at banks, on the other hand, did not change.

While the proportion of savings deposits and short-term securities in the Economy's total new financial assets dropped last year, that of fixed-interest securities rose to 18.5 per cent, close to the previous peak of 1960. This rise made good the whole of the decline in the Economy's absorption of fixed-interest securities in the years 1961-1964, when the Economy had first shifted its demand toward bank deposits and later replaced its bondholdings by non-financial and foreign assets in response to price movements. The Economy's holdings of fixed-interest securities accounted for 17.4 per cent of its total financial assets (excluding shares) in 1960; the proportion dropped to 15.4 per cent in 1964 and rose again to 16.7 per cent in 1966.

But this recovery is evident only in fixed-interest securities, given that share subscriptions by the Economy still took up only 2.6 per cent of its financial saving in 1965 and 4.5 per cent in 1966, whereas in 1960 the proportion was close to 10 per cent.

While the Economy had furnished comparatively low amounts of finance to Public Administration in the years 1961-1963, when government stock issues were redeemed, the figure rose last year to reach 21 per cent of the Economy's gross financial saving. This shift of funds to the benefit of Public Administration was largely the result of the increased propensity to invest in fixed-interest securities, but it owed much also to the growing budget deficit and the Treasury's lower short-term borrowing.

Similarly, those of the Economy's financial assets which are in the form of claims on financial enterprises declined last year, after they had sharply risen in 1965 over the average of the preceding years.

Finance directly furnished to the Economy itself displays a falling tendency. In the years 1961-1963 bonds and shares issued and subscribed by the Economy (in part under a foreign name) accounted for an estimated 16 per cent of its financial saving, but in 1966 for only 6 per cent.

More funds were channelled to the Foreign Sector last year than in 1965, thanks in part to the gradual process of capital market integration, which made interest differentials between the domestic and foreign markets more effective.

The Economy's Total Supply of Funds.— The flow of funds to the Economy, or its new liabilities (Table 46) amounted in 1966 to 3,740 billion lire, representing 57.6 per cent of the total counterpart to the Economy's new financial assets, and 9.7 per cent of gross national product; in 1965, the latter proportion had been 7.6 per cent.

Last year's increment in the supply of funds to the Economy is mainly attributable to increased short-term borrowing (45 per cent of total new liabilities) to meet higher requirements for working capital and investment.

The Economy last year raised altogether 2,050 billion lire by medium- and long-term borrowing, bonds and shares; the rate of increase, at 6.9 per cent, was lower than it had been in 1965.

The slow-down in the rate of increase in the supply of medium- and long-term funds is attributable partly to the situation of the equity market, and partly to the lower volume of investment by public enterprises. The latter raised less funds on bond issues last year, and private companies were virtually absent from the new issue market. Conversely, demand for loans from the credit system increased, and one of the factors which enabled it to be met was the increased liquidity of security portfolios as a result of stable bond prices. Long-term loans from banks in an amount of 240 billion lire (140 billion in 1965), together with

TABLE 46

THE ECONOMY'S FINANCIAL LIABILITIES

(billion lire)

Items	Total on 31 Dec. 1965	1961-63		1964		1965		1966	
		aver. flows	per cent	flows	per cent	flows	per cent	flows	per cent
DOMESTIC LIABILITIES									
1. Short-term indebtedness . . .	12,029.0	1,714.5	45.5	35.8	1.3	658.2	24.1	1,691.8	45.2
2. Medium- and long-term indebtedness	12,651.5	1,317.9	34.9	1,695.0	62.7	1,491.3	54.7	1,558.4	41.7
a) loans	*9,327.5*	*1,030·9*	*27.3*	*1,191.3*	*44.1*	*853.1*	*31.3*	*1,244.7*	*33.3*
b) bonds	*3,324.0*	*287.0*	*7.6*	*503.7*	*18.6*	*638.2*	*23.4*	*313.7*	*8.4*
3. Shares and equity participations	13,898.2	192.5	5.1	410.2	*15.2*	318.8	11.7	349.8	9.4
Total domestic liabilities	38,578.7	3,224.9	85.5	2,141.0	79.2	2,468.3	90.5	3,600.0	96.3
FOREIGN LIABILITIES									
4. Medium- and long-term indebtedness	780.0	98.9	2.6	247.1	9.2	121.9	4.5	29.7	0.8
a) loans	*736.0*	*93.6*	*2.5*	*243.4*	*9.0*	*111.5*	*4.1*	*26.8*	*0.7*
b) bonds	*44.0*	*5.3*	*0.1*	*3.7*	*0.2*	*10.4*	*0.4*	*2.9*	*0.1*
5. Shares and equity participations	2,485.1	447.7	11.9	313.7	11.6	136.2	5.0	109.1	2.9
Total foreign liabilities	3,265.1	546.6	14.5	560.8	20.8	258.1	9.5	138.8	3.7
TOTAL . . .	41,843.8	3,771.5	100.0	2,701.8	100.0	2,726.4	100.0	3,738.8	100.0

larger short-term credits, raised the banking system's share in the supply of funds to the Economy to 54.7 per cent last year, compared with 43.7 per cent in 1965.

The flow of funds from other financial intermediaries reached a record high of 1,000 billion lire in 1966, thanks to the special credit institutes, which alone provided 25 per cent of the Economy's total supply of funds.

The contribution of the Treasury and the Central Post Office Savings Fund, by contrast, dropped to its lowest level of recent years (160 billion), after an expansion in the recession years 1964 and 1965.

The Economy itself contributed little to its own supply of funds last year, as was only natural given the structure of its new liabilities. The Economy subscribed to 140 billion lire's worth of bonds issued by public enterprises and met about two-thirds of the limited demand for risk capital in a total amount of 380 billion lire.

Total recourse to the capital market and the banking system (Table 47) was considerably higher last year than in 1965, largely because much more was borrowed from the banks (2,200 billion lire, compared with 1,120 billion in 1965)—so much so that the figure was back close to its 1963 record. The capital market supplied nearly 1,900 billion lire in both these last two years, though in 1966 about 250 billion less of this total came from the stock market and correspondingly more from special credit institutes.

TABLE 47

TOTAL FUNDS RAISED ON THE CAPITAL MARKET AND FROM BANKS (1)

(changes in billion lire)

Branches of economic activity	1965				1966			
	Special credit inst.	Shares and bonds	Total	Banks	Special credit inst.	Shares and bonds	Total	Banks
Manufacturing industry, mining and quarrying	238.5	468.5	707.0	513.6	335.4	386.7	722.1	1,069.6
Food	*9.6*	*30.4*	*40.0*	*148.2*	*71.3*	*21.7*	*93.0*	*210.4*
Engineering	*57.3*	*99.6*	*156.9*	*94.1*	*41.3*	*60.2*	*101.5*	*249.2*
Metallurgy	*29.0*	*54.7*	*83.7*	*115.7*	*87.2*	*61.1*	*148.3*	*152.4*
Mineral oils	*4.3*	*129.5*	*133.8*	*- 0.5*	*18.2*	*42.1*	*60.3*	*74.8*
Chemicals	*58.6*	*68.2*	*126.8*	*26.7*	*24.2*	*116.4*	*140.6*	*30.0*
Textiles and clothing	*16.2*	*18.6*	*34.8*	*6.9*	*43.6*	*27.6*	*71.2*	*140.0*
Others	*63.5*	*67.5*	*131.0*	*122.5*	*49.6*	*57.6*	*107.2*	*212.8*
Electricity, gas and water supply (2)	- 1.2	185.1	183.9	- 31.2	- 34.2	87.9	53.7	- 34.5
Total industry . . .	237.3	653.6	890.9	482.4	301.2	474.6	775.8	1,035.1
Other sectors	572.2	401.1	973.3	636.0	783.8	333.2	1,117.0	1,168.9
Total . . .	809.5	1,054.7	1,864.2	1,118.4	1,085.0	807.8	1,892.8	2,204.0

(1) The figures differ from those of Table 46, in so far as they here include the flows of funds not only to the Economy but also to local authorities and Social Insurance Funds, and exclude those originating elsewhere than on the capital market or in banks.

(2) E.N.E.L. bond issues for electricity compensation payments (205 billion in 1965 and 208 billion in 1966) are attributed to recipient branches; another bond issue of 125 billion lire was actually dated 2 January 1967 and was therefore not included in the figures for 1966.

This general pattern is repeated in the sources of funds raised by manufacturing industry, mining and quarrying, which group in 1966 kept its demands on the capital market at the preceding year's level, while stepping up fixed investment by about 150 billion lire and borrowing more than twice as much from the banks (1,070 billion). The branches which increased their bank debts most were textiles and engineering, while in chemicals an appreciable expansion of output did not cause firms to borrow more from the banks. The metallurgical industry made much larger claims on the capital market last year.

The National Electricity Board, E.N.E.L., needed about 200 billion lire last year for purposes other than compensation payments; however, its net claims on the capital market in 1966 are shown in the Tables at only 87 billion lire, because, as is explained in footnote 2 to Table 46, a bond issue of 125 billion lire is attributed to 1967.

Among other branches, building made higher claims on special credit institutes, and fewer funds for public works were raised on the capital market. Both branches borrowed more from the banks, in line with the general tendency, and so did the finance and insurance branches and retail trade.

The Coverage of Public and Private Investment. —Public investment was more than 200 billion lire, or 10 per cent, higher last year than in 1965 (Table 48), though the public sector's direct investment rose by only 2 per cent.

