

OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ITALY

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JANUARY 1976

BASIC STATISTICS OF ITALY

RÉFÉRENCES 210

THE LAND

Area (1 000 sq. km) 1973	301.3	Major cities, 1971 census:	Thousands
Agricultural area (1 000 sq. km) 1973	266.5	Rome	2 782
Woodland (1 000 sq. km) 1973	62.2	Milan	1 732
		Naples	1 227
		Turin	1 168

THE PEOPLE

Resident population at end-1974 (thous.)	55 646	Labour force, 1974	Thousands
No. of inhabitants per sq. km	185	Employment, 1974	19 458
Net natural increase in population: annual average 1965-1974 (thous.)	415	in agriculture	3 111
Net rate per 1 000 inh. (average 1965-1974)	7	in industry	8 256
		in services	7 531
		Net migration, average 1965-1973	51

PRODUCTION

Gross National Product in 1974 (billions of lire)	97 182	Domestic product in 1974 (at market prices) per cent of total:	
GNP per head in 1974 (US \$)	2 690	Agriculture	8.4
Gross fixed capital formation: Per cent of GNP in 1974	23.4	Industry	33.5
Per head in 1974 (US \$)	630	Construction	8.2
		Other	49.9

THE GOVERNMENT

Public consumption in 1974 (percentage of GNP)	14.0	Internal public debt (ratio to central government, current revenue in 1974)	155.5
Current public revenue of general government in 1974 (percentage of GNP)	34.4	General government investment in 1974 (percentage of total investment)	13.2

FOREIGN TRADE

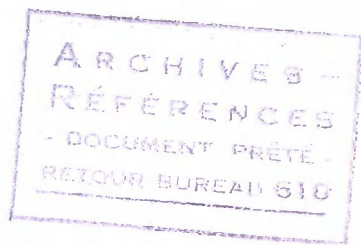
Exports of goods and services as a percentage of the GNP (average 1973-1974)	22	Imports of goods and services as a percentage of the GNP (average 1973-1974)	26
Main exports (average 1973-1974, percentage of total exports):		Main imports (average 1973-1974, percentage of total imports):	
Machinery	25	Foodstuffs	15
Fabrics and textile goods	10	Machinery	15
Chemical products	16	Metals, ores and scrap	13
Foodstuffs	6	Crude oil	19
Motor vehicles	9	Chemical products	10

THE CURRENCY

Monetary unit: Lira		Currency units per US dollar, averages of daily figures:	
		Year 1974	650.145
		November 1975	678.477

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

OECD ECONOMIC SURVEYS



ITALY

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 5th December, 1975.

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INTRODUCTION

When the oil crisis broke, the Italian economy was in a phase of rapid expansion marked by a high rate of utilisation of productive capacity and the beginnings of strong upward pressure on prices and wages. In the first half of 1974 the situation was one of continuing expansion, mounting inflationary pressures and, above all, the emergence of a massive disequilibrium in the balance of payments. This led the Italian authorities to shift their economic policy to a decidedly restrictive stance, just when demand was falling in several major OECD countries. The result was a marked decline in production in the second half of the year, which continued until the autumn of 1975. In all, 1975 will have seen the deepest recession in Italy since the early 1950s: a 4½ per cent drop in gross domestic product in real terms, with industrial output down by nearly 10 per cent. Although at an annual rate the upward movement of prices has remained rapid, there has been a distinct slowing down in the course of the year. Paradoxically, the low level of activity has not caused a steep rise in unemployment, as agreements were reached between management and labour to reduce working hours rather than dismiss large numbers of employees. Finally, the considerable deficit on the balance of current transactions in the first half of 1974 narrowed sharply at the end of the year, and in 1975 the overall balance on current account should be close to equilibrium.

Because of the deepening recession, the Italian authorities shifted their monetary and fiscal policy to a much more expansionary stance as from the beginning of 1975. For the year as a whole, the budget deficit will have been of considerable proportions. If the same policy stance is maintained in 1976, this should serve to prevent a further decline in activity though it will not be enough to ensure a strong upswing, given the weak growth foreseen in the major markets for Italian products. It is therefore likely that in 1976 the Italian economy will again be operating well below capacity and that there will be an increase in underemployment, even if institutional arrangements succeed in limiting its scale. There is reason to think that the economic situation will act as a moderating influence on wage claims when the collective agreements are renewed at the end of 1975 and the beginning of 1976, and that both wage costs and prices will show a somewhat lower rate of increase. Finally, the current transactions account should be more or less in equilibrium in 1976.

