

OECD  
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ITALY

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

MARCH 1980

# BASIC STATISTICS OF ITALY

## THE LAND

Area (1 000 sq. km) 1979	301.3	Population of major cities,	
Agricultural area (1 000 sq. km)		1.1.1976:	Thousands
1976	207.2	Rome	2 874
Woodland (1 000 sq. km) 1976	63.1	Milan	1 722
		Naples	1 221
		Turin	1 199

## THE PEOPLE

Resident population at end-1978			Thousands
(thousands)	56 829	Labour force, 1978	21 731
No. of inhabitants per sq. km	189	Employment, 1978	20 160
Net natural increase in population:		in agriculture	3 090
annual average 1974-1978 (thous.)	257	in industry	7 633
Net rate per 1 000 inhabitants		in services	9 437
(average 1974-1978)	4.6		

## PRODUCTION

Gross Domestic Product in 1978		Origin of the gross domestic product	
(billions of lire)	220 743	in 1978 (at market prices)	
GDP per head in 1978 (US \$)	4 590	per cent of total:	
Gross fixed capital formation:		Agriculture	7.1
Per cent of GDP in 1978	18.8	Industry	35.4
Per head in 1978 (US \$)	860	Construction	7.5
		Other	50.0

## THE GOVERNMENT

Public consumption in 1978		Internal public debt (ratio to central	
(percentage of GDP)	16.2	government current revenue	
Current revenue of general		in 1978)	187.8
government in 1978		General government investment	
(percentage of GDP)	37.1	in 1978 (percentage	
		of total investment)	9.4

## FOREIGN TRADE

Exports of goods and services		Imports of goods and services	
as a percentage of the GDP, 1978	27	as a percentage of the GDP, 1978	24
Main export categories, as a percentage		Main import categories, as a percentage	
of total exports, 1978:		of total imports, 1978:	
Machinery	25	Foodstuffs	17
Fabrics and textile goods	9	Machinery	14
Chemical products	13	Metals, ores and scrap	11
Foodstuffs	7	Crude oil	19
Automobiles and spares	9	Chemical products	11

## THE CURRENCY

Monetary unit: Lira		Currency units per US dollar,	
		average of daily figures:	
		Year 1979	830.92
		January 1980	804.47

NOTE An international comparison of certain basic statistics is given in an annex table.

OECD ECONOMIC SURVEYS

# ITALY

MARCH 1980

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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*The annual review of Italy  
by the OECD Economic and Development Review Committee  
took place on 18th February 1980*

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## INTRODUCTION

The recovery which began at the end of 1978 continued in 1979, sustained by a marked growth of private fixed investment and private consumption. Production fluctuated in the course of the year in connection with strikes, but due to the improvement in recent months real GDP should have increased by nearly 5 per cent. The brisk rate of activity has implied some growth in employment although the rate of unemployment did not decline. The combination of strong demand pressure, rises in rents and cost increases due to rises in oil prices and unit labour costs has meant an acceleration of inflation and the cost-of-living index rose by nearly 20 per cent in the course of the year. Wage growth was more than proportionate to the rise in prices. As a result of the latest collective agreements signed in July and of indexation, the growth of the total wage bill for the year as a whole should have been approximately 20 per cent, compared with an average increase in consumer prices of about 15 per cent. The trade balance deteriorated rapidly in the course of the year. But for the whole of 1979 the current balance should register a 6 billion dollar surplus due to a very swift rise in invisibles receipts. On the other hand, the capital account has swung into deficit, due to net outflows concentrated in the second half-year. The effective exchange rate of the lira appreciated slightly in the first three quarters and depreciated in the fourth thus regaining the level of a year earlier.

The aim of budget policy in 1979 was to reduce the public deficit as a percentage of GDP and to shift a greater proportion of expenditure to investment. An attempt was also made to improve budgetary procedure. In fact, although the total deficit of the enlarged public sector was reduced from a little over 15 per cent of GDP in 1978 to about 13.2 per cent in 1979, current expenditure increased faster and capital expenditure slower than foreseen by the government. Because of the risks which have progressively emerged for 1980, the Italian authorities shifted their fiscal policy stance in autumn 1979 towards support for activity and a curbing of costs, but the draft budget has not yet been approved. The main measures announced are a further budgetisation of social security contributions, the raising of the tax threshold for personal income and increased tax allowances in respect of dependants. Provision has also been made for an important housing-aid programme. Monetary policy was moderately expansionary up until the third quarter of 1979, with interest rates stable up to September. It was then considerably tightened in the latter part of the year to check the outflow of short-term capital: interest rates were raised in two stages and ceilings set on bank credit growth — these ceilings are currently having a more restrictive impact now that inflation has accelerated again.

The rate of growth of demand and output in the first half of 1980 will probably weaken due to the expected slowdown in world demand, the impact of the deterioration in the terms of trade on real national income and the effect of inflation on domestic demand. In the second half of the year there might be an absolute decline in activity. The unemployment rate is likely to go on rising. Despite the more subdued rate of activity, the rise in public utility charges induced by the recent steep increases in oil prices and indexation are likely to result in an acceleration of inflation in the first half of the year. Inflation might ease somewhat in the second half of 1980 with the



weakening of aggregate demand if the expected deceleration of import prices materialises. However, the year-on-year rise in consumer prices should be around 19 per cent. Finally, the current balance may be expected to show another surplus in 1980, though considerably less substantial than in 1979, with a trade balance deficit more than compensated by a very large invisibles surplus. But forecasts are clouded in uncertainty with regard to both world demand and domestic developments. For the time being a more marked downturn in activity and/or a stronger acceleration of inflation cannot be excluded.

Part I of this Survey describes recent trends in demand, output and employment, and prices and wages since the beginning of 1979. Part II deals with the balance of payments. The main aspects of economic policy in 1979, monetary and fiscal policy and other economic policy measures, and guidelines for 1980 are discussed in Part III. Finally, Part IV presents the short-term forecasts and some economic policy conclusions.

## I RECENT TRENDS

### *Demand and output<sup>1</sup>*

After a period of relatively more marked fluctuations between 1975 and 1977, the time pattern of activity has not since been much different from that of other European OECD countries. The recovery which began in 1978 was initially triggered by exports, but, as from the end of the year, it was also sustained by the rapid growth of

Table 1 Demand and output<sup>1</sup>

	Current prices, billion lire 1978	Percentage change in volume at annual rates and 1970 prices					
		1977	1978	1979	1978 II	I 1979	II
Private consumption	135 347	1.5	2.6	4.9	3.6	5.2	5.6
Collective consumption	36 303	2.2	3.5	1.7	3.9	1.0	1.0
Gross fixed investment	41 406	0.0	-0.4	4.3	5.5	3.7	4.3
of which: Machinery and equipment	17 131	-0.1	-1.9	6.8	8.5	5.8	8.8
Construction	24 269	0.2	0.7	2.3	3.3	1.8	2.3
Final domestic demand	213 056	1.4	2.2	4.3	4.0	4.2	4.6
Stockbuilding <sup>2</sup>	1 854	-1.2	-0.6	1.1	1.6	0.8	1.0
Total domestic demand	214 910	0.0	1.5	5.4	5.7	5.1	5.6
Exports of goods and services	59 616	8.5	10.8	9.5	15.4	6.5	10.0
Imports of goods and services	53 783	0.0	8.1	13.4	25.7	7.8	13.7
Foreign balance <sup>2</sup>	5 833	2.0	1.1	-0.1	-0.7	0.2	-0.1
GDP at market prices	220 743	2.0	2.6	4.9	4.6	4.9	5.2
GDP implicit price deflator	..	18.9	13.3	16.1	13.7	16.2	18.0
Industrial production	..	1.1	1.9	6.5	6.4	5.9	7.2

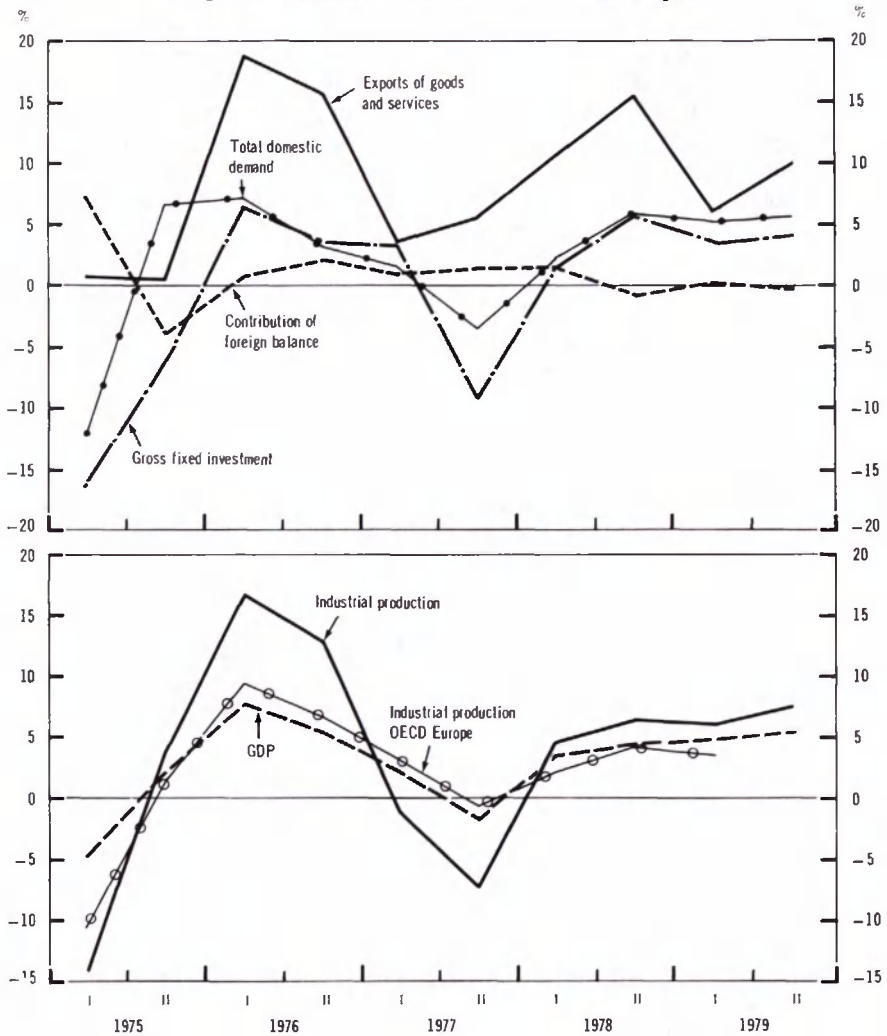
1 Standardised OECD definitions.

2 As a percentage of GDP in the previous period.

Sources: Ministry of the Budget, *Annual Report on the Economic Situation*; ISTAT, provisional estimates for 1979; Secretariat estimates for half-yearly changes in 1979.

1 The trends discussed in this section are based on the new national accounts series published by the Central Statistical Institute (ISTAT) for the period 1960-1978 in which the levels of main aggregates have been revised substantially upwards; cf. technical note in annex. Estimates for 1979 are based on provisional ISTAT data. Official figures for 1979 will be published on 31st March, 1980.



Diagram 1 Selected indicators of demand and output<sup>1</sup>

1 Volume change on previous period at annual rates.

Sources: ISCO, *Quarterly Accounts*; ISTAT, *Monthly Bulletin of Statistics*; OECD, *Main Economic Indicators*.

private consumption and non-residential investment and a positive contribution of stockbuilding. The rate of activity probably accelerated further in the second half of 1979, especially in the last few months of the year. The rate of growth of GDP for the year as a whole should have been about 5 per cent.

In 1979 households' disposable income accelerated markedly to 21 per cent, compared with 17.6 per cent in 1978. Compensation of employees<sup>2</sup> accelerated considerably because of the renewal of wage contracts and indexation. But the strongest

2 In 1979, the increase in compensation of employees and the total wage bill coincide. However, because of the budgetisation of some social security charges, in 1977 and 1978 compensation of employees (22.2 and 15.6 per cent respectively) rose at a slower rate than the total wage bill (26.6 and 16.0 per cent respectively). The budgetisation measures have an impact on total labour costs but not on net employees' pay.

contribution to income growth came from property and enterprise earnings reflecting the role of small firms in the present recovery. On the other hand, social security transfers slowed down significantly in 1979 mainly because of the system of indexation of pensions,<sup>3</sup> but their increase was nevertheless stronger than forecast. After three years during which it rose considerably due to the anticipation of tax payments, the elasticity of direct taxes to income should have declined to unity in 1979. Social security contributions should have increased faster than the total wage bill because of the raising of contributions payed by the self-employed and the reduction in evasion. On the whole, despite the acceleration of inflation, real disposable income increased by some 5¼ per cent compared with 4.3 per cent in 1978. Thus the acceleration of private consumption<sup>4</sup> in 1979 – 4.9 per cent against 2.6 per cent in 1978<sup>5</sup> – was accompanied by a small rise in the savings rate. Public consumption accelerated somewhat in 1978 slowing down considerably in 1979, but on the whole appears to be following the trend of the last few years.

Table 2 Households' appropriation account

	Billion lire	Percentage change from previous year	
		1978	1979
Compensation of employees	123 821	15.6	20.2
Gross income from property and entrepreneurship	74 298	20.9	25.8
Social security and other transfers	40 725	25.0	16.2
Total income	238 844	18.7	21.2
Direct taxes	17 619	35.5	21.2
Social security contributions	37 165	17.5	22.2
Disposable income	183 890	17.6	21.1
Consumption	135 247	15.7	20.6
Savings ratio	..	26.4	26.7
Consumption implicit price deflator	..	12.7	15.0

Sources: ISCO, provisional estimates; OECD Secretariat.

Gross fixed investment fell by 0.4 per cent in 1978, but the annual average conceals a positive intra-yearly time pattern. Following a very sharp fall in the second half of 1977, fixed investment staged a rather hesitant recovery in the first half of the year which gained considerable momentum in the second half. In virtually all sectors, with

3 The indexation of pensions to prices is calculated at the beginning of each calendar year for the year ending six months earlier. In January 1979, indexation was computed for a period of decelerating inflation (July 1977 to July 1978).

4. National consumption, according to standardised OECD definitions. Italian national accounts utilise the concept of domestic consumption, which includes tourism expenditure according to the EEC system.

5 A breakdown by category of products is available for domestic consumption (i.e. inclusive of tourists' expenditure) in 1978, which increased by 2.9 per cent. The fastest increases were recorded for durable goods (4.7 per cent), and especially radio and television sets (8.2 per cent). Food consumption increased as the average, while lower than average growth took place in entertainment services (1.9 per cent) and automobile purchases (0.6 per cent). According to the Bank of Italy, the weakness of the latter category is explained by the postponement of purchases by consumers in face of a sharp rise in direct fiscal pressure which is perceived as temporary. The argument is apparently supported by the fact that the slowdown in car sales since the second half of 1976 has coincided with changes in tax regulations which have brought about once-and-for-all increases in direct tax revenue.

the exception of services, the upswing appears to have been due to private investment. Public investment<sup>6</sup> continued to exert a considerably negative effect on activity, as in the previous year. Whereas general-government investment was virtually stagnant, sharp declines were registered for public enterprises. The most marked were in industry (-10.6 per cent), and construction (-45 per cent) due respectively to the persistent crisis of the iron and steel and chemical sectors and administrative delays in implementing construction-aid measures decided in 1977. The recovery of investment — still mainly spurred by the private sector<sup>7</sup> — continued in 1979, accelerating in the course of the year, and for the year as a whole capital formation should have increased by more than 4 per cent. The reasons for the upturn of investment appear to be the increase in the rates of capacity utilisation since the fourth quarter of 1978, a restoration of profits due to the contained rise in unit labour costs and import prices in 1978 and the dynamic pattern of exports<sup>8</sup>. Despite the recovery staged over the last eighteen months, gross fixed investment at constant prices as a share of GDP should still be lower in 1979 (16.5 per cent) than in 1975 (18 per cent), when the ratio was already very low. The decline of this ratio is less marked — from 13.2 per cent in 1975 to 12.4 per cent in 1979 — if residential construction is excluded from gross fixed investment.

The recent growth of investment has occurred mainly in machinery and equipment while the trend of construction and especially housebuilding has remained very weak, although there are serious doubts on the reliability of residential construction data. There is no doubt, however, that the sluggishness of investment in this area is mainly due to medium-term factors<sup>9</sup> none of which appears to have been removed during the period under review. In November 1978, the fair-rent act ended a long period of rent freezes, but under the present legislation rent increases probably appear an inadequate return on capital to would-be investors<sup>10</sup>. Furthermore, the transition to the new system and the controversial interpretation of some clauses of the new law have added to uncertainty. But the major potential for residential-construction growth lies in the large demand for new dwellings by prospective low-income owner-occupiers which, however, is frustrated by the high cost of housing and the lack of adequate mortgage facilities. There has been some government intervention in this area in the course of the 1970s, mainly through subsidised building programmes<sup>11</sup>. However, these were devised mainly as anti-cyclical measures and have therefore not provided a steady flow of investment. Furthermore, administrative delays and the difficulty of expropriating land for public use have also often thwarted, as in 1978, the short-term effectiveness of such measures<sup>12</sup>.

Very little direct information is available on stockbuilding. However, it appears that the contribution to growth has been positive between the second half of 1978 and the end of 1979. This appears to be due to work in progress, because of the upswing in activity, and imported goods. The recovery of stocks of imported goods is explained in

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6 In 1978 the share of general government in total investment at current prices was 9.3 per cent and that of public enterprises 17.8 per cent.

7 No direct indicators of private and public investment are yet available for 1979. However, the annual survey of investment prospects carried out by the Confederation of Industry shows absolute falls in some sectors, e.g., chemicals and man-made fibres, where public enterprises are prominent. At present the Secretariat estimates that public-sector investment (general government and public enterprises) should decline in volume by about 3.5 per cent in 1979 compared with -6.2 in 1978.

8 A Bank of Italy survey of manufacturing industry shows that in recent years private enterprises with a high exports/sales ratio have been the most dynamic investors.

9 See OECD Economic Surveys, *Italy*, January 1979, page 9.

10 The main aspects of the fair rent act are described in the section on price and incomes.

11 The share of the public sector in residential construction rose from 3.6 per cent in 1970 to 9.9 per cent in 1977. It then declined to 5.4 per cent in 1978 due to the sharp fall in government construction.

12 Thus the unprecedented fall of public sector residential construction in 1978 is due to the impossibility to implement a housing programme decided in August 1977.



part by the very low levels of inventories in the first half of 1978 and also by expectations of price rises in 1979. The latter is apparently confirmed by the trend of stocks of oil products which increased by 8 per cent in volume between August 1978 and August 1979. Following an absolute decrease in 1978 due to bad weather, stocks of agricultural products were probably reconstituted in 1979. On the other hand, the differential development of industrial sales and production points towards a decline in stocks of industrial goods up to September 1979<sup>13</sup>. Business surveys showed that between the second quarter of 1978 and the third of 1979 there has been an increase in the number of firms whose levels of inventories of finished goods were judged below normal. The proportion of firms with lower-than-normal levels of inventories of finished goods was much higher than in comparable periods of previous cycles and might imply a more cautious inventory management. However, the trend of inventories in industry was reversed in the fourth quarter of 1979.

Between 1975 and 1979 the share of gross fixed investment in GDP declined steadily. On the other hand, private savings as a percentage of GDP remained constant during 1975-77 and rose by about two percentage points in the following two years. The rise in the trend appears to be mainly due to an improvement of corporate savings since 1977, whereas the households' savings ratio increased throughout. Although the reasons for the rise in the households' savings ratio since the beginning of the 1970s are not themselves very clear, it is the level of the ratio — by far the highest of all developed countries — rather than the trend, that appears remarkably high. This might be partly explained by the fact that households accounts include a large number of small enterprises which presumably have a very high propensity to save<sup>14</sup>. Thus the ratio of gross fixed investment to private savings declined constantly from 76.7 per cent in 1975 to 65.8 per cent in 1979. However, in 1975 and 1976 private savings were not sufficient to finance completely general government current-account deficits and investment. But, as of 1977, private savings had not only become an adequate source of finance for all domestic needs, but also accounted for very large net lending to the rest of the world. For example, the ratio of the current balance to GDP in Italy was 2.4 per cent in 1978, but only 1.4 per cent in Germany.

Table 3 **Savings and investment**  
As a percentage of GDP at current prices

	1975	1976	1977	1978	1979 <sup>1</sup>
National savings	20.1	22.1	22.7	22.0	22.9
of which: General government	-6.8	-4.8	-3.8	-5.5	-5.6
Private sector	26.8	26.9	26.5	27.5	28.4
Lending from the rest of the world	0.2	1.5	-1.2	-2.4	-1.9
Investment	20.3	23.6	21.5	19.6	21.0
Gross fixed investment	20.6	20.0	19.6	18.8	18.7
of which: Non-residential investment	15.0	15.0	14.6	13.7	13.7
Stockbuilding	-0.3	3.6	1.9	0.8	2.3

*Memorandum item:*

GDP at current prices, billion lire	125 378	156 657	189 978	220 743	268 840
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<sup>1</sup> Secretariat estimates.

Sources: Ministry of the Budget, *Annual Report on the Economic Situation*; Secretariat estimates.

<sup>13</sup> In the first nine months of 1979 industrial production rose by 5.5 per cent compared with the previous period of 1978, while industrial sales deflated by the whole-sale price index increased by 7 per cent.

<sup>14</sup> The households' appropriation account includes corporate and unincorporated enterprises with up to 20 employees in agriculture, 50 in services and 100 in industry.

As in previous cycles, the pick-up in demand was accompanied by a lagged acceleration in industrial production. Business surveys suggest that orders began to build up already in the second quarter of 1978. There ensued a period of relative stagnation followed by a very sharp acceleration at the end of the year. Production continued to move erratically in 1979, but increased at a rather sustained rate for the year as a whole (about 6.5 per cent compared with 2 per cent in 1978). The index increased markedly in the first quarter of 1979, but fell sharply in the second, due to strikes connected with the renewal of wage contracts. In the third quarter it picked-up and accelerated considerably in the fourth. The high levels of industrial production attained in 1979 have been associated with considerable increases in capacity utilisation rates and the emergence of bottlenecks in some sectors. At the end of 1979 capacity utilisation rates were generally higher than at the previous peak and that of consumer goods industries was even above the previous all-time maximum of 1973<sup>15</sup>. However, the capacity utilisation rate in intermediate goods industries declined in the fourth quarter. This occurrence in connection with the turnaround in stocks mentioned above, which was particularly strong in this sector, might herald the approach of a turning point. Very little is known on output in other sectors. According to preliminary estimates, output in agriculture, construction and services in 1979 should increase by 2.3, 2.5 and 5 per cent respectively.

### *Employment and labour market*

Total employment has responded to some extent to the upswing in activity<sup>16</sup>, growing at a moderate rate since the second half of 1978, but with considerably different sectoral time patterns. Agricultural employment fell faster in 1979 than in the two previous years, but did not differ widely from the downward medium-term trend. Employment in construction increased by 0.5 per cent in 1979, with a flat trend up to the third quarter and a rather brisk recovery in the fourth. After falling in 1978, industrial employment recovered as of the second quarter of 1979 — more so for wage earners than the self-employed — accelerating considerably towards the end of the year. Signs of improvement were also noticed in large industrial firms, where the steady fall in employment experienced since 1974 has come to a halt<sup>17</sup>. The most dynamic contribution to the growth of employment came from the services sector, where both the number of employees and of the self-employed increased steadily throughout the period in question. As in agriculture, although to a lesser extent, the trend of employment in services appears to be better ascribable to medium-term trends, such as the constant increase in civil service employment, than to cyclical fluctuations. However, the rate of growth of employment in services accelerated in 1979 in connection with the rise in activity<sup>18</sup>. From a more aggregate viewpoint it

15 Capacity utilisation rates (percentages):

	1973 Q4 (Peak)	1976 Q4 (Peak)	1979 Q4
Consumer goods	76.7	75.3	77.1
Intermediate goods	82.6	78.6	76.4
Capital goods	80.3	75.2	76.8
Total industry	78.8	75.6	77.4

16 In Italy, cyclical fluctuations in activity are usually associated with much narrower swings in employment. See OECD Economic Surveys, Italy, 1979, pp. 11-14.

17 In the course of the first eleven months of 1979, employment in large industrial firms increased by 0.4 per cent compared with the same period of 1978.

18 Employment in services increased by 3 per cent in 1979 compared with 2 per cent in 1978 and an average rate of growth of 2.5 per cent between 1974 and 1978.

Table 4 Recent labour-market trends

	1978 thousands	Percentage change on corresponding period of previous year				
		1977 II	1978 I	1978 II	1979 I	1979 II
Labour force	21 731	-0.1	-0.2	1.3	1.1	2.1
Total employment	20 160	-0.7	-0.4	1.4	0.6	1.6
Dependent employment	14 363	0.7	-0.4	0.4	1.5	2.0
of which: Industry	6 537	0.2 <sup>1</sup>	-1.7	-1.6	-0.4	1.9
Thousands n.s.a.						
Total unemployment	1 571	1 646	1 489	1 655	1 607	1 791
of which: New-job seekers	212	200	218	207	249	204
First-job seekers	792	764	733	852	821	913
Other	567	682	538	596	537	674
Percentages n.s.a.						
Unemployment rate	7.2	7.6	7.0	7.5	7.4	8.0
Labour force participation rate	38.9	39.1	38.5	39.3	38.7	40.1

<sup>1</sup> Inclusive of construction.

Source: ISTAT, *Labour Force Survey*.

looks as if the cyclical upswing in total employment since the second half of 1978, and the decline that preceded it, are to be attributed mainly to fluctuations in the employment of marginal workers, while the trend of those "regularly" employed followed a more stable rising trend<sup>19</sup>.

The labour force rose faster than employment in 1979 as a whole, mainly because of a rise in participation rates probably connected with the improvement in the economic climate. The consequent rise in the unemployment rate (from 7.3 in 1978 to 7.7 per cent in 1979) was accounted for by the increase in the number of first-job seekers and other marginal elements of the labour force who amounted to 900 000 and 670 000 respectively for 1979 as a whole. On the other hand, the number of those previously employed actually declined slightly. Unemployment figures, however, should be interpreted with caution, as they do not adequately reflect actual labour-market conditions<sup>20</sup>. On the other hand, the recent upswing in activity appears to have

19 Percentage change over the corresponding period of previous year:

	1978 I	1978 II	1979 I	1979 II
"Regularly" employed	0.6	1.4	1.1	1.5
Marginal workers	-21.2	1.7	-13.8	2.2

"Regularly" employed are those who declare themselves such in the labour force survey. Marginal workers are those who initially declare themselves as not belonging to the labour force, but admit successively to have worked during the survey period. At the same time the survey defines as marginally unemployed people who declare themselves as not belonging to the labour force, but admit to be looking for a job (students, housewives, pensioners, etc.). The figures above should be interpreted with caution because of the difficulty of obtaining consistent statistical observations concerning marginal workers. In particular, it is not clear why marginal employment declined sharply in 1971 I, when activity was picking up.