TABLE 48

PUBLIC INVESTMENT (1) AND ITS COVERAGE

(billion lire)

Items	1965	1966
EXPENDITURE		
Direct investment, gross	1,246	1,277
Transfers, net	318	576
Credits conceded, net	378	307
Total . . .	1,942	2,160
COVERAGE		
Public saving, gross	- 127	- 207
Debts incurred (2)	2,089	2,410
short-term	*1,052*	*654*
long-term (3)	*1,037*	*1,756*
Other funds	- 20	- 43
Total . . .	1,942	2,160

(1) By public administration as in Table 44, plus Cassa per il Mezzogiorno and autonomous government agencies.
(2) Net of repayments.
(3) Including debts to abroad.

As regards the coverage for this expenditure, funds had to be raised last year not only to finance the investment increment, but also to make good a higher amount of public dissaving. Long-term funds provided the great bulk of the total.

Private investment expenditure, in its turn, rose by more than 500 billion lire, or almost 10 per cent (Table 49). A growing part of

TABLE 49

PRIVATE INVESTMENT AND ITS COVERAGE

(billion lire)

Items	1965		1966	
EXPENDITURE				
Total investment, gross		6,977		7,532
less: direct public investment		*1,246*		*1,277*
Private investment, gross		5,731		6,255
COVERAGE				
Transfers and direct credits to firms from public sources (1)		498		653
Capital market				
Security issues	1,055		787	
Medium- and long-term loans (2)	992		1,261	
Total		2,047		2,048
of which: funds furnished directly from public sources		*25*		*91*
Gross self-financing, direct investment by individuals, net balance of short-term operations with banks		3,186		3,554
Total		5,731		6,255

(1) Including increases in the endowment funds of holding companies for government-controlled companies.
(2) From special credit institutes, insurance companies and banks.

the corresponding financial requirements was met by transfers and credits from public sources.

The private sector's claims on the capital market were the same last year as in 1965, but within them medium- and long-term loans increased and direct recourse to the market through security issues correspondingly declined.

The balancing item, which includes gross self-financing, direct investment by individuals and the net balance of short-term operations with banks, was somewhat higher last year. It may reasonably be assumed that an increase in self-financing funds was offset by a corresponding decrease in direct investment by individuals; although the latter is a residual item for which no statistics are available, the assumption is supported by the larger volume of security purchases by households and by their presumably lower investment expenditure for housing. If these assumptions are correct, last year's increase in the balancing item would be attributable to the net balance of short-term operations with banks, a conclusion supported by evidence presented elsewhere in this Report.

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

International Monetary Problems.— Two satisfactory developments of major importance over the last year were that world trade kept expanding in spite of a somewhat slower growth of production, and that good progress was made in re-establishing freedom of international capital movements. On the other hand, the world economy suffered from imbalances which reflect the as yet incomplete state of the process of integration between the various markets that has been going on for some years as well as cyclical disparities between individual economic systems.

While the pace of economic expansion slowed down in some of the major industrial countries, like the United States, the United Kingdom and Western Germany, other economies, notably those of Italy, France and Japan, made a good recovery. In this cyclical setting several countries, at brief intervals one after the other, experienced a recurrence of the same sort of phenomena that Italy had encountered in 1964.

In other countries, too, the restrictive use of monetary policy reopened the usual discussions on the timing and adequacy of the measures adopted, as well as on the tolerability of the costs they entail in terms of a fall in the levels of investment and employment. Furthermore, the widespread recourse to restrictive monetary policies clearly was, if not the determining factor, at least a contributory cause of the rise of interest rates to heights unheard of in the last few decades. The ebb and flow of the cyclical waves in the course of the last few years have made it only too obvious how often a conflict can arise between the objectives of internal and external stability in a situation where capital movements are largely free but economic policies are not more closely co-ordinated than they are at present. Yet the slowness of progress in trying to reach an agreement on the problems of international liquidity is also delaying policy co-ordination, which must needs proceed from the same source as do responsible decisions on the creation of additional reserve instruments.

The difficulties encountered in finding a solution acceptable to all the parties concerned cannot, at this stage, be blamed on insufficient knowledge. The problem has now been explored in depth, a number of valuable contributions having recently been made to the debate. But in the discussions which have been going on at various levels, it has proved impossible to keep rational arguments separate from fanciful ones. The supporters of paper money have been opposed by those adhering to the gold myth, it being overlooked that this, too, rests upon convention.

There are some who believe that the general rise in prices should be matched by an increase in the price of gold. They seem to be unaware of the sophism inherent in an argument according to which the yardstick must be altered when the things it measures are seen no longer to have their original size. The opponents of gold have made the mistake of giving the impression that they intended to jettison the discipline demanded by the acceptance of gold in the system of international payments so as to widen the margin of discretion in domestic policy decisions, and more especially when such decisions are taken by a major country without consideration of their repercussions on the general run of other countries.

If we strip the essential problems of all the formulae in which they are wrapped up, the points of agreement and disagreement may be summarized as follows:

1) In the unanimous view of all, it is unacceptable that there should be a hierarchy of nations, of which some have the right to go on indefinitely financing their external deficit by supplies of their own currency which is generally accepted for inclusion in reserves, while others are forced to restore equilibrium to their balances of payments without delay once a deficit makes inroads into their reserves of gold and convertible currencies. The international community disclaims privilege; it demands the establishment of conditions of equality by which all its members, great and small alike, are subject to the same discipline.

2) Likewise, there is general agreement to the effect that there can be no discipline in the absence of well-defined limits to the volume of international means of payment. Some say that the way to draw such limits is to restore to gold its exclusive function as an international means of payment. According to others, the same result can be achieved by leaving the determination of the volume of international means of payment to an assembly of nations, such as that represented in the International Monetary Fund, subject to suitable adjustments in voting rights so as to give each nation a weight more in keeping with its economic importance and share in world trade.

It would seem that agreement is in sight on the merits of organizing a system of reserve creation through credits intended to finance a multilateral clearing within the International Monetary Fund. Just as in any individual country commercial banks periodically offset their reciprocal claims and liabilities and settle the difference through their accounts with the central bank, drawing on them or paying into them as the case may be, so claims and liabilities between states could be settled not only in gold and convertible currencies, but also by central banks drawing on, or paying into, accounts with the International Monetary Fund. Both the right to run up a debit balance and the obligation to accumulate a credit balance would be subject to defined limits.

Should these accounts and the underlying resources be kept apart from the accounts pertaining to the Fund's ordinary operations? Should the resulting resources be made directly transferable? Or is it better to adopt a form of indirect transferability such as is now in operation within the Fund, by which any member nation can be credited with currencies other than its own against payment in its own currency? Should credits be made repayable after a certain time when a persisting debit position is attributable either to failure to take direct measures for the re-equilibration of the balance of payments or to a preference for spending one reserve asset rather than another? These are some of the questions which the Ministers of the Group of Ten and the Finance Ministers of the European Economic Community put to the various committees of experts.

To judge by the results of the searching studies made by these experts, it would appear that there are several solutions capable of producing equivalent effects. But in any event, two prior questions must first be settled, namely, the question of the limit to be placed upon the process of the creation of international means of payment, and the question of the procedures by which these limits are to be determined—in other words, of the extent to which each country can and must have a voice in the decision.

These problems arise not only in the context of future arrangements, but also at the present time, in connection with the administration of existing reserve assets. For some time the Italian authorities have been pressing for an agreement on the joint principles that should govern reserve administration, an agreement which, while precluding the unlimited acceptance of the so-called reserve currencies, would recognize their useful function in international payments.

As regards the pound in particular, it is well to recall that the sterling balances held by the rest of the world have been pretty stable over time. In spite of the diversification of the sterling area's trade relations and the weakening monetary links between its members, the wide range of banking facilities available on the London market has maintained the pound's leading position in international financial relations. This helps to explain why the overall volume of the sterling balances has fluctuated so little, either up or down. But international trade has been expanding and will go on expanding in the future, and as it does, the world's reserves will rise; it follows that the sterling balances will come to account for a smaller proportion of world reserves. In 1948, they represented about 24 per cent of the world's gold and exchange reserves; today, they account for only 14 per cent. Supposing that world reserves rise at an annual average rate of between 3 and 4 per cent, the proportion will be only 10 per cent in ten years' time. The implication is that there is no need to take any further steps to solve the problems arising from the pound's present position in the system of world liquidity reserves; these problems will solve themselves in time.

We in Italy try to live up to our responsibilities to the international community in the way we manage our foreign position. We try to find the best combination between the foreign assets and liabilities of the private and the public sector. To this end we sometimes, in certain circumstances, allow short-term assets and liabilities to be switched into or substituted for long-term assets and liabilities and viceversa, both as between the two sectors and within each of them. In 1966, for example, and more especially in the last quarter, short-term assets of the public sector were converted into long-term assets of the private sector through private subscriptions to foreign bonds.

In our decisions regarding the composition of official foreign assets we have reconciled two purposes, namely, to protect a sizeable portion of our reserves against exchange risks and to combine adequate yields from our non-gold reserves with a high degree of liquidity.

On 31 December 1966 our official reserves amounted to 4.769 million dollars; 70 per cent of them were invested in gold or in claims expressed in gold, and of these latter 320 million dollars' worth bore interest. Another 140 million dollars' worth of claims was expressed in lire. Of the convertible currency portion, 93 per cent consisted of liquid dollar investments and the rest was made up of German marks, Dutch guilders and Swiss francs; it earned interest at an average rate of 5 per cent in the course of the year.