Part I of this survey deals with the specific features of the 1974-75 recession and discusses the various ways in which employment, incomes and prices responded to a crisis of exceptional proportions. Part II contains an analysis of the trend in the balance of payments, which has recovered spectacularly from a highly precarious situation following the oil crisis. Part III deals with recent developments in economic policy: monetary, fiscal, and others. Part IV discusses the short-term outlook and mentions some of the current Italian economic policy issues.

I SPECIFIC FEATURES OF THE PRESENT RECESSION

Demand and output

Reference to the forecasts made a year ago both by the national experts and by the Secretariat¹ shows that, although the trend predictions were borne out (a downturn in activity, particularly marked in the first half of 1975), the scale of the decline was greatly underestimated². This is true of final demand (especially gross fixed asset formation) but even more so of stockbuilding, which was seriously overestimated. The downturn in foreign demand (instead of the moderate growth foreseen) also had a restraining influence on activity. Consequently, instead of a predicted production downturn of slightly less than 2 per cent, the provisional figures for 1975³ show a drop of about 4 per cent. On external account, the sharp slowdown in activity caused not merely a flat trend in imports, as predicted, but a steep fall (-14 per cent). With regard to exports, market shares remained unchanged in 1975, as expected, which will mean a moderate decrease in merchandise exports by volume. In all, the improvement in the current payments balance was very considerably underestimated, since not only was the non-oil deficit eliminated, as foreseen, but the oil

Table 1 Demand and Output

	1974 Billion Lire	Percentage change in volume at annual rates (At 1974 rates)					
		1974	1975	1974 I	1974 II	1975 I	1975 II
1 Private Consumption	65 188	2.3	-2.5	4.6	-6.6	-1.6	0
2 Public consumption	13 622	1.9	0.6	2.6	-0.8	0.5	2.0
3 Gross fixed capital formation	22 752	4.2	-17.8	5.1	-7.4	-26.4	-9.4
of which: Machinery and equipment	10 260	8.1	-23.7	4.9	-10.9	-35	-10
Housing	6 937	4.7	-12	10.0	-2.0	-16.3	-4.5
Other construction	5 555	-2.6	-14.3	—	-7.3	-22.6	-13.9
4 Stockbuilding ¹	1 781	-1.3	-2.6	-0.4	-2.2	-5.2	2.2
5 Domestic demand	103 343	1.4	-7.9	4.0	-7.8	-11.8	0.6
6 Exports of goods and services ²	23 113	10.8	-1.2	5.5	8.4	-8.4	5.0
7 Imports of goods and services ²	29 029	2.3	-14.1	-1.0	0.4	-27.7	4.0
8 Foreign balance ¹	-5 916	1.7	3.9	1.5	1.7	7.1	0.2
9 GDP at market prices	97 427	3.2	-4.5	5.9	-6.7	-5.9	0.6
10 GDP implicit price deflator	..	16.9	19.0	16.0	24.3	18.8	14.5
11 Industrial production	..	4.5	-10.0	11.3	-14.0	-10.5	-4.4