20 It has been pointed out in previous OECD surveys that the analysis of unemployment cannot be complete without taking into account the existence of considerable under-employment in agriculture and some services and the widespread use of the pension system as a form of unemployment benefit. On the other hand, in July 1979 only 45 per cent of the unemployed admitted having made a positive job search during the survey period.



had an effect on partial unemployment. The number of hours lost in industry because of short-time working declined by 6.7 per cent in the first eleven months of 1979 compared with the same period of 1978<sup>21</sup>, while the number of under-employed<sup>22</sup> fell by about 3 per cent for 1979 as a whole. Regional and sex occupational disparities widened in 1979. The increases in participation and unemployment rates were higher for females than for males and in the south of the country than in the centre-north<sup>23</sup>. Furthermore, although the southern and female labour forces are respectively much smaller than the male and the northern, the absolute increases in unemployment during the period in question were respectively stronger in the former two categories than in the latter<sup>24</sup>.

### *Prices and incomes*

While the economy's growth performance in 1979 was very satisfactory, the main objective of a progressive reduction in inflation, regarded by the authorities as the prerequisite for a return to sustained and balanced growth, was not achieved. After eighteen months of relative restraint, prices accelerated again at the beginning of 1979 and by the autumn were showing rates of increase comparable to those of 1974 and 1976, when the sharp depreciation of the lira (27.5 per cent against the dollar year-on-year and 17.4 per cent in effective terms in 1976) resulted in a rapid rise in import prices. However, the strong differential between the rate of consumer price increases (expressed in national currency) in Italy and its main trading partners did not widen much until the third quarter. On the other hand, in the fourth quarter Italy's relative position deteriorated markedly. The rise in oil prices naturally played a major role in the acceleration of inflation, even if its impact was slightly moderated by the lira's appreciation against the dollar. On the basis of direct and indirect import content, the mechanical impact of oil price increases in 1979 (34 per cent in lira terms year-on-year) on consumer prices is likely to have been nearly 2 per cent, but its real impact was probably more marked, by triggering strong inflationary expectations. The upward trend in import prices did not concern only oil but also all non-oil products, the average values of which rose by about 17 per cent at an annual rate in the first half of the year, compared with 5 per cent during the previous six months. Unit labour costs

21 The decline in short-time working was strongest in textiles and clothing (-38 per cent). On the other hand, short-time working increased in mechanical industries (+ 4 per cent) and especially in construction (+ 25 per cent).

22 Those working less than 26 hours per week.

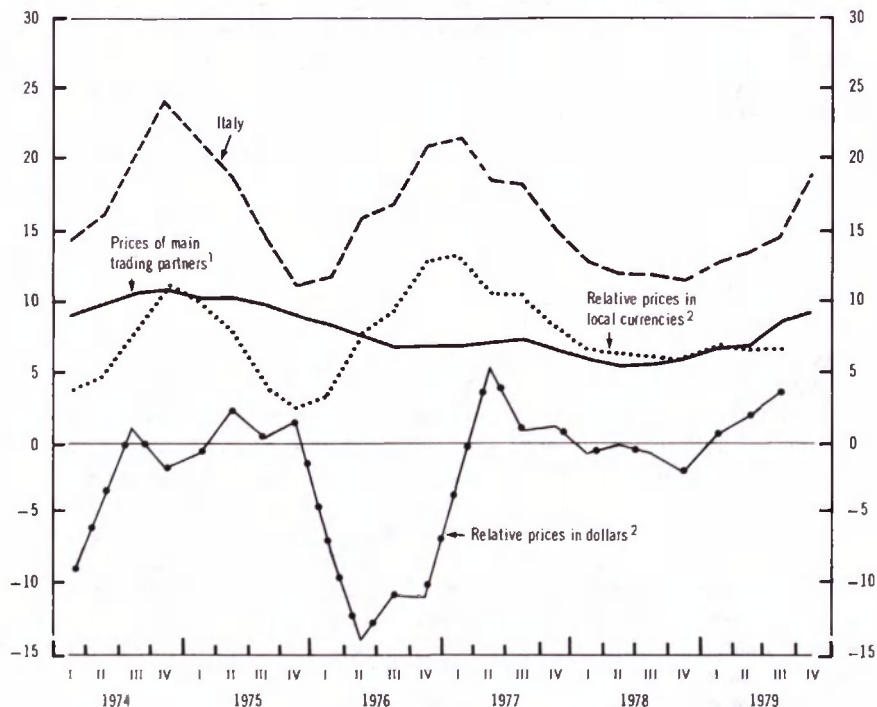
23

	Male	Female	Centre-North	South
<i>Participation rates</i> (yearly averages)				
1978	54.1	24.5	41.2	34.8
1979	54.2	25.3	41.5	35.6
<i>Unemployment rates</i> (yearly averages)				
1978	4.7	12.6	6.0	10.0
1979	4.9	13.3	6.2	10.9

24 Absolute increases in annual average unemployment between 1978 and 1979 (thousands):

Male	Female	Centre-North	South
39	88	43	84

**Diagram 2 Comparative trends in consumer prices**  
(Change on corresponding quarter of previous year)



1 Average of the consumer price indices of the following countries, weighted by their share in exports in 1978 : France 24.54 per cent, Germany 32.75 per cent, United States 12.27 per cent, United Kingdom 10.42 per cent, Switzerland 7.05 per cent, Netherlands 7.05 per cent, Belgium 5.92 per cent.

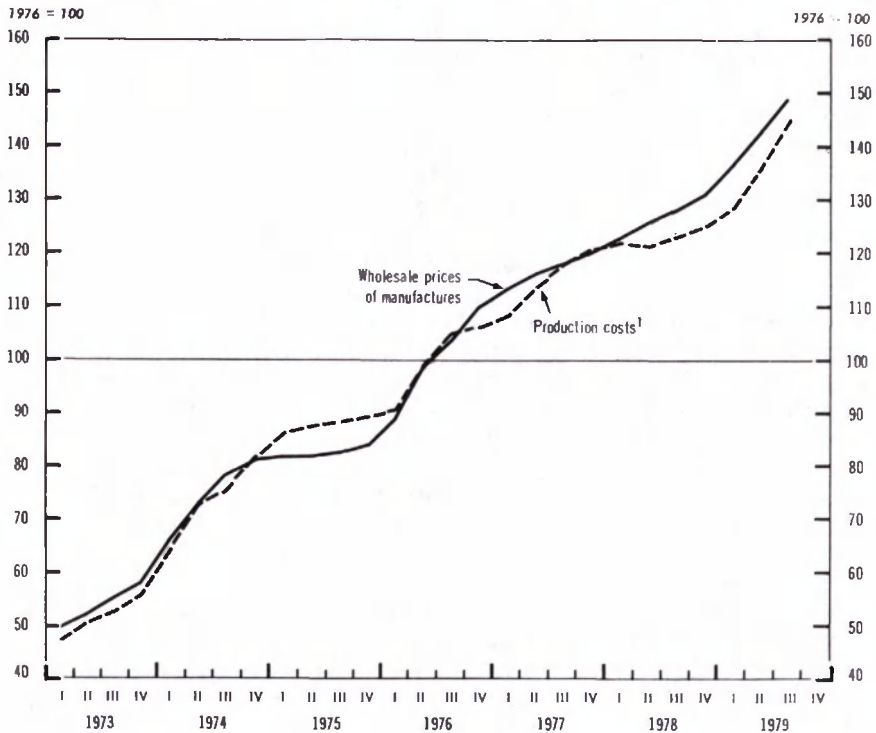
2 Index calculated for the 15 main OECD countries.

Source : OECD Secretariat.

also rose considerably in the second half of the year. The rise in public utility charges and rents — which can be regarded as positive inasmuch as they contribute to improving market mechanisms — have also had an impact on prices. Finally, the strong pressure of demand contributed to an acceleration of inflation, as it allowed entrepreneurs to pass-on, and even anticipate, cost increases to prices.

Wholesale prices rose at a monthly rate of 1.6 per cent during 1979 and in December they were 21 per cent higher than their level of a year earlier. This was more than double the increase recorded during 1978. The rate of increase in prices of farm and food products was virtually the same as in 1978 (of the order of 10 per cent per year). Prices of industrial raw materials showed a very steep rise and by November were nearly 34 per cent up on November 1978. This increase was passed on to wholesale prices of industrial products which followed an upward trend throughout the year. However, if account is taken of unit labour costs, which advanced at a fairly moderate pace during the first half of the year (about 8 per cent at an annual rate compared with the second half of 1978) thanks to productivity gains, the rise in wholesale prices of industrial products in the first half-year seems to have been more rapid than implied by the impact of direct production costs alone. Moreover, business surveys in industry indicated on the whole the prospect of a marked acceleration of prices from the fourth quarter of 1978, at a time when production costs

Diagram 3 Trends of prices and costs in manufacturing industry



¹ Weighted index of unit labour costs and import prices.

Sources: ISCO, OECD Secretariat.

Table 5 Main price indicators  
Percentage change on previous period

	1977	1978	1979	1978 Q4	1979			
					Q1	Q2	Q3	Q4
Wholesale prices								
Total	16.6	8.4	15.5	2.3	4.4	4.6	4.3	5.6
Food	17.4	10.6	10.1 <sup>1</sup>	2.0	3.3	2.2	1.7	4.9
Raw materials and intermediate goods	12.2	6.1	24.3 <sup>1</sup>	2.7	8.0	9.0	6.9	..
Industrial finished products	18.1	8.1	13.8 <sup>1</sup>	2.2	3.6	4.0	4.6	..
Consumer prices								
Total	17.0	12.1	14.8	3.0	3.8	3.7	3.5	5.6
Food	16.9	12.9	13.3	2.5	3.6	3.7	2.6	3.4
Non-food	19.6	11.1	15.0	3.1	2.7	3.5	5.5	8.7
Services	14.2	12.1	16.6	3.6	5.6	3.9	2.5	4.9
Average import values	17.0	4.4	17.7 <sup>1</sup>	0.6	6.3	5.9	8.0	..
Average export values	19.8	7.0	17.2 <sup>1</sup>	1.6	6.7	5.2	4.3	..

¹ January-November 1979 compared with the corresponding period of 1978.

Sources: ISTAT, ISCO, Bank of Italy.

were still slowing down. This movement probably reflected firms' expectations with regard to the trend of oil prices but can also be put down to their intention to increase profit margins in a period of heavy demand pressure.

As is customary in times of accelerating inflation, consumer prices advanced a little less rapidly than wholesale prices, showing an average month-to-month increase of 1.5 per cent in the course of the year (cost-of-living index), but the gap between the two indices was much less marked than during the previous cycles. The very steady quarterly rise in the general index conceals widely differing movements of its components. Non-food prices accelerated sharply during the year and by the third quarter, when the prices of petroleum products were raised<sup>25</sup>, had attained an annual rate of nearly 24 per cent. By contrast, prices of services climbed steeply at the beginning of the year, due to the new legislation on rents<sup>26</sup>, but slackened off markedly in the second and third quarters. As a matter of fact the authorities tried to curb the rise in prices by limiting or postponing increases in public utility charges, which were raised by only 3 per cent in the course of the first three quarters. Certain charges, such as postal charges, have been frozen since 1976. However, important increases were decided upon at the end of 1979 and in January 1980<sup>27</sup>.

In the medium-term strategy devised by the authorities, the stability of the purchasing power of per capita wage incomes in industry was put forward as a major condition for balanced growth. 1979, during which a very large number of collective wage agreements were to be renewed, marked an important stage in this connection. In fact wages rose far more rapidly than in 1978, accelerating markedly in the second half of the year. This was due to contractual wage gains which compounded the effect of indexation. Wage increases differed considerably between the private and the public sector and within the private sector itself. Overall, the total wage bill for the economy as a whole may have increased by 20 per cent for the year as a whole, which would represent a 4 per cent increase in purchasing power compared with 3.4 per cent in 1978. Thus, in spite of productivity gains, the rise in unit labour costs for the year as a whole is likely to have been around 14.5 per cent in 1979, compared with 12.5 per cent in 1978<sup>28</sup>.

Until mid-1979 minimum hourly wage rates by main sectors followed much the same trend as in 1978<sup>29</sup> because of the delayed conclusion of collective agreements, but there was nonetheless a general tendency towards acceleration linked to the movement of prices through the indexing mechanism, with a lag of one quarter. Thus, the rise in wage rates in industry was 16.6 per cent at an annual rate for the first half of

25 According to official estimates, the raising of domestic prices of energy products was responsible for an increase of 1.4 per cent over the first eleven months of the year; this compares with a rise of 16.7 per cent in the general consumer-price index. On the other hand, electricity prices included in the index were not changed.

26 The new rent legislation («equo canone»), which terminates a long freeze, provides for adjustment of rent levels according to surface area graded by quality and for partial indexation (75 per cent) of rents to consumer prices, the timing of the new system's enforcement varying according to the tenant's income. Adjustment of rent levels takes place in two stages (November 1978 and August 1979) for tenants with yearly incomes in excess of 8 million lire and is phased over five years for others. Price-indexation takes place once a year, in August, but in 1979 it applied only to persons with annual incomes in excess of 8 million lire. According to ISTAT estimates, rents rose by one-third between October 1978 and October 1979, thus implying a 1 per cent increase in the consumer price index in January 1979 and 0.5 per cent in October 1979.

27 Petrol prices were increased by 0 per cent and those of fuel by 20 per cent. Electricity charges were increased by 15 to 20 per cent depending on the quantity consumed and telephone rates by about 25 per cent.

28 In 1978 the rise in unit labour costs had been contained through a partial budgetisation of social security contributions.

29 Except for wages in the transport sector which increased by 26 per cent at an annual rate during the first half of the year, over the second half of 1978.



Table 6 Trends in wages  
Percentage change on corresponding period of previous year

a) RECENT TRENDS						
	$\frac{1978}{1977}$	1977 II	1978 I	1978 II	1979 I	1979 II <sup>1</sup>
Hourly wage rates in industry	16.5	23.6	17.5	15.7	17.0	20.4
Monthly earnings in large industrial firms	15.6	18.2	16.1	15.3	10.6	17.0
Cost-of-living index	12.4	14.5	12.9	12.0	13.9	16.8

b) MEDIUM-TERM TRENDS						
	1970-1974	1975	1976	1977	1978	1979 <sup>2</sup>
Whole economy						
Total wage bill	17.9	21.5	22.1	22.2	15.4	20.0
Unit labour costs	14.4	26.0	15.3	19.8	12.5	14.4
Wage share in GDP	51.4	56.8	55.5	56.0	55.6	55.5
Industry						
Total wage bill	17.2	21.9	22.9	20.7	13.0	19.0
Unit labour costs	12.4	34.0	11.7	18.9	10.8	11.7
Wage share in value added	56.8	63.3	60.5	60.6	59.6	..

1 July-November.

2 Secretariat estimates.

Source: ISTAT.

1979, compared with 15.8 per cent for the second half of 1978, but since prices had risen even faster than wages, the increase in the purchasing power of the hourly wage rate was reduced from nearly 4 to 1.2 per cent. In addition, the rise in earnings in large industrial enterprises slowed down sharply because of major strikes<sup>30</sup> which accompanied the wage bargaining round; the level of these earnings in the first half-year averaged only 11.2 per cent higher than in the first half of 1978.

From the middle of the year, the renewal of the main collective agreements<sup>31</sup> gave further impetus to wages, and basic rates in industry rose by 21 per cent during the third quarter compared with the same period of 1978. It is difficult as yet to estimate the overall effect of these new contracts, but the agreement signed in the engineering industry seems to be fairly representative. It provides for an across-the-board pay increase of 20 000 lire per month in 1979<sup>32</sup> with an additional 13 000 lire in July 1980. A third increase, of 13 000 lire on average but scaled according to job category, is to be awarded in 1981. In the construction industry, the increases which took place in 1979 were bigger but the agreement covers mainly one year. Overall, the rise in contractual wages could, according to the Italian experts, represent 4 per cent of the wage bill for industry as a whole; when added to increases resulting from indexation it would bring the rise in wages per employee to 19 per cent in 1979, year-on-year.

30 130 million working hours were lost because of strikes from January to July, compared with 43 million during the same period a year earlier.

31 The three-year collective agreements renewed in 1979 cover 8 million workers, or about two-thirds of wage earners.

32 The contract was signed in July but covers the whole year, with pay increases backdated accordingly.

These national agreements are to be supplemented in the coming months with agreements at the enterprise level, but there is as yet no real indication of what the outcome of the negotiations will be. As regards the reduction in working hours asked for by the trade unions, the working week is still 40 hours in engineering, but the working year will be reduced by 40 hours as of 1981. In the public sector, the new contract<sup>33</sup> provides for large wage increases in some sectors and the total wage bill is expected to rise by 22.5 per cent in 1979. In addition, it has been decided to pay the cost-of-living allowance quarterly as of 1980 so as to align the indexation mechanisms with those operating in the private sector, and to pay all employees a lump sum of 250 000 lire to compensate for the smaller degree of indexation in 1979.

Wage developments in 1979 illustrate how the wage-formation mechanism operates in Italy, with negotiated increases only playing a limited role and the main factor in wage growth being indexation, the impact of which has increased considerably since the reform of 1975<sup>34</sup>. Thus the contractual wage increase negotiated in the engineering industry for the whole of 1979 amounts to practically the same as that payable under indexation for the second quarter of 1979 alone. The information needed to estimate the share of the cost-of-living allowance in total wage incomes<sup>35</sup> for the whole economy is not available, but data for specific sectors show that it is becoming a very important wage component. Thus, in the public sector this allowance accounted for 17 per cent of the basic wage in 1975 and nearly 35 per cent in 1978. In the steel industry its weight in the basic wage of blue-collar workers<sup>36</sup> is even bigger and was more than 50 per cent in 1978, compared with 31 per cent in 1975. More generally, studies on manufacturing industry indicate that, on average, its weight in this sector rose from 20 per cent of wage earnings in 1975 to 40 per cent in 1979. With the introduction of the across-the-board increase in the cost-of-living allowance in 1975, the allowance component grows progressively larger towards the lower end of the pay scale. But far more important than the share of indexation in wage payments is the rate of coverage of inflation offered by the indexation mechanism. The proportion of the increase in prices covered by indexation has varied considerably in recent years. During the period of transition to the new system, (1975-1977) the average rate of compensation rose steeply. Then it declined progressively to an average of approximately 85 per cent for the whole economy in 1979, although with wide differences<sup>37</sup> according to income category. In recent years the function of contractual increases has been to supplement those awarded under the statutory indexing mechanism, the increases being uniform in most cases for each category of employees, and to a large extent for each sector, and not directly linked to the financial position of the industry or to productivity gains.

If an attempt is made to gauge very roughly the impact of the indexation system on inflation over the recent period, it must be pointed out first of all that, in manufacturing industry, during the period 1973-1978 the rise in costs attributable to increases in import prices in lire terms<sup>38</sup> was just as sizeable on average as that

33 This is the contract relating to the period 1976-1978.

34 For a description of the indexation system, see the Economic Surveys of Italy of January 1978 and March 1977. It should perhaps be pointed out that the system operates not in terms of a percentage of wages, but through the payment of a fixed sum for each point by which the reference price index rises.

35 Since the beginning of 1977, the amount of the allowance corresponding to a given percentage increase in prices has been made uniform and it is possible to calculate the increase in the cost-of-living allowance for all sectors and categories; but the starting points are not known.

36 Category 4A in private enterprises.

37 According to an ISTAT study on contractual basic wages for the period January 1975 to December 1976, the rate of compensation varied from a maximum of 166 per cent for blue-collar workers in commerce to 22 per cent for senior civil servants.

38 One-fifth of the rise in import prices being due to the effective depreciation of the lira during the period.



attributable to increases in unit labour costs<sup>39</sup>. However, this is of course an ex-post calculation in which it is not possible to identify specifically the effects of wage increases on the lira's depreciation. Moreover, the indexing mechanism accounted on average for less than half the rise in wages during that period. However, with the gradual slowdown of contractual wage rises, and with the change in the indexing mechanism to its present normal operating conditions as of 1977, the relative impact of indexation has increased substantially during the past three years and in 1979, a year during which collective wage bargaining took place, it accounted for about three-quarters of wage growth. Very approximately, given that the present structure of the different components of prices is not accurately known, wage increases attributable to indexation may be estimated to have accounted for approximately 40 per cent of the rise in prices of manufactures over the period 1977-1979.

The indexing mechanism therefore appears to have had a considerable inhibiting influence on the deceleration of nominal trends in recent years<sup>40</sup> and its role has increased in importance by comparison with the first part of the 1970s. Moreover, it constitutes an additional element of rigidity in the event of an external shock to the economy. With such a system, the burden of adjustment falls more particularly on profits, whereas wages are protected both by indexation and by the rigidity of the labour market. Finally, the existence of the indexing mechanism, in a system of fluctuating exchange rates adds momentum to the wage-price-devaluation spiral with which Italy has had to contend from time to time. Various proposals have been put forward since 1974 with the aim of neutralizing external effects on the indexing mechanism, but political and social conditions have so far prevented any successful outcome. This is the background to the economic policy measures taken since 1977. Given that the possibilities of taking direct action on wage earnings are very limited, the authorities have curbed wage costs by partially budgeting social security contributions in 1977 and 1978. When effective wage growth overshot the limits set by the authorities for 1979, further budgetisation was proposed for 1980<sup>41</sup>, the aim being both to prevent the start of a price-wage spiral and to keep exports competitive without having to resort to a depreciation of the lira, which would in turn accentuate the inflationary process (cf. Part III, Economic Policy).

The budgetisation of social security contributions together with higher productivity and improved terms of trade, helped to rebuild profit margins as of 1978. The movement was particularly pronounced in manufacturing industry where unit labour costs in 1978 increased by two percentage points less than the GDP deflator. In contrast with 1977, unit profit margins, bearing in mind the respective trends of prices of manufactured goods, do not seem to have widened more rapidly on the export than on the domestic market. The annual survey conducted by Mediobanca among nearly one thousand firms confirms that there was an improvement in enterprises' financial positions in 1978 even though, overall, the figures for the trading year were still negative. This was true for both private and public enterprises. However, losses were much bigger in the public sector, representing 82 per cent of the total deficit of the enterprises concerned. Furthermore, while average gross profits declined from 7 per cent of turnover in 1968 to 2.5 per cent in 1978, this percentage remained more or less stable over the same period for medium-sized firms, while the steepest deterioration was shown by public enterprises (from 7.6 per cent to 1.2 per cent of turnover). For the economy as a whole the improvement in profits resulted in a

39 On the basis of the input-output table for 1974.

40 The existence of the indexing system, apart from its mechanical effects, may have altered the expectations of economic transactors by "warranting", in a context of low productivity, a minimum rate of inflation.

41 This was proposed in the finance law for 1980. Pending approval, existing budgetisation arrangements have been extended.

slight increase in the share of property and entrepreneurial income in net national income at factor cost, which went up from 30.9 per cent in 1977 to 31.6 per cent in 1978, though it did not regain its 1976 level (32.1 per cent). The trend of prices and costs seems to indicate that this movement continued in the first half of 1979, particularly on the export side. A turnaround is likely to have occurred in the second half of the year because of the acceleration in wage costs; however, for the year as a whole, there may have been a further improvement in the share of entrepreneurial income.

## II BALANCE OF PAYMENTS

Despite the relative buoyancy of domestic demand and the successive oil-price increases, the current balance of payments will show a surplus of about \$6 billion in 1979 (as already in 1978) — the highest of all Member countries. In fact this performance was essentially attributable to the rapid growth of invisible earnings. On the other hand, for the first time since 1976, the trade balance deteriorated significantly, the reasons being a limited worsening of the terms of trade, a brisk growth of imports and some loss of momentum of exports. The trade balance deteriorated sharply in the second half of 1979 and for the whole year it registered a 600 million dollar deficit. The capital account swung into deficit, notably because of accelerated repayments of compensatory loans<sup>42</sup> but also owing to outflows of short-term capital. Furthermore, the surplus on the balance on official settlements was reduced by about half, from \$6.9 billion in 1978 to \$3.6 billion in 1979. The effective lira exchange rate remained virtually stable during 1979, though with a slow depreciation in the latter part of the year. Fluctuations against the dollar were more marked, but the lira's year-on-year appreciation against that currency was only 2 per cent.

### *Foreign trade*

The analysis of Italy's foreign trade is made extremely difficult by the unreliability of the foreign trade statistics. This applies particularly to the statistics for 1978<sup>43</sup>, but the latest trade figures suggest that the same may be true of 1979. The main statistical distortions concern the growth path of trade over the last two years, but the annual growth rates may also be open to some doubt. Short-term trends based on these figures should be interpreted with caution. Given these reservations, the information available shows that the recovery of growth in 1978 was accompanied by a brisk expansion of imports, particularly in the fourth quarter; this partly reflected the rebuilding of stocks of imported products after the recession of 1977 (this was made easier by the lira's appreciation against the dollar and the comfortable liquidity position of firms). Import growth continued in 1979, with apparently some acceleration in the latter part of the year, and volume growth year-on-year may have been approximately 14 per cent<sup>44</sup>. Import growth in the first eleven months of 1979 compared with the same period in 1978 was particularly rapid in the case of finished products, both consumer and capital goods. The continuing rise in imports of transport equipment

42 According to the Italian definition, "compensatory" loans are loans issued by enterprises on the initiative of the monetary authorities.

43 Cf. Technical Annex.

44 At the time of drafting, the latest figures available were those for December (values) and November (volumes and average values).

Table 7 **Balance of payments**a) **MEDIUM-TERM TRENDS**

\$ billion

	1976	1977	1978	1979 <sup>1</sup>
Exports, fob	36 991	44 791	55 410	72 000
Imports, fob	41 230	44 924	52 499	72 600
Trade balance	-4 238	-134	2 910	-600
Services, net	1 144	2 393	3 849	6 500
of which: Transportation	-714	-684	-898	
Travel	2 491	3 868	5 079	
Investment income	-1 096	-1 079	-1 100	
Private transfers, net	527	824	1 106	5 900
Government transfers, net	-249	-618	-1 502	
Current balance	-2 816	2 465	6 363	
Long-term capital	354	1 014	1 463	
Private	281	786	34	3 600
Official	73	228	1 429	
Basic balance	-2 462	3 479	7 826	
Short-term capital	1 227	-1 519	417	
Balance on non-monetary transactions	-1 235	1 961	8 244	2 000
Banking capital	2 565	3 960	-1 364	1 600
Balance on official settlements	1 330	5 920	6 879	3 600

<sup>1</sup> Secretariat estimates.

Source: Italian submission to the OECD.

b) **RECENT TRENDS**

\$ billion

	1978 I	1978 II	1979 I	1979 II <sup>1</sup>
<i>Seasonally adjusted</i>				
Trade balance	1 521	1 390	950	-1 550
Current balance	3 463	2 903	4 250	1 650
<i>Not seasonally adjusted</i>				
Current balance	2 120	4 243	3 150	2 750
Non-monetary capital	370	1 511	-1 390	-2 500
Balance on non-monetary transactions	2 490	5 754	1 760	250
Banking capital	262	-1 626	2 700	-1 130
Balance on official settlements	2 752	4 128	4 460	-880

<sup>1</sup> Secretariat forecasts.

Sources: Bank of Italy and Secretariat estimates.