The 1966 balance-of-payments surplus was used in part for the advance repayment of debts by repurchasing promissory notes representing Italian debt; it was agreed, however, that this paper could be mobilized in the event of the balance of payments moving into deficit.

It can therefore be said that the purposes mentioned above are in fact reconciled in our reserves' present proportions of gold, claims expressed in gold, dollars and other currencies, short-term investments and medium- and long-term investments.

As to how large reserves need to be, this depends upon a number of variables, such as the size of gross national product, the incidence on it of foreign trade and the degree of co-ordination between economic policies. In the short run, the greater the incidence of foreign trade, the larger must be the portion of reserves held in liquid form. To illustrate this point, it may be recalled that even in a situation of tendential balance-of-payments equilibrium, such as we have today in Italy, we ran up a global deficit of 454 million dollars in the five months between October 1966 and February 1967; this corresponds to 10 per cent of official reserves and to 36 per cent of dollar reserves as of 30 September 1966.

The repercussions of our policies in 1966 upon our convertible currency reserves were accepted for the sake of preventing the rise of interest rates on the international market from spreading to the domestic market, and in the expectation that this rise would be temporary and interest rates would sooner or later begin to fall back to levels closer to those which preceded the upward movement. Events have proved us right. During the first quarter of this year interest rates declined on all the major capital markets and this has brought a relaxation of the pressures that made for an outflow of capital from Italy. It must be added, though, that especially during the first few months of this year, new pressures of the same kind were generated by apprehensions due to certain tax measures.

Domestic Economic Conditions.— Last year on this occasion in examining the prospects of a strengthening and widening of the incipient recovery, it was pointed out that the private sector was the one in which a revival of investment could originate, seeing that no appreciable increase could be expected in investment by the public sector and by public enterprises, and that there was not much hope of an improvement in building.

This view is confirmed by the results of 1966. Public investment went up moderately; public enterprises invested less; residential building remained stagnant. The bulk of last year's increase in total gross fixed investment (5.3 per cent at current prices and 3.7 per cent at constant prices) thus came from directly productive private investment, which may be estimated to have gone up by 13 per cent in real terms.

In addition to investment, the revival of domestic demand owed much to consumption which, in terms of constant prices, rose at a rate more than twice as high as in 1965. The growth rate of the foreign component of total demand, on the other hand, while still very high, suffered some deceleration.

The meeting of global demand and supply exercised no appreciable upward pressure on prices last year, a result which would not have been possible without moderation on the part of trade unions. After the exceptionally large advances between 1962 and 1964, wages in industry last year kept more in line with the productivity of the economic system. But while an increased awareness of these limitations was displayed by industrial unions in the negotiations for the renewal of major wage contracts, the same cannot be said of the labour organizations in other sectors.

The revival of total demand in 1966 after the still hesitant incipient improvement of 1965, and especially the revival of investment demand by firms, began to show up in rising employment. The employment effect, it is true, was only small, partly because of the usual time lag between changes in production and those in employment in the initial stages of both the upward and the downward phase of the business cycle, and partly because of internal reorganization within firms. According to the surveys of the Central Statistical Institute, total employment rose by 1.7 per cent between January 1966 and January 1967; if farming is excluded, the rate was higher. At the same time there was a renewed outflow of manpower from agriculture, after an interruption during the recession; the number of workers on short time progressively diminished to levels below those of 1963. The number of wage earners in industry rose by 4.4 per cent, as is confirmed also by the figures of the Ministry of Labour.

Recovery of investment demand, then, was the salient feature of the year. It had its origin not only in the decline in the margins of inutilized capacity owing to pressure from all demand components, but first and foremost in the improved profitability of firms—the prior condition of recovery, as mentioned in last year's Report.

The increase in fixed investment was most evident in machinery and equipment, the categories which had been the first, and worst, sufferers from the previous decline, which in two years had taken the relevant investment figure back by 30 per cent in real terms. This investment went into plant renewal more than into the extension of existing or the construction of new plant. The modernization process was most intensive in North Italy, by virtue of our country's industrial structure, and less so in southern regions, where capital mostly goes into the establishment of new firms.

The proportion of gross national product absorbed by fixed investment fell from 23.7 per cent in 1963 to 18.9 per cent in 1965, and it again fell in 1966, though to a much smaller extent, despite the recovery of fixed investment from the third quarter of the year onwards; no further decline is evident, however, if housing is excluded. Still, last year's ratio was well below the medium-term average and quite clearly insufficient if we are to achieve our target growth rate; the five-year programme, it will be recalled, assumes that 22.3 per cent of the gross national product will be devoted to gross fixed investment.

In the early months of 1967, some of last year's positive factors lost much of their force. Part of the cost reduction per unit of output so laboriously achieved in the course of the last two years has been offset by new wage rises as a result of contract renewals, by the government's decision to shift back to employers the whole burden of social charges of which they had been relieved by fiscalization for some time, and by new taxes required to finance government measures in aid of the flood-stricken areas. Export growth is likely to suffer from weakening demand from major European countries and from keener competition on the part of their producers in an effort to make good the shortfall of domestic sales.

The basic condition for transforming the current upswing into a prolonged phase of growth for our economy is the maintenance of a high level of directly productive investment, accompanied by the creation of adequate infrastructures.

As far as can be foreseen on the basis of available information, any further increase in investment this year will again come from companies in the private sector, especially in the engineering, chemical and man-made fibres industries. Any major contribution from public enterprises seems unlikely, at any rate if their investment in motorways is excluded. More than in 1966, on the other hand, may be expected from the public administration, if approved expenditure, in part connected with the repair of flood damage, follows the proposed time schedule.

The Capital Market.— The recovery and further expansion of production raise problems of finance which need to be considered in the broader context of the European market. While the authorities of the European Economic Community are urging members to demolish the obstacles in the way of free capital movement and are studying what adjustments might be necessary to prevent tax disparities from diverting capital flows, the individual countries are themselves pushing on with the process of liberalization. In Germany and Belgium, residents have for some time been free to import and export capital; since last January French residents have been allowed to import and export capital in any form, including bank notes. It is hard to reconcile with this trend the fact that certain circles are urging that we should raise a wall around our economy which would virtually transform it into a beleaguered fortress. This suggestion is couched in terms which seem to smack of autarchy.

Market integration has implications which surpass our imagination, and its effects pervade all fields of economic activity. In the 1950s, when natural gas began to flow through the pipeline to the industrial centres of the Po valley, this appeared to initiate an industrial renaissance that would reduce the country's dependence upon foreign sources of supply. Tomorrow the same pipeline will carry gas from African deserts and the Arctic Circle. This will not imply that we have lost our independence; it will merely mean that we are a free country which does not yield to powerful pressure groups and which gets what it needs to run the economy where it is to be had on the best conditions.

There are inherent contradictions in the attitude of those who, with the object of protecting the independence of national firms, oppose the creation of a larger market in which these firms, combined in units of a size more in keeping with the requirements of modern technology, could grow strong enough to defend themselves. Careful consideration should be given to the proposal to create a standard European type of company, whose shares would circulate freely in the countries of the Common Market and in which companies of various nationalities might combine. Other countries have in hand schemes for promotion of arrangements to strengthen the competitive position of enterprises; we in Italy are still delaying passing legislation to safeguard competition, and little interest is shown in the impending lapse of the provisions designed to encourage company mergers. These adaptations gain added urgency with the progressive dismantling of tariff barriers among the countries of the European Economic Community and between them and non-member countries, and this will apply even more in the event of an increase in the number of EEC members.

It is obvious that the problems are not merely those of the size and location of new factories and their greater or lesser degree of specialization. It is also a question of harmonizing as far as possible the laws which govern the relations between the various governments and the companies located in these countries, and in particular the open or concealed transfer of the ownership and management of individual companies or whole industries to government or other public agencies. Our constitution defines the principles limiting direct government intervention, but it would be desirable for the standards of application to be co-ordinated at the level of the European Community.

The EEC authorities believe that economic integration must necessarily be associated with financial integration, and to this end they press for measures to eliminate the obstacles which obstruct the free transfer of long- and short-term capital. Some time ago the EEC authorities put in hand a study of the principles which it would be desirable to see incorporated in legislation governing the taxation of income from securities, so as to remove disparities that distort capital movements. To do away with these disparities would impose yet another constraint upon the autonomous decisions of individual governments; but governments cannot at one and the same time aim to create a European capital market and refuse to accept a uniform system of taxation of income from securities, suitably co-ordinated as regards methods of assessment.

In the preparatory studies on the taxation of income from securities, the EEC authorities seem to favour a system which does not stimulate an outflow of capital to third countries to the detriment of economic development in the Community. Under the solution proposed in these studies, any system of automatic disclosure of dividends and interest would be precluded and any withholding tax on them would be regarded as provisional, allowing the taxpayer to choose between accepting it as a final settlement of his tax liability or deducting it from his personal tax. It may be pointed out that such a system is not very different from the one that was introduced in Italy in 1964 and abolished last February, when the 1962 system was restored with some modifications.

It cannot be said that our country's much debated and so often changed legislation in this field ever has helped, or is helping, to encourage equity investment; yet there can be no doubt that increasing equity investment is an objective with a high priority.