1 Changes are expressed as a percentage of GDP in the previous period.

2 Not adjusted for incidental movements due to the customs strike in the second quarter of 1974.

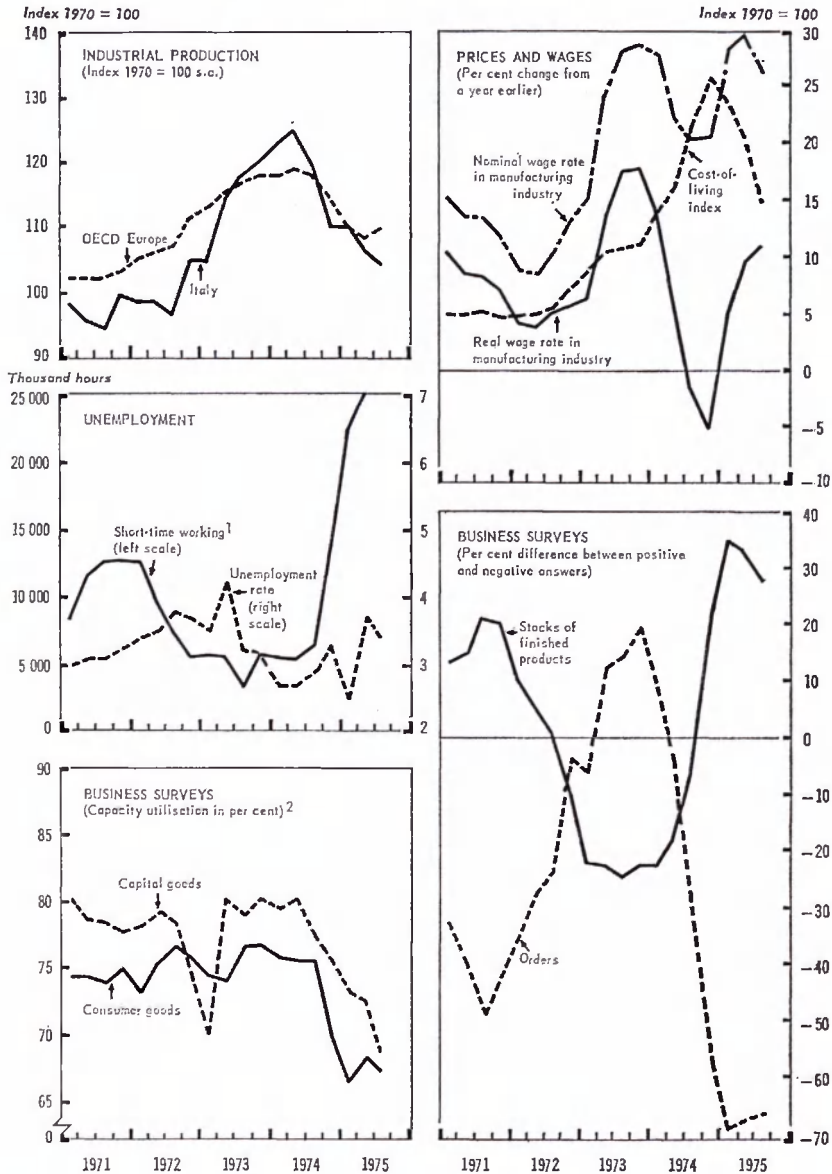
Sources: Ministry of the Budget, Annual Report on the Economic Situation, and ISCO Quarterly Accounts; Secretariat estimates for 1975 and for half-yearly changes.

1 Cf. OECD Economic Survey of Italy, January 1975.

2 It should be noted that caution still has to be exercised in interpreting the results for 1975. Estimates of the main economic aggregates are still very uncertain, since the conversion of the available cyclical indicators into national accounting aggregates is particularly difficult in the current, very exceptional situation.

3 Final demand will have fallen by about 5.5 per cent in 1975 instead of 2 per cent as originally foreseen. The contribution made by changes in stocks will have been about -2.5 per cent of GDP instead of -0.5 per cent, and that of the foreign balance approximately 3.5 per cent as against 0.5 per cent.

Diagram 1 Selected cyclical indicators



1 Number of hours compensated by the Cassa per l'Integrazione dei Guadagni, excluding construction-monthly averages.

2 The highest figure, recorded in the second quarter of 1969, was 86.1 per cent for the capital goods sector and 81.6 per cent for the consumer goods sector.

Sources: ISTAT Monthly Bulletin of Statistics, ISCO Quaderni analitici and OECD Secretariat estimates.

deficit itself (estimated last year at \$ 5 billion) was all but covered. Finally, with regard to inflation, prices and wages have, as expected, risen less than in 1974⁴.

4 The rise in consumer prices in 1975 will have been approximately 17 per cent instead of 20 per cent, as expected.

The Italian economy's response to the economic policy measures taken in early and mid-1974, and to the weakness of foreign demand, was extremely rapid. Industrial output, which had risen at an annual rate of about 10 per cent from the fourth quarter of 1972 to the second quarter of 1974, fell at an annual rate of approximately 13 per cent during the four quarters that followed. In mid-1975 the industrial production index had returned to its 1972 level, which, given the growth of investment in 1973-74, implies an exceptionally low capacity utilisation ratio. The fall in industrial output was particularly steep in the third and especially the fourth quarter of 1974 (when the decrease from the previous quarter was of the order of 25 per cent at an annual rate). The downward trend slowed considerably in the first two quarters of 1975, settling at an annual rate of about 9 per cent. An analysis by sector of production shows that the downturn began in the transport equipment industry, then spread to consumer durables and finally to all consumer goods. The capital goods industries were affected relatively late. Agricultural production seems to have made significant headway. With regard to services, the favourable trend in employment suggests that growth in this sector may have been slightly positive in 1975, due in part to a very successful tourist year.