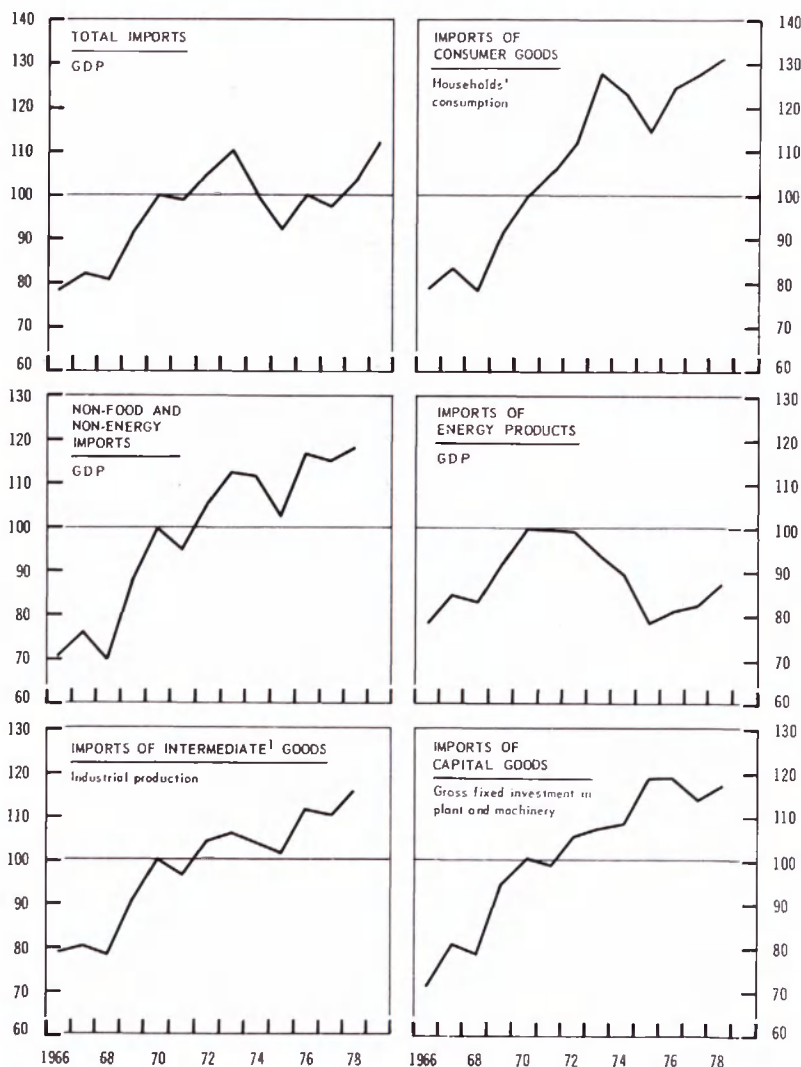
during 1978 and 1979 was especially noticeable. Growth in imports of raw materials and intermediate goods seems to have been more moderate, notably because of a virtual levelling-off in purchases of basic foodstuffs, which rose steeply in 1978 when stocks were probably built up in order to take advantage of the favourable trend in international prices. On the other hand, imports of industrial intermediate goods seem to have accelerated sharply in 1979.

The trend during the last two years has all but offset the decline in the propensity to import observed over the period 1974-1977, and in 1979 the average propensity to GDP was probably back to its record level of 1973 (see Diagram 4). However, it is significantly lower than it would have been had the rapid growth of 1965-73 continued. It should be noted that much of the reason for the average import propensity



remaining below the level implicit in a continuation of the 1965-73 trend is the slow growth of food imports and, to a lesser degree, energy imports, for which the average propensity to GDP is still far short of its level during the early 1970s despite something of an upturn in 1978-79. By contrast, average import propensities for finished consumer goods and industrial intermediate goods (exclusive of energy) were very much higher in 1978 than their levels prior to the first oil crisis and, from the partial information available, they are likely to have risen again significantly in 1979. Finally, imports of capital goods have followed a fairly distinctive trend since 1973, with a much greater stability of the average import propensity than for other product categories.

**Diagram 4 Trends of average import propensities**  
1970 = 100



1 Excluding farm and energy products.

Sources : ISTAT, OECD Secretariat.

Calculations in terms of elasticity likewise show that the strong upturn in imports in 1978-79 has largely offset the slowdown that occurred in 1974-77. Over the five-year period ended in 1979 the trend of total imports in relation to total demand (inclusive of exports) and to output shows no marked structural change by comparison with the second half of the 60s and the early 70s. In relation to domestic demand, the fluctuations in import elasticity have been much stronger and can be explained by the changes in the composition of demand and, more especially, by the large-scale inventory movements that have occurred during the period. Contrasting movements between major product categories were also observed. The import elasticity of finished consumer goods has remained comparatively stable, that of capital goods has declined considerably, whilst that of intermediate industrial goods (exclusive of energy) in relation to production has risen steeply.

Table 8 **Import elasticity**

	1966-70	1970-73	1974-77	1974-78	1974-79 <sup>1</sup>
<i>Elasticity of total merchandise imports relative to:</i>					
GDP	2.3	1.9	0.7	1.5	2.2
Industrial production	2.3	1.7	0.9	2.0	2.1
Total demand	2.0	1.7	0.7	1.3	1.8
Total domestic demand	2.1	1.9	1.5	5.4	3.5
Total final demand	2.2	2.1	1.5	2.3	2.9
<i>Elasticity of imports of certain product groups</i>					
Consumer goods relative to domestic private consumption	2.2	3.5	2.3	2.1	..
Capital goods relative to gross fixed investment in machinery and equipment	2.2	1.5	0.4	0.5	..
Industrial intermediate goods (excluding energy) relative to industrial production	2.3	1.5	3.2	3.4	..

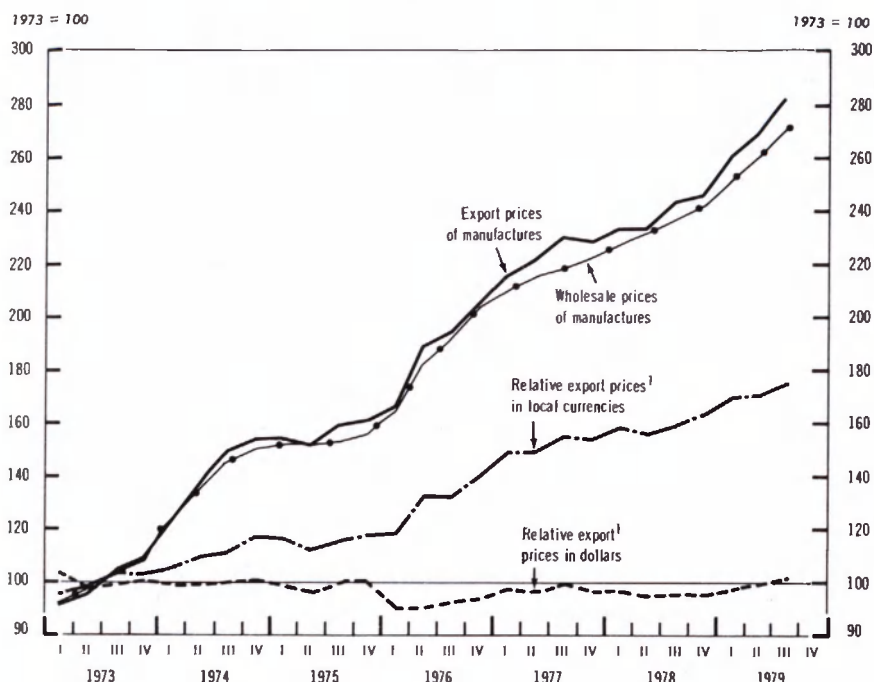
1 Secretariat estimates for 1979.

Sources: ISTAT and Secretariat estimates.

On the export side fairly remarkable performances were recorded from 1974 to 1978, especially for manufactures. Italy's share in industrialised countries' total exports rose from 5.9 per cent in 1973 to 7 per cent in 1978 at both current and constant prices and gains of market shares averaging 3 per cent a year were recorded for manufactured goods<sup>45</sup>. The lira's depreciation contributed a great deal, by enabling exporters to improve their relative export prices and at the same time to achieve wider profit margins than on the domestic market (see Diagram 5). Furthermore, the sluggishness of domestic demand provided an additional incentive to look for outlets abroad. In 1979 these different factors no longer held good to the same extent, whilst the strikes associated with the wage bargaining round were particularly severe in some of the more export-oriented sectors, like motor vehicles. In all, exports are likely to have shown a moderate slowdown, with a year-on-year growth of approximately 8 per

45 The Secretariat's market calculations here are based solely on the geographical breakdown of Italian exports and not on the product breakdown.

Diagram 5 Export price indicators



<sup>1</sup> Index calculated for the 15 main OECD countries.

Sources: ISCO, OECD Secretariat.

Table 9 Medium-term trends of exports by product group

	Share in Italian exports		Share in OECD imports				Annual gains in market shares 1973-1977
	1973	1978	from Italy		from NICs <sup>1</sup>		
			1973	1977	1973	1977	
Total	100	100	4.7	4.3	8.1	9.4	3.0 <sup>2</sup>
Textiles	6.9	5.9	8.5	9.6	8.1	9.7	1.6
Non-metallic mineral products	3.6	3.6	7.0	7.0	6.8	14.8	1.7
Iron and steel	4.6	5.6	3.5	5.2	6.5	7.9	10.3
Machinery excluding electrical	16.5	15.7	6.4	6.3	1.9	3.1	1.2
Electrical machinery and appliances	7.3	6.2	5.8	5.0	8.9	12.3	-2.6
Automobiles	8.8	8.2	5.0	4.9	0.7	1.1	-2.5
Clothing	5.9	5.8	12.5	12.7	32.9	37.9	-0.2
Footwear	4.6	4.6	37.2	36.4	18.9	30.2	

<sup>1</sup> The newly industrialising countries included are: South Africa, Mexico, Brazil, Singapore, South Korea, Taiwan, Hong Kong, Yugoslavia, Gibraltar, Malta, Cyprus, USSR, Democratic Republic of Germany, Poland, Czechoslovakia, Hungary, Romania and Bulgaria.

<sup>2</sup> Market-share gains were calculated here taking into account only the geographical breakdown of Italian exports and on the basis of volume changes in exports and markets.

Sources: OECD, *Statistics of Foreign Trade* and Secretariat estimates.



cent compared with 10.5 per cent in 1978; even then, part of the 1979 growth was carried over from the end of 1978. In the course of the year Italian exports seem to have followed much the same trend as markets.

Available statistics do not allow an updated analysis of export performance by product category<sup>46</sup>; even so, the earlier statistics do reveal certain features of the export sector. First of all, during the period 1973-77 Italian exports seem to have benefited from a concentration on some of the more pace-setting markets and products. Thus the growth of Italian markets (weighted according to geographical breakdown) was faster than that of world trade. On the other hand, market share gains calculated on a country-breakdown basis only were larger than those calculated on a combined country/product breakdown basis<sup>47, 48</sup>. By product category, Italian export performance was very strong in the intermediate goods sector and in industries like textiles and steel which have experienced difficulties in other industrial countries. The particularly satisfactory export figures for iron and steel can probably be explained by the development of exports of small high-productivity plants whereas the traditional steel industry, which is mostly concentrated in public enterprises, is in difficulty. By contrast, losses of market shares were recorded in the capital goods sector, with the exception of machine tools, and in motor vehicles. The deterioration in the latter's export performance seems to have continued during the last two years, and in 1979 trade in motor vehicles has probably been in deficit, whereas in the late 1960s it was showing the third largest surplus on trade account.

Given their composition, Italian exports would appear particularly vulnerable to competition from the newly industrialising countries (NICs). But in fact the figures in Table 9 show that Italy has stood up well against the latter's penetration of OECD markets. Thus, Italy's share in OECD imports remained virtually stable between 1973 and 1977 for products where NIC export penetration was especially pronounced (for example clothing and footwear), and increased considerably for textiles and metal products. Italy's performance in sectors where pricing competition is in theory especially keen suggests that Italian exports have benefited not only from geographical proximity and EEC membership but also from a quality edge, notably in textiles and clothing and footwear. The fact remains that specialisation in products where NIC competition is strong will henceforth keep production costs under very heavy pressure. Italy's performance was less satisfactory in product categories where it also has had to compete with other developed industrial countries (electrical machinery and appliances, automobiles): market-share losses were relatively limited in OECD, but much stronger in other markets, especially for automobiles. By contrast, exports of

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46 There are two difficulties caused by using the standardised data in the SITC nomenclature. First, the complete results for 1978 are not yet known; second, the classifications have been amended for a certain number of products. The homogeneous series therefore end in 1977.

47 The limitations of calculations of market-share gains and losses are well known and the results can be only regarded as indicative. Two methods have been used by the Secretariat. First, market-share gains and losses were calculated taking into account only the geographical breakdown, using volume series obtained by deflating values with indices of average values. But the shortcomings of these indices may be considerable, notably when the composition of exports varies appreciably. Secondly, export performances were calculated taking into account both the product breakdown and the country breakdown. The only homogeneous statistics available for the purpose are in dollar terms. The calculation of market share gains and losses therefore presupposes that the different countries' pricing patterns (in dollar terms) were identical in any one market.

48 The indications yielded by this last comparison must be viewed with particular caution. First of all, the statistics from which the two market-share series are calculated are heterogeneous, one being in value, the other in volume terms. Furthermore, the coverage is not the same, since the market shares by country/product are calculated from a limited sample of products (about 60 per cent of the total). Finally, where these shares are calculated from value series, their aggregation may not be meaningful if price variations were very different from one product to another.

non-electrical machinery, Italy's principal export category, showed large gains of market shares in the non-OECD area.

The improvement in the terms of trade made a strong contribution to the adjustment of the trade balance in 1977 and 1978. In spite of the sharp increases in world oil prices, the terms of trade continued to improve up to the middle of last year, offsetting part of the deterioration in trade volumes. Average export values accelerated sharply (+22 per cent at an annual rate in the first half-year), largely because of the rise in prices of refined petroleum products, which was much more rapid than the increase in the price of imported oil<sup>49</sup> and so made it possible to contain the growth of the oil deficit<sup>50</sup>. Prices of other exported products also accelerated, more rapidly than domestic prices of industrial goods and than those of the main competitor countries, so that for the first time since the end of 1977, the export competitiveness of manufactures apparently deteriorated<sup>51</sup> in the second half of 1979. However, the worsening in the terms of trade was very marked in the second part of the year. Nevertheless the year-on-year deterioration was moderate, about 1 per cent. All in all, the trade balance worsened considerably during 1979, moving from a surplus (fob-fob) of more than \$600 million (s.a.) in the first quarter to a deficit of 1.7 billion dollars in the fourth. For the year as a whole, the trade account registered a moderate deficit of some 600 million dollars, whereas in 1978 it showed a surplus of nearly \$3 million. This turnaround was mostly due to volume changes.

### *Invisibles and current balance*

Present estimates of invisibles in 1979 are based on data available for the first two quarters. The invisibles surplus should have nearly doubled in 1979 and attained 6.5 billion dollars, compared with an already large one in 1978 (3.5 billion). This exceptional surplus is due to three factors: the unprecedented tourism surplus, the continued recovery of workers' and migrants' remittances since 1977 and a possibly non-recurrent decline in transfers to the EEC. Net receipts in dollar terms from tourism, by far the most important item of the services account, should have continued to increase by about 30 per cent, as in 1978. With a probable 15 per cent increase in the number of nights spent in Italy by tourists in 1979, the country's gain of market shares is likely to be higher than in 1978, which was already an outstandingly good year for tourism. The growth of tourism in recent years seems due partly to a better price performance than that of major competitors, but has also been affected in 1979 by exceptional factors in some competitor countries. Although the tourism account might include disguised capital movements, it is not possible, on the basis of available information, to assess their significance<sup>52</sup>. The transportation deficit should have widened slightly in 1979, mainly because of the rise in maritime freight rates, which had already begun during the previous year. On the other hand, the balance on investment income should

49 On the basis 1970 = 100 the terms of trade for petroleum products (excluding exports of petrol stood at 91 in the fourth quarter of 1978 and nearly 108 in the third quarter of 1979. In the very short term the improvement in the terms of trade is favoured by the time lag between import and export delivery dates.

50 The oil deficit (inclusive of refined products) widened by only 10 per cent in the first half-year compared with the same period in 1978. Volume imports rose by about 10 per cent and exports by 25 per cent.

51 The faster increase in export prices in Italy than abroad is partly due to the composition of exports and especially to the high weight of textiles.

52 Between 1973 and 1979, the average annual rate of growth of gross tourism receipts in dollars was 5 per cent higher than that warranted by the number of nights spent in the country by foreign tourists and consumer price increases, with sharp fluctuations around the trend. The difference might be explained by increases in tourism expenditure per head, a faster rise in the prices of goods and services consumed by tourists than of the general consumer price index and disguised capital movements.



be considerably less negative in 1979, as the effect of large debt repayments in 1978 and in 1979 should more than offset the rise in interest rates in the course of last year.

The assessment of remittances by workers and migrants is complicated by the fact that these flows have shown sharp swings in recent years, often unconnected with the trend of wage earnings in host countries. Between 1973 and 1976, remittances in dollars declined in absolute terms, possibly reflecting a lack of confidence in the lira exchange rate. However, in 1977 and 1978 remittances recovered sharply, both because of the renewed confidence in the national currency and the marked appreciation of host-countries' currencies against the dollar. The Secretariat has made some very rough calculations comparing the development of remittances from abroad of workers' earnings and wages in European host countries for the period 1973-1978<sup>53</sup>. It was found that the cumulated growth of earnings during this period was more than double than that of remittances. Even allowing for some decrease in the number of Italians living and working abroad, remittances are still much lower than implied by wage earnings in host countries. For 1979, this increase was conservatively estimated at 25 per cent, implying an inflow of some 3 billion dollars. The negative balance on official transfers which amounted to 1.5 billion dollars in 1978 should narrow considerably in 1979, because of a probably non-recurrent decline in transfers to the EEC<sup>54</sup>. This item alone should contribute about a third of the increase in the invisibles' surplus. To sum up, given the trade balance deficit, the current balance should amount to about 6 billion dollars compared with 6.3 in 1978. As a share of GDP, however, it should decline from 2.4 per cent in 1978 to less than 2 per cent in 1979.

#### *Capital movements and exchange rates*

Although the balance on current account showed very little change between 1978 and 1979, the balance on non-monetary capital swung sharply from a surplus of nearly \$2 billion in 1978 to a deficit of approximately \$4 billion in 1979. The swing was caused by accelerated repayments of compensatory loans but above all, it would seem, by a very marked deterioration in the balance on trade credits. The 1978 surplus was essentially due to a very steep increase in direct government or government-guaranteed borrowing on international capital markets, total capital receipts in this category, net of compensatory loan repayments, amounting to nearly \$2.3 billion. By contrast, receipts from direct or portfolio investment together with capital outflows in respect of trade credits declined considerably. In all the balance on non-monetary capital showed a surplus of nearly \$2 billion in 1978.

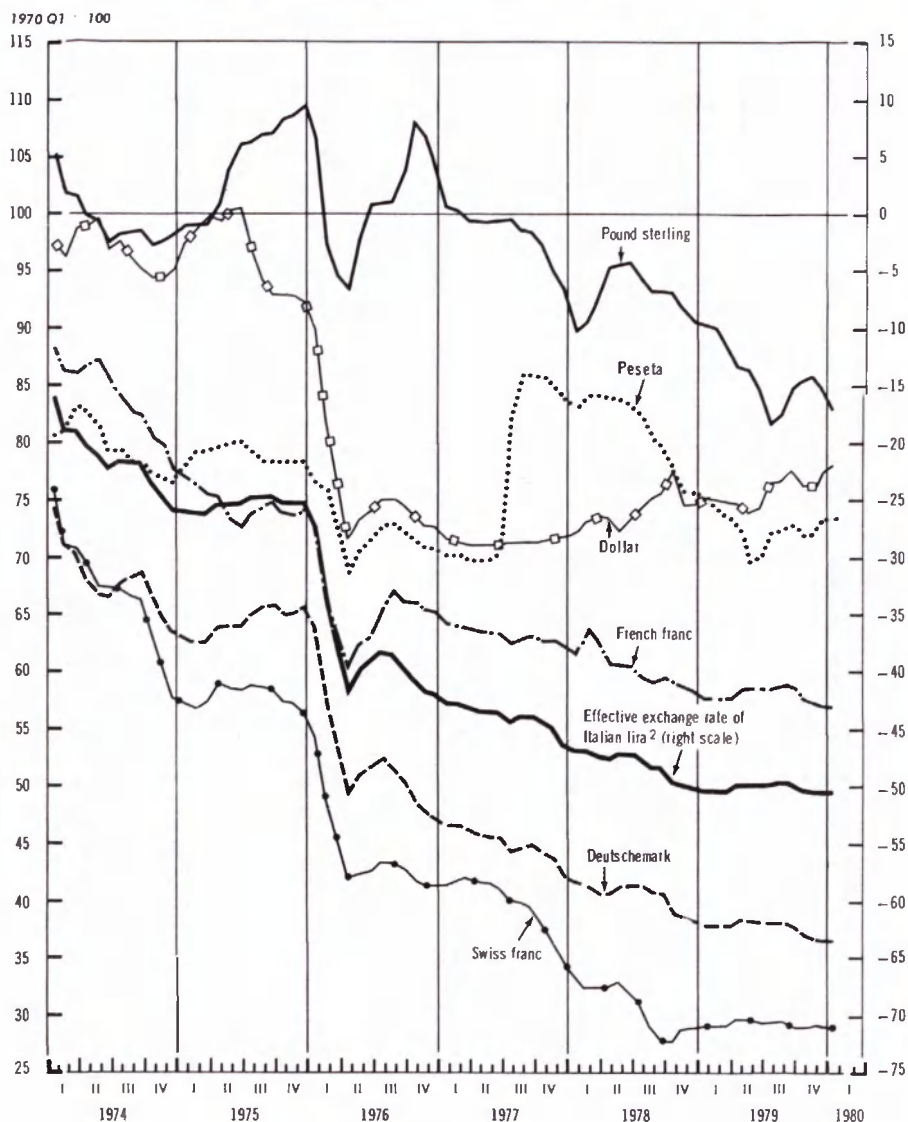
The data available for 1979 are far from complete but show that the situation deteriorated considerably, especially in the second part of the year. For one thing, the authorities availed themselves of the high level of reserves and the lira's good performance to accelerate compensatory-loan repayments<sup>55</sup>, which amounted to nearly \$2.5 billion (compared with \$1 billion in 1978), roughly equivalent to the amount of net inflows in respect of investment and other loans. But most importantly

53 Earnings of Italians working abroad, which are more directly linked with the development of wages represent about two-thirds of total migrants' remittances. However, during the period under review workers' earnings and other remittances followed very similar trends. 70 per cent of workers' earnings originated from the European countries considered.

54 Two factors might explain this development. First, Italy received, with one year's delay, the transfers allocated under the mediterranean zone development programme. Second, the change in the method of calculation of the contributions of member countries has resulted in a reduction of those paid by Italy.

55 The official credits supplied by international institutions (IMF) or central banks (notably the Bundesbank) were mostly repaid in 1978. The amount of compensatory loans totalled \$5.3 billion in December 1978, having reached a maximum of \$8 billion in 1974.

**Diagram 6 Exchange rates**  
(Unit of foreign currency per Italian lira and effective exchange rate<sup>1</sup>)



1 Monthly average of daily rates.

2 Percentage difference on 1st quarter 1970.

Source: OECD Secretariat.

there was an exceptional increase in short-term capital outflows<sup>56</sup>, which for the twelve months may have totalled about \$4 billion, two-thirds of which were concentrated in the second part of the year. Finally, capital outflows accelerated in the second half-year owing to a swing in bank capital movements, with banks reducing their in-

<sup>56</sup> This movement reflected an unwinding of leads and lags and was facilitated by the lengthening of payment delays decided on in 1978. Furthermore, the improved terms of export insurance, notably against exchange rate risks, may have encouraged exporters to grant larger trade credits.

debtedness by over \$1 billion (compared with an increase of nearly \$2.7 billion in net liabilities in the first half-year), whereas hitherto adjustments in their external position had reflected a compensation of trade credits<sup>57</sup>. It therefore seems that, by and large, exchange rate and interest rate conditions encouraged transactors to reduce their external liabilities.

In all, the balance on official settlements swung from a large surplus in the first half-year (about \$3.7 billion) to a deficit of about \$1 billion in the second, the last deficit prior to that being in the first half of 1976. For the year as a whole the surplus was reduced by about half compared with 1978. Part of the increase in the foreign exchange reserves was used to repay the loans contracted with the IMF and, in November, the first instalment of the EEC loan contracted in 1976. However, official reserves were inflated by the revaluation of gold reserves (by about 6 billion dollars), and at the end of the year the net official reserve position stood at more than \$38 billion as against \$25 billion in December 1978. Allowing for the banking system's external liabilities and compensatory loans, net assets of the monetary institutions amounted in September to \$25 billion as against \$10 billion at the end of 1978. This compares with net liabilities of more than \$5 billion at the end of 1976.

The authorities' exchange rate policy in 1978 did not differ from that of the previous year, namely to limit the rise in the cost of imports by stabilising the lira's exchange rate against the dollar and to allow a gradual depreciation in effective terms so as to maintain export competitiveness. In the course of 1978, the effective exchange rate of the lira declined at a rate similar to that of the previous year (approximately 7 per cent), with a more marked fall in the fourth quarter, just prior to Italy's entry into the EMS. At the same time, the weakness of the dollar actually resulted in an appreciation of the lira against this currency of 4 per cent in the course of the year. The depreciation of the effective exchange rate slowed down to only 0.7 per cent during 1979, with an actual appreciation of 0.6 per cent in the first three quarters. In view of the acceleration of inflation, the authorities were willing to accept some loss in competitiveness and did not oppose the stability of the effective exchange rate of the lira up to the end of September. When the lira came under some pressure in connection with the EMS parity realignment in September, widening interest rate differentials and short-term capital outflows, the authorities took action by raising the discount rate in October and December. Following these measures, effective depreciation was contained to 1.7 per cent in the fourth quarter. The exchange rate against the dollar appreciated on the average by 2 per cent in 1979 and by 4.7 per cent in the course of the year. At present, the authorities' exchange-rate policy for 1980 centres on the defence of the lira's parity as part of the government's declared anti-inflationary stance.

### III ECONOMIC POLICY

From 1976 to 1978 the response of economic policy to the abrupt changes in the economic situation mainly took the form of short-term measures which were alternately restrictive and expansionary. As of 1978, a substantial external surplus and an upturn in economic activity gave the authorities sufficient room for manoeuvre to consider economic policy options in a longer-term context, with the object of tackling some of the structural problems affecting the Italian economy. A three-year-programme was prepared during the second half of 1978 and submitted to Parliament

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<sup>57</sup> Transactors may finance their imports either through their suppliers or through banks, the choice being mainly determined by interest-rate differentials and exchange-rate expectations.



at the beginning of 1979, but the political crisis prevented it from being approved. This programme rested on the assumption of relatively sustained world growth<sup>58</sup> and a gradual slowdown in the pace of international inflation. The aim was to achieve a GDP growth rate of 4 per cent per year, while at the same time bringing the increase in GDP deflator down from 14 per cent in 1978 to 8.3 per cent in 1981. According to the authorities, the achievement of these targets involved restraints on hourly wages, which would have to remain unchanged in real terms throughout the period, a restructuring of public sector expenditure towards investment and the reduction of the public sector deficit as a percentage of GDP below its underlying trend. Monetary policy was to remain cautious, with retention of controls on credit so as to permit the financing of investment without fuelling inflation.