In the four years 1963-1966 manufacturing firms incorporated as joint stock companies whose shares are quoted on the stock exchange invested more than 2,400 billion lire gross and almost 1,600 billion net. Of the quoted companies only 23 increased their paid-up capital; the nominal value of their new share issues was 102 billion lire; in all, new money from shareholders amounted to 127 billion lire, including instalments called up on earlier capital increases. This sum accounted for barely 5.2 per cent of the companies' gross capital formation over the four years, viz. 5.6 per cent in 1963, 2.7 per cent in 1964 and 6.6 per cent in 1965. From incomplete figures for 1966 it would appear that the proportion last year worked out at 7.9 per cent, but this is reduced to 1.3 per cent if we exclude payments in connection with the capital increase of ANIC [a petrochemical subsidiary of the public holding company ENI].

In contrast to the scanty activity in the new issue market for shares, bond issues grew to such an extent last year that the Italian issue market moved into first place in Europe. Expressed in dollars, net bond issues amounted to 5,266 million and thus broke the previous European record for the period 1961-1966, which was achieved by Germany with its 4,327 million dollars' worth of bond issues in 1965. Total net security issues amounted to 8.6 per cent of gross national product in Italy last year; the average for the rest of the Common Market was 2.3 per cent. Bond issues were floated on better terms in Italy than elsewhere in the Common Market, and the amount taken up by private subscribers was satisfactory: 48 per cent compared with 32 per cent during the preceding four years.

Gross issues of fixed-interest-bearing securities totalled 3,897 billion lire in 1966, and their placement was facilitated by the copious flow of liquid funds consisting of loan repayments and interest—together 1,668 billion lire. Fixed-interest securities accounted for 86 per cent of all new security issues in 1966. Net fixed-interest security issues totalled 2,821 billion lire, of which 67 per cent were floated by or on behalf of the Treasury and by the public enterprises ENEL, ENI and IRI; the rest was issued by industrial, land and agricultural credit institutes. Companies of the private sector made no issues. It is only fair to add, however, that part of the sums raised by the public sector has been or will be transferred to the private sector by such means as for example the plan for agriculture (the Green Plan) and electricity compensation payments, or through the channel of special credit institutes.

Some highly interesting points emerge from retrospective comparisons. The nominal value of fixed-interest-bearing securities outstanding was 6,800 billion lire at the end of 1961 and 15,900 billion at the end of 1966. At the former date, 59 per cent of them were owned by individuals; by the second date, the proportion had dropped to 45 per cent and the proportion in the hands of banks had risen correspondingly. Over the same period, the market value of shares in circulation declined from 20,800 to 18,400 billion lire. The proportion owned by individuals, companies and institutions of Italian nationality decreased, and the proportion registered as foreign holdings rose from 10 per cent in 1961 to 18 per cent last year. Shareholdings of individuals in Italy accounted for 37 per cent of the total in 1961, 40 per cent in 1963 and only 33 per cent in 1966. Since, however, the figure is a residual estimate and includes the holdings of associations and foundations, the real decline was probably even greater.

If one looks at what actually happens to such shares as change hands on the occasion of the monthly settlements at stock exchanges, it will be seen that part of these shares is transferred from private to public portfolios—a sort of surreptitious nationalization. The pension fund of the Bank of Italy proved another haven for equities sold by private owners immediately before and after the publication of the new law on the withholding tax last February.

These kinds of developments happen more or less all over the world, but in Italy they are accentuated by disparities in tax treatment. On all the great capital markets new issues have tended to assume the form of bonds, even the issues of private companies. But this is no argument in support of a discriminatory system which impedes share issues, especially in the case of a country such as ours, where the self-financing ratio is appreciably lower than elsewhere. Nor can we escape the conclusion that this tendency ultimately strengthens the groups that effectively control firms incorporated as companies, in so far as it affords these groups an opportunity to increase their own equity holdings by buying shares from small savers at prices determined by the decisions of these very same groups. Since companies are obliged to make redemption and interest payments in accordance with the terms of their loan issues, without any possibility of adjustment to changing market conditions, they are faced with two alternatives. They must either accept the resultant wide fluctuations in their financing margins, which creates difficulties for investment planning and the implementation of investment programmes, or make changes in the number of people they employ, which disrupts the absorption of new entrants to the labour force.

The government is now preparing a tax reform bill which incorporates modern principles such as those underlying the tax systems of the Western countries. Since it is proposed to abolish all separate taxes on incomes and to replace them by one single, progressive, personal tax, it can in theory be argued that all incomes should be counted as part of each taxpayer's total income and that suitable means of assessing it should be provided. But, while the full application of the principle that taxation should be personal and progressive is the ideal aim of the reform, it must be remembered in pursuing this aim that our economy must make its way in an open market.

As regards the tax treatment of interest on bonds and on deposit and current accounts with banks and the Post Office, the reform bill precludes any form of disclosure of the recipients' names. It may be inferred from an official statement that interest on bonds issued not only after, but also before the new law comes into force will not enter into the computation of the recipients' income and will therefore not be subject to the progressive tax; furthermore, it is understood that the government intends to introduce transitional provisions by which the holders of bonds issued before the reform takes effect will be guaranteed the receipt of interest in the actual amount indicated on the coupon and that nothing will be done to ascertain the names of the holders.

Care will also have to be taken to make sure that the new tax treatment be conducive to a proper balance between the fixed-interest and the variable-interest sections of the security market, and between our own system and that of the countries with which our market is most directly linked, so as to avoid any distorting effects on capital movements. This applies not only to the tax system itself, but more broadly to the institutional framework; in this connection, I want to draw attention once more to the harmful consequences of our lack of open-end investment funds. Such funds have assumed fairly sizeable proportions elsewhere in Europe and the fact that these operate in Italy constitutes an additional handicap for our capital market.

The transition from the old to the new tax system will require the greatest care so as to avoid any adverse effects on production. In particular, if taxes of known yield are replaced by taxes of uncertain yield, we shall need more information about the distribution of incomes according to size with a view to fixing tax rates which meet all the various purposes of the reform, and first and foremost that of the continuity and adequacy of tax revenue. Otherwise, if the government subsequently varies the tax rates, as it would have the possibility of doing under the reform law, this might cause fluctuations in the economic system prejudicial to the achievement of the rate of growth envisaged in our economic programme.

The receptiveness of the market for bond issues enabled special credit institutes last year to raise the amount of their medium- and long-term loans outstanding by 1,015 billion lire, compared with 797 billion in 1965. Industrial credit institutes alone were responsible for 569 billion lire of the additional loans, as against 473 billion in 1965. The fact that production recovered chiefly in industry and most sharply in the northern regions had a bearing on the composition of loans; the ratio between loans to industry and those for public works shifted in favour of the former, and the share of Southern Italy, which was 52 per cent in 1965, dropped to 13 per cent.

This latter contraction had a lot to do also with the time lapse pending implementation rules for the new law concerning the activities of the Cassa per il Mezzogiorno, and it assumed larger proportions in the mainland regions of the South. The explanation is probably that in the islands new loans were largely granted in connection with a few large factories already under construction, whereas on the mainland loans were more widely spread among small firms. Despite all the special credit facilities, newly established small and medium-sized firms encountered great difficulties in this connection, which in some cases were aggravated by the inexperience of the promoters.

Subsidized Credit.— The greater part of the loans extended by industrial credit institutes falls into the category of subsidized credit, which in 1966 accounted for 578 billion lire out of total new loans of 1,081 billion. The proportion seems bound to increase in the future; at the end of last December, the institutes had commitments in respect of subsidized credits amounting to 1,556 billion lire, whereas their commitments in respect of ordinary credits came to barely 467 billion.

Subsidized credit is one of the incentives designed to promote economic development in Southern Italy, and is intended to offset some of the higher costs which firms incur in the South because of insufficient infrastructure. The size of the subsidy depends on the extent of the costs it is meant to compensate. But the question arises whether, in the long run, it may not be wiser to rely less on credit facilities and instead to go ahead faster with the creation of the infrastructure for which these facilities are a temporary substitute, and also to step up the intervention of public enterprises with a view to developing new production with a high research content.

The proliferation of subsidized credit makes those who apply for it believe that they have a right to it, and weights the decisions of the special credit institutes responsible for its administration in the direction of the social utility of the proposed investments. By a sort of process of selection in reverse, competition among credit institutes of different backgrounds works to the detriment of those with longer experience, which are better equipped for a critical assessment of borrowing firms from the point of view of their capital, financial strength, earning capacity and organization, and to the benefit of those institutes which are more inclined to grant every request, trusting that it will be approved by the authorities responsible for the decisions on interest equalization grants.

More and more, subsidized credit is assuming the character of public assistance; its growth gives sustenance to the conviction that this is the way to solve local problems, and hence the credit institutes' lending becomes increasingly subject to interference, which impairs the objective conduct of their business. In their relations with political authorities, the credit institutes find that the latter, rather than limiting themselves to general economic policy directives, also extend their influence to questions of detail and steer the use of credit toward the solution of incidental problems.

Instead of being a means of strengthening the competitive position of Italian industry, subsidized credit is used to bolster rearguard positions in an attempt—condemned sooner or later to prove vain—to keep alive firms doomed to succumb to domestic or international competition.

Economic circles are pressing for an extension of these credit facilities so as to increase their field of application from the financing of fixed investment to that of stocks and even to working capital. Ultimately the operations of ordinary banks are suffering, because the latter are more and more coming to trust that the borrowing firm will repay somehow or other with the help of subsidized credit or other public credit facilities.