The depth of the present recession far exceeds that of previous recessions. In 1963-65 and 1970-71, industrial output fell by about 2 per cent (at annual rates during the recession period), whereas it decreased by approximately 13.5 per cent between mid-1974 and mid-1975. Because of weak foreign demand, the Italian economy was unable in the second half of 1974 and the first part of 1975 to adjust by way of strong export growth, as it had done in the previous recessions, notably in 1963-65. The burden of the economy's adjustment to external constraints thus fell almost entirely on internal demand. This caused a sharp drop in imports at the beginning of 1975 so that the supply of goods and services fell by about 5 per cent in annual terms during the second half of 1974 and by just over 11 per cent in the first half of 1975. Capacity utilisation rates began to decline in the third quarter of 1974 and fell subsequently to extremely low levels. The fall in the fourth quarter of 1974 and the first quarter of 1975 was especially marked in the consumer goods industries; capital goods industries managed to maintain relatively higher capacity utilisation ratios.

One of the most striking features of the present cycle has been the response of wholesale prices to changes in demand. Diagram 2 shows that the level reached by wholesale prices, both in the upswing and in the downswing phase of the cycle, has

Table 2 Comparison of two cycles
Percentage change at annual rates¹

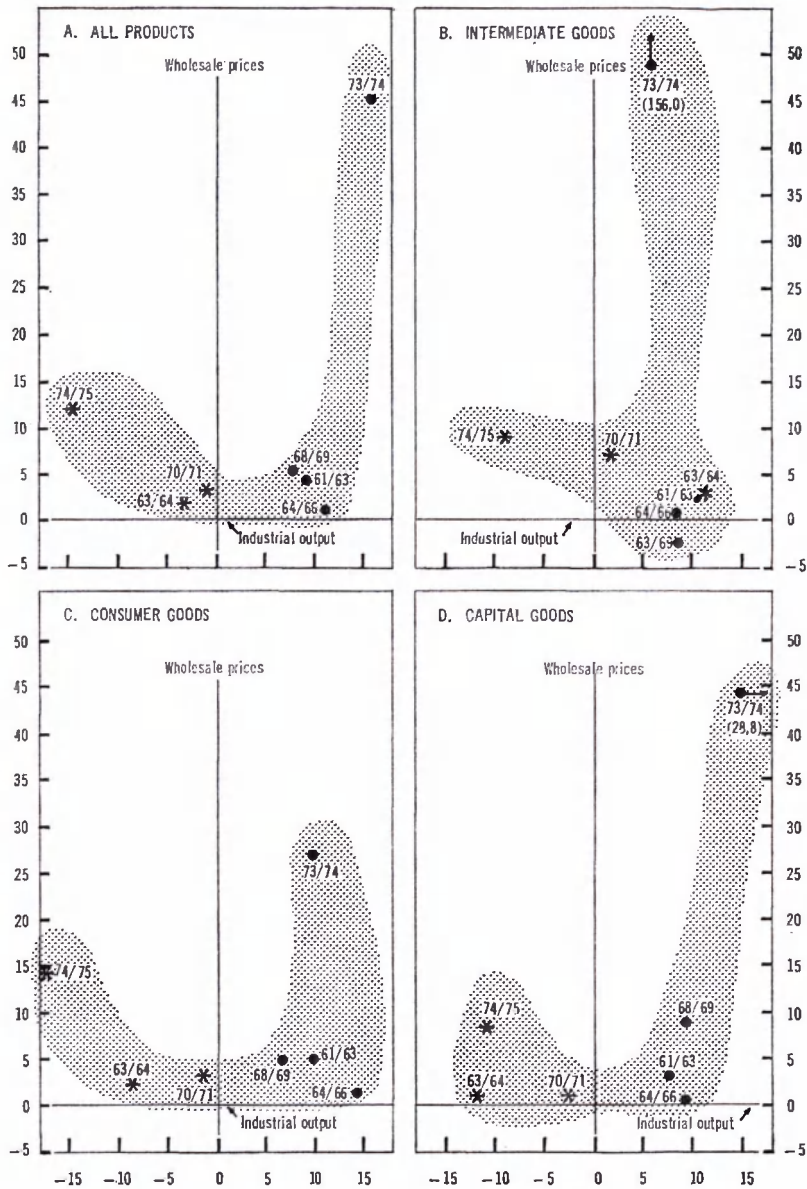
	Q I 1961 to Q IV 1963	Q IV 1963 to Q IV 1964	Q IV 1972 to Q II 1974	Q II 1974 to Q II 1975
Gross domestic product ²	6.0	1.0	6.3	-6.7
Gross fixed capital formation	8.9	-14.3	8.6	-11.4
Private and public consumption and change in stocks	6.9	-1.6	4.5	-9.1
Exports (customs figures) ³	9.2	18.6	4.1	-2.1
Imports (customs figures) ³	15.8	-17.9	3.5	-17.7
Dependent employment in industry	3.6	-4.1	2.7	-0.3
Industrial production	9.8	-2.9	9.7	-12.5
Consumer prices	5.5	5.9	15.2	19.7

¹ Volume data, seasonally adjusted.