As mentioned above, in 1979 there was a very satisfactory rise in activity and a recovery of employment, but also a strong acceleration of inflation, while the specific goals concerning the public sector were only partly achieved. Conditions at the beginning of 1980 are much more difficult and domestic and foreign demand are expected to fall off appreciably, while inflation will probably be at a high level. In weighing the risks as they appeared last autumn, the Italian authorities decided in their economic programme for 1980 presented in September to give priority to sustaining the level of economic activity, believing that, in a situation of cost-push inflation, a policy of overall restriction of demand, especially through monetary measures, would be ineffective in fighting inflation, unless major sacrifices were made in terms of growth. In addition, the relatively healthy current balance forecasts provided economic policy with some room for manoeuvre in promoting selective measures to sustain growth through the budget, while at the same time taking direct action to hold down wage costs. According to the Italian experts, these measures were to raise the GDP growth rate from 1.5 per cent on spontaneous trends to 2.5 per cent in 1980, year-on-year. At the time of writing the budget had not yet been approved by Parliament. As outlined in the September programme, monetary policy was to remain sufficiently cautious so as to avoid a surge in inflation, but without restricting economic activity to any significant degree. As a result of new international developments, the course decided on in September was subsequently modified. Thus in October and again in December the discount rate was raised substantially in order to stop the downward slide of the lira, while credit ceilings became more restrictive due to the acceleration of inflation. The policy stance will in any case have to be reviewed during the first half of 1980 and incorporated in a new three-year programme now being prepared, which will have to take account of the latest information concerning the domestic and external situation. Finally, in the field of energy, measures have been taken to assure supplies in 1980 and reduce consumption and a new medium-term electricity plan has been put forward.

### *Budget policy*

#### *The institutional framework*

The public sector in the 1970s has been characterised by a very rapid increase of expenditure, especially on current account, and a widening of borrowing requirements. This was partly due to institutional changes connected with regionalism<sup>59</sup> and the lack

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58 Growth in Italy's export markets was assumed to be 4.5 per cent in 1979, 5 per cent in 1980 and 5.5 per cent in 1981.

59 Regionalisation gave local authorities major responsibilities as regards expenditure, while revenue is almost exclusively collected by central government. Moreover, inasmuch as central government transfers to local authorities lagged behind the rise in expenditure, these authorities resorted increasingly to bank loans with the result that debt servicing costs caused the current deficit to widen.



of decision-making tools and control processes. In particular the budget, which only referred to central government, was drafted on a commitments basis and its economic and financial significance was limited. In order to tackle these problems, an important tax reform was implemented as of 1974. A second step was to try to better gauge public sector transactions as a whole by including in the "enlarged public sector"<sup>60</sup> other agencies not encompassed by general government and emphasising the overall borrowing requirement inclusive of financial transactions<sup>61</sup>. At the same time the authorities improved their control over transactions by agencies other than the central government at first, in 1977, by forbidding local authorities<sup>62</sup> to indebted themselves with banks in order to finance current expenditure and then setting a limit on the growth of current spending as of 1978. Furthermore, as of 1979, cash holdings are to be deposited with the Treasury rather than with banks. Finally, as of 1980, the financing of capital transactions of local authorities is to be carried out mainly by the Deposits Bank, and only to a very limited extent by banks. At the same time the liabilities of these transactors to the banking system or directly to suppliers were gradually consolidated<sup>63</sup>. These various measures, which considerably increased the Treasury's intermediation role, have probably improved central government control over current expenditure by other public sector transactors. On the other hand, the central government is still poorly equipped to make local authorities actually carry out programmed capital expenditure<sup>64</sup>. The mainly administrative difficulties encountered by the local authorities in establishing and implementing investment programmes largely explain the sluggishness of execution and low degree of implementation of projects. According to a study by the Treasury, almost ten years are needed for planned capital expenditure to be fully utilised, and over the period 1971-1976 an average of only 62 per cent was spent during the first two years. Moreover, extending the implementation period when there is rapid inflation limits the real value of programmed investment.

On the other hand, budget procedures have also recently undergone major changes aimed at improving control over the trend of expenditure and providing a medium-term financial programming instrument. In addition to the traditional budget on a commitments basis, and the general economic policy programme for the coming year (*Relazione Previsionale e Programmatica*), a budget in cash terms<sup>65</sup> and a finance bill have been instituted since 1979. In the light of the underlying trends, this bill outlines the measures to be taken in order to achieve the budget policy objectives and overall economic policy targets. It also sets a ceiling for the deficit of the enlarged public sector in relation to overall equilibria, and indicates how that deficit is to be financed. A third stage was the presentation in 1979 of a three year budget in terms of commitments for the period 1980-1982, which was based on the legislation presently in force and the finance bill for 1980<sup>66</sup>. Lastly, local authority budgets will also increasingly be drawn up on a cash basis.

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60 The enlarged public sector comprises general government (central government, social security, local authorities) plus the "autonomous" agencies (mainly the railways, the motorway agency and the postal service), the National Electricity Corporation (ENEL) and the municipal enterprises.

61 For the various definitions of the enlarged public sector deficit and its time pattern, cf technical annex III.

62 Local authorities may nevertheless require advance payments from the Treasury on account of transfers from central government.

63 Debt consolidation operations, which substitute government bonds for bank credit, started as early as 1975 in the case of sickness funds.

64 Even though there is no ceiling on this expenditure and it can be financed through bank credit.

65 This becomes binding as of 1980.

66 This exercise is in practice of little significance in that it seems to have been based on the medium-term projections drawn up at the beginning of 1979, which are now clearly out of date.

### *Budget policy in 1979: forecasts and outturns*

On the basis of spontaneous trends, the current public sector deficit could have been expected to widen appreciably, chiefly because of a slowdown in direct tax revenue<sup>67</sup>. The different measures laid down in the finance bill were to reduce the cash deficit of the enlarged public sector by 6 500 million lire as compared with spontaneous trends<sup>68</sup>. Nevertheless, the scope of discretionary measures of an economic nature was more limited. The most important were an increase in social security contributions by self-employed workers, a ceiling on pension increases, the introduction of a patient's contribution to treatment costs, and an 12 per cent ceiling on the growth of local authorities' current expenditure in 1979. These various measures were expected to reduce the current deficit by 2 500 billion lire compared with the underlying trend. It was also planned to increase tax revenue by a total of 2 000 billion lire, essentially by taking stricter measures against tax evasion. As a counterpart to the reduction in the current deficit, it was decided to introduce a major investment programme mainly involving public works and electrical engineering and involving the expense of more than 1 600 billion lire<sup>69</sup> (i.e. almost 3 per cent of total investment in 1978). In all, public sector transactions as planned were to have a positive effect on economic

Table 10 Central Government revenue and expenditure on a cash basis  
Thousand billion lire

	1978 Outturns	1979		1980 Draft budget <sup>1</sup>
		Forecasts	Estimates	
Current revenue	52.9	64.7	61.2	75.5
of which: Direct taxes	21.9	23.7	25.8	29.2
Indirect taxes	22.8	24.0	24.7	30.9
Current expenditure	68.1	83.5	80.3	101.4
of which: Transfers	36.4	44.5	41.0	52.4
Balance on current account	-15.2	-18.8	-19.1	-26.0
Capital expenditure (net)	10.3	13.3	12.0	16.2
of which: Investment	0.7	1.3	1.0	1.6
Transfers	9.6	12.0	11.0	14.6
Cash deficit of Central Government budget	-25.5	-32.1	-31.1	-42.1
Treasury transactions	1.7	6.4	3.1	7.5
Financial transactions	-5.0	-7.9	4.4	-5.8
Borrowing requirement	-28.8	-33.6	-32.4	-40.4
plus : Debt repayments	-3.4	-2.2	-0.6	-1.5
minus: Borrowing abroad	0.4	1.6	0.5	1.5
Total domestic borrowing requirement	-31.8	-34.2	-32.5	-40.4

<sup>1</sup> Official September 1979 forecasts.

Sources: Ministry of the Treasury, *Report on the Borrowing Requirement of the Enlarged Public Sector*; information communicated to the Secretariat by the Italian authorities.

67 The slowdown expected in 1979 is the counterpart of the accelerated collection of the main direct taxes over the period 1976-1978. In 1976 liability in respect of personal (IRPEF) and corporate (IRPEG) income taxes had to be assessed by the tax-payers themselves, without waiting for the assessment lists to be put into collection, and then in 1977 an advance payment was made. In 1978 the same procedure was used in respect of the local income tax (ILOR). Revenue in 1979 should therefore be normal for IRPEF and IRPEG but very much reduced for ILOR.

68 These forecasts were probably exaggeratedly pessimistic in some respects, particularly as regards revenue.

69 Initially, the amount of additional public investment was to be 2,200 billion lire.

Table 11 **Enlarged public sector transactions on an administrative basis**  
Thousand billion lire

	1977 Outturns	1978 Outturns	1979 Forecasts	1979 Provisional estimates
Current revenue	72.7	88.4	101.2	105.3
of which: Taxes	34.9	44.9	50.8	51.7
Social security contributions	22.9	27.2	31.1	33.7
Sales of goods and services	9.7	11.1	13.1	13.6
Current expenditure	82.6	102.3	120.4	123.7
of which: Wages and purchases of goods and services	39.5	48.0	57.2	60.3
Transfers	29.3	36.8	42.5	43.1
Capital expenditure (net)	8.7	12.4	16.3	14.6
of which: Investment	7.8	9.3	12.5	10.8
Transfers	1.4	3.1	3.6	3.7
Cash deficit (disavanzo)	18.6	26.3	35.6	33.0
Financial transactions (net)	3.0	7.3	0.7	2.6
of which: Share issues	1.3	2.5	4.3	1.8
Bank deposits (increase = +)	1.7	5.0	-3.4	1.0
Borrowing requirement (fabbisogno)	21.6	33.5	36.3	35.6
Debt repayments	0.5	2.9	1.5	0.2
Suppliers' credit	-0.2	-1.9	-0.5	-0.5
Overall borrowing requirement (fabbisogno complessivo)	20.1	34.5	37.3	35.3
<i>Memorandum item:</i>				
GDP at current prices	190.0	220.7	260.0	268.6

Sources: Ministry of the Treasury, *Report on the Borrowing Requirement of the Enlarged Public Sector*.

activity, even if this was not the explicit intention of the authorities. At the same time, the curb on financial transactions was expected to reduce the public sector's share in financial resources. Thus the overall deficit of the enlarged public sector (inclusive of financial transactions) to be financed domestically was to fall from 15.3 per cent of GDP in 1978 to 13.4 per cent in 1979.

According to preliminary estimates by the Ministry of the Treasury on the basis of results for the first ten months of 1979,<sup>70</sup> the increase in both current revenue and expenditure was considerably faster than expected mainly because of the acceleration of inflation. On the other hand, capital expenditure and financial transactions were less than initially forecast so that the overall borrowing requirement of the enlarged public sector was practically the same as in 1978. Direct tax revenue should have risen by 19 per cent (as against 38 per cent in 1978) due to a very steep increase in revenue from personal income tax (about 28 per cent). Despite buoyant economic activity, accelerating prices and the increase in taxes on petroleum products in the second quarter, the growth of revenue from indirect taxation should probably also have been

70 Because of the abolishment of the supplementary period in 1979, the figures for the first three quarters of last year are not comparable to those of the corresponding period of 1978. Expenditure in respect of the supplementary period had amounted to 7,000 billion lire in January 1978, i.e. almost 10 per cent of the total amount for the year.



slower than in the previous year and amount to less than 12 per cent, owing to accelerated refunds of VAT<sup>71</sup> and the transfer of part of VAT revenue to the EEC. On the other hand, social security contributions are expected to increase considerably, particularly because of reduced evasion, whereas they had fallen very appreciably in 1977 and 1978 as a result of their partial budgetisation. In all, the current revenue of the enlarged public sector should have risen by approximately 19 per cent, which would imply a marked easing of tax pressure for the first time since 1975<sup>72</sup>.

The trend of direct taxation was radically altered between 1976 and 1979 by the progressive introduction of new mechanisms which enabled an increase in tax pressure and a reduction in the time-lag between tax collection and income formation<sup>73</sup>. The outturns for the last few years do not therefore allow any assessment of the trend of direct taxation over a normal period. This is why the Italian experts have made an estimate of the "theoretical" income elasticity of main taxes. As far as personal income tax is concerned, elasticity in relation to incomes, is high because of the highly progressive nature of tax rates and fiscal drag<sup>74</sup> linked with inflation; notably the elasticity to wage income, where there is little scope for tax evasion is in the region of 1.9 to 2. The other main direct taxes (local tax and tax on bank interest) are proportional to income, bringing the income elasticity of direct taxes as a whole down to 1.3/1.4. As for indirect taxation, almost half of the revenue (including the tax on oil products) is based on quantities rather than values, so that elasticity in relation to GDP is well below unity. In addition, VAT evasion is still very extensive despite increased controls. Lastly, social security contributions are governed by a proportional system. In all, the increase in tax pressure falls almost entirely on wage earnings. But the considerable increase in taxation on wage earnings since 1976 has certainly helped to fuel wage claims<sup>75</sup> and thus increase enterprises' costs. There is therefore a risk that the effect of the partial budgetisation of social security contributions may be substantially diminished if, in the last instance, it has to be financed by an increase in taxation on wage incomes. This could, in turn, feed wage claims and, consequently, increase wage costs.

Enlarged public sector expenditure (exclusive of financial transactions) should have increased slightly faster than revenue in 1979 although, like the latter, it probably slowed by comparison with the previous year (20.6 per cent in 1979 against 25.5 per cent in 1978). Above all, however, it is in the breakdown between current and capital expenditure that there is a wide disparity between forecasts and outturns. Expenditure on personnel was increased by the settlement of the 1976-1978 three year contract which should bring the rise in wages to 28 per cent in 1979 (as against the 19.5 per cent initial forecast and the 22 per cent outturn in 1978). Similarly, the increase in transfer payments to households was probably a little more rapid than budgeted for. Nevertheless, transfers slowed down appreciably compared with 1978, but more because of the effects of the deceleration in prices via the pension indexing mechanisms (see Part I) than as a result of the measures in the finance bill<sup>76</sup>. By contrast, investment outturns will have probably fallen short of the forecasts, notably

71 Refunds are now half-yearly instead of annual.

72 The share of direct and indirect taxation and social security contributions (on a national accounts basis) in GDP is expected to drop from 34.7 per cent in 1978 to 33.4 per cent in 1979. In 1975, the ratio was 29 per cent.

73 These institutional changes explain why the elasticity of IRPEF in relation to GDP has varied considerably during the recent period, being 2.2 in 1976, 2.1 in 1977, and 1.4 in 1978 and 1979.

74 Fiscal drag is all the greater since tax rates have not been revised since 1975.

75 The effect was probably all the greater because the collection at source of taxes on wage earnings reinforces the tendency to negotiate in terms of net wages.

76 The actual reduction in expenditure attributable to the measures was probably 250 billion lire, compared with an initial forecast of more than 1 000 billion lire. As far as additional revenue is concerned, the difference between forecasts and outturns is not so great.



because of further delays in implementing the programmes of ENEL and the railways. In all, the public sector deficit (exclusive financial transactions) ought to be slightly less than forecast and amount to about 12.3 per cent of GDP, i.e. a small increase over 1978. On a national accounts basis, and for general government only, the borrowing requirement as a percentage of GDP will be practically the same as in 1978 (10.7 per cent).

In addition to transactions of an economic nature, a large proportion of the public sector deficit, as at present generally defined by the Italian authorities in order to indicate the total borrowing requirement, stems from financial transactions. Financial assets formation in particular was very considerable in 1978, and brought the overall gross borrowing requirement to 34 500 billion lire, i.e. 15.6 per cent of GDP. These financial transactions, which amounted to about 3.7 per cent of GDP, can be broadly divided into two categories. The first category consists of the formation of bank deposits by enlarged public sector transactors, in particular local authorities<sup>77</sup>, which are included in the deficit. This phenomenon was particularly marked in 1978 when deposit creation amounted to 7 000 billion lire or one-fifth of the overall borrowing requirement. In 1979,<sup>78</sup> however, it is likely to have been limited mainly because of the immediate payment of social security contributions to the Treasury and should, in time, disappear when all public sector funds are controlled by the Treasury.

On the other hand, it was planned that the second category of financial operations — with enterprises<sup>79</sup> — should increase substantially in 1979 and, with the addition of current and capital transfers to enterprises, transfers from the enlarged public sector to enterprises, net of the direct taxes paid by the latter, were budgeted to reach almost 10 000 billion lire (i.e. approximately 3.8 per cent of GDP and more than one-quarter of the overall deficit forecast for the year). In fact part of this amount (more than 3 000 billion) was not disbursed in 1979 and postponed until 1980. Even so, net transfers to enterprises in 1979 were probably twice as large as in 1978. Although no statistics are available on the breakdown of these transactions by category of enterprise, public enterprises are clearly the main recipients. Some of them are indeed in a difficult financial situation<sup>80</sup> with a very high level of indebtedness, which the Italian authorities would like to reduce by new equity participations. Lastly, it should be pointed out that these estimates do not include the financing of such bodies as ENEL, the railways or the national motorway company and the municipal transport corporations which are included in the enlarged public sector<sup>81</sup>. According

77 The size of the bank holdings of public sector transactors (more than 14 000 billion lire at the end of 1978) to a large extent reflects the underspending phenomenon mentioned above.

78 Transfers of bank holdings by local authorities, and particularly regions, were on a markedly smaller scale in 1979 than initially foreseen, because of the existence of multi-annual agreements between local authorities and banks and the risks that this operations implied for the latter, especially for the special credit institutions in which a large proportion of the local authorities' holdings were concentrated. In fact, there was a further increase in these bank deposits during the first half of the year, and achievement of the figures set for the full year would imply a marked reversal of the flow during the second half.

79 This heading includes credit and equity participation, and also the payment of previously contracted debts net of new supplier credits.

80 A typical case is the IRI holding company which groups large public enterprises in the steel, engineering, shipbuilding and transport sectors. The group's annual losses have exceeded 1,000 billion lire on average over the last three years, and its debts amount to 21 000 billion lire. This situation is partly due to the lack of restructuring in certain crisis sectors such as steel. IRI has just submitted a programme for 1979-82 with a borrowing requirement in excess of 18 000 billion lire, of which more than half will probably be financed by the Treasury.

81 On the other hand, these bodies are not included in general government defined on a national accounts basis. Thus, current and capital transfers to enterprises are much larger on a national accounts basis than according to the definitions of the enlarged public sector (almost 11 000 billion lire in 1979 in national accounts terms, compared with 6 800 billion for the enlarged public sector).

Table 12 **Enlarged public sector transfers to enterprises**  
Billion lire

	1976	1977	1978	1979
Production subsidies	2 098	2 672	3 369	3 915
Capital transfers	1 070	1 217	2 481	2 815
Credit and share issues	1 890	1 812	2 847	2 341
Debt repayments	200	500	850	2 000
Total transfers to enterprises	5 258	6 201	9 547	11 071
Suppliers' credit	-700	-2 000	-1 850	-500
Direct taxes	-2 300	-3 000	-4 500	-4 200
Net transfers to enterprises	2 258	1 201	3 197	6 371

Sources: Ministry of the Treasury, *Report on the Borrowing Requirement of the Enlarged Public Sector*.

to some official estimates<sup>82</sup>, the burden of these enterprises amounted to almost 5 000 billion lire in 1978, while as a percentage of GDP it rose from 2.2 per cent in 1970 to 3.7 per cent in 1978, mainly because of the increasing inadequacy of public utility charges.

In all, the balance of financial transactions is likely to have been very substantially reduced last year and the overall borrowing requirement of the enlarged public sector in 1979 virtually stabilised at the previous year's level. Its share in GDP has been reduced from 15.3 per cent in 1978 to 13 per cent in 1979, i.e. more than one percentage point less than initially forecast. Judging from the Treasury outturns for the first eleven months of the year, it would seem that it was financed by placing public securities with the banks and increasingly with the private sector, their respective shares of short-term and medium/long-term funding being much the same as in 1978. Monetary base creation by the Treasury remained limited. However, the pattern of transactions with the central bank changed considerably, purchases of securities by the Bank of Italy being replaced by advances on current account, probably to reduce the cost of debt servicing.

### *Budget policy in 1980*

The foreseeable deterioration expected this year on both domestic and international fronts has caused the authorities, as mentioned earlier, to change the stance of fiscal policy in 1980 in order to meet the double risk of slower growth and higher inflation. According to the guidelines set down last autumn, the reduction of the public sector deficit was officially maintained as a medium-term goal, but not accorded the same priority and the official forecasts were for a significant growth in the current deficit of the enlarged public sector in 1980. This was offset, however, by a further reduction in financial transactions so that the total borrowing requirement would rise by no more than 0.5 per cent of GDP to stand at 14.6 per cent of the latter. It should be pointed out, though, that these forecasts are provisional inasmuch as the budget and finance bill have not yet been passed by Parliament<sup>83</sup>. Only some measures contained in the finance bill have been implemented by decree law. In the following

82 Cf. 1979 Census Report to the CNEL (National Economic and Labour Council).

83 Since the finance bill had not been approved by Parliament within the statutory time limit, i.e. by 31st December 1979, the Government had to request Parliament's authorisation to introduce a temporary budget for a maximum period of four months. Under this arrangement a maximum limit is set on finance through capital markets (62 000 billion lire). Expenditure not yet approved by Parliament is entered against special funds.

paragraphs the Secretariat has tried to adjust the official budget forecasts in order to take into account the latest 1979 estimates and current 1980 forecasts.

On the revenue side, the main proposed measures are a reduction in personal income tax (IRPEF) and a budgetisation of social security contributions. The tax threshold should be raised from 2.2 to 3 million lire and allowances for dependants (50 per cent) as well as deductions for interest and insurance-premium payments increased. According to official estimates, tax on household incomes should thus be reduced by 700 billion lire and the corresponding revenue increase by 26 per cent in 1980, which compares with an increase of 30 per cent assuming no change in the legislation. It was also proposed to budgetise part of sickness-insurance contributions for the third time since 1977<sup>84</sup>. Unlike the earlier measures, which provided for budgetisation of a fixed amount in lire per employee, the new budgetisation measure should involve a percentage reduction of rates<sup>85</sup> and lower wage costs in manufacturing industry by 2.5 per cent. But in fact only the extension of the existing system has been approved up to present. As a counterpart to the cuts in direct taxation, the authorities intend to step up the efforts to curb tax evasion, notably by creating a new body of tax inspectors. Further revenue should also be forthcoming from the readjustment of real estate taxes, but above all from the increase in petrol tax which was decided in the second half of 1979. In all, central government tax revenue should grow by 22.5 per cent in 1980 according to official estimates, as compared with the

Table 13 Consolidated accounts of General Government  
Billion lire

	1978	1979	1980 <sup>1</sup>	Percentage change 1980 1979
Current revenue	80 537	94 400	113 600	20.3
of which: Direct taxes	22 768	27 100	32 200	18.8
Indirect taxes	22 349	24 600	31 000	26.0
Social security contributions	31 049	37 950	45 300	19.4
Current expenditure	92 598	109 400	136 100	24.4
of which: Consumption	35 152	42 700	53 300	24.8
Transfers to households	37 097	43 000	52 800	22.8
Production subsidies	5 540	6 950	8 300	19.4
Other	14 809	16 750	21 700	29.6
Capital expenditure (net)	11 342	12 950	16 150	24.7
of which: Investment	8 273	9 200	11 750	27.7
Capital transfers	3 069	3 750	4 400	17.3
Borrowing requirement (as a percentage of GDP)	23 404 (10.6)	27 950 (10.4)	38 650 (12.0)	

<sup>1</sup> Secretariat estimates.

Sources: ISTAT, *Annual Report on the Economic Situation*; information communicated by the Italian authorities; Secretariat.

84 With effect from January 1980 and for an indefinite period. The sectors covered will be the same as before, namely industry, service normally working for the export sector, the hotel trade and craft businesses excluding construction.

85 The general reduction was to be 4 percentage points for men and 10 points for women, with a further 2 points for employees in manufacturing industry. In that sector the new sickness-insurance contribution rates were to be 9.3 per cent of the employee's wage for men and 3.3 per cent for women. The difference in the rates according to sex of workers implied a relatively much more favourable situation in some sectors like textiles.



provisional estimates for 1979, with receipts from direct taxation up by 22 per cent and those from indirect taxation by 23 per cent. It should be pointed out that the forecast for VAT receipts (up 28 per cent)<sup>86</sup> seems very optimistic in view of the results in recent years, even allowing for a sharp acceleration in prices, especially those of imports. Current revenue of general government on a national accounts basis<sup>87</sup> should rise by slightly more than 20 per cent, of which 19 per cent for social security contributions.

On the expenditure side the authorities have once again set themselves the objective of stimulating public investment. A new housing aid programme has accordingly been drawn up for an amount of 3 000 billion lire. It provides for construction of new dwellings, purchase by the municipalities of already-completed dwellings<sup>88</sup> and the use of preferred interest rates. Implementation of the programmes approved in earlier years for schoolbuilding and communications is also to be speeded up. If the delays in investment expenditure during 1979 were to be recuperated this year, general government investment might increase by 28 per cent in 1980. However, it seems more likely that part of the programme will, as usual, not be executed. The second notable feature of the budget provisions is the anticipated slowdown in production subsidies and, above all, in capital transfers. Overall, the contribution of general government to the productive sector is budgeted to increase by less than 19 per cent in 1980, compared with more than 24 per cent in 1979.

Current spending is also likely to accelerate in 1980. This applies particularly to interest payments, which will be apparently inflated in 1980 by the lengthening of public debt maturities which took place in 1978 and the first half of 1979 and especially by the increase in interest rates since the end of last year. Social transfers, which are largely indexed, should also show a marked upturn as inflation gathers momentum<sup>89</sup>. Public consumption expenditure should be inflated by the postponement to 1980 of part of the wage increases decided in 1979 and the substantial raising of the ceiling on local authorities' current expenditure (19 per cent). Thus the current deficit of general government on a national accounts basis would expand in 1980 to 7.2 per cent of GDP, compared with 5.6 per cent in 1979, and its borrowing requirement would increase from 11.4 to 12 per cent of GDP. In view of the expected widening of the deficit on non-financial transactions, the authorities intended last autumn to limit considerably financial transactions so as to contain the overall borrowing requirement of the enlarged public sector to 45 000 billion lire<sup>90</sup> and prevent it from absorbing too large a share of total financial resources. It now looks likely that notwithstanding a postponement to 1980 of some 4 000 billion lire of expenditure — mainly equity participations in public enterprises — the authorities will nevertheless try to obtain this goal. But it is doubtful, *ceteris paribus*, that this will be achieved by relying only on the transfer to the Treasury of local authorities bank deposits.

All in all, the Italian authorities have been obliged, largely because of external events, to depart from the objectives set in the three-year programme drawn up at the

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86 Growth of net receipts from VAT is likely to be more moderate because of accelerated refunds, which become quarterly as of 1980.

87 For want of a sufficiently detailed breakdown of the transactions of the enlarged public sector for 1980, it is necessary to consider general government expenditure and revenue on a national accounts basis.

88 Primarily to rehouse those persons obliged to leave their dwellings after the rise in rents resulting from the "equo canone".

89 The increase in pension rates in January has meant an increase in these payments of some 2 000 billion lire. Total pension expenditure is further increased by an annual 2–3 per cent trend growth in the number of pensioners. See Economic Survey of Italy, January 1979.