Interregional and regional credit institutes thus have to devote a growing part of their activity to handling the administrative formalities connected with grants from the central or regional government, so that in the end they themselves come to resemble offices of the public administration. Their banking character grows fainter; their competitive capacity fades; their public bias is accentuated, and this is bound to lead to a change in the controls to which they are subject. But such controls become more difficult to exercise owing to the credit institutes' increasing subordination to regional interests, and this is happening at the very moment when economics and technology alike demand that production units should be larger and that the economy should leave provincialism behind.

Our Report for 1963 outlined the transformations in course in the socialist economies, and more particularly in the Soviet Union. Decentralization on a regional basis has been abandoned, and the Soviet economy is now being reshaped through subdivision into enterprises with growing independence and the possibility to choose factor combinations in the light of indicators based on comparative factor costs. These current reforms have been widely publicized, and this is not the place to discuss them in detail; it may merely be pointed out that the spirit of the reform is that enterprises should be answerable for their liabilities with their own assets, that proceedings for insolvency can be instituted against them and that the state provides no guarantee whatever. The very first reform measures lay down that annual profits may be allocated to the capital funds of enterprises, that capital invested must be reconstituted by setting aside adequate depreciation allowances, and that enterprises may draw on bank credit to the extent of their capacity to repay.

Some further considerations regarding the excessive spread of subsidized credit are suggested by certain aspects of foreign trade. The increasing flow of exports to developing countries on deferred payment terms is having adverse effects on these countries themselves. The accumulation of redemption and interest commitments is a heavy drag on the balance of payments of countries which, for some years to come, are most unlikely to earn sufficiently large surpluses to service their mounting debts.

One might ask whether, instead of giving surreptitious assistance to developing countries—for funds that have the appearance but not the substance of credit must be considered as such—it would not be preferable if we, for our part, were to utilize state budget resources to grant aid. This would not alter the fact that we are withdrawing real resources from domestic use, but Parliament would then decide on the volume and timing, and public opinion would know about it. Actually, export refinancing is, in its end effect, tantamount to financing the budget, which would otherwise have to bear the consequences of insolvency on the part of countries to which goods have been exported on deferred payment terms.

A decision of this kind would, furthermore, be in keeping with our commitment, under our economic plan, to allow some 1,000 billion lire for aid to developing countries in the course of five years; as things are at present, neither the real nor financial implications of this commitment are at all clear.

Similarly, export credit insurance, which was originally meant to afford exporters protection against the possibility that the transfer of money paid by the importers might be prohibited, has gradually come to cover also commercial risks. Official guarantees have become more common in importing countries as well, so that neither exporters nor importers have any real interest left in the intrinsic soundness of the transaction. Certain practices have sprung up whereby the exporter and the importer collaborate to obtain from the latter's government authorities the necessary guarantee for the completion of the transaction. Once again the special credit institutes play no more than an administrative part, their sole function being to check that all the papers are in order.

The result of all this is that countries to which such subsidized exports are sent suddenly see industries springing up without necessarily any reference to market demand or to any co-ordinated and comprehensive government plan. Sometimes these new industries get into difficulties because local consumers refuse to buy their products and prefer imported ones enjoying the same credit facilities thanks to which the machines making the local products were imported in the first place.

Policies to promote the economic development of the less developed countries have been in the forefront of world discussions for ten years, and we have learnt enough to know what complex problems emerge when it is a question of operating within systems that require profound institutional changes.

Indeed, the task of the industrial countries cannot be expressed in terms of money alone. What is needed is that European civilization, whilst respecting native traditions, should help to bring about the necessary transformations of institutions and habits. These transformations must be guided by ideals of social betterment without calling forth discontent, which experience has shown to be conducive to forms of government opposed to these very ideals as also to the forces that foster those processes of social reorganization on which material progress depends.

The Activities of the Banking System.— Our policy in 1966 was to enable expanding production to be financed on the basis of falling short-term and stable long-term interest rates, despite the fact that both were rising steeply on some of the markets with which ours is most directly linked. We put this policy into effect firstly by controlling bank liquidity, and secondly by encouraging competition among banks; to this latter end, we issued instructions conferring upon the largest banks the faculty of operating also in localities where they have no branches of their own. The interest rates charged for lire loans by nation-wide banks diminished on the average by about one fifth of a point in the course of the year and at the end of 1966 were between 7 and 7 ¾ per cent.

Increased competition among banks is intended to stimulate a process of reorganization which will make banking firms assume a size appropriate to the conditions of an integrated economy. It is, of course, up to the central bank to make sure that competition does not degenerate into aggression by big banks against small ones, leading to the destruction of the latter.

With this in mind, a careful survey has been made of the profit and loss accounts of banks with networks in more than one region which have been authorized to operate also in provinces where they have no branches. Although the margin between borrowing and lending rates narrowed in 1966 while personnel costs and tax expenses increased, the banks in this group were able both to make appropriations to reserves of amounts at least as great as in previous years and to pay dividends on their capital, thanks to the expansion in the volume of their business and to their active intermediation in the security market both at home and abroad. Allocations to staff retirement funds, however, are still inadequate; and it must be added that the banks' rôle as intermediaries in the bond market may well fail in the future to expand as much as it has done recently, to the inevitable detriment of profits.

Taking the banking system as a whole, credits of up to 100 million lire account for 46 per cent of the total amount of credit outstanding, those between 100 and 500 million for 21 per cent and those between 500 million and 1 billion for 8 per cent. The average amount of individual credits in the up to 100 million category is 3 million lire. These figures go to show that the present structure of the credit system responds quite well to the requirements of credit distribution in an economy such as ours, where medium- and small-sized firms still predominate. The same conclusion may be drawn from an analysis of the relationship between the movements of production and ordinary credit, an analysis which testifies to the flexibility with which credit is adjusted to the various branches of economic activity.

An examination of the distribution of loans according to their amount shows that the various categories of banks as a rule operate in different sectors of the market, while at the margin there are common areas where competition is keener. In the case of the twelve largest banks, credits of up to 100 million lire account for 38 per cent of total credit outstanding; this proportion is 52 per cent in the case of the 38 next-largest banks, and 63 per cent in the case of all the others as a group. In the category of public-law credit institutes, credits of more than 10 billion lire account for 12 per cent of total credit outstanding; for banks of national interest the figure is 7 per cent. The high proportion of credits exceeding 10 billion in the assets of public-law credit institutes is explained by the fact that they do more business with the public administration, and more especially with local authorities.

Small credits are seen to fluctuate more in individual amount, upward or downward, than do large credits. Furthermore, there is a general shift of credits toward the larger size classes; in particular, some local authorities, unable to repay previous credits, add such new amounts as they borrow to the total already outstanding in their name. This creates situations of some concern to the Bank of Italy; it often happens that toward the end of the month the Bank has to authorize new loans to this or that municipality for the mere sake of public order. Provisions are now under examination by which local authorities would be financed through the medium of the Central Post Office Savings Fund; while this would solve the problem of the local authorities' indebtedness to the banks, it would aggravate the problems deriving from the growing volume of bond issues. Recently, the State Railways were given access to bank credit, and this, too, will have to be carefully limited by the competent authorities.

Portfolio investments and credits to public institutions and government-controlled companies did not prevent the banks in 1966 from giving more help to medium- and small-sized firms, which contributed most to the investment recovery. Banks and banking associations together last year increased the total of their loans outstanding by 2,027 billion lire, compared with 933 billion in 1965. The public sector absorbed 343 billion, or 17 per cent of that total, as against 255 billion, or 27 per cent, in 1965. Large companies of the private sector, as a group, borrowed virtually nothing, so that 1,672 billion lire, or 82 per cent of last year's increment, went to medium- and small-sized firms, including households. The banking system's security portfolio increased by 1,340 billion lire to reach a total of 5,516 billion on 31 December 1966; of this amount, 3,135 billion's worth was freely disposable.

The plentiful offerings of government and government-guaranteed bonds (including bonds issued by the Credit Consortium for Public Works to cover loans to the Treasury) as well as of bonds of public enterprises, and their stable prices, obviously did much to attract the liquid funds of the banking system. It must be recognized that the continuous expansion of the volume of public loan issues, coupled with the maintenance of stable bond prices, is bound in the long run to alter the structure of the banking system. The effects are seen on the side of assets no less than of liabilities; in both cases, bonds tend to displace normal bank business. Bonds accumulating in huge amounts in bank portfolios tend to displace loan operations, especially those involving higher risks. On the other hand, if bonds are almost as liquid as deposits, this is bound to influence the behaviour of savers; those banks which have sections authorized to issue bonds contribute to the process every time they place their own issues subject to a repurchasing clause based on an agreed price.

As the public gradually became aware of this assimilation of bonds to deposits, people developed the habit of drawing down deposits in order to invest in bonds. The banks have been counteracting this tendency by raising the interest paid on deposits; at the same time they have had to protect themselves against the attraction which high deposit rates abroad were exercising on deposits. The ease with which such funds can migrate from one market to another has been reflected in large-scale capital transfers, partly in the form of bank note exports.

In these circumstances the authorities did not see much point in intervening to hold back the rise of interest rates on bank deposits. Certainly, competition among banks became keener and far more deposits came to enjoy interest rates in excess of those laid down by the interbank agreement, although, in annual average terms and for the banks as a whole, the overall cost of deposits did not go up by more than one quarter of a point. Competition was, and still is, keenest for deposits of the public administration and for those of large companies in the public and the private sector, but it extends also to deposits of medium size; the only exception are the smallest deposits, especially in small towns. Tendencies of this kind are evident also on markets better organized than ours, and they have a certain aspect of distributive injustice; but on the other hand small savers do have the advantage that the ample supply of bonds at stable prices offers them profitable investment outlets without exposing them to the risk of substantial losses should they suddenly need to sell their holdings.