² 1961-64 cycle: GDP at factor cost and 1963 prices. 1973-75 cycle: GDP at market prices and 1970 prices.

³ Owing to the customs strike which affected the figures for the second quarter of 1974, percentage changes in exports were calculated by reference to the first quarter of 1974.

Sources: ISTAT Monthly Bulletin of Statistics and ISCO Quarterly Accounts.

Diagram 2 Prices and Growth¹

1 Percentage changes, at annual rates, in output and wholesale prices lagged one quarter; calculated on the basis of the quarterly trend during phases of expansion and recession.

• Expansion phase.

* Recession phase.

Sources: ISTAT Monthly Bulletin of Statistics and Secretariat estimates.

far exceeded that recorded in the past. It can also be seen that, except in 1964-66, there has been a gradual increase in price elasticity in relation to production during upswing phases and increasing rigidity in periods of declining production. The ceiling on upward movements and the floor on downward movements are therefore

both tending to move upward, this phenomenon having been very much accentuated by the rise in prices of oil and raw materials, given their weight in the wholesale price index. Analysis by sector shows fairly similar trends during the cycle in respect of capital goods and consumer goods, although in the case of capital goods the responsiveness of prices in the downswing phases seems to be more marked. The very different trend in the case of intermediate goods, except in 1973-74 and 1974-75, can be explained by the anti-cyclical role which these products played in the past linked to some extent to the development of chemicals industry. Finally, it can be seen how the price floor moves down as the sector becomes more competitive⁵.

There is little information to hand which can give any clear idea of the trend of households' consumption. Such data as are available suggest that there was a steep fall in consumption in real terms during the last quarter of 1974 which probably continued, though less rapidly, during the first few months of 1975. Department store sales in money terms levelled off towards the end of 1974, rising only slightly at the beginning of 1975. Given the trend of prices, this implies a significant decline in real terms. Surveys of capacity utilisation in the consumer goods industries confirm this development, as does the trend in domestic orders. These began to dip early in 1974 but the downtrend became especially pronounced in the second half of the year. Until the middle of 1974, households tended to reduce their savings ratio in response to rising prices, rather than cut down their consumption in real terms. In the second half of the year, the decline in consumption was caused in large part by the economic policy measures taken in July 1974. These were designed to reduce the real disposable income of households by way of price escalation resulting from the rise in public utility charges and increased taxation, thereby shifting on to households part of the burden of improving the balance of payments. The wage increases early in 1975 do not seem to have had their counterpart in effective demand, partly because the introduction of shorter working hours slowed down the growth of the total wage bill, despite the agreements to provide better compensation for partial unemployment, and partly because the uncertainties that marked the end of 1974 and the beginning of 1975 encouraged cautious behaviour.

As in 1963-64, a steep fall in investment has been one of the salient features of the present recession. However, in the case of machinery and equipment, the downturn of 1974-75 does not seem to have been as pronounced as in 1963-64, in spite of the briskness of fixed asset formation in 1973-74 and the strength of the depressive forces operating in the international context in 1974-75. Capacity utilisation rates fell steeply during the second half of 1974 and throughout 1975. Entrepreneurs' expectations, which had been buoyant in 1973, deteriorated considerably in 1974 and especially in 1975. Though profits in the private sector may be said to have been substantial in the first half of 1974, they deteriorated sharply afterwards when prices of manufactured products were rising much less rapidly than unit labour costs. These factors constitute the main variables that account for the trend of Italian investment in plant and equipment⁶. For its part, economic policy, by rationing credit and putting up its cost, contributed significantly to the fall in investment. Italian enterprises showed themselves to be especially sensitive to the domestic monetary restrictions, given that they obtain much of their financing from the banking system. The restrictive effect of monetary policy on the private sector was compounded by the fact that the banks often gave preference to local authorities and public enterprises in granting credit. Within the private sector it was small and medium-size

⁵ The consumer goods sector is the most protected, followed by capital goods and then intermediate goods. The steep rise in prices of intermediate goods in 1973-74 is due to the relative weight of oil.