90 According to the report accompanying the budget this amount would be further reduced by 2 000 billion lire mainly because of an increase in public utility charges.



end of 1978. Contrary to what was envisaged then, 1980 should see a further swing to current spending in the pattern of public expenditure, with investment stagnating in volume. Furthermore, whereas a progressive reduction of the public sector's non-financial deficit was foreseen eighteen months ago, a deterioration may now be expected, with the deficit reaching its highest level as a percentage of GDP since 1976. Finally, the envisaged reduction in financial operations, while desirable in order to limit the public sector's role as a financial intermediary, is liable in the short term to compromise the objective of restructuring the finances of public enterprises and stimulating their investment. Although this first attempt at medium-term programming has not been successful, the authorities intend to press ahead with their endeavours. A new three-year programme, taking account of the present general economic conditions, is due to be presented at the end of the first half of the year and the broad provisions of the 1980 budget are to be reviewed in the light of this programme. Among other things, the new plan will provide for the reform of the pension system which could not be carried out in 1979<sup>91</sup> and set out the implications of the new health-insurance system, which as of this year will centralise all benefits, hitherto paid out by a host of different mutual funds<sup>92</sup>.

### *Monetary policy*

At the beginning of 1979 the monetary authorities apparently intended to maintain a policy stance only slightly less expansionary than in 1978, which would allow for a rapid growth of activity; however, in face of the acceleration of inflation in the course of the year, the defence of the exchange rate now seems to have become the priority objective of the Bank of Italy, in order to prevent the triggering of an inflation-depreciation spiral. At the same time, there have been no major changes in the policy tools<sup>93</sup> used by the authorities, a brief review of some of which might be useful to better understand the making of monetary policy in Italy

### *The choice of policy instruments since 1973*

Until 1973 the intervention of the monetary authorities centred on the monetary base by means of the control of bank liquidity. However, the control of the monetary base has become increasingly difficult in recent years in connection with large swings in the contribution of the foreign sector and rapidly growing public-sector deficits. As a matter of fact, relying on the regulation of the monetary base alone would imply, *inter alia*, frequent changes in bond yields, thus hampering the authorities' effort to finance the public-sector deficit through sales of government securities. Because of these problems, ceilings on bank loans and banks' portfolio requirements have become the main policy instrument, relegating the control of the monetary base to a secondary

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91 The draft reform, which has just been approved by the Government, provides for the grant of a pension equal to 2 per cent of earnings per year worked, up to a maximum of 100 per cent, for persons at the age of 65 (with the possibility of an early pension at 55 for women and at 60 for men). The minimum pensions will be indexed every six months to the basic wage rates in industry, the highest pensions to average earnings in the public and private sectors. An upper limit will be placed on the combination of pensions with wage earnings.

92 The new system provides for patients being registered with panel doctors and the State directly paying the cost of practitioners' fees and medicines, with the exception of the patient's own contribution to medicine costs. In fact it will not be possible to enforce this reform, which extends the health insurance system to all citizens (thus extending medical insurance to about an additional 2 million), at the beginning of this year because of the time required to prepare the implementing arrangements. So far its budget impact has been predicted as neutral by the Italian experts, but it does not seem as if sufficiently detailed estimates have been made in this regard.

93 At the beginning of December 1979, the Bank of Italy has begun to buy and sell treasury bills with repurchasing agreements of up to ten days. This decision widens the spectrum of money-market operations and should help prevent sharp fluctuations in very-short-term interbank rates.

role, although the management of the monetary base has to be consistent with the credit ceilings. Under the present system, ceilings are set separately on the credit expansion of individual bank and do not apply to loans denominated in foreign currency<sup>94</sup>. The system offers a number of advantages in a country like Italy, characterised by a large foreign sector and the need to finance sizeable public-sector deficits. A higher than foreseen degree of bank liquidity cannot bring about additional loans because of the existence of the ceilings, but it can be channelled into bond purchases. This was obtained by imposing a compulsory portfolio requirement on banks<sup>95</sup> and the issue of high-yield government bonds to which banks were willing to subscribe. Furthermore, it should be noted that the exclusion of foreign-currency loans from credits subject to ceilings serves the double purpose of a safety valve, should the ceilings prove to be too restrictive, and an incentive to banks to indebted themselves abroad and thus bolster foreign currency reserves<sup>96</sup>.

Since the adoption of credit ceilings in 1974, the overall intermediate objective of monetary policy has been expressed in terms of the growth of total domestic credit (TDC)<sup>97</sup>. As the monetary authorities control directly only a small fraction of the aggregate<sup>98</sup> and public-sector deficits have increased much faster than expected, TDC targets have been frequently exceeded and the share of the private sector in TDC expansion has decreased from 43.5 per cent in 1976 to about 35 per cent in 1979. However, a better sectoral assessment might be obtained by including in the private sector net transfers to enterprises from the enlarged public sector<sup>99</sup>, which have increased rapidly in recent years. By doing so, the share of the private sector in TDC expansion rises considerably during the period 1976-1979, compared with the traditional breakdown, and although fluctuating sharply, it does not show a clearly downward trend. Finally, by including in TDC only net credit to the public sector<sup>100</sup>, the share of the private sector increases even further. But even though the private sector's share of credit does not appear to have declined considerably in recent years, the rising weight of the public sector as a financial intermediary has implied a declining reliance on market mechanisms in allocating resources and the emergence of considerable distortions. The recipients of transfers from the public sector are privileged compared to

94 Each bank is allowed a maximum percentage growth of outstanding loans amounting to more than a fixed sum (at present 130 million lire). In March 1979, 60 per cent of bank loans fell into this category, about 30 per cent below the fixed minimum and some 7 per cent were in foreign currency.

95 Portfolio requirements were adopted in 1973. Banks were compelled to hold a percentage of the increase in deposits in securities, mainly those of special credit institutions. The requirements reached their maximum in 1976 when the ratio of securities to the increase in deposits was set at 42 per cent, but were then gradually lowered and have been fixed at 6.5 per cent since September 1978.

96 The authorities can broaden this incentive both by maintaining a positive differential between Italian and foreign interest rates (discounted by devaluation expectations) and deliberately fixing low ceilings to credit expansion.

97 Total domestic credit is defined as bank loans in lire and foreign currency, loans of special credit institutions, bond issues of enterprises and local authorities and the borrowing requirement of the public sector (defined as the Treasury, the Deposits Bank, the Fund for the South and autonomous firms) net of the financing of the special credit institutions of the Treasury.

98 Between March 1978 and March 1979, the most recent period for which figures are available, the share of the growth of credit subject to ceilings in TDC expansion was approximately 17 per cent.

99 Net transfers from the enlarged public sector to enterprises are defined as production and investment subsidies, credit and equity participations, net suppliers' credit minus direct taxes. The reason for deducting the latter is that the present analysis is concerned with the flow of funds between the two sectors. Furthermore, the enlarged public sector itself includes some agencies which might be best defined as enterprises such as the National Electricity Company (ENEL), some autonomous agencies (e.g. railways) and some municipal enterprises (mainly transport companies).

100 Net credit is defined as the domestic borrowing requirement minus the increase in bank deposits of the enlarged public sector. This definition is useful to gauge the actual use of funds by the enlarged public sector as the deposits of some of its agencies (especially local authorities) have increased considerably in recent years.

Table 14 **Trend of total domestic credit to the private sector**  
Share in change in total domestic credit

	1976	1977	1978	1979	1980
Private sector A <sup>1</sup>	43.5	44.0	31.0	35.3	32.2
Private sector B <sup>2</sup>	50.3	47.3	37.6	47.3	n.a.
Private sector C <sup>3</sup>	53.2	49.7	41.8	48.2	n.a.

1  $[\Delta \text{ TDC} - \text{DBR}] / \Delta \text{ TDC}$

2  $[\Delta \text{ TDC} - \text{DBR} + \text{NTE}] / \Delta \text{ TDC}$

3  $[\Delta \text{ TDC}' - \text{DBR}' + \text{NTE}] / \Delta \text{ TDC}'$

$\text{TDC}' = \text{TDC} - \text{DEP}$

$\text{DBR}' = \text{DBR} - \text{DEP}$

Notes:  $\Delta$  denotes an absolute change in lire.

TDC = total domestic credit

DBR = domestic borrowing requirement of enlarged public sector

NTE = net enlarged public sector transfers to enterprises

DEP = bank deposits of enlarged public sector

Sources: Bank of Italy, Ministry of the Treasury.

those that have to rely on credit from the banking system, inasmuch as the former are dispensed from repaying capital and being charged interest. Furthermore, government transfers are usually handed out with the purpose of avoiding the bankruptcy of large private and public enterprises and therefore diverting financial resources from more productive uses.

#### *Recent trends in monetary policy*

The targeted TDC increase for 1979 was originally set at 18.4 per cent against an expected GDP growth of 17.8 per cent at current prices. This compares with an actual growth of TDC and GDP in 1978 of 20.6 and 16.2 per cent respectively. Credit ceilings fixed in January and April did not appear to be restrictive at the time<sup>101</sup>. In the first half of the year the trends of M2 and TDC were not too different from that of GDP at current prices<sup>102</sup>. The official TDC target for the year as a whole now looks somewhat restrictive in view of the acceleration of inflation, although it is difficult to judge whether it has been exceeded or not due to the uncertainty that surrounds end-year results. It should also be noted that the injection of liquidity from the foreign sector has been considerably stronger than initially foreseen. In the course of the summer, mounting inflation and narrowing interest-rate differentials<sup>103</sup> were associated with banking-capital outflows. In October, at the first signs of pressure on the exchange rate, the discount rate was raised from 10.5 to 12 per cent and again to 15 per cent in December. New credit ceilings were also imposed on banks up to July 1980<sup>104</sup>. These appeared already somewhat restrictive at the time, and their restrictiveness has increased with the recent acceleration of inflation. With the December increase the discount rate has now attained the level it had previously

101 In January the minimum amount of credit below which ceilings do not apply was raised from 50 to 100 million lire. The ceilings fixed in April provided for a maximum growth of bank credit of about 11 per cent at an annual rate between March and September 1979.

102 In the first half of 1979 the rate of growth of TDC, M2 and GDP was respectively 19.8, 19.9 and 20.5 per cent respectively.

103 Between end-June and end-September 1979, short-term interest rates did not change in Italy. This compares with an increase of 2 percentage points in the U.S., 1.37 in Japan, 1.4 in Germany, 3.25 in France and 0.25 in the U.K.

104 The ceilings fixed in October 1979 provide for a maximum growth of credit of 14 per cent at an annual rate between November 1979 and July 1980. However, it should be recalled that the minimum amount of credit subject to ceilings was again raised to 130 million lire.



reached only in 1976, but in a very different balance-of-payments situation. It therefore appears that the authorities have made a possibly temporary gesture to signal that they intend to stand firm on their defence of the exchange rate. It should also be noted that the restoration of interest-rate differentials might contribute to relax the apparent restrictiveness of credit ceilings up to 1980 by encouraging banks to grant credits in foreign currency.

Following nine months of rather steady growth, the monetary base has been characterised by erratic swings and a generally decelerating trend since the end of 1978<sup>105</sup>. Both phenomena were due to the development of central bank credit to the public sector and, to a lesser degree, to the contribution of the balance of payments. In December 1978 central bank lending to the Treasury was exceptionally high because the latter, due to a change in budget procedures, anticipated payments which would have usually been made in the first months of 1979. Partly for this reason, but also because of a general delay in spending, the public sector accounted for a considerable destruction of monetary base in the first half of 1979. This trend was eventually reversed in the third and especially in the fourth quarter, but for 1979 as a whole monetary

Table 15 **Monetary base and counterparts**  
Billion lire

	Outstanding at 31.12.78	Changes in absolute values					
		1978	1979	Change on previous quarter, 1979			
				March	June	September	December
Monetary base							
Currency in circulation	42 720	7 614	9 103	471	1 760	1 544	5 129
Bank reserves	31 220	6 965	3 873	-229	300	1 092	2 902
Total	73 940	14 579	12 977	242	2 061	2 636	8 031
				1 436	2 153	-105	-291
Counterparts							
Foreign sector	10 872	5 820	2 901				
Treasury	64 622	9 918	7 305	-2 771	-509	1 457	8 947
Banks	2 327	-242	2 773	96	475	654	686
Other sectors	-3 881	-917	-2	617	-58	630	-1 311

Source: Bank of Italy.

creation on behalf of the Treasury was considerably less than in 1978. The same applies to the contribution of the foreign sector which was slightly negative in the second half of the year. On the other hand, central-bank credit to the banking sector accounted for substantial monetary creation in the course of 1979 in connection with the brisk rate of activity.

Bank deposits have been decelerating since the third quarter of 1978, although their rate of increase remained above that of credits up to September 1979. This slowdown is mainly due to the trend of time deposits which has been affected by the widening differential between the yield on short-term government bonds and interest

105 Rate of growth of the monetary base over the corresponding period of the previous year:

	March	June	September	December
1978	23.1	22.3	21.3	24.6
1979	17.0	19.3	19.7	17.6



Table 16 Transactions of the banking system

	Outstanding at 31.12.78 billion lire	Percentage change on same period of previous year				
		1978		1979		
		Q3	Q4	Q1	Q2	Q3
Deposits						
Sight deposits	98 566	26.3	27.8	23.9	23.2	22.9
Savings deposits	88 522	20.6	18.2	16.6	16.1	15.7
Total	187 088	23.5	23.1	20.3	19.8	19.4
Credit						
Public enterprises	12 499	-5.5	-2.4	-4.2	-5.7	..
Large private enterprises	16 840	8.6	4.3	7.0	9.8	..
Other private enterprises	43 910	21.2	23.4	26.9	29.1	..
Households	2 495	26.2	29.5	35.7	40.7	..

Source: Bank of Italy.

rates on deposits<sup>106</sup>. On the other hand, the growth of sight deposits has remained buoyant throughout the period in question due to the net inflow of funds from abroad and the increase in public sector deposits. In connection with the recovery of activity and inflation, the rate of increase in bank loans has risen constantly from 10.2 per cent in June 1978 to 18.4 per cent in September 1979. The ceilings on bank credit were exceeded in November 1978, partly because of a switch from foreign- to local-currency borrowing, but also because of a faster than expected rise in activity. The ceilings were promptly readjusted, and despite an apparent acceleration in the demand for credit<sup>107</sup>, the actual trend of bank loans remained well below the ceilings until May 1979. However, the July and September ceilings were exceeded, at a time when loans in foreign currency actually declined due to narrowing interest-rate differentials<sup>108</sup>. But there seems to have been no real scarcity of credit during this period, partly because of the good liquidity of firms, as witnessed by the lack of pressure of interest rates and the rapid increase in loans in local currency not subjected to ceilings<sup>109</sup>. In the fourth quarter the demand for credit probably accelerated further, in connection with the very sustained rate of activity and moderate balance-of-payments outflows.

Consumer credit, which still represents a very small fraction of total bank loans<sup>110</sup> has been the fastest growing item of bank lending since mid-1978. This trend is due to the acceleration of private consumption but, above all, to the rapid development in recent years of new credit instruments available to households. Loans to enterprises, which account for approximately 90 per cent of the total, followed widely

106 Furthermore, it should be recalled that, while the yield on government bonds is tax-free, interest on deposits is subject to a proportional tax which was twice raised in 1979 (from 16 to 18 and eventually 20 per cent).

107 Between January and May 1979 bank loans not subject to ceilings increased at an annual rate of 35 per cent compared with 8.5 per cent in the fourth quarter of 1978. This acceleration is at first view due to the trend of loans in foreign currency which increased at an annual rate of 125 per cent during January-May compared with an absolute fall in the fourth quarter of 1978, while loans in local currency increased much at the same rate in both periods (21 per cent). But the comparison is only indicative as the definition of local-currency loans not subject to ceilings was changed in January 1979.

108 Between May and July, the latest month for which figures are available, loans in foreign currency declined by over 40 per cent at an annual rate.

109 Between May and July these loans increased at an annual rate of 32 per cent.

110 In June 1979, consumer credit accounted for only 3.3 per cent of total bank loans.

differing trends by category of recipients. Borrowing by public enterprises actually fell throughout 1978 and the first half of 1979, reflecting the weakness of investment in this sector and the growing reliance on transfers from the State. Credit to large private enterprises fluctuated around a rather low positive trend, as has been the case since 1976. This might be explained by the growing reliance of these firms on sources of finance other than bank credit, due to the rise in real interest rates in recent years<sup>111</sup>, the irresponsiveness of their investment programmes to short-term fluctuations in activity and the way credit ceilings are fixed, which does not favour the expansion of large credit lines. On the other hand, following a sharp deceleration in the course of 1977 and the first half of 1978, credit to smaller private firms has staged a marked recovery. These wider fluctuations probably indicate a larger degree of cyclical responsiveness of the demand for bank credit of these enterprises and the leading role that medium and small firms are likely to have played in the latest upswing, also witnessed by the rapid increase in bank loans not subject to ceilings.

Local authorities and social security institutions have been traditionally the main recipients of bank loans to the public sector. In the course of the 1970s, and especially since 1975, the central government has taken action to consolidate these loans by substituting them for government bonds in banks' assets<sup>112</sup>. In addition, since 1977, local authorities have been forbidden to indebt themselves any further with the banking system in order to finance their current expenditure. Furthermore, as mentioned above, since 1973 banks have been absorbing ever increasing amounts of bonds issued by the government and special credit institutions. A first result has been the decreasing share of the public sector in total bank loans<sup>113</sup>. However, it can be seen from Table 17 that by taking into account banks' security holdings, the expansion of banking credit in recent years (apart from 1976) has been much stronger for the public than for the private sector<sup>114</sup> although the difference has narrowed considerably in the first half of 1979. Secondly, the structure of banks' assets has undergone considerable changes.

Table 17 Breakdown of bank credit

	Outstanding at 31.12.78 billion lire	Percentage change on previous year			
		1976	1977	1978	1979 <sup>1</sup>
Total credit <sup>2</sup>	173 109	18.2	24.8	18.2	19.4
Public sector	57 181	8.6	45.3	23.7	18.1
of which: Loans	6 644	20.5	-25.1	-29.4	0.7
Portfolio assets	50 537	2.0	91.2	37.2	20.6
Private sector	115 928	22.3	17.1	15.6	20.0
of which: Loans	80 185	22.8	16.0	15.0	22.4
Portfolio assets	35 743	21.2	19.8	17.1	14.7

<sup>1</sup> Jan.-Sept. 1979 on Jan.-Sept. 1978, seasonally adjusted.

<sup>2</sup> Credit and purchases of securities.

Source: Bank of Italy.

111 According to the Bank of Italy, banks' real lending rates, negative up to 1974, became positive in following four years, never falling below 6 per cent. For a methodological description, see Appendix to Bulletin of the Bank of Italy, 1977, n° 4.

112 Between 1970 and 1978, total consolidation transactions amounted to 9 800 billion lire of which 8 500 took place between 1975 and 1978.

113 The share of the public sector in bank loans declined constantly from 17 per cent in December 1975 to 8 per cent in December 1978.

114 It should be noted that the present breakdown overestimates the share of credit going to the private sector as the latter includes holdings of bonds of special credit institutions which utilise part of these proceeds to finance public-sector activity.

Between 1975 and 1978, the ratio of security holdings to loans has increased very rapidly and has exceeded unity in the course of 1979 due almost exclusively to purchases of government bonds<sup>115</sup>.

Loans granted by special credit institutions (SCI)<sup>116</sup> in 1978 increased by 13.6 per cent, compared with 14 per cent in 1977, and decelerated to 9.8 per cent in the first eleven months of 1979. The slowdown in 1979 appears to have equally affected credits granted at market and preferred rates. Problems appear to be concentrated in industry and construction, whereas credit to agriculture and services has been growing at a brisk pace during the period under review. In industry, SCI have traditionally granted a large share of preferred credit to some sectors, such as chemicals, which are now in a difficult economic situation and have cut back on investment programmes. Furthermore, regulations concerning the granting of preferred credit have been repeatedly changed since 1976, often according to contradictory criteria<sup>117</sup>. As a result, administrative bottlenecks have developed and firms appear to have been deterred from applying for credit by the large degree of uncertainty which has ensued. In the construction sector the steep rise in production and especially financial costs in recent years has greatly increased the burden of mortgage repayments with a dampening effect on the demand for credit at non-preferred rates. Preferred construction credit has risen at a rather brisk rate in the last few years, but this represents only a small fraction of the total<sup>118</sup>. The reduction of banks' portfolio requirements does not appear to have posed financing problems to SCI, as witnessed by their satisfactory degree of liquidity.

In connection with the stance of monetary policy, interest rates generally followed a slightly downward trend in 1978 and the first nine months of 1979. The fall was slightly larger for lending than deposit rates and in both cases stronger than the decline in the yield on short-term government bonds<sup>119</sup>. The decline was the smallest for long-term bonds, whose yield actually began to rise as of the second quarter of 1979<sup>120</sup>. This has meant a widening of the yield differential between short- and long-term bonds in favour of the latter, reflecting the authorities' resolve to lengthen the structure of public debt repayments. The downward trend of interest rates was reversed in the fourth quarter of 1979. The discount rate was raised from 10.5 to 12 per cent in October and then to 15 per cent in December. By the end of the year, the authorities appear to have succeeded in reestablishing the differential between Italian and foreign interest rates, which was the main objective of this measure<sup>121</sup>. Banks were

115 The ratio of banks' security holdings to total loans (in lire and foreign currency) rose from 0.56 in December 1974 to 0.99 in December 1978 and 1.01 in September 1979. Between December 1975 and December 1978, the ratio of respectively public and private securities to total loans rose from 0.31 to 0.58 and from 0.35 to 0.41.

116 Special credit institutions are in charge of medium- and long-term lending for investment purposes. Commercial banks are usually not allowed to engage in these operations, but it should be recalled that many special credit institutions are subsidiaries of banks.

117 In 1976, (law 183), the system of preferred credit was changed in order to favour investment activity in the South. But in 1977, (law 675), this tendency was reversed. Furthermore, it is still not clear whether some forms of credit regulated by law 183 are to be granted automatically or discretionally.

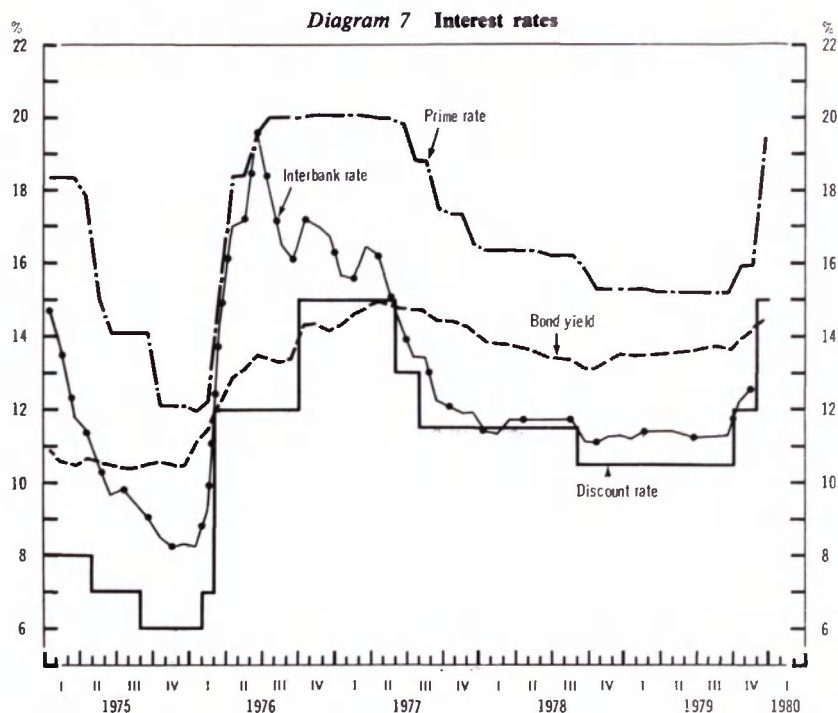
118 In November 1979 preferred credit accounted for 17 per cent of SCI loans for constructions purposes. This compares with 41 per cent for industry and 81 per cent for agriculture.

119 Between January 1978 and June 1979 lending and deposits rates declined by 2 and 1.9 percentage points respectively. The yield on 6-month Treasury bills fell by 1.2 points during the eighteen months ending September 1979.

120 The yield on long-term bonds (government and SCI) fell by less than half a point in 1978. The yield of government bonds and SCI bonds has risen by respectively 0.65 and 0.7 percentage points between March and November 1979.

121 Between September and December 1979 short-term interest rates rose by 5.8 points in Italy. This compares with an increase of 1.8 points in the U.S., 1.25 in Japan, 1.5 in Germany and 0.50 in France.





Source: Bank of Italy.

at first reluctant to pass on this increase to their lending rates, because of the comfortable liquidity position of the economy, but eventually did so at the end of the year in the face of the strong increase of the demand for credit and the prime rate attained 19.5 per cent in December. The rate on deposits increased by only 0.75 percentage points in the fourth quarter, as bank liquidity was probably not excessively squeezed at the time. In the fourth quarter short-term bonds yields accelerated much faster than those on medium and long-term securities because of inflationary expectations and in December the differential in favour of short-term bonds was about 2 percentage points.

Total net issues of shares and bonds (inclusive of short-term Treasury bills) declined by 28 per cent in the first eleven months of 1979 after having increased by 23 per cent in 1978. This large swing is due to a 36 per cent fall in issues of government bonds, which have played a dominating role in the capital market over the last few years<sup>122</sup> in connection with the financing and consolidation of public debt. The sharp decrease so far in 1979 is attributable to the switch of central-bank financing of the Treasury deficit from bond purchases to current account advances. On the other hand, subscriptions of government bonds by banks and the public increased by 7.4 per cent in the first nine months of 1979. During this same period, issues of SCI bonds declined by 25 per cent, reflecting the considerable reduction in banks' portfolio requirement. In 1979, banks' security purchases have been oriented towards medium-term bonds because of the widening yield differential in their favour, while the public has shown a relative preference for more liquid short-term Treasury bills, possibly as an adjustment to accelerating inflation. Finally, share issues and prices have moved rather erratically over the recent period, mainly because of the extreme narrowness of

122 Government bonds accounted for 75 per cent of total capital-market issues (shares and bonds) in 1977 and 1978 and 69 per cent in the first nine months of 1979.



the market<sup>123</sup>. Share issues increased by about 21 per cent in the first eleven months of 1979, compared with an increase of 77 per cent for 1978 as a whole. Share prices increased by 23 per cent in 1979, following an increase of 2 per cent in 1978, but have still not regained their 1972 level.

### *Energy policies*

The prolonged period of rapid growth experienced by the Italian economy in the 1960s was characterised by a faster increase in energy consumption than output. Between 1960 and 1973 the elasticity of total energy requirements (TER)<sup>124</sup> to real GDP growth was 1.7, compared with approximately unity in other major and more mature OECD countries. Even so, in 1973 Italy's ratio of final energy requirements (FER)<sup>125</sup> to GDP was still only about 90 per cent of the average for the seven major OECD countries (inclusive of Italy). Given the limited scope for an increase in the domestic production of energy, (mainly hydroelectric power and some natural gas) the rapid growth of energy requirements resulted in an increasing reliance on energy imports, the share of which in TER rose from about 50 per cent in 1960 to over 80 per cent in 1973. The increase in energy imports was accounted for almost exclusively by oil, the share of which in TER rose to nearly three quarters in 1973. There was a corresponding decline in the shares of solid fuels (by and large coal) because of higher relative prices compared with oil, and of domestically-produced hydroelectric power. On the other hand, the share of natural gas, totally of domestic origin up to 1972, remained almost stable throughout the period, reflecting a rather swift growth in domestic production.