Recent experience on the world's largest money markets confirms how hard it is to enforce controls on interest rates when there is disequilibrium between the demand for liquid funds and their supply, when markets are intercommunicating, or when the effects of the tax system exert additional upward pressure on deposit rates. Cut-throat competition among American banks and between them and non-banking institutions, as well as the increase in deposits enjoying higher rates than are fixed by the authorities, both go to show how meagre are the results of coercion.

This is not meant to imply that the attitude of the authorities should be one of indifference. But the way to get the most effective results is not coercion, but rather to influence the behaviour of banks via changes in the profit calculations that govern their activities. To this end it might be expedient to adapt the tax system to the need of keeping capital market rates and deposit rates distinct, even though connected.

On the occasion of the tax reform, it might be possible to strengthen the chances of controlling the rates on short-term and long-term funds and of maintaining an institutional demarcation line between them by introducing two separate, and different, tax rates for the proportional tax to be deducted at source from interest on bank deposits, by a procedure similar to that now applied to income tax category A (income from capital). When banks pay deposit rates not exceeding the ceiling rate fixed by the monetary authorities, the lower tax rate should be applied; beyond this limit, where the banks would in effect be invading the sphere of the capital market, the tax rate should equal the higher rate applicable to bond interest. Pending the tax reform, the tax rates for income tax category A might be differentiated and it might be provided that the tax deducted at source from interest on deposits should be allowed against the banks' taxable income in the first case only.

In this manner the tax system would create an inducement for banks to keep interest they pay to their depositors within the maximum limit indicated by the monetary authorities, and at the same time it would strengthen the mechanism of control on the truthfulness of the banks' declarations. It would be the responsibility of the banks to show in their annual tax returns how much of the interest they have paid out is subject to the one tax rate and how much to the other, and the sanctions of the law would be applicable to any untruthful declaration. In speaking of a maximum limit, what we have in mind is a system by which, anywhere up to this limit, the banks would be completely free to decide what rates actually to pay; nor would it preclude interbank agreements to the extent that they are compatible with Italy's Common Market obligations.

This system might be combined with the abrogation of any restrictions on lending rates, and in addition with freedom to pay interest at market rates on interbank accounts. The result would be a more rational distribution of financial resources. A money market would be created through which resources would be channelled to those prepared to pay most for them. With communication so wide open between the domestic and the international market, the funds could be distributed over a much larger area, so that domestic interest rates would be more directly linked to those abroad. A limited supply of Treasury Bills would give the banks an optional investment outlet for all or part of their liquid funds, and oscillating interest rates might create the conditions of a more flexible manipulation of the discount rate.

With the progress of integration among money markets, official controls themselves will surely have to assume forms compatible with the principle that a firm's efficiency is measured by its profits; profits would thus fulfil the function of replacing human judgement, which may be arbitrary, by the evidence of results. But results can be a meaningful indicator only when they are achieved in an institutional framework which ensures equality of conditions for all who compete with each other in the performance of a service of interest to the whole community. To this end all banks must be subject to the same discipline, regardless of whether they are incorporated under public or private law.

The controls exercised by the Bank of Italy are not, and should not be, like those to which the expenditures of the public administration are subject. A bank, whether it is public or private, must adapt its behaviour to changing market conditions; it must be free to grant or refuse credit to individual borrowers in the light either of a reasonable assessment of their credit-worthiness or of such guarantees as may be offered, or both. In the various current discussions on credit policy, one can often hear the criticism that the guarantees usually required by banks are allegedly excessive, and this is coupled with the recommendation that credit should be granted rather on the basis of the banks' own judgement regarding the ability of the would-be borrower. But such judgements are human, and even if they are made with the greatest possible shrewdness, cannot be, and must not be presumed to be, infallible. To strive for infallibility in the banking business would end up in paralysis.

It is part of our watchdog function over the banking system also to examine what sort of internal organization is best for sound business conduct. This we do methodically, and with great care set right any situation found to be wanting, especially if it is due to management coming up against the characteristic obstacles of economically less developed areas.

The abrogation of restrictions upon the activities of individual banks and the more direct intervention of foreign banks are intensifying competition in the banking sector, and this demands of the monetary authorities the creation of an institutional framework in which banking can be carried on in conditions of equality. In Germany and France banks are free to set up branches without prior authorization; in Germany both lending and borrowing rates are free, and in France lending rates.

It is a condition of effective competition that bank managers should be chosen on no consideration other than their competence. In the case of public-law banks operating throughout the country these choices must be made by the government, which is answerable therefore to

Parliament, and they must not depend upon any prior agreement between the government and the regional, provincial or municipal authorities. Finally, there is a case for encouraging rotation in managing boards by regulations laying down maximum limits for directors' terms of office.

It will be up to Parliament to adapt the law governing the credit system to the conditions of wider competition within the European Economic Community. This appears even more urgent if, as may be hoped, the United Kingdom joins the Common Market, for Europe's most efficient banking and insurance system would operate more directly in the Community. A uniform discipline for the banking profession is a thing to be introduced in steps, but in the meantime nothing must be done that is not in line with this end.

The central bank will remain responsible for such changes in the structure of banking firms as may be necessary for the latter to hold their own in the face of increasingly direct competition with the banks of foreign countries, where mergers have taken place precisely with a view to enhanced efficiency.

Monetary and Fiscal Policy.— At meetings of those who are responsible for monetary policy two sorts of complaints are commonly heard: governments are not as quick as might be desired in adapting the volume of public expenditure and the methods by which they finance it to the objectives of tendential balance-of-payments equilibrium and price stability; and the effectiveness of monetary policy measures is hampered in markets where funds are freely transferable.

Fiscal policy has come more into the foreground as a result of recent experience in the United States, where the judicious tax cuts in the years since 1961 are now regarded as one of the factors which helped to promote and sustain expansion in conditions of satisfactory price stability.

But this same example also teaches us that when it is a question of restraining an incipient price rise, the instruments of fiscal policy do not work fast enough and therefore need to be supplemented by the tipical measures of monetary policy. Moreover, the Americans do not seem to have discovered a policy mix of fiscal and monetary measures such as to temper the harshness of the latter. The rate of increase in both long-term and short-term credit declined in the second half of 1966 to about one third of what it had been during the first half of the year, with far-reaching effects on the capital and money markets of the rest of the world, for the resulting huge capital movements exercised heavy pressure on the currency reserves of more than one central bank.

The discussions concerning the limits within which, in any particular case, it would have been expedient to contain the use of monetary policy measures confirm that the various forms of fiscal and monetary policy need to be considered not as mutually exclusive alternatives, but as complementary to each other, both helping in different degrees to achieve the objectives set by parliaments.

The analyses contained in our Annual Report this year do not hold out much hope of fiscal policy instruments being effectively used in Italy, as elsewhere, to regulate the economy.

The total demand for credit on the part of the public administration and the autonomous government agencies to cover their deficits in 1967 is expected to be more than 3,000 billion lire. The requirements of the government itself and of the autonomous agencies can be deduced from their respective initial budget estimates, adding expenditure under special laws to be included subsequently in the revised budget estimates. The amount involved is about 2,000 billion lire; assuming that no changes occur in budgetary arrears and that no major expenditures are carried forward, this sum will be reflected in the Treasury's cash budget. Local authorities must be expected to run up a total deficit no smaller than in 1966 (700-800 billion lire). Recent official statements suggest, finally, that the administrative budgets of the main Social Insurance Funds will show a deficit of about 700 billion lire, of which some 500 billion or so will have to be financed by credit if we make allowance for presumable allocation to reserves; here again, actual requirements will depend upon the time lag between the administrative and the cash budget.

Of the total requirements of 3,000 billion lire, at least 1,200-1,300 billion will have to be financed by bonds issued by the Treasury and the autonomous agencies, under the terms of the legislation authorizing the corresponding expenditure. In addition, it may become necessary to cover also expenditure to launch the second five-year phase of the State Railways' modernization programme, and the Central Post Office Savings Fund may also make claims on the market should it be authorized to float direct bond issues. It is, of course, possible that not all the expenditures to be financed in these ways will actually be disbursed during the year; yet the full amount indicated will have to be raised on the capital market, because the government cannot include the expenditures concerned in its budget unless the funds for their coverage are actually at hand.

The rigidities which hamstring fiscal and monetary policy alike derive not only from the accumulation of expenditure commitments on the part of the government, local authorities, Social Insurance Funds and autonomous government agencies, but also from the size of the special credit institutes' loan commitments in connection with such investment programmes of firms as are already in hand. Furthermore, we must add commitments for exports on deferred payment terms in connection with plant construction abroad, which commitments will have to be honoured in the course of the next few years. We have tried, in our Report, to work out the total amount of expenditure commitments not liable to adjustment in the light of market conditions, and we have come to the conclusion that they put further constraints upon monetary policy.

It remains to be added that the manipulation of tax rates and its effectiveness (leaving aside any reflection on the behaviour of taxpayers in meeting their tax liabilities) are subject to the existence of reasonable balance between the public sector's revenue and expenditure. When, as in our case, the total deficit of the government, the autonomous government agencies and local authorities keeps growing year by year, it is hard to see what leeway is left to fiscal policy, since the government is, and must be, for ever in search of new revenue, so as to diminish the gap which has to be filled by voluntary saving.