⁶ The Technical Annex contains a review of the principal investment functions in the Italian economy.

businesses which were the hardest hit. Overall, the fall in investment in 1975 might be of the order of 20 per cent as an annual average in real terms.

These cyclical factors also need to be viewed in a wider context. After a period of very rapid expansion starting in the early 1950s, investment in machinery and equipment took a sharp downturn in 1963-65 which was subsequently made up only very slowly. In fact, not until 1973 was there a real upswing. According to the Secretariat's estimates, and assuming a constant rate of depreciation, the average age of Italy's capital stock declined steadily from the early 1950s onwards, reached its low point around the mid-1960s and then began to rise slowly⁷. The capital stock's relatively low average age probably enabled entrepreneurs to postpone renewal of equipment during the restrictive phase of monetary policy in 1963-64, without unduly endangering their competitiveness. On the other hand, the subsequent ageing of the capital stock is likely to have exerted a reverse influence, by causing a decline in the ratio of new investment (which is more sensitive to cyclical fluctuations) to gross fixed asset formation. During the present cycle, this influence was no doubt strengthened by the rise in wage costs, which almost certainly encouraged firms to try to become more capital-intensive.

In the construction sector as a whole, the downtrend that began in the second half of 1974 continued and became more pronounced in 1975, chiefly in the first half of the year, when the impact of the economic policy measures introduced in 1974 had not yet been offset by the activity-supporting measures taken in 1975. Unreliable statistics in this field make analysis difficult⁸ but there is reason to think that, where residential construction was concerned, the very steep rise in construction prices in 1974 and the high cost of credit probably had a negative impact on building starts. In addition, the rent freeze may have caused preferences to shift to different categories of dwelling, notably secondary residences. Building starts declined throughout 1974 and fell back further in the first quarter of 1975⁹. The downturn in non-residential construction seems to have been even more marked. The sluggishness of public works activity in 1974 (down for the third year running) and probably in the early part of 1975 was one factor; another was the worsening of entrepreneurs' prospects, which no doubt prompted them to postpone new construction projects.

The information available on stockbuilding, which, it must be remembered, is very incomplete¹⁰, seems to indicate conflicting movements in stockbuilding of raw materials and finished products at the end of 1974 and in 1975. According to business surveys, the sharp fall in demand in the second half of 1974 and the first half of 1975 left enterprises with stocks of finished goods well above the desired level. On the other hand, the information available suggests that there was a considerable rundown of stocks of raw materials and intermediate goods in the first half of 1975. The steep fall in imports (about 30 per cent in real terms, at an annual rate, in the first half-year) bore especially heavily on intermediate goods and raw materials. In addition, during the second half of 1974 and the first half of 1975 enterprises had to contend with a very steep rise in unit labour costs just when the cost of financing stocks was becoming extremely heavy, which doubtless provided a strong incentive to run down stocks. For the whole of 1975, stockbuilding is likely to have been negative, with most of the downtrend occurring in the first half of the year. Following a year of positive stockbuilding in 1974 (though already on a smaller scale than in the previous year), the impact of the change in stocks on GDP growth is likely to

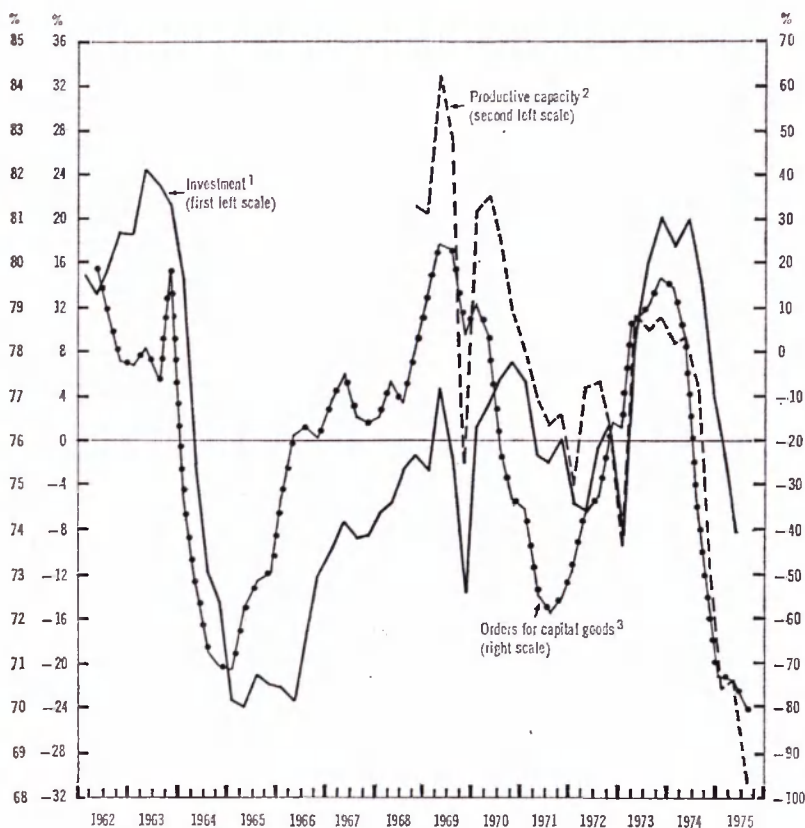
7 See Technical Annex.