Following the 1973-74 rise in energy prices, a much more careful attitude appears to have emerged with regard to the use of energy<sup>126</sup>. Between 1973 and 1978 the elasticity of TER to real GDP dropped to 0.4 and the ratio of FER to output declined by some 10 per cent, as in other major OECD countries. Between 1974 and 1977 energy inputs per unit of output declined by 6.3 per cent in industry, with the strongest falls observed in chemicals (-21 per cent) and non-metallic minerals (-12 per cent). The observed decline in the chemical industry was considerably stronger than the EEC average. Furthermore, in the iron and steel industry, Italy and Sweden were the only major OECD producers whose energy/output ratio fell between 1973 and

Table 18 **Breakdown of total energy requirements**  
Percentages

	1960	1970	1973	1978
Total energy requirements	100.0	100.0	100.0	100.0
Coal	21.8	10.0	7.8	7.5
Oil	41.2	70.7	73.8	67.4
Gas	10.8	9.2	10.9	16.1
Nuclear	—	0.8	0.7	1.0
Hydro-electric and geothermal	26.2	9.3	7.0	8.0

Source: International Energy Agency.

123 In the first eight months of 1979, shares accounted for only 12 per cent of total issues.

124 Total energy requirements equal domestic production + imports — exports — marine bunkers — increase in stocks. TER are measured in millions of tons of oil equivalent.

125 Final energy requirements equal TER — losses in own use by energy sector and electricity generation. The ratio between TER and FER is fairly constant, especially during periods of rapid growth when energy-generating capacity is fully exploited. Data on TER, FER and FER/GDP ratios were provided by the International Energy Agency.

126 The FER/GDP ratio had actually begun to fall in 1972.

1976, although this result might be biased due to the particularly favourable cyclical conjuncture for the Italian steel industry in 1976. However, it appears that this trend continued in the two following years. The fall in the propensity to consume energy between 1973 and 1978 has coincided with a virtual stabilisation of the country's dependency on imports. However, there has been a shift towards the use of natural gas at the expense of oil due to the lower price of the former per caloric unit and possibly a policy of diversification of Italy's sources of energy. The increased use of natural gas has implied a brisk rise in imports, while domestic production has remained stable since 1973 as it has apparently reached its capacity limit.

The trade deficit in oil and oil products as a percentage of GDP rose sharply from 1 per cent in 1973 to over 4 per cent in 1974. But in the following four years it declined constantly, with the exception of 1976, dropping to 2.9 per cent in 1978 and possibly less in 1979. The adjustment which has taken place since 1974 has been due to both price and volume developments. As is well known, Italy has considerable refining facilities and re-exports between a fourth and a fifth of total gross oil imports; and export prices of oil products are not subject to administrative controls. After a deterioration of about 25 per cent in the terms of trade of oil products between 1973 and 1974, the ratio improved steadily up to 1978. On the basis of data available for the first ten months of 1979, there appears to have been a 20 per cent improvement in the terms of trade. This is probably due to the effect of delivery delays on the price of imports, the slower increase in import prices in Italy than elsewhere<sup>127</sup> and the fact that export prices reflect sales on the spot market. It is likely that for 1979 as a whole the terms of trade should have improved further as the end-year oil-price increases must have been immediately reflected in export prices but not in those of imports. The oil terms of trade might thus temporarily revert to their 1973 level. Furthermore, although both the volume of oil imports and exports has picked up after falling between 1973 and 1975, accelerating considerably in 1978 and the first ten months of 1979, net oil imports should still be about 10 per cent below their 1973 level. Even so, given that the absolute level of imports is about four to five times that of exports, the 1979 oil deficit in both absolute terms and as a percentage of GDP will be by far larger than in 1973.

In Italy as in many other OECD countries, domestic energy prices are by and large administered. They have nevertheless, adjusted to the 1973-74 increases<sup>128</sup>. In fact, between 1972 and 1978 the increase in the energy component of the wholesale price index compared to that of the import price of oil was the strongest of major OECD countries. However, the direct impact of the oil price rise on the energy component of the consumer price index was considerably weaker, but in line with that of the countries mentioned above<sup>129</sup>. The share of indirect taxes in the price of major

127 According to Italian experts, the average price of imported barrel of oil in 1979 was \$16 for Italy compared with an OECD average of \$18 to \$19.

128 As a matter of fact, the cumulated 1973-78 increase in export prices of oil products was only 3.5 percentage points higher than that of the energy component of the wholesale price index.

129 Changes in energy prices 1972-1978

	Increase in energy component of whole-sale price index divided increase in import price of oil	Increase in energy component of consumer prices divided by increase in import price of oil
United States	0.67	0.32
Japan	0.83	0.36
Germany	0.30	0.31
France	0.46	0.41
United Kingdom	0.33	0.30
Italy	0.86	0.31

energy products has declined between 1975 and 1978, a trend which was reinforced in the course of 1979.

Although Italy's adjustment to the 1973-74 rise in the price of energy has been both swift and extensive, the renewed increase of energy prices of 1979, only part of which has been felt in the course of last year, should pose the problem of a widening oil deficit and a considerable rise in the price of energy to domestic users as of 1980. The pass-on from import to domestic energy prices should be still faster than in the past because of a new system of price fixing introduced in 1979. The authorities have so far responded to these mounting problems by approving a specific set of measures to be applied in 1980 and drawing up a 10-year investment plan to be carried out by the National Electricity Corporation (ENEL). The measures for 1980 consist of the imposition of a maximum number of days, and hours per day, during which house-heating systems may be operated, programmed black-outs whenever electricity demand puts excessive strains on capacity, and a 750 billion lire package of investment in energy conservation and substitution of renewable energy sources for oil. The ENEL programme calls for an increase in annual electricity capacity from 40 000 MWe in 1980 to 75 000 in 1990. The main target is to reduce Italy's dependence on oil in the production of electricity. New plants would be mainly coal — (the construction of three plants has already been approved) and nuclear-powered. At present nuclear power represents only 1 per cent of Italy's TER, with a total installed capacity of some 1 000 MWe. The new plan would increase this capacity tenfold by 1985 with the construction of five 2 000 MWe plants. The main difference between the present plan and previous ones is the increased reliance on coal-fuelled at the expense of nuclear-fuelled plants in face of strong public-opinion resistance to the building of the latter.

#### IV SHORT-TERM PROSPECTS AND POLICY CONCLUSIONS

##### *Latest results and short-term prospects*

1979 ended on a very high level of activity. Industrial production increased by more than 7 per cent at an annual rate in the second half of the year accelerating markedly in the fourth quarter. However, the latest business surveys show some deterioration in the level of orders and production prospects together with some increase in stocks of finished products which nevertheless remain very low. The acceleration of growth had its effect on the labour market: according to the quarterly survey, employment rose at a relatively sustained rate in the second half of the year, while at the same time partial unemployment continued to fall. The rise in consumer prices became much steeper (+5.8 per cent in the cost-of-living index in the fourth quarter compared with the third) and the cost-of-living index leaped by 3.3 per cent in January, one third of which possibly due to higher public-utility charges. The trade balance deteriorated sharply towards the end of the year under the combined effect of a rise in imports in volume and a deterioration in the terms of trade, moving from a slight surplus (seasonally adjusted) in the third quarter to a deficit of more than \$7 billion in the fourth. The balance on non-monetary transactions (not seasonally adjusted) showed a deficit of the order of \$700 million in the fourth quarter.

The present stance of economic policy is difficult to assess, as the draft budget and finance bill for 1980 have not yet been passed in Parliament. Pending budget approval, only the ceiling on the indebtedness of the enlarged public sector has been



fixed while the existing budgetisation of social security contributions has been extended and minimum pensions increased by decree law. As for monetary policy, the ceilings on credit appear more restrictive as inflation accelerates, but it is difficult to judge the overall degree of restriction in the absence of information about the creation of liquidity by the public sector, and more particularly the flow of transfers to enterprises. Furthermore, keeping credits of less than L. 130 million outside the ceiling might be a safety-valve if the current norm were to become very restrictive. Finally, interest rates have been raised substantially: the discount rate was increased to 15 per cent and the prime rate to 19.5 per cent, but this adjustment has remained well below the acceleration of inflation. In all, drawing up this year's forecast it has been assumed that monetary policy will be moderately restrictive in 1980, while fiscal policy will contribute in supporting the level of activity.

One of the major elements of uncertainty surrounding the 1980 forecasts is the trend of the international environment. The various strong increases in oil prices and the rather restrictive stance of monetary policy adopted in numerous OECD countries should result in a marked slowdown in growth together with a very moderate increase in intra-OECD trade which is unlikely to be more than partly offset by a growth in exports towards OPEC countries. The effect of the external sector — the slowdown in foreign demand and the negative effect on real national income of the deterioration in the terms of trade — will probably combine with that of inflation on final domestic demand which could decelerate in the course of the year. This trend may be accentuated, as in previous cycles, by a large fluctuation in stocks, and GDP in volume might decline in the second half of 1980. The effects of the recession on the labour market will probably be attenuated by the inertia of employment in large firms and the continuing rise in employment in services, but with a counterpart in the form of a fall in productivity gains which will contribute to increase wage costs. On the assumption of lower participation rates linked with the deterioration of the economic climate, the rise in unemployment might be limited, but its rate will nonetheless probably exceed 8 per cent during the second part of the year.

Another feature of the current year will probably be a high rate of inflation, especially at the beginning of the year, under the combined effect of the latest increases in oil prices, the raising of public utility charges and the further adjustment of rents, all of which will be diffused by the indexation mechanism. In the coming months the main element of uncertainty is the size of wage increases under enterprise wage contracts. It has been assumed that these increases will be comparatively moderate, although the risk cannot be overlooked of more substantial rises which could imply an acceleration of the price-wage spiral. It nonetheless seems likely that the rise in unit labour costs will be higher than in 1979 because of the expected slowdown in activity. On the other hand the levelling off of demand might have a moderating effect on prices, and on the hypothesis of a very marked slowdown in import prices in the second part of the year<sup>130</sup>, inflation might decelerate in the second half. Pressure on prices might ease all the more rapidly since, unlike 1974-75, so far increases in costs appear to a large extent to have been already passed on in prices.

Despite a continuing rapid rise in nominal incomes, household purchasing power is likely to be eroded by inflation. The rate of compensation of wages to price rises through indexation will probably be close to 85 per cent, and with an increase in contractual wages of about 3 per cent (including wage drift), real wages are likely to rise by about 1 per cent (compared with 4 per cent in 1979), the rates of increase being faster in the public than in the private sector. Property and business incomes and transfers, which are to a large extent indexed, are likely to continue to rise at a

130 This is due to the technical assumption of the maintenance of the real oil price at its present level.

Table 19 **Forecasts for 1980**  
Percentage change, at annual rates, on previous period

	1978 billion lire	1978 1977	1979 1978	1980 1979	1979		1980	
					I	II	I	II
Demand and output <sup>1</sup>								
Private consumption	135 347	2.6	4.9	1.7	5.2	5.6	0.7	0.0
Collective consumption	36 303	3.5	1.7	2.0	1.0	1.0	2.3	2.3
Gross fixed investment	41 406	-0.4	4.3	2.0	3.7	4.3	2.0	-0.2
Machinery et equipment	17 137	-1.9	6.8	3.0	5.0	8.8	3.0	-2.4
Residential construction	11 127	0.7	1.6	0.4	1.2	0.5	0.5	0.0
Other construction	13 142	0.7	2.9	2.0	2.3	3.8	1.8	0.5
Final domestic demand	213 056	2.2	4.3	1.8	4.2	4.6	1.2	0.3
Change in stocks <sup>2</sup>	1 854	-0.6	1.1	-0.6	0.8	1.0	-0.7	-1.9
Change in foreign balance <sup>2</sup>	5 833	1.1	-0.1	0.6	0.2	-0.1	0.6	1.3
Exports of goods and services	59 616	10.8	9.5	4.5	6.5	10.0	3.0	2.4
Imports of goods and services	53 783	8.1	13.4	3.0	7.8	13.7	1.0	-2.7
GDP at market prices	220 743	2.6	4.9	1.7	4.9	5.2	1.0	-0.3
Industrial production	..	1.9	6.5	2.0	5.9	7.2	1.5	-2.0
Prices								
Implicit GDP price deflator	..	13.3	16.1	18.0	16.2	18.0	19.0	16.1
Consumer prices	..	12.1	14.8	18.7	15.2	17.3	21.5	14.9

1 Standardised OECD definitions.

2 As a percentage of GDP in the previous period.

Source: OECD Secretariat.

sustained rate. With no changes in legislation, the tax burden would inevitably become much greater, mainly because of fiscal drag, and real disposable income of households would probably increase by less than 1 per cent. But if the raising of the tax threshold and tax allowances is approved, the increase in real revenue might be slightly over 1 per cent, compared with 3.3 per cent in 1979. On the assumption of a slight fall in savings rate, connected with a stronger increase in lower incomes, precisely those with a higher propensity to consume, private consumption might rise by 1.7 per cent. In the absence of additional information it has been assumed that the rise in public consumption will probably follow its trend, with an increase of 2 per cent in volume.

The deterioration of the business climate and the tightening of monetary policy cannot fail to have an effect on investment. Nonetheless, in view of the very high rate of utilisation of productive capacity, the improvement in firms' profits during the last two years and the high level of orders at the end of 1979 in some sectors such as machine tools, private productive investment might remain comparatively firm during the first half of 1980 before beginning to drop back in the second part of the year. As for public enterprises, an important factor will be the extent to which the new investment programme of National Electricity Enterprise (ENEL), just submitted to Parliament and providing for the expenditure of 20 000 billion lire over five years, is put into operation. The quasi-stagnation observed in residential building for several years will probably continue. In addition to the effects of the slowdown in household incomes there will be those of the new rent legislation and the rise in interest rates. To judge from the results obtained by the various programmes of support for housing construction undertaken in recent years, it is unlikely that these measures will have a significant effect in 1980. Non-residential construction is also likely to remain depressed.

Stockbuilding should fluctuate less than in earlier cycles, because of lower initial levels. During the first half of 1980, a partly involuntary build up in stocks of finished

goods should replace to some extent very strong purchases of intermediate products, mostly imported, of the end of 1979. This trend will probably be reversed in the second part of the year. In all, the negative contribution of stocks might amount to 0.6 per cent of GDP as an annual average. But the size of stockbuilding over the year will be broadly determined in the last resort by the degree of restriction of monetary policy and by expectations on import prices.

The expansion of exports will be limited by the expected levelling-off in foreign demand and by the worsening of Italy's price competitiveness which began in 1979. Nonetheless, the weakening of domestic demand should provide an incentive to Italian firms to increase their efforts to export, and their loss of market shares might be limited. Thus, on the assumption of an expansion of manufacturers' markets of the order of 5.5 per cent, exports might increase by some 4.5 per cent, a rate which implies a slow intra-yearly rate of growth because of the 1979 carryover. The deceleration in the level of activity should also, in the absence of speculative stockbuilding, be accompanied by a levelling-off in imports, which might decline in volume during the second half of the year. In all, foreign trade will probably make a positive contribution to growth as an annual average, and a greater one in the second half of the year. On the technical assumption of unchanged exchange rates, and the current forecasts of world-trade prices, the terms of trade might deteriorate by approximately 6.5 per cent, but the uncertainty surrounding this forecast should be stressed. In these circumstances the trade balance will probably show a deficit of the order of \$5 billion, compared with less than 1 billion in 1979. After an exceptionally favourable year, net income from invisibles is likely to remain steady, yielding a current-balance surplus of the order of \$1.5 billion, provided however that these transactions are not affected, as they were in 1974-1976, by disguised capital movements.

### *Policy conclusions*

The performance of the Italian economy in 1979 was in many ways satisfactory and distinctly better than was foreseen a year earlier. Helped by strong expansion in major foreign markets and vigorous export growth, real GDP grew by nearly 5 per cent; private productive investment staged a marked recovery, sustained by the demand upswing and improved enterprise profits; the long decline in industrial employment was reversed; real private consumption rose appreciably; and the current balance of payments remained, nevertheless, in substantial surplus until the autumn. The major disappointment was the persistence of a high inflation rate even before the effects of the sharp increases in oil prices started being felt. With the additional inflationary consequences of large increases in nominal wages, the year 1980 started with consumer prices rising at a rate of more than 20 per cent.

At the same time, growth in the OECD area and the expansion of world trade seem likely to slow down markedly in the course of the year owing to the deflationary effects of the oil price rise and the measures of demand restraint taken in many Member countries. Thus, the Italian authorities are faced with the prospect of the recovery being interrupted for the third time in the space of 6 years — a risk which last year's OECD Survey had pointed out. In 1979 the unfavourable changes in external circumstances have aggravated the inflationary pressures of domestic origin and have created difficult problems for economic policy in the short term. The present situation also raises questions about possible changes in the process of income determination in Italy and other institutional reforms that could contribute to more steady and sustainable growth of the economy in the future.

Mounting inflationary pressures and the strains that began to appear on the balance of payments have led to a tightening of monetary policy since last autumn, with increases in interest rates and the setting of more restrictive norms for the expan-



sion of bank credit. This shift of policy was clearly necessary; indeed, some further monetary tightening may be appropriate in the near future in the absence of a substantial reversal of interest rate trends abroad and in view of the present risk of an acceleration in the price-wage spiral. Monetary policy is the only major tool available in Italy for speedy adjustments of demand management. It is very difficult to adjust budgetary transactions to cyclical requirements and, in addition, approval of the 1980 budget and finance bill has been delayed. As for the particular fiscal measures of an expansionary character proposed by the Government last autumn, these seem mainly justified on other than demand-management grounds: in particular, some reduction of the pronounced inflationary fiscal drag on wage and salary incomes is necessary both on grounds of equity and as a complement to renewed efforts to combat tax evasion (the precise proposals are included in the finance bill for 1980); and the partial budgetisation<sup>131</sup> of social security contributions was a readily available means to alleviate in the short-term the pressure of rising labour costs on enterprises.

External considerations had a determining influence on the recent shift of monetary policy, especially the outflows of volatile capital that were encouraged by widening interest rate differentials. The reduction of the current surplus in the late months of 1979 cannot be considered as an unfavourable development. And it would be normal that Italy should record some deficit on current account in 1980, when the OECD area as a whole is expected to be in sizeable deficit, due to the sharp rise in the OPEC surplus. It is the situation of recent years that was unsatisfactory, when the risk of accelerating inflation and various institutional constraints made it impossible for national savings to be fully used for productive investment at home, in a period of high unemployment; they were partly used for a transfer of real resources abroad, represented by large surpluses on current account. The problem now is to prevent the violent swings of the current account seen in the past, often brought about by capital movements disguised in current invisible transactions and influenced largely by exchange rate expectations. The Italian authorities, naturally, attach importance to avoiding destabilising expectations in this area, although they recognise the need for flexibility as indicated by the wide margins of fluctuation agreed for the lira in the European monetary system. Past experience shows clearly the risks of a vicious circle of sharp devaluation and accelerating inflation, quickly propagated in an economy with widespread indexation of incomes. On the other hand, if large inflation differentials were to persist for a long time, competitiveness would be seriously affected. The fundamental task remains to control the domestic causes of inflation.

For the near future, there is little doubt that the increase in import prices triggered by the oil price rise will be sizeable, even though its exact magnitude is uncertain. There is also great uncertainty about the outcome of wage negotiations at the enterprise level which should follow the national collective agreements concluded last year. In addition, it will be necessary to increase certain public tariffs and especially domestic energy prices in the interests of conservation. In these circumstances, overall demand management should inevitably be cautious. The Secretariat's forecast of a virtual arrest, at best, of economic growth in the second half of 1980, with the unemployment rate rising above 8 per cent is clearly unsatisfactory. But it is difficult to imagine at present measures to sustain demand in the short-term that would not risk increasing further the inflationary danger. On the other hand, however necessary cautious demand management may be at present, severely restrictive policies would be both a costly and an inefficient method for achieving lasting results in the fight against inflation.

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131 Only the pre-existing degree of budgetisation was prolonged by decree-law last December pending the examination of proposals for additional measures.

Labour costs appear, once again, as a key element of the problem of restoring balanced growth. And the risk of accelerating inflation in 1980 should lead to questions about the links existing in the Italian economy between price and income formation and the operation of the indexation system. It is true that countries where indexation systems are widespread show, nevertheless, very different rates of price increases. The mechanism of indexation, therefore, does not itself necessarily generate inflation, although it tends to accelerate propagation throughout the economy of an external shock like the oil price increase. In the specific arrangements applied in Italy, the sliding scale system has, moreover, resulted in increases of lower incomes more than proportional to the price rise. This has probably had unfavourable effects on employment to the extent that it accelerated the substitution of capital for labour; and it has certainly contributed to the growth of clandestine employment. Finally, one may question how far the indexation system really contributes to calm industrial relations in view of the way it is imbricated with the system of collective wage agreements by industrial branches. The re-negotiation of these agreements every three years has contributed, during the 1970s, to reinforce the distortions created by the sliding scale arrangements. And the collective agreements have rather served as a complement to the indexation system instead of being an instrument for distributing the benefits from productivity gains. There is at present a large public debate in Italy about the different aspects of the process of wage determination. But policy action to reduce the rise of labour costs has been limited so far to successive partial fiscalisations of employers' social security contributions. Though this action seems justified in view of the still high share of such contributions in total labour costs, it creates problems for public finance and is no substitute for basic modifications of the wage determination process. Any important modifications in present arrangements will probably require a large degree of consensus and changes in attitudes of the social partners. Unless these conditions materialise no fundamental improvement can be expected.

For the very near future, however, it seems necessary to devise measures that could significantly dampen the price-wage spiral and help to prevent a deterioration of inflationary expectations. Some changes of the sliding scale system (even of a temporary or once-for-all nature) would be useful, but it is doubtful whether they will be agreed to in the near future. On the other hand, the authorities are studying measures to offset partly the increase in industrial labour costs expected to result from the sliding scale mechanism, in order to keep this increase down roughly to the average of industrialised OECD countries. Precise proposals have not yet been submitted to Parliament, but the various methods considered (e.g. additional budgetisation of social security contributions) involve a loss of budget revenue. It seems, indeed, justified that an increase in the public sector's borrowing requirement should reflect in the short-term some part of the considerable deterioration of the terms of trade instead of the burden falling mainly on the enterprise sector. Any short-term measures that can significantly slow down the accelerating cost-price spiral should be welcome. But they will mainly serve to gain time until more general, coherent economic policies are elaborated with a longer time horizon. It is to be hoped that the revision of the 1979 three-year economic plan that should be completed by next June will consider, among other subjects, the problems of income formation and possible changes in existing arrangements.

The present system ensures that increases in real wages are usually brought about by much higher increases in both nominal wages and prices — a process that, sooner or later, leads to the need for emergency policy measures. But the scope for real wage increases that the economy can afford is also an important problem. Obviously if growth of output were less often interrupted by bouts of inflation the scope would be larger on average. In the present period the deterioration of the terms of trade, which reduces real national income, imposes severe limits on the progress of

real purchasing power; if these were exceeded and enterprises were to absorb the bulk of the terms of trade effect, there could be a sharp reduction in productive investment with detrimental consequences for potential output and employment. Another more permanent limitation is represented by the rapid growth of collective consumption and transfer incomes. Public expenditure on health, in particular, has been rising sharply as in other Member countries; unless the expansion can be better controlled, wage and salary earners will have to bear the increasing cost of collective consumption by a smaller rise of real freely disposable income. In addition, the cost of the very rapid increase in transfer incomes, particularly in the number of persons entitled to pensions, has to be borne ultimately by the sections of the population engaged in productive employment.

These are among the fundamental problems of public finance, more important than the mere size of the public sector deficit. In addition, while public investment shows virtually no progress in real terms, total current expenditure maintains great momentum, as control of the outlays of organisations outside the central Government remains insufficient. Important initiatives were taken in recent years to reform budgetary procedures, improve the control of expenditure and reinforce the fight against tax evasion. Further progress is clearly needed in these areas, as is illustrated by the recent introduction of basic changes in the public health system without sufficiently detailed study of their financial implications.

One important factor of increase in public expenditure is transfers to public enterprises, to which should be added certain loans extended by official credit institutions, on very favourable conditions, to both public and private enterprises in financial difficulties. Virtually all Member countries take similar measures, but questions may be raised about the degree and the efficiency of direct Government involvement in financial intermediation, not to mention actual grants. There are a great many profitable firms in Italy at present; and, as pointed out in Part I of this Survey, profits of small firms, included in the household sector of the national accounts, probably help to explain the exceptionally high savings ratio of households. There is a real risk that too prompt Government financial assistance to loss-making enterprises will blunt the operation of market forces, restrain productivity gains and considerably reduce the mobility of factors of production. These practices, together with the increasing rigidities and distortions in the system of wage determination mentioned earlier, may ultimately produce important qualitative changes in the working of the economy. Foreign observers have been surprised in the past by the resilience and adaptability that the Italian economy has manifested at the end of successive economic "crises". It would be a great loss if the accumulation of institutionally imposed rigidities were to undermine the economy's dynamism in the future.



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## Annex A

## THE REVISION OF NATIONAL ACCOUNTS

In 1978, the Central Institute of Statistics (ISTAT) carried out a revision of national account aggregates which, by general consensus, were considered to be seriously under-estimated. The revision initially covered the period 1975-78. For the period 1975-77, for which a comparison is possible, the level of GDP varies slightly from year to year between 8.9 and 9.8 per cent above that of the old series at current prices and from 8.5 to 9 per cent at 1970 prices. As these differences are small and since the figures for 1977 and 1978 are still provisional, in what follows the analysis of the methods used to revise the accounts will relate only to 1975. The results would change only fractionally if another year was considered.