Recognizing these limitations, we have made an effort to refine the instruments of monetary policy. An examination of the methods used in the control of bank liquidity shows the growing importance assumed by public debt operations and by bond operations carried out either directly by the Bank of Italy or by the banking system with monetary means released from time to time by the Bank of Italy. In view of the public sector's growing deficit, which is not amenable to countercyclical co-ordination with the surpluses or deficits of the other sectors of the economy, the monetary authorities cannot regulate liquidity creation without altering the methods by which the public sector is financed. This involves increasing or decreasing the portion of the deficit that is covered by monetary means and, as a supplementary measure, selling or buying securities.

Among the autonomous factors which go to determine changes in bank liquidity, the most important in 1966 was the Treasury deficit, which created liquidity in an amount of 1,867 billion lire. The current surplus in the balance of payments expanded liquidity by another 867 billion lire; deducting capital movements the net liquidity-creating effect of the foreign sector works out at 418 billion lire. The other sectors absorbed 83 billion lire of bank liquidity.

Public debt operations and open market operations by the Bank of Italy reabsorbed liquid funds in an amount of 1,368 billion lire, but other security operations, including security allocations to compulsory bank reserves, had a liquidity-creating effect of 666 billion lire, so that on balance the net effect was to reduce liquidity by 702 billion. Rediscounts and the Italian banking system's foreign operations were of limited importance; the former created liquidity in an amount of 172 billion lire, and the latter absorbed 182 billion. In all, allowing also for minor items, intervention by the monetary authorities last year reduced bank liquidity by 715 billion lire.

The combined effect of the autonomous factors and of intervention by the monetary authorities was to increase the monetary base by 1,487 billion lire and, allowing for 806 billion absorbed by the public, to expand the banking system's liquid funds in sufficient measure not only to finance the credit expansion described above (together with an increase in deposits which required 586 billion lire to be paid into compulsory reserves), but also to leave additional liquidity of 95 billion with the banks themselves.

From one end of 1966 to the other the public's liquidity increased at a rate lower than in 1965, but considerably higher than the rate of increase of GNP at current prices. Stable prices and steady quotations, induced private investors to take up more bonds than before, viz. 1,249 billion lire as against 723 billion in 1965. Nevertheless, the banking system's bond subscriptions rose in 1966 to 42 per cent of deposits received in the course of the year, compared with 36 per cent in 1965.

It was one of the objectives of monetary policy to maintain interest rates on the capital market at a level consistent with the aim of encouraging investment. This had important implications for the choice of the channels through which the central bank injected liquid funds into the market or reabsorbed them. Operations in government or government-guaranteed securities were on a large scale; this applies equally to the Bank of Italy's direct operations and to those transacted in increasingly close collaboration with the banks and more especially with the Central Institute of the Savings Banks. The Bank of Italy bought and sold paper of the kinds mentioned in an amount of close to 800 billion lire in 1966, and another 1,380 billion lire's worth or so were turned over by the Central Institute of the Savings Banks.

In formulating decisions of monetary policy account has been taken not only of changes in the supply of money and quasi-money, but of the whole spectrum of financial assets. This meant enhancing the effectiveness of the provisions which enable switches to be made between the various categories in response to the public's autonomous preferences. In certain circumstances the public withdraws from the security market and puts its money into savings accounts; for this reason it was decided, in the second half of 1965, to increase the flexibility of the market by freeing savings banks from the obligation to tie up the compulsory reserves required to cover an increase in savings deposits either in accounts with the Bank of Italy or in Treasury Bills, and allowing them an option to purchase mortgage on agricultural paper instead.

By encouraging investment in mortgage bonds, the monetary authorities influenced the pattern of investment. Thus 559 billion lire was channelled to residential building, an amount far in excess of the last few year's figures.

The chances of success of a policy such as I have outlined depend upon the fulfilment of a number of conditions, among which I would emphasize two in particular.

The first is the existence of an institutional framework suitably adapted to the development targets of our economic programme and immune from sudden incidental changes, for such changes might modify the propensity to save and the pattern of the use of savings in ways not susceptible of correction by monetary measures. In an open market, for example, certain amounts of savings might be transferred abroad regardless of their yields.

The second condition is that the supply of public securities should not assume proportions such that they cannot be placed at interest rates compatible with our need to encourage investment. The mounting deficit in the public sector's administrative budget makes it more likely that the cash deficit will also be much larger. In the event of these requirements being covered by bond issues on the capital market, the sudden growth of the cash deficit would tend to depress bond prices. Any attempt to prevent a rise in interest rates might lead to the creation of more liquid assets than is compatible with price stability, with more immediate effects when the system is working at nearly full capacity.

In other words, we cannot close our eyes to the fact that monetary policy, when asked to achieve contradictory purposes, ends up in a dilemma. The monetary authorities might refrain from intervention and let security prices slide; it would then become more difficult to place new issues, but in that case the monetary authorities might have to finance the public sector's deficit directly and so to widen the monetary base. Should they decide, instead, to intervene in order to keep interest rates down, by subscribing to such portions of new issues as exceed demand at existing rates and by encouraging the banks to do the same on a large scale, the result would still be that these securities themselves would, in substance, become part of the monetary base.

At present a large proportion of the portfolio investment of the banking system is tied by the monetary authorities, and the bulk of free securities is owned by savings banks, which have an institutional bias toward this kind of asset. I would add that, in accordance with the directives of the Joint Ministerial Committee on Credit and Saving, the central bank stands ready to take resolute action, should the circumstances so require. There is reason to believe, therefore, that, in the short run, we shall escape the dilemma of having to choose between alternatives which would imply sacrificing the continuity of our country's development, but in the longer run, such continuity will necessarily require the fulfilment of the conditions I have mentioned.

Preoccupations of much the same kind are evident, incidentally, in the European Economic Community's medium-term economic programme, which member nations have accepted as a guideline. In it, there is explicit reference to imbalances connected with the pressures of public expenditure and expanding consumption, and a warning that without corrective fiscal, monetary and wages policies these pressures may compromise the Community's projected overall growth rate.

The Problems and Responsibilities of an Open Economy.— Ten years have now passed since the creation of the European Economic Community and since the first satellites were launched into space. It is surely not without significance that an achievement which made it plain how far Western Europe lagged behind the great powers in technology should have coincided with the inauguration of a unifying effort by which alone Europe can hope to keep alive its contribution to world progress.

When the European countries had to build up their economies again after the destruction of the last war, they did so partly in the spirit of the traditional principles of European civilization, principles which after their eclipse in the interwar period had come to the fore again and the adoption of which, moreover, was being recommended from abroad, as, for example, the freeing of trade and payments, and partly, by the force of inertia, along lines reflecting the ideas of the thirties.

The one great new departure, which was destined to call forth profound transformations, was the grand design of the unification of Europe, even though eventually it was put into effect on a more limited scale than had originally been intended. Formidable obstacles have had to be overcome so far, and assuredly the future will demand of us a responsible joint effort of all economic and social forces.

Our economy's reaction—spontaneous rather than organized— to the great opportunity of joining the European Common Market and, more generally, to the challenge of international competition has gained us many a prize of incontestable value. Between 1958, when the Treaty of Rome came into force, and 1966 our gross national product rose by more than half, at an annual rate which is among the highest in Western countries. More than a million jobs were created outside farming during the same period. Our export trade more than doubled, an achievement which far outstrips that of any other developed country except Japan. Our share in the world's trade in manufactures rose from 4 to 7 per cent, and the ratio of Italian to international export prices decreased at an annual average rate of 1.3 per cent, as a result of the former falling by 0.4 and the latter rising by 0.9 per cent. I recall this record of past performance as a good omen for the future.

Forthcoming developments within the Common Market and its opening up in relation to the rest of the world raise certain problems of adjustment. In the face of these problems, the overriding task before us must surely be to do our utmost to raise productivity, in the economically backward areas no less than in the advanced ones. The approaching target dates leave little margins for delay in taking indispensable measures, and none at all for mistakes, such as the artificial creation of, or the overlapping of, production lines, which are doomed to failure in an integrated economy, with a resulting waste of real and financial resources. Whatever solution is adopted, it must be guided by our need to improve the mechanism by which the nation's resources are put to the most productive use, in the knowledge that this is the only way in which a durable contribution can be made to the necessary development of our country's economically less advanced areas.

There is a major task awaiting to be done, therefore, in co-ordinating the required transformations in line with programmes conceived on the national and regional scale. The tangle of legislative provisions and the organizational framework must never be allowed to weaken the all-important impulse to go ahead and do things; nor must we ever lose sight of the fact that if our economy is to assume a more industrial character, it must do so in the setting of an open market, which means that its industries must be highly competitive. In this connection a warning must be given that the maintenance of competitive export prices hides cost increases which make inroads into the earning capacity of firms.

What has been said in previous Reports remains as true as ever. The financial structure of firms in our country is at present less strong than it was in previous years, when it enabled us to secure a growing share of world trade.

If we compare the capital structure of a group of the largest manufacturing companies in the European Economic Community, we see that the burden of debt lies heaviest on Italian companies.

Over the three years 1963-1965, total debts corresponded to 57 per cent of assets in the case of the Italian companies, compared with 32 per cent in the Benelux countries, 39 per cent in Germany and 53 per cent in France. The ratio of the firms' own capital and reserves, including staff retirement funds, to fixed assets was 1.7 in the Benelux countries, 1.4 in France and Germany, and 1.2 in Italy.