8 The figures for building starts give a very different picture from that given by the other available indicators.

9 Latest available data.

10 Apart from the annual figures published by ISTAT, there are only the findings of the business surveys. These reflect the opinion of entrepreneurs on their stocks of finished products.

Diagram 3 Productive Investment



1 Deviation from the 1960-1974 trend of investment in capital goods.

2 Percentage rate of capacity utilisation in industry as a whole.

3 Level of orders and of domestic demand for capital goods; percentage difference between businessmen's affirmative and negative answers.

Sources: ISCO Quaderni analitici and quarterly accounts.

have been strongly negative, partly offsetting the positive contribution made by the foreign balance.

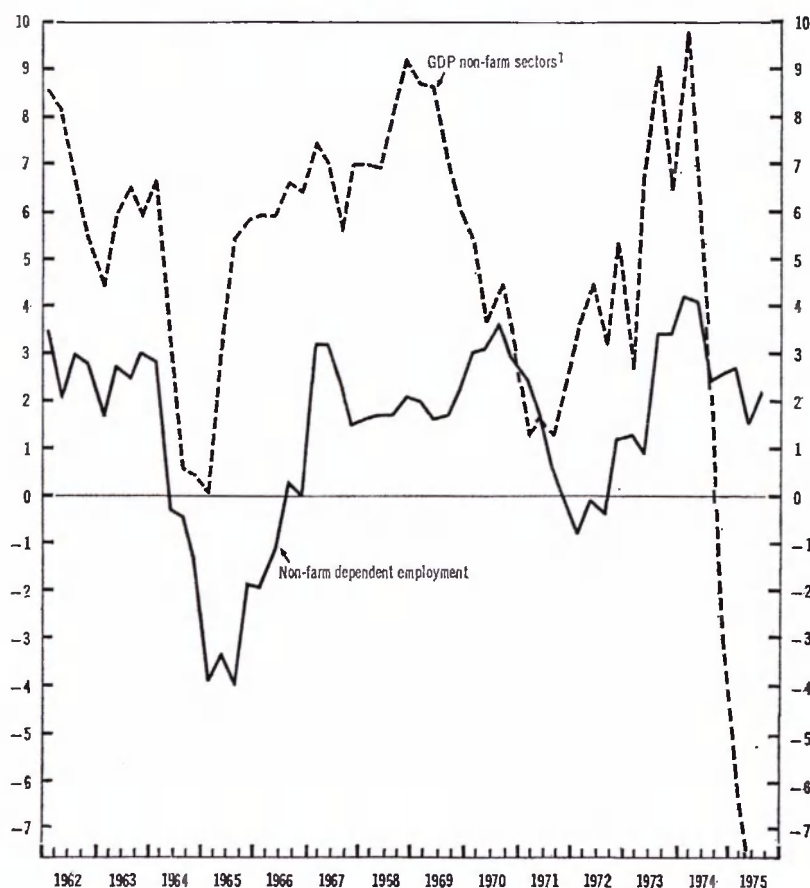
Employment, prices and wages

In spite of the downturn in activity, the deterioration of the labour market has remained very moderate so far. The growth of non-agricultural dependent employment weakened from the second quarter of 1974 compared with the corresponding period of the previous year, but was still distinctly positive in April and even picked up again in July. The continuing high level of employment is due essentially to the steep growth recorded in the services sector (nearly 6 per cent between July 1974 and July 1975)¹¹, where there has always been a considerable time lag between a downturn in activity and one in employment. On the other hand, dependent em-

¹¹ Quarterly surveys by ISTAT in January, April, July and October—including employment in the public sector.