The main aspect of the revision has been the re-estimation in the production accounts of value added per employee for firms with less than 20 employees. Demand and income figures were then apparently made to fit in with the new value-added data. Employment estimates have not been changed as ISTAT believes that its employment figures provide an accurate picture of the phenomenon. Value added per employee in 1975 was not revised for agriculture, energy and motor-vehicle production, general government, credit and insurance, imputed housing services, maritime and air transport and, finally, communications. The single major item of the 1975 revision of GDP, about 45 per cent of the total, has been the re-estimation of value added per employee of firms with less than 20 employees in manufacturing industry. Value added per employee in these firms has been revised from 32.5 per cent of that of total manufacturing industry to nearly 60 per cent. It should be noted that this estimate rests on very scanty empirical evidence. The last ISTAT survey of firms with less than 20 employees goes back to 1963 and the only new source of information is a partial survey carried out by Mediocredito Centrale (a special credit institution) in 1973. Another important upward revision of value added per employee was made for public works, whose level in 1975 was revalued by more than 17 per cent compared with the old series. This was done by using government-expenditure data on a cash basis, as information on real magnitudes in this area has become increasingly unreliable in recent years. However, cash payments too are an unsatisfactory proxy for production, as it is well known that there are considerable lags, sometimes a few

Table 1 Value added by kind of economic activity  
Billion lire, current prices

	Old series			New series			
	1975	1976	1977	1975	1976	1977	1978
Agriculture, forestry and fishing	9 644	11 204	13 097	9 644	11 222	13 402	15 729
Industry	38 557	50 557	59 980	43 212	56 523	67 907	78 099
Construction and public works	9 324	11 056	13 305	9 993	11 850	14 447	16 663
Services	47 845	57 721	69 449	50 375	60 853	73 327	84 745
Non-tradeable services <sup>1</sup>	12 699	15 470	19 297	15 151	18 369	22 849	27 587
Value added at market prices	118 069	146 008	175 128	128 375	158 817	191 932	222 823
less: Imputed output of bank services	6 169	7 126	8 459	6 169	7 126	8 270	9 105
Indirect taxes on imports	3 172	4 967	6 319	3 172	4 966	6 316	7 025
GDP at market prices	115 072	143 849	172 988	125 378	156 657	189 978	220 743

1 General Government and private non-profit institutions serving households.  
Source: ISTAT.

years, between payments and the execution of work. Additional upward revisions of value added per employee in small firms were made for commerce and land-transport services. Here too there is still practically no new empirical evidence available since the 1963 ISTAT survey, apart from a partial survey on commerce made by a private institution in 1975. Imputed housing services have been revised upwards by about 6 per cent so as to take into account value added of new houses and those used as a secondary residence, which were strongly underestimated in the old series and probably still are in the new one. Finally, general government services were raised upward by nearly 24 per cent and other private services

Table 2 Demand and output<sup>1</sup>  
Billion lire, current prices

	Old series			New series			
	1975	1976	1977	1975	1976	1977	1978
Private consumption	75 587	92 003	109 967	79 906	97 511	117 005	135 347
Collective consumption <sup>2</sup>	16 197	19 413	24 270	20 027	24 049	29 673	36 303
Gross fixed investment	23 753	28 730	34 193	25 776	31 396	37 352	41 406
Final domestic demand	115 537	140 146	168 430	125 709	152 956	184 030	213 0056
Stockbuilding	-486	5 668	2 390	-352	5 666	3 515	1 854
Total domestic demand	115 051	145 814	170 820	125 357	158 622	187 545	214 910
Exports of goods and services	28 529	38 613	49 523	28 529	38 613	49 938	59 616
Imports of goods and services	28 508	40 578	47 355	28 508	40 578	47 505	53 783
GDP at market prices	115 072	143 849	172 988	125 378	156 657	189 978	220 743

1 Standardised OECD definitions.

2 General Government and private non-profit institutions serving households.

Source: ISTAT.

Table 3 National disposable income and its distribution  
Billion lire, current prices

	Old series			New series			
	1975	1976	1977	1975	1976	1977	1978
Gross national income at market prices	114 530	143 233	172 397	124 836	156 041	189 558	220 599
of which:							
Compensation of employees	66 251	80 826	98 575	71 618	87 429	107 109	123 821
Gross operating surplus	40 297	50 521	58 265	45 226	57 075	67 241	79 646
Net indirect taxes	7 982	11 886	15 557	7 992	11 537	15 208	17 052
Net current transfers from rest of the world	57	79	424	57	79	325	-94
Net indirect taxes paid to EEC	179	110	-129	179	110	-147	-243
National disposable income	114 766	143 422	172 692	125 072	156 230	189 973	220 262
National consumption	91 784	111 416	134 287	99 933	121 560	146 678	171 650
of which: Private	75 587	92 003	109 967	79 906	97 511	117 005	135 347
Collective <sup>1</sup>	16 197	19 413	24 270	20 027	24 049	29 673	36 303
Gross national savings	22 982	32 006	38 455	25 139	34 670	43 058	48 612
of which: Depreciation	12 574	15 749	19 166	12 919	15 793	19 445	22 426
Net savings	10 408	16 257	19 289	12 220	18 877	23 613	26 186
Memorandum item:							
Compensation of employees/gross national income at factor cost	62.2	61.5	62.9	61.3	60.5	61.4	60.8

1 General Government and private non-profit institutions serving households.

Source: ISTAT.



downward by some 10 per cent, but this is due exclusively to a change in definitions according to which hospital services are now included in general government. The net effect of these revisions has been an 8.3 per cent rise in the level of GDP at current prices in 1975 compared with the old series. According to ISTAT, another 0.3 and 0.4 percentage points should be added to the level of GDP in that same year to account for respectively 1 150 000 Italians with more than one job and 475 000 foreign workers. On the whole, GDP at current prices was revised upwards by 9 per cent in 1975.

Very little is known of the methods used to revise demand and income aggregates. With reference to 1975, export and import figures were not changed. Private consumption was revised upwards by 5.7 per cent at current prices, but the difference between this revision and that of GDP (9 per cent) is entirely due to the reclassification of part of health expenditure as public consumption. However, it should be noted that the composition of households' expenditure has been considerably modified, with a decrease in the share of food and an increase in that of consumer durables, entertainment and other goods and services. A new household survey was carried out in 1977 and it is likely that its findings were utilised to extrapolate backwards. Investment has been revalued by 8.5 per cent, with a particularly high increase for general government which appears to be due to the use of cash payments data mentioned above. However, it is not known on the basis of what criteria other investment items were re-estimated. Finally, the share of compensation of employees in gross national income at factor cost is between 0.9 and 1.5 percentage points lower than in the old series for the period 1975-77 (see Table 3).

In 1979, ISTAT has published provisional figures for main national-accounts aggregates dating back to 1970, and in some cases 1960, which are broadly consistent with the new 1975-1978 series. By and large, ISTAT has apparently applied the rates of change of the old series to the levels of the new ones.

## Annex B

## FOREIGN TRADE STATISTICS

For many years now foreign trade series published by ISTAT have shown substantial irregularities, especially for the month of December when large backlogs of customs-declaration forms are processed. But these do not carry the date of customs-house clearance, and it is not possible after the event to account correctly for an item which was not properly recorded at the time when the transaction actually took place. In December 1978 the "jump" in the series was exceptionally marked, since the level of imports was practically double the average of the first eleven months of the year and that of exports 80 per cent higher. Thus the seasonally-adjusted annual rate of volume growth in the second half of the year was 44 per cent for imports and 32 per cent for exports. The distortion seems to centre on volumes, as ISTAT price figures correspond overall to estimates made on the basis of other countries' foreign-trade statistics. The Italian experts have tried to adjust the series, either on the basis of other industrialised countries' exports to, and imports from, Italy (ISTAT) or by using data on a settlements' basis (Bank of Italy). Both adjustments were based on the assumption that the error affected the intra-yearly time pattern of transactions, but not the annual average. As a matter of fact, neither of these methods has succeeded in producing a plausible time pattern consistent with the official figures for the year as a whole. The various "adjusted" series of imports are presented below as an example.

Table 4 **Import values**  
Change from previous half-year (actual rate)

	ISTAT customs figures nsa	"Adjusted" series			
		ISTAT nsa	Bank of Italy nsa	Bank of Italy sa <sup>a</sup>	ISCO sa <sup>b</sup>
1977 2nd half	1.0	-7.1	-6.6	-7.0	2.4
1978 1st half	-0.4	17.9	23.5	22.5	1.9
1978 2nd half	25.2	6.7	7.0	7.8	19.2
1978	12.7	16.8	22.8	n.a	13.0
1977					

a) Adjusted by the Secretariat.

b) Goods and services on a national accounts basis.

## Annex C

## DEFINITIONS OF PUBLIC SECTOR DEFICIT

In the course of the 1970s a consensus emerged in Italy that general government transactions on a national accounts basis do not truly reflect the overall activity of the authorities as they do not include operations of numerous governmental and semi-governmental agencies which might be best considered as part of the public sector. Consequently, the concept of "enlarged" public sector, i.e. general government plus other quasi-governmental bodies, began to gain wide acceptance as a better approximation of public-sector transactions. Since July 1977 the "enlarged" public sector has been defined by an act of Parliament and the authorities have made available a retrospective series of accounts going back to 1976. As a result, four definitions of the public sector deficit are currently used by the Italian authorities:

- a) The general government borrowing requirement on national accounts definitions (central government, social security institutions and hospital authorities, local authorities) and on a cash basis.
- b) The cash deficit of the "enlarged" public sector, exclusive of financial operations (disavanzo). The "enlarged" public sector includes general government plus the autonomous agencies (mainly railways, the motorways agency and the postal service), the National Electricity Corporation (ENEL) and municipal enterprises.
- c) The borrowing requirement of the "enlarged" public sector inclusive of the traditional financial operations (fabbisogno), i.e. grants to specialised credit institutions and to enterprises in which the State has shareholdings and changes in the indebtedness of local authorities towards the banking system.
- d) The overall borrowing requirement of the "enlarged" public sector (fabbisogno complessivo), which also includes the settlement of outstanding debts to suppliers.

It should be noted that, whereas the passage from the general government's borrowing requirement to the cash deficit of the "enlarged" public sector is obtained by including a larger number of agencies, the passage from "disavanzo" to "fabbisogno" and "fabbisogno complessivo" is the result of the inclusion of additional operations, and not additional agents.

The table below presents the trend of these four deficits as a percentage of GDP since 1976.

Table 5 Public sector deficits  
as a percentage of GDP

	1976	1977	1978	1979 <sup>1</sup>
General government borrowing requirement	9.1	8.1	10.6	10.4
Cash deficit of "enlarged" public sector (disavanzo)	10.3	9.8	11.9	12.3
Borrowing requirement of "enlarged" public sector (fabbisogno)	12.3	11.4	15.2	13.2
Overall borrowing requirement of "enlarged" public sector (fabbisogno complessivo)	12.0	10.6	15.6	13.1
<i>Memorandum item:</i>				
GDP at current prices (billion lire)	156 657	189 978	220 743	268 840

<sup>1</sup> Provisional estimates.

Source: ISTAT and Ministry of Treasury.



*Annex D***ECONOMIC POLICY MEASURES****1978***6th July*

Industrial firms partly exempted from payment of sickness insurance for period July-December 1978. Exemption amounts to 24 500 lire per month per male employee, with a total exemption on the first 400 000 lire of monthly pay for female workers. Contributions to be paid directly out of the budget.

*7th July*

20 per cent increase in railway fares (passengers and freight).

*29 July*

Fair rent bill (equo canone) enacted.

*31st July*

New ceilings on bank credit for period August 1978-March 1979. Credit accounts amounting to more than 50 million lire at end-March 1978 not allowed to increase by more than :

- 6 per cent up to end-September 1978
- 7 per cent up to end-November 1978
- 13 per cent up to end-January 1979
- 14 per cent up to end-March 1979

*4 August*

Hospitals forbidden to seek bank credit in excess of one-tenth of their budgeted yearly income and compelled to pay suppliers within 90 days from date of invoice.

*5th August*

Patients required to contribute to cost of prescriptions, hitherto free. Contributions as follows :

- 200 lire for products priced below 1 000
- 400 lire for products priced between 1 000 and 3 000 lire
- 600 lire for products priced above 3 000 lire

*9th August*

Extension to 120 days of period allowed for advance payment of import contracts of goods and services.

*19th August*

2.5 to 3 per cent decrease in gas-oil and fuel-oil prices due to new method of price computation.

*1st September*

Discount rate lowered from 11.5 to 10.5 per cent.

*21st September*

Banks' portfolio requirement lowered from 30 to 6.5 per cent of increase in deposits.

*6th October*

Institution of control invoice (bolletta di accompagnamento) to be attached to goods in transit.

*21st December*

Enactment of financial law specifying budget measures to be taken in the course of 1979. Main features are:

- a) Current expenditure of municipalities and provinces not to increase by more than 11 per cent (13 per cent in the South);
- b) Adjustment of pensions for wage increases not to exceed 2.9 per cent in 1979 (5.9 in absence of this measure);
- c) Increase in social security contributions paid by self-employed.
- d) Public investment programme 1979-81. Allocation of 3 000 billion for public construction, 500 for health, 2 500 for road construction, 450 for other miscellaneous investments.

**1979***12th January*

Prices of all oil products exclusive of petrol increased by approximately 7 per cent.

*17th January*

Credit ceilings renewed. Minimum amount of credit subject to ceiling raised from 50 to 100 million lire. Credit outstanding at end-March 1978 not to increase by more than:

- 14 per cent up to end-January 1979.
- 15 per cent up to end-March 1979.

*9th April*

Renewal of credit ceilings. Credit outstanding at end-March 1978 not to increase by more than:

- 18 per cent up to end-May 1979
- 21 per cent up to end-July 1979
- 21 per cent up to end-September 1979

*4th May*

Increase in oil prices exclusive of petrol. Price of gas-oil raised by 8.8 per cent; fuel-oil, 10.9 per cent; other products, 14 per cent.

*24th May*

Prices of fluid and semi-fluid combustible oil increased by 7.5 per cent on average. Price of natural gas also raised by 12.7 lire per cubic meter.

*26th June*

Further increase in oil prices exclusive of petrol. Price of gas-oil increased by 15.6 per cent; that of fuel-oil by 15.8 per cent; other products, 20 per cent on average.

*28th July*

Premium-petrol price increased by 10 per cent; regular petrol, 10.4 per cent; gas-oil, 12.6 per cent; fuel-oil, 15 per cent; other products, 16 per cent.

*14th September*

Increase in production tax on petrol, liquified gas and gas-oil and consumption tax on methane.

*15th September*

Petrol price increased by 7.7 per cent; fuel-oil, 3.4 per cent (price now equal to that of gas oil). Li- quified gas for domestic use, 2.2 per cent; liquified gas for automotive use, 8.7 per cent.

*6th October*

Discount rate raised from 10.5 to 12 per cent.

*19th October*

Renewal of credit ceilings. Minimum amount of credit subject to ceilings increased from 100 to 130 million lire. Credit outstanding at end-May 1979 not to increase by more than:

- 11 per cent up to end-November 1979
- 14 per cent up to end-January 1980
- 15 per cent up to end-March 1980
- 16 per cent up to end-May 1980
- 21 per cent up to end-July 1980

*22nd November*

Passenger and freight railway fares increased by 10 and 18.5 per cent respectively.

*5th December*

Discount rate raised from 12 to 15 per cent.

*29th December*

Telephone rates raised by 25 per cent and electricity charges by 15 to 20 per cent on average depending on quantity consumed.

*30th December*

Prices of oil products increased by 9 per cent on average.

Prohibition for diesel-engined vehicles to leave the country with more than 10 litres, (passenger cars) or 50 litres (lorries) of fuel in tank.



## ***STATISTICAL ANNEX***

Table A National accounts<sup>1</sup>  
Expenditure and output  
Billion lire

	Current prices					1970 prices				
	1974	1975	1976	1977	1978	1974	1975	1976	1977	1978
<b>EXPENDITURE:</b>										
1 Household consumption	69 008	79 906	97 511	117 005	135 347	45 156	44 421	45 909	46 608	47 823
2 Collective consumption	17 277	20 027	24 049	29 673	36 303	10 530	10 880	11 162	11 408	11 810
3 Gross domestic fixed capital formation	24 775	25 776	31 396	37 352	41 406	14 607	12 745	13 044	13 050	12 993
Construction	13 514	15 001	17 601	21 239	24 269	8 011	7 408	7 257	7 270	7 323
Transport, machinery and equipment	11 261	10 775	13 795	16 113	17 137	6 596	5 337	5 787	5 780	5 670
4 Change in stocks	4 652	-352	5 666	3 515	1 854	2 186	-143	1 865	938	465
5 Exports of goods and services	24 686	28 529	38 613	49 938	59 616	14 817	15 382	17 294	18 770	20 792
6 less: Imports of goods and services	29 679	28 508	40 578	47 505	53 783	13 771	12 434	14 263	14 258	15 415
7 GDP at market prices	110 719	125 378	156 657	189 978	220 743	73 525	70 851	75 011	76 516	78 468
<b>OUTPUT:</b>										
1 Agriculture, forestry and fishing	8 096	9 644	11 222	13 402	15 729	5 196	5 369	5 149	5 123	5 301
2 Manufacturing, mining and public utilities	39 353	43 212	56 523	67 907	78 099	26 542	24 081	27 031	27 475	28 065
3 Construction	8 820	9 993	11 850	14 447	16 663	5 328	4 929	4 894	4 929	4 996
4 Services, private sector <sup>2</sup>	37 928	44 206	53 727	65 057	75 640	26 825	26 769	27 743	28 616	29 468
5 Public administration	13 237	15 151	18 369	22 849	27 587	8 123	8 355	8 630	8 822	8 968
6 Import duties	3 285	3 172	4 966	6 316	7 025	1 511	1 348	1 564	1 551	1 670
7 GDP at market prices	110 719	125 378	156 657	189 978	220 743	73 525	70 851	75 011	76 516	78 468

1 Revised national accounts. The accounts are presented here according to the OECD standardized system, whereas the Italian accounts follow the ESA (European System of Integrated Economic Accounts). In the above table tourism expenditure is included in exports and imports and not in household consumption.

2 Less imputed bank services.

Source: Relazione Generale 1978.

Table B **Quarterly national accounts**  
Seasonally adjusted  
*Billion lire, 1970 prices*

	1977					1978					1979		
	I	II	III	IV	Year	I	II	III	IV	Year	I	II	III
1 GDP at market prices <sup>1</sup>	19 383	19 053	19 030	19 050	76 516	19 359	19 433	19 559	20 117	78 468	20 340	20 200	20 410
of which: Agriculture	1 279	1 260	1 266	1 318	5 123	1 316	1 330	1 345	1 310	5 301	1 337	1 353	1 365
Industry													
(including energy sector)	7 157	6 812	6 810	6 696	27 475	6 940	6 887	6 918	7 320	28 065	7 437	7 192	7 270
Construction	1 234	1 234	1 225	1 236	4 929	1 236	1 238	1 250	1 272	4 996	1 268	1 283	1 285
Services	7 694	7 719	7 731	7 758	30 902	7 838	7 919	7 980	8 101	31 838	8 178	8 239	8 325
2 Imports of goods and services	3 592	3 440	3 343	3 608	13 983	3 392	3 530	3 876	4 323	15 121	4 355	4 230	4 350
3 Exports of goods and services	4 179	4 224	4 212	4 417	17 032	4 360	4 522	4 751	5 233	18 866	5 200	5 150	5 125
4 Total domestic demand	18 796	18 269	18 161	18 241	73 467	18 391	18 441	18 684	19 207	74 723	19 495	19 280	19 635
Investment in machinery, equipment and transport	1 565	1 472	1 389	1 354	5 780	1 391	1 386	1 397	1 496	5 670	1 463	1 426	1 505
Investment in construction	1 823	1 822	1 807	1 818	7 270	1 817	1 815	1 830	1 861	7 323	1 856	1 878	1 880
Consumption plus stocks	15 408	14 975	14 965	15 069	60 417	15 183	15 240	15 457	15 850	61 730	16 176	15 976	16 250

1 Including import duties.

Sources: Relazione Generale 1978 and ISCO (ESA).



Table C Price indices<sup>1</sup>

	1975	1976	1977	1978	1978				1979			
					I	II	III	IV	I	II	III	IV
WHOLESALE PRICES:												
Agricultural products	186.2	230.0	117.7	130.9	127.3	130.0	131.9	134.6	141.0	145.4	147.0	154.7
Non-agricultural products	193.4	237.5	116.4	125.8	121.8	124.7	126.9	129.8	135.5	142.0	148.7	157.1
Investment goods	191.4	229.3	116.3	128.6	123.2	127.0	130.6	133.6	138.1	142.3	146.2	
Consumer goods	174.7	216.3	119.8	132.2	127.7	131.0	133.6	136.2	140.6	144.1	149.1	
Intermediate goods	290.4	362.0	114.0	121.3	118.0	120.4	122.0	125.0	132.2	141.0	148.5	
General index	192.4	236.4	116.6	126.4	122.4	125.3	127.5	130.4	136.1	142.4	148.5	156.8
CONSUMER PRICES:												
Food products	172.2	201.6	116.9	132.0	125.8	130.6	134.2	137.5	142.4	147.6	151.4	156.5
Non-food products	178.9	210.0	119.6	132.9	128.3	131.6	133.9	138.0	141.7	146.7	154.8	168.3
Services	160.5	185.1	114.2	128.0	122.6	126.0	129.3	134.0	141.5	147.0	150.7	158.1
General index	171.1	199.8	117.0	131.2	125.7	129.6	132.7	136.7	141.9	147.2	152.3	160.8
CONSUMER PRICES FOR FAMILIES OF WORKERS AND CLERICAL EMPLOYEES <sup>2</sup> :												
Food	172.5	201.2	117.6	133.1	126.5	131.5	135.4	139.1	144.1	149.6	153.3	158.3
Clothing	173.4	201.7	123.4	141.5	136.0	139.7	141.9	148.3	151.5	157.5	161.8	174.8
Housing	131.3	145.0	105.8	114.4	111.5	113.7	115.2	117.0	136.4	140.8	143.2	153.4
General index	171.3	199.6	118.1	132.8	127.2	131.2	134.4	138.4	144.2	150.3	155.6	164.6

1 1970=100 up to 1976; 1976=100 from 1977.

2 Previously "cost-of-living index".

Source: ISTAT.

Table D **Employment<sup>1</sup>**  
Thousands

	1972	1973	1974	1975	1976	1977	1978	1978				1979			
								Jan.	April	July	Oct.	Jan.	April	July	Oct.
<b>A LABOUR FORCE, TOTAL</b>	19 028	19 168	19 458	19 650	19 858	21 607	21 731	21 389	21 502	22 117	21 914	21 613	21 745	22 568	22 375
Total in % of population	35.5	35.5	35.7	35.7	35.9	38.9	38.9	38.4	38.6	39.6	39.2	38.6	38.8	40.3	39.9
<b>1 Employment</b>															
Dependent employment	12 988	13 239	13 620	13 802	13 955	14 360	14 363	14 213	14 253	14 517	14 469	14 388	14 499	14 786	14 772
Independent employment	5 343	5 261	5 278	5 194	5 171	5 702	5 796	5 656	5 794	5 942	5 794	5 593	5 667	5 902	5 902
Total employment	18 331	18 500	18 898	18 996	19 126	20 062	20 160	19 869	20 047	20 459	20 263	19 981	20 166	20 688	20 674
of which: Underemployed	278	283	303	446	379	436	420	547	399	370	364	568	365	342	352
<b>2 Unemployment</b>															
Unemployed	262	248	194	246	255	211	212	231	204	208	205	269	227	203	206
First-job seekers	435	420	366	408	477	693	792	754	711	840	864	845	796	904	921
Other job-seekers	..	..	..	..	..	641	567	535	540	610	582	518	556	772	575
Total unemployment	697	668	560	654	732	1 545	1 571	1 520	1 455	1 658	1 651	1 632	1 580	1 880	1 701
Total in % of labour force	3.7	3.5	2.9	3.3	3.7	7.2	7.2	7.1	6.8	7.5	7.5	7.6	7.3	8.3	7.6
<b>B OTHER POPULATION</b>	34 520	34 813	35 083	35 317	35 467	33 966	34 075	34 364	34 253	33 713	33 973	34 369	34 284	33 405	33 703
<b>C TOTAL PRESENT POPULATION</b>	53 548	53 981	54 541	54 967	55 325	55 573	55 806	55 753	55 755	55 830	55 887	55 982	56 030	55 973	56 078

<sup>1</sup> Estimates of national aggregates extrapolated from quarterly sample surveys. New series from January 1977, not comparable with earlier ones.  
Source: ISTAT.

Table E Wages and salaries

	1977	1978	1977				1978				1979				
			I	II	III	IV	I	II	III	IV	I	II	III	IV	
Excluding family allowances															
I INDICES OF WAGES AND SALARIES (1975=100)															
A Minimum contractual wage rates:															
1	Agriculture	164.7	194.6	152.1	161.4	169.2	176.0	183.3	190.8	198.4	205.7	214.2	227.0	242.5	252.5
2	Industry	152.6	177.9	140.9	150.1	157.2	162.3	167.9	173.8	181.5	188.2	195.6	204.1	219.2	230.0
	of which: Manufacturing	154.3	179.3	142.2	151.3	159.2	164.4	170.2	175.7	182.4	188.8	196.9	205.7	219.6	
	Construction	149.2	175.3	138.1	147.7	153.3	157.8	163.0	169.9	180.2	187.8	193.9	201.7	219.7	
3	Transport	151.0	175.6	139.7	148.7	156.3	159.4	167.8	171.4	179.2	184.1	198.6	206.4	219.1	226.0
4	Commerce	155.8	181.7	145.9	153.5	159.4	164.2	171.7	177.1	186.0	192.2	203.0	211.4	220.1	230.4
B Minimum contractual salaries:															
1	Industry	141.9	161.9	133.5	140.3	145.3	148.6	155.8	159.4	164.1	168.2	175.7	181.5	191.5	198.7
2	Commerce	145.9	166.1	138.0	144.1	148.8	152.7	158.8	163.2	168.8	173.8	182.9	189.7	196.0	203.1
		1970	1971	1972	1973	1974	1975	1976	1977						
Including family allowances															
II HOURLY WAGE EARNINGS (in lire)															
Industry <sup>1</sup>		819	957	1 082	1 324	1 687	2 166	2 560	3 170						
of which: Construction		807	905	986	1 184	1 491	1 893	2 316	2 878						

1 Firms covered by the Ministry of Labour survey.

Sources: ISTAT and Relazione Generale 1978.

Table F **Public sector accounts**a) **Central Government<sup>1</sup>***Billion lire, current prices*

	1975	1976	1977	1978
1 Tax revenue	18 312	25 648	34 205	42 984
2 Other current receipts	5 543	6 910	8 287	11 213
3 Total current receipts	23 855	32 558	42 492	54 197
4 Current expenditure on goods and services	10 593	12 765	16 017	19 920
5 Subsidies, current transfers and depreciation	16 454	21 783	28 339	49 697
6 Total current expenditure	27 047	34 548	44 356	69 617
7 Net current saving	-3 192	-1 990	-1 864	-15 420
8 Depreciation allowances and capital account receipts	511	901	990	1 067
9 Gross investment	2 026	2 412	2 933	3 089
10 Capital transfers	4 528	3 733	5 410	8 359
11 Borrowing requirement (+) or capacity (-)	9 235	7 234	9 217	25 801

<sup>1</sup> Excluding autonomous bodies.

Source: Relazione Generale 1978.

b) **Local authorities***Billion lire, current prices*

	1975	1976	1977	1978
1 Tax revenue	1 093	1 481	1 745	2 149
2 Other current receipts	7 203	9 202	10 286	19 407
3 Total current receipts	8 296	10 683	12 031	21 556
4 Current expenditure on goods and services	7 814	9 080	11 079	13 327
5 Subsidies, current transfers and depreciation	3 773	4 781	5 528	6 059
6 Total current expenditure	11 587	13 861	16 607	19 386
7 Net current saving	-3 291	-3 178	-4 576	2 170
8 Depreciation allowances and capital account receipts	3 379	3 172	4 362	6 905
9 Gross investment	2 214	2 980	3 402	4 927
10 Capital transfers	442	841	1 173	1 935
11 Borrowing requirement (+) or capacity (-)	2 568	3 827	4 789	-2 213

Source: Relazione Generale 1978.