The flows of savings between the different sectors of our economy, as shown in our Annual Report, deserve careful consideration. Total formation of financial assets in the economy, including bank notes, deposits, securities and other credits, amounted to 3,650 billion lire in 1961; in 1966 the figure was 6,500 billion lire, and of these 4,400 billion accrued to households. Magnitudes of this order impose a heavy responsibility on all of us to make sure that the wealth they measure is adequately employed to yield immediate or later returns.

Another figure I want to draw attention to is the high proportion of savings absorbed by the public administration (2,115 billion lire in 1966), though in pointing this out I do not want to join in the doubts it has become customary to express about the ability of the public administration to make productive use of the resources entrusted to it. Be that as it may, the figures of our Report make it clear that even some of the resources accruing to firms are so invested that they do not allow adequate depreciation and remuneration of capital.

The new tariff reductions agreed at the conclusion of the Kennedy Round, which are more far-reaching than any that preceded them, place our economic system more, and more directly, in contact with the technologically most advanced countries of the world and force us to look for new industrial applications. Our economy must not draw its impulses exclusively from demand for traditional products; we cannot forgo the more ambitious aim of joining the big concerns which are now being formed on European scale with a view to pioneering the development of new products.

When all is said and done, the way to raise *per capita* incomes in Italy closer to the level of those elsewhere in the European Community is to increase the amount of capital investment per person employed and to accept the restrictions this implies in terms of the volume and composition of public expenditure, and in terms of taxation and of income distribution.

The aim of the analyses contained in our Report has been to increase awareness of the forces which are transforming our society. Objective necessity imposes upon us certain adaptations, without which our productive forces would be prevented from giving of their best.

The very range and speed of the changes we have witnessed in recent times and must expect in the future make the task of interpretation harder, because there is always a danger that one may be talking of situations already overtaken by events, even in looking into the future. This is all the more reason why the dialogue between the groups that contribute to production is more needful than it has ever been before in our country, why it should be carried to yet higher levels and should become yet more active and frank. Let the new generations have their say, too, and let each group bring to this dialogue not only its own contribution of knowledge, but a determination to temper its sectional claims for the sake of the common weal.

XII. *The Bank's Capital, Reserves and Profit*

No change occurred last year in the composition of the Bank's shareholders and, hence, voting rights. Under the Bank's Statute, every shareholder has one vote for every 100 of the first 500 shares and for every 500 additional shares, provided that they have been owned for not less than three months. On 31 December 1966, the Bank's shares were, as a year earlier, distributed as follows.

72	Savings Banks	177,647	shares	with	468	votes
8	Public-law credit institutes	54,500	»	»	141	»
3	Banks of national interest	21,000	»	»	54	»
1	Social Insurance Fund	15,000	»	»	34	»
9	Insurance companies	31,500	»	»	99	»
93	Shareholders	299,647	shares	with	796	votes
6	Savings banks	353	shares			
99	Shareholders	300,000	shares			

Ordinary Reserves, which stood at 6,871.3 million lire on 31 December 1965, rose during the year to 7,664.8 million. This was the result of appropriations of 155.1 million from 1965 profits and of 708.7 million investment income from the reserve fund itself, and a diminution of 70.4 million, which represents distribution to shareholders of part of the 1965 investment income from the fund (under Article 56 of the Statute).

Extraordinary Reserves rose from 3,569.5 million lire on 31 December 1965 to 4,661.3 million at the of 1966. This was the result of appropriations of 155.1 million from 1965 profits and of 974.3 million investment income from the reserve fund itself, and a diminution of 37.6 million, representing distribution to shareholders of part of the 1965 investment income (under Article 56 of the Statute).

Profits, as shown by the Profit and Loss Account for 1966, were as follows:

Gross receipts	Lit.	133,525,316,777
Expenses and losses written off	»	132,685,232,996
Net profit . . .	Lit.	840,083,781

THE GOVERNOR
GUIDO CARLI

XIII. BALANCE SHEET
AND GENERAL PROFIT AND LOSS ACCOUNT

BALANCE SHEET AS

ASSETS

Gold	L.	1,508,704,373,103
Cash in hand	»	34,781,519,905
Domestic bills of exchange	»	938,913,698,760
Bills for collection	»	321,270,177
Advances	»	663,564,785,856
Deferred clearing house payments	»	95,534,400,000
Italian Exchange Office current account	»	2,128,968,414,387
Government or government-guaranteed securities	»	619,318,084,374
Premises	»	1
Miscellaneous debtors	»	240,991,334,115
Advances to the Treasury: extraordinary	»	339,000,000,000
Treasury current account	»	537,169,082,151
Miscellaneous services for account of government	»	59,332,724,726
	L.	7,166,599,687,555
Securities and other valuables deposited	»	6,337,980,489,201
	L.	13,504,580,176,756
Items written off in past years	»	2,602,396,938
GRAND TOTAL	L.	13,507,182,573,694

Audited and found correct — Rome, 10th May, 1967

THE AUDITORS

DOMENICO AMODEO
ALESSANDRO BACCAGLINI
RAFFAELE D'ADDARIO
BRUNO DE MORI
RAFFAELE PILOTTI

THE ACCOUNTANT GENERAL

ARNALDO FALSINI

OF 31 DECEMBER 1966

SEVENTY-THIRD YEAR

LIABILITIES

Note circulation	L.		4,595,193,673,000
Bank drafts, cashier's cheques and other sight liabilities	»		61,827,249,624
Current accounts	»		172,630,252,222
Time deposits (incl. compulsory reserves)	»		1,932,842,039,293
Miscellaneous creditors	»		390,640,254,862
Net profit for 1965	»		840,083,781
			7,153,973,552,782
Capital	L.	300,000,000	
Ordinary reserves	»	7,664,832,077	
Extraordinary reserves	»	4,661,302,696	
			12,626,134,773
	L.		7,166,599,687,555
Depositors	»		6,337,980,489,201
	L.		13,504,580,176,756
Items written off in past years	»		2,602,396,938
GRAND TOTAL	L.		13,507,182,573,694

THE GOVERNOR

GUIDO CARLI

GENERAL PROFIT

FOR THE

EXPENDITURE			
Administration and contributions to staff retirement fund	L.	67,203,430,373	
Directors' emoluments	»	316,372,146	
Transport of notes, coin and other valuables	»	114,593,976	
Note printing	»	3,173,312,684	
Expenditure on premises	»	527,869,777	
			71,335,578,956
Circulation tax on notes and demand drafts	L.	11,136,824,300	
Income and company taxes	»	20,000,000,000	
Sundry taxes and dues	»	674,111,359	
			31,810,935,659
Amounts written off	L.		15,587,394,994
Interest payable	»		13,811,415,606
Charity and other contributions	»		139,907,781
	L.		132,685,232,996
Net profit for distribution	»		840,083,781
TOTAL	L.		133,525,316,777

APPROPRIATION

To Ordinary Reserve . . . .
To Extraordinary Reserve . . . .
10 % Dividend to Shareholders . . . .
To the Government . . . .

TOTAL DISTRIBUTABLE

Audited and found correct — Rome, 10th May, 1967

THE AUDITORS

DOMENICO AMODEO
ALESSANDRO BACCAGLINI
RAFFAELE D'ADDARIO
BRUNO DE MORI
RAFFAELE PILOTTI

THE ACCOUNTANT GENERAL

ARNALDO FALSINI

AND LOSS ACCOUNT

YEAR 1966

RECEIPTS

Discounts	L.	26,867,150,365	
Interest on advances	»	13,526,899,521	
Interest on other assets	»	64,364,287,362	
Commissions and custody fees	»	2,361,981,256	
Profits on foreign transactions	»	411,382,911	
Sundry profits	»	8,402,568,453	
			115,934,269,868
Interest on government securities	L.	17,315,665,492	
Revenue from real estate	»	275,381,417	
			133,525,316,777
TOTAL	L.		17,591,046,909

OF NET PROFIT

	L.	168,016,756
	»	168,016,756
	»	30,000,000
	»	474,050,269
PROFIT FOR THE YEAR	L.	840,083,781

THE GOVERNOR

GUIDO CARLI

THE ADMINISTRATION OF THE BANK OF ITALY
(31 DECEMBER 1966)

BOARD OF DIRECTORS

CHAIRMAN: Guido CARLI * – GOVERNOR OF THE BANK

Paolo BAFFI * – GENERAL MANAGER

Tullio RICCIO * – DEPUTY GENERAL MANAGER AND SECRETARY TO THE BOARD

Guido BORSELLINO CASTELLANA
Gaetano CARBONE *
Umberto CARUSO *
Carlo D'AMELIO
Danilo DE MICHELI
Antonio FONDA SAVIO *
Francesco MAILLER
Paolo MONICO
Lucio MORODER
Raimondo ORRÙ
Giambattista PARODI *
Giovanni POGGI
Ernesto VACCARINO

* Member of the Executive Committee.

BOARD OF AUDITORS

Domenico AMODEO
Alessandro BACCAGLINI
Raffaele D'ADDARIO
Bruno DE MORI
Raffaele PILOTTI

ALTERNATE AUDITORS

–   –

THE CENTRAL ADMINISTRATION

MANAGERS

Paolo VECCHIA
Vincenzo ONORATELLI
Emilio RANALLI
Corrado PIROVINE
Arnaldo FALSINI
Libero LEONE
Alfredo VERNUCCI