Table F **Public sector accounts**  
 c) Social security  
*Billion lire, current prices*

	1975	1976	1977	1978
1 Social security contributions	16 040	19 720	23 476	27 165
2 Other current receipts	2 091	3 030	5 516	11 079
3 Total current receipts	18 131	22 750	28 992	38 244
4 Social benefits	16 951	20 795	24 643	30 401
5 Current expenditure on goods and services	955	1 288	1 603	1 906
6 Subsidies, current transfers and depreciation	2 604	3 506	3 973	5 430
7 Total current expenditure	20 510	25 589	30 219	37 737
8 Net current saving	-2 379	-2 839	-1 227	507
9 Depreciation allowances and capital account receipts	2 320	426	1 346	29
10 Capital expenditure	2 773	815	1 556	351
11 Borrowing requirement (+) or capacity (-)	2 832	3 228	1 437	-185

Source: Relazione Generale 1978.

**Table G Money and credit**  
**a) The monetary base, 1969-1978**  
*Changes in billion lire*

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
<b>A Origin of liquid assets:</b>										
1 Net impact of the foreign sector	-648	319	478	-415	-205	-3 115	-1 700	1 093	5 209	5 820
2 Net impact of the public sector	1 500	2 991	2 611	4 171	7 243	7 671	7 779	11 745	-810	9 918
3 Banks	469	-1 276	90	935	277	1 362	-389	-1 477	209	-242
4 Other sectors	-134	-102	174	-1 091	-2 229	-1 812	1 192	-3 983	4 936	-917
5 Total net impact	1 187	1 932	3 353	3 599	5 086	4 106	6 882	7 378	9 544	14 579
<b>B Use of liquid assets:</b>										
6 Liquidity in the hands of the public	1 094	763	1 824	2 408	3 313	2 043	4 123	4 080	4 922	7 614
7 Compulsory bank reserves	416	782	1 162	1 237	1 661	1 494	1 634	4 415	3 664	5 076
8 Bank liquidity	-323	387	367	-46	112	568	1 125	-1 116	958	1 889
9 Total	1 187	1 932	3 353	3 599	5 086	4 106	6 882	7 378	9 544	14 579

Source: Bank of Italy Annual Report.

Table G Money and credit  
b) Selected indicators  
Billion lire, end of period

	1977				1978				1979		
	I	II	III	IV	I	II	III	IV	I	II	III
<b>I MONEY</b>											
1 Currency in circulation <sup>1</sup>	13 371	14 080	14 200	16 076	15 456	16 261	16 627	18 993	17 497	18 374	
2 Sight deposits	67 538	69 883	72 600	81 114	83 754	88 070	91 888	103 586	104 290		
3 Saving deposits	60 415	62 100	63 888	71 614	73 023	74 616	76 896	84 586	84 759		
4 Post office saving deposits	16 587	16 535	17 025	19 056	20 231	20 621	21 238	23 500	25 233	25 909	
5 Money supply broadly defined (1 + 2 + 3 + 4)	157 911	162 598	167 713	187 860	192 464	199 568	206 649	230 665	231 779	239 326	247 175
<b>II CENTRAL BANK</b>											
1 Credit to Treasury	38 768	35 283	34 952	35 424	38 694	35 884	34 498	40 234	35 502	34 068	34 424
2 Credit to banking sector	1 459	1 904	979	1 229	672	1 261	1 326	590	2 122	3 133	3 781
<b>III OTHER BANK</b>											
1 Total deposits	127 259	131 271	135 423	152 025	156 137	161 668	167 279	187 088	187 860	193 628	199 800
2 Credit	75 192	76 322	77 021	79 154	77 529	78 327	79 946	86 829	88 481	91 468	
3 Government securities, shares and bonds	47 071	55 880	57 913	67 431	70 792	78 532	81 750	86 022	86 334		
<b>IV SPECIAL CREDIT INSTITUTIONS</b>											
Credit to the private sector	43 283	44 469	46 223	47 916	49 425	50 604	52 783	54 446	55 632	55 910	

1 In the hands of the non-bank public.

Sources: Bank of Italy, Rassegna congiunturale and IMF.

Table G Money and credit  
c) Annual capital market net issues  
Billion lire

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
<b>A By issuer and type of security</b>											
1 Government bonds	1 297	1 550	1 090	2 234	2 605	3 121	1 232	6 038	3 497	15 318	19 716
in % of total bonds issues	(41.6)	(46.3)	(41.8)	(44.4)	(43.6)	(29.9)	(35.5)	(47.0)	(40.4)	(72.9)	(76.9)
2 Special credit institutions	1 189	1 284	1 483	2 229	2 446	6 438	2 153	5 410	4 163	4 413	4 763
3 ENEL, ENI, IRI	403	466	94	454	696	625	243	1 264	873	1 163	1 040
4 Private enterprises	113	37	-50	55	62	172	-147	111	132	136	128
5 Foreign bonds <sup>1</sup>	44	12	-2	36	106	38	-2	21	-13	-13	-13
6 Total bonds <sup>2</sup>	3 116	3 351	2 610	5 034	5 969	10 453	3 473	12 844	8 652	21 017	25 634
7 Shares	449	673	997	977	1 241	1 983	771	1 357	1 697	1 438	2 545
8 Total capital market issues	3 565	4 024	3 607	6 011	7 210	12 436	4 244	14 201	10 349	22 455	28 179
<b>B By subscriber and type of security</b>											
1 Non-banking sector											
bonds	1 233	954	645	1 663	1 784	1 469	-1 886	2 119	231	643	5 632
(in % of total bonds)	(39.6)	(28.5)	(24.7)	(33.0)	(29.9)	(14.0)	(-54.3)	(16.5)	(2.7)	(3.1)	(22.0)
shares	441	653	978	968	1 217	1 944	699	1 354	1 537	1 404	2 254
2 Banks and other financial institutions											
bonds	1 665	1 182	877	2 450	3 006	6 445	3 742	9 075	6 182	12 716	14 221
(in % of total bonds)	(53.4)	(35.3)	(33.6)	(48.7)	(50.4)	(61.7)	(107.7)	(70.4)	(71.4)	(60.5)	(55.4)
shares	6	18	17	6	3	40	64	-4	147	27	281
3 Bank of Italy											
bonds	219	1 215	1 089	922	1 180	2 539	1 617	1 650	2 238	7 658	5 781
(in % of total bonds)	(7.0)	(36.2)	(41.7)	(18.3)	(19.8)	(24.3)	(46.6)	(12.8)	(25.9)	(36.4)	(22.6)
shares	2	2	1	3	21	-1	8	7	12	8	9

1 International institutions issues.

2 Total including local authority bonds but excluding special Treasury certificates and other foreign bonds.

Source: Bank of Italy.



Table G Money and credit  
 d) External finance of enterprises  
*Changes in billion lire*

	Outstanding at the end of 1977	1976		1977		1978		1966-1977 average
		Total	Foreign sources	Total	Foreign sources	Total	Foreign sources	Total
Short-term credit	62 604	10 308	—	8 361	—	6 835	—	4 307
Medium and long-term credit	42 992	5 050	78	5 516	262	7 704	1 544	3 021
<i>of which: Special credit institutions</i>	32 522	3 978	—	4 024	—	4 487	—	2 298
Bonds	11 688	1 005	-22	1 299	98	1 168	—	634
Shares and participations	14 466	1 605	5	1 403	918	2 337	309	964
Total	131 750	17 968	61	16 579	1 278	18 044	1 853	8 926
in % of GDP		11.5		8.7		8.2		10.0

Source: Bank of Italy Annual Report.

Table H Foreign trade and reserves  
Million US dollars

	1973	1974	1975	1976	1977	1978				1979			
						I	II	III	IV	I	II	III	IV
FOREIGN TRADE (customs basis, monthly averages)													
1 Imports, total (cif)	2 318	3 414	3 197	3 614	3 963	3 754	4 460	4 282	6 324	5 361	5 997	5 951	
non-food	1 797	2 803	2 614	3 059	3 275	3 040	3 701	3 520	5 338	4 477	5 153	4 972	
2 Exports, total (fob)	1 853	2 524	2 902	3 077	3 753	3 599	4 550	4 242	6 298	5 078	5 749	5 858	
non-food	1 698	2 313	2 664	2 881	3 462	3 353	4 226	3 935	5 869	4 677	5 313	5 370	
3 Trade balance	-465	-890	-294	-538	-210	-155	90	-39	-26	-283	-247	-93	
Seasonally adjusted													
1 Imports	—	—	—	—	—	3 984	4 247	4 618	5 777	5 615	5 759	6 482	
2 Exports	—	—	—	—	—	3 924	4 408	4 330	5 901	5 484	5 610	6 051	
3 Trade balance	—	—	—	—	—	-60	161	-287	124	-130	-149	-431	
FOREIGN RESERVES, end of period													
1 Official reserves:													
Gold	3 483	3 483	3 483	9 321	11 260	12 868	12 832	14 753	14 334	14 822	16 792	20 061	20 125
Convertible currencies	2 181	3 185	1 297	3 209	7 960	6 747	9 148	9 817	10 499	15 450	18 166	17 844	17 258
IMF position	359	—	—	—	—	—	196	320	316	312	313	320	312
Special Drawing Rights	414	221	97	91	144	260	240	256	294	452	511	542	592
Total	6 436	6 889	4 877	12 621	19 634	19 875	22 415	25 146	25 443	31 036	35 783	38 767	38 287

Sources: OECD, Foreign Trade Statistics, Series A; ISCO and IMF.

Table I Commodity breakdown of foreign trade  
Billion lire

	1970	1971	1972	1973	1974	1975	1976	1977	1978
<i>Imports, cif</i>									
1 Food, drink and tobacco	1 692	2 054	2 302	3 470	4 254	4 589	5 722	6 698	7 504
2 Crude oil	1 120	1 416	1 431	1 984	6 274	5 355	7 586	8 615	9 142
3 Metals, ores and scrap	1 468	1 181	1 268	1 875	3 591	2 602	4 124	4 766	5 290
4 Textile materials and products	666	582	725	1 209	1 334	1 288	2 233	2 509	2 713
5 Wood and products	320	304	336	609	831	616	1 106	1 297	1 371
6 Automobiles and spares	456	501	638	845	888	1 219	2 020	2 625	3 367
7 Other engineering products	1 670	1 804	1 944	2 683	3 667	3 783	5 107	5 853	6 727
8 Chemical products	887	927	1 129	1 588	2 704	2 690	4 205	4 743	5 491
9 Paper and cardboard	212	186	221	308	555	417	662	660	727
10 Other imports	865	946	1 271	1 772	2 617	2 528	3 966	4 663	5 504
11 TOTAL IMPORTS	9 356	9 901	11 265	16 343	26 715	25 087	36 731	42 429	47 836
<i>Exports, fob</i>									
1 Food, drink and tobacco	716	836	988	1 095	1 545	1 906	2 357	3 017	3 289
2 Metals, ores and scrap	451	575	668	814	1 572	2 118	2 583	3 276	4 305
3 Textile materials and products	956	1 099	1 286	1 466	1 885	2 051	2 823	3 500	4 309
4 Clothing and shoes	638	711	839	918	1 292	1 569	2 286	3 071	3 868
5 Automobiles and spares	761	856	951	1 185	1 595	2 259	3 050	3 690	4 241
6 Other transport equipment	244	274	412	455	599	687	1 038	1 333	1 619
7 Other engineering products	2 415	2 605	2 932	3 350	4 885	5 919	7 952	10 408	11 967
8 Chemical products	1 002	1 183	1 223	1 730	3 656	3 117	4 266	5 231	6 005
9 Other exports	1 071	1 223	1 550	1 976	2 797	3 132	4 812	6 440	7 885
10 TOTAL EXPORTS	8 254	9 362	10 849	12 989	19 826	22 758	31 167	39 966	47 488

Source: ISTAT, Statistica mensile del commercio con l'estero.

Table J Area breakdown of foreign trade  
Million US dollars, monthly averages

	1970	1971	1972	1973	1974	1975	1976	1977	1978
<i>Imports, cif</i>									
World	1 245	1 332	1 606	2 318	3 414	3 197	3 614	3 963	4 697
OECD	853	904	1 113	1 612	2 072	2 007	2 282	2 456	3 001
EEC	569	624	790	1 133	1 447	1 374	1 577	1 706	2 102
of which: Germany (Fed. Rep.)	247	268	326	470	604	548	614	665	816
Belgium-Luxembourg	47	49	64	93	114	101	133	132	157
France	164	188	253	347	448	427	491	551	684
Netherlands	54	60	78	114	147	150	171	164	197
United Kingdom	47	48	56	80	103	106	126	146	188
United States	129	120	133	192	260	279	284	274	318
Canada	18	21	20	31	49	46	47	45	47
Japan	19	17	21	31	37	38	49	52	56
Centrally planned economies	74	81	100	134	169	172	218	231	263
Developing countries	309	340	383	558	1 148	972	1 055	1 204	1 343
of which: OPEC	145	185	192	284	783	655	677	753	825
<i>Exports, fob</i>									
World	1 099	1 260	1 545	1 853	2 524	2 902	3 077	3 753	4 663
OECD	816	946	1 179	1 419	1 780	1 956	2 172	2 592	3 266
EEC	525	623	777	929	1 145	1 306	1 472	1 747	2 238
of which: Germany (Fed. Rep.)	237	287	354	403	467	541	583	697	887
Belgium-Luxembourg	41	48	57	67	93	98	119	133	160
France	141	171	219	268	318	384	463	536	665
Netherlands	52	58	68	81	113	123	126	142	191
United Kingdom	42	49	66	93	130	133	148	198	282
United States	113	124	151	159	192	189	199	250	332
Canada	11	14	17	18	26	29	29	31	36
Japan	11	10	13	23	27	25	26	30	43
Centrally planned economies	64	68	72	89	148	196	176	202	224
Developing countries	194	219	265	308	524	681	665	892	1 100
of which: OPEC	45	57	79	101	187	310	354	480	581

Source: OECD, Foreign Trade Statistics, Series A.



***BASIC STATISTICS :***  
***INTERNATIONAL COMPARISONS***

## BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Reference period	Units	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia <sup>1</sup>
POPULATION	Mid-1978	Thousands	14 249	7 510	9 841	23 499	5 105	4 755	53 302	61 310	9 360	223	3 221	56 697 <sup>2</sup>	114 898	355	13 937	3 107	4 060	9 820	37 109	8 278	6 337	43 144	55 895	218 548	21 968
	Inhabitants per sq. km	Number	2	90	323	2	119	16	97	247	71	2	46	188	304	137	412	12	13	107	74	18	153	55	229	23	86
	Net average annual increase	%	1.7	0.2	0.2	1.3	0.5	0.3	0.7	0.3	0.7	1.0	1.0	0.7	1.3	0.6	0.9	1.3	0.6	0.7	1.2	0.5	0.4	2.5	0.1	0.9	0.9
EMPLOYMENT	Total civilian	Thousands	5 975	3 015	3 711	9 972	2 414 <sup>3,4</sup>	2 074	20 921	24 679	(3 167) <sup>2,5</sup>	98 <sup>2,5</sup>	1 033	19 932	54 080	147 <sup>2,5</sup>	4 569	(1 204)	1 854	3 808	12 091	4 115	2 839	14 151 <sup>2,5</sup>	24 610	94 373	9 276 <sup>2,5</sup>
	of which: Agriculture, forestry, fishing	% of total	6.4	10.9	3.2	5.7	9.1	12.3	9.1	6.5	(28.4)	13.7	22.2	15.5	11.7	5.9	6.2	(11.8)	8.7	30.7	20.2	6.1	8.4	55.8	2.7	3.7	36.8
	Industry <sup>4</sup>	»	31.6	40.6	36.7	28.7	30.4	34.4	37.1	45.1	(30.3)	38.0	30.9	38.3	35.0	45.1	32.5	(34.1)	31.6	35.3	37.3	33.0	42.7	13.6	39.7	31.2	21.8
	Other	»	62.0	48.5	60.1	65.6	60.5	53.3	53.8	48.4	(41.3)	48.3	46.9	46.2	53.3	49.0	61.3	(54.1)	59.7	34.0	42.5	60.9	48.9	30.6	57.6	65.1	41.4
GROSS DOMESTIC PRODUCT at market prices	1978	US \$ billion <sup>11</sup>	110.2	58.1	96.1	206.0	55.5	32.2	470.5	639.2	31.4	2.1	12.2	237.0	980.4	3.4	130.5	18.0	39.7	18.3	147.2	87.2	84.4	48.7	308.2	2 098.6	47.1 <sup>15</sup>
	Average annual volume growth <sup>6</sup>	%	2.6	2.8	2.2	3.4	1.7	1.7	2.9	1.9	3.6	2.6	3.7	2.1	3.7	0.7	2.4	0.6	4.5	2.4	3.1	1.2	-0.9	6.7	0.9	2.4	6.1
	Per capita	US \$ <sup>11</sup>	7 734	7 736	9 818	8 766	10 872	6 772	8 827	10 426	3 355	9 417	3 788	4 180	8 533	9 859	9 364	5 753	9 778	1 864	3 967	10 534	13 319	1 129	5 514	9 602	2 140
GROSS FIXED CAPITAL FORMATION	1977	% of GDP	23.1	27.2	21.2	22.7	23.3	26.7	22.6	20.9	23.0 <sup>8</sup>	27.3	25.0	19.8	29.9	26.0	21.1	22.7 <sup>9</sup>	36.6	17.0 <sup>14</sup>	20.8	20.5	20.7	25.8	18.1	17.5	34.3
	of which: Transport, machinery and equipment	»	7.4 <sup>10</sup>	10.6	6.4	7.6	7.4	10.3	9.3	8.6	8.4	7.6	13.3	8.5	13.8	9.2	8.6	..	13.3	5.5 <sup>14</sup>	..	8.5	6.9	..	9.0	7.3	..
	Residential construction	»	4.6 <sup>10</sup>	..	7.1	6.0	7.7	6.9	6.9	5.9	7.1	5.8	11.7	5.5	6.9	6.6	5.8	..	4.9	2.8 <sup>14</sup>	..	4.2	..	3.7	3.3	4.8	..
	Average annual volume growth <sup>6</sup>	%	1.0	2.1	2.9	4.5	-0.3	-0.2	1.5	-1.1	-1.4	4.9	1.8	-0.2	4.4	-0.8	0.9	..	8.1	-1.6 <sup>21</sup>	2.5	-0.4	-5.0	10.3	-0.6	0.3	7.1
NATIONAL SAVINGS RATIO <sup>12</sup>	1977	% of GNP	18.3	24.6	21.7	21.3	18.8	27.2	23.4	24.2	19.9	27.1	17.0	22.1	32.2	39.4	23.5	23.6	23.2	11.0	19.8	16.7	26.5	17.2	20.3	17.7	35.2
GENERAL GOVERNMENT	Current expenditure on goods and services	% of GDP	16.3	17.3	17.3	20.3	23.9	20.4	14.9	20.0	15.9	11.2	18.6	13.7	19.1	15.0	18.3	18.7	18.7	14.2 <sup>14</sup>	10.3	28.5	12.9	14.5	20.8	18.4	17.4
	Current transfer payments	»	9.6	20.6	22.0	12.4	15.8	14.5	24.8	19.5	11.6	..	13.3	22.7	9.2	29.3	30.9	..	24.6	15.8 <sup>14</sup>	12.7	24.4	15.3	9.2	15.3	11.6	..
	Current revenue	»	25.9	43.0	41.8	36.4	47.7	43.5	42.2	43.5	29.4	..	35.6	37.4	24.5	53.9	54.0	..	51.2	28.3 <sup>14</sup>	26.7	60.9	34.3	21.6	40.5	32.0	43.1
NET OFFICIAL DEVELOPMENT ASSISTANCE	1978	% of GNP	0.5	0.3	0.6	0.5	0.7	0.2	0.6	0.3	..	..	..	0.1	0.2	..	0.8	0.3	0.9	..	..	0.9	0.2	..	0.4	0.2	..
INDICATORS OF LIVING STANDARDS	Private consumption per capita	US \$ <sup>11</sup>	4 000	3 660	5 000	4 870	5 080	3 250	4 450	4 690	1 890	5 200	1 900	2 220	3 510	4 760	4 480	2 590 <sup>15</sup>	4 940	1 260	2 251	5 140	6 100	810	2 580	5 600	849
	Passenger cars, per 1 000 inhabitants	Number	366	243	279	388 <sup>20</sup>	265	218	300	308	55	298	175	283	163	367	273	383	253	107	148	350	281 <sup>20</sup>	11	255	505	80
	Telephones, per 1 000 inhabitants	»	395 <sup>14</sup>	304 <sup>14</sup>	313	596 <sup>14</sup>	493	409 <sup>14</sup>	293 <sup>14</sup>	374	238 <sup>14</sup>	411 <sup>14</sup>	163	285	408	522	422	515 <sup>14</sup>	366 <sup>14</sup>	118 <sup>14</sup>	239 <sup>14</sup>	689 <sup>14</sup>	634 <sup>14</sup>	281 <sup>14</sup>	415	718 <sup>14</sup>	71
	Television sets, per 1 000 inhabitants	»	274 <sup>20</sup>	247 <sup>18</sup>	286	411 <sup>20</sup>	338	306 <sup>20</sup>	268 <sup>20</sup>	308	126 <sup>20</sup>	234 <sup>20</sup>	193	224	235 <sup>20</sup>	257 <sup>14</sup>	279	259 <sup>20</sup>	255 <sup>20</sup>	65 <sup>20</sup>	184 <sup>20</sup>	352 <sup>20</sup>	273 <sup>20</sup>	121 <sup>18</sup>	324	571 <sup>18</sup>	161 <sup>14</sup>
	Doctors, per 1 000 inhabitants	»	1.4 <sup>13</sup>	2.2	2.0	1.7	1.9	1.5	1.5	2.0	2.1	1.6 <sup>10</sup>	1.2	2.2	1.2	1.2	1.7	1.3 <sup>20</sup>	1.8	1.2	1.8	1.7 <sup>20</sup>	1.9	0.6	1.3	1.6	1.4
	Full-time school enrolment <sup>18</sup>	% of age group	45.0	32.0	61.3 <sup>20</sup>	66.4 <sup>20</sup>	57.4	60.8 <sup>20</sup>	54.6	41.5	45.4 <sup>20</sup>	..	50.0 <sup>14</sup>	40.8 <sup>20</sup>	70.9	33.5 <sup>20</sup>	62.7	44.8	63.6	33.4 <sup>14</sup>	35.5 <sup>14</sup>	56.3 <sup>14</sup>	68.2 <sup>20</sup>	12.7 <sup>20</sup>	44.6 <sup>20</sup>	72.0 <sup>20</sup>	..
	Infant mortality <sup>17</sup>	Number	13.8 <sup>14</sup>	16.8	15.3 <sup>14</sup>	14.3 <sup>20</sup>	8.7	12.0	11.4	15.5	20.3	9.6	15.7	17.7	8.9	10.6	9.5	14.2	10.5 <sup>14</sup>	38.9 <sup>20</sup>	15.9	8.0	9.8	..	14.1	15.2 <sup>14</sup>	36.7 <sup>14</sup>
	Hourly earnings in industry <sup>18</sup>	%	15.7	10.4	13.5	12.2	14.7	14.7	15.2	7.5	24.9	40.5	19.4	22.7	12.0	..	10.5	14.3	14.4	20.0 <sup>24</sup>	27.5	11.7	5.5	27.5 <sup>23</sup>	16.9	8.6	20.5
	Consumer prices	%	12.8	6.9	9.2	9.2	11.0	13.8	10.7	4.8	15.5	39.8	15.3	17.0	11.3	7.9	7.8	13.8	9.5	19.8	18.8	10.3	4.1	30.0 <sup>23</sup>	16.1	8.0	17.4
	Average annual increase	%	15.7	10.4	13.5	12.2	14.7	14.7	15.2	7.5	24.9	40.5	19.4	22.7	12.0	..	10.5	14.3	14.4	20.0 <sup>24</sup>	27.5	11.7	5.5	27.5 <sup>23</sup>	16.9	8.6	20.5
	Consumer prices	%	12.8	6.9	9.2	9.2	11.0	13.8	10.7	4.8	15.5	39.8	15.3	17.0	11.3	7.9	7.8	13.8	9.5	19.8	18.8	10.3	4.1	30.0 <sup>23</sup>	16.1	8.0	17.4
FOREIGN TRADE	Exports of goods, fob	US \$ million <sup>11</sup>	14 364	12 132	44 808 <sup>7</sup>	46 152	11 844	8 556	76 464	142 092	3 336	648	5 676	55 956	97 543	—	50 016	3 751	10 044	2 436	13 059	21 720	23 364	2 280	71 676	143 664	5 668
	As percentage of GDP	%	13.0	20.9	46.6	22.4	21.3	26.6	16.3	22.2	10.6	30.9	46.5	23.6	9.9	—	38.3	20.8	25.3	13.3	8.9	24.9	27.7	4.7	23.3	6.8	12.0
	Average annual volume increase	%	2.8	6.5	3.1	3.5	3.4	2.7	5.3	3.8	9.5	8.0	8.9	8.2	9.2	—	2.5	2.9	7.2	3.2	10.3	-0.3	3.7	-4.6	4.8	3.7	1.4
	Imports of goods, cif	US \$ million <sup>11</sup>	14 016	15 972	48 360 <sup>7</sup>	43 560	14 760	7 848	81 684	120 672	7 560	684	7 116	56 364	79 344	—	52 872	3 870	11 424	5 172	18 664	20 496	23 652	4 548	78 588	173 292	9 983
	As percentage of GDP	%	12.7	27.5	50.3	21.1	26.6	24.4	17.4	18.9	24.1	32.6	58.3	23.8	8.1	—	40.5	21.5	28.8	28.3	12.7	23.5	28.0	9.3	25.5	8.3	21.2
TOTAL OFFICIAL RESERVES <sup>25</sup>	End-1978	US \$ million	2 418	6 007	5 908 <sup>7</sup>	4 569	3 219	1 266	13 929	53 883	1 171	138	2 689	14 826	33 500	—	7 585	453	2 878	1 845	10 774	4 398	21 561	1 001	17 067	19 584	2 462
	As percentage of imports of goods	%	17.3	37.6	12.2	10.5	21.8	16.1	17.1	44.7	15.5	20.2	37.8	26.3	42.2	—	14.3	13.0	25.2	35.7	57.7	21.5	91.2	22.0	21.7	11.3	25.2

- 1 Partly from national sources.  
2 Total resident population.  
3 Private and socialised sector.  
4 According to the definition used in OECD: Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).  
5 Social product.  
6 At constant prices.  
7 Including Luxembourg.

- 8 Excluding ships operating overseas.  
9 Fiscal year beginning April 1st.  
10 1973.  
11 At current prices and exchange rates.  
12  $\left[ \frac{\text{GNP} - (\text{Priv. cons.} + \text{Pub. cons.})}{\text{GNP}} \right] \times 100$ .  
13 1972.  
14 1976.

- 15 Children aged 15-19.  
16 1974.  
17 Deaths in first year per 1 000 live births.  
18 Figures are not strictly comparable due to differences in coverage.  
19 Private.  
20 1975.  
21 1971 to 1976.  
22 1977.  
23 1972 to 1977.

- 24 Hourly wage rate in industry and transportation in Lisbon.  
25 Gold included in reserves is valued at 35 SDR per ounce (see IMF, International Financial Statistics, Series Total Reserves).

NOTE: Figures within brackets are estimates by the OECD Secretariat.

Sources: Common to all subjects and countries: OECD: Labour Force Statistics, Main Economic Indicators, National Accounts, Observer, Statistics of Foreign Trade (Series A); Office Statistique des Communautés Européennes, Statistiques de base de la Communauté; IMF, International Financial Statistics; UN, Statistical Yearbook.

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