Diagram 4 Employment and Output

Percentage changes from corresponding quarter of previous year



1 For 1962-1970, gross domestic product at factor cost and at 1963 prices; from 1971, gross domestic product at market prices and at 1970 prices.

Sources: ISCO, Quaderni analitici and Secretariat estimates.

ployment in industry has shown a decline since the spring, with a steep fall in April followed by a slight recovery in the summer. As an annual average, the fall in employment in this sector is likely to have been less than 1 per cent in 1975, whilst for the economy as a whole the number of persons in dependent employment might show a further slight increase. The decline in hours worked is more pronounced. In large industrial enterprises, the average number of hours worked was down by 2.5 per cent in the first half of 1975, compared with the same period in 1974, and the effective number of hours worked (including strikes and absenteeism) by more than 7 per cent. Furthermore, the increase in the number of partially employed persons¹² recorded in the ISTAT quarterly survey and the very steep rise¹³ in the number of

12 Working less than 33 hours per week.

13 As from the beginning of 1975, comparisons with the previous period have been made less reliable by the change in the legislation on compensation of short-time working. See Annex: List of economic policy measures.

Table 3

	1973	1974
	<i>Thousands</i>	
<i>Seasonally adjusted</i>		
Labour force	19 168	19 458
Employment	18 500	18 898
Dependent employment in industry	6 879	7 075
<i>Not seasonally adjusted</i>		
Employment by sector:		
Agriculture	3 192	3 111
Industry	8 051	8 256
Services	7 257	7 531
Hours worked ^{1 2}	100	97.8
Underemployed	283	303
Unemployed (ISTAT survey)	668	560
Unemployed (registered with the Ministry of Labour) ¹	1 005	997
Short-time working ^{1 3}	5.01	7.56
Unemployment rate	3.5	2.9
Labour force participation rate ⁴	35.5	35.7

1 Monthly averages.

2 Effective hours worked in large enterprises in the industry sector—1973 = 100.

3 Million hours compensated by the "Cassa per l'Integrazione dei Guadagni" in industry, excluding construction.

4 Ratio of labour force to the resident population.

Sources: ISCO Quaderni analitici, ISTAT Monthly Bulletin of Statistics and Ministry of Labour.

unemployment hours compensated show that short-time working is very widespread: in the first half of the year unemployment hours compensated increased fourfold in industry proper and represented about 3 to 4 per cent of total hours worked. But the high incidence of work done at home, which goes virtually unrecorded, is an additional factor of uncertainty when interpreting the statistics, and the official series might underestimate the real increase in unemployment.

Whereas in previous cycles the easing of the labour market was accompanied by a rapid decline in labour force participation rates, these have remained relatively stable in the present cycle. Admittedly, the overall participation rate is particularly low in Italy (35.7 per cent in 1974)¹⁴ and its stability might be due in part to home workers progressively taking up registered employment¹⁵. As to the labour market situation, in spite of the continuing high level of employment and improved legislation on short-time working, the unemployment rate has risen rapidly, moving from 2.5 per cent in April 1974 to 3.4 per cent in April 1975 and then levelling off in the summer. Moreover, although there seem as yet to have been no large-scale layoffs, the pace of recruitment has slowed significantly. In the large industrial enterprises,

14 i.e. labour force as a percentage of the total resident population. Labour force as a percentage of the working-age population (14-64 years): 54.5 per cent in 1973 (latest known figure).

15 Partly as a result of legislation passed in 1973.

employment

1974				1975		
January	April	July	October	January	April	July
<i>Percentage change from the preceding quarter</i>						
0.4	-0.6	0.9	0.8	0.1	0.5	-0.4
0.7	-0.5	0.5	0.7	0.6	-0.4	-0.4
0.9	0.1	0.7	0.1	1.1	2.1	0.5
<i>Percentage change from the corresponding quarter of the previous year</i>						
—	-4.1	-1.9	-4.1	-3.8	-5.7	-5.4
3.3	3.7	2.1	1.2	2.1	0.6	-0.1
5.1	4.7	1.7	3.7	2.4	1.9	3.8
7.6	-1.4	-4.4	-9.5	-7.9	-6.8	
<i>Thousands</i>						
410	254	234	314	569	502	349
600	484	551	605	603	667	648
1 053	953	961	1 021	1 096		
5.36	5.15	6.26	13.38	22.57	25.11	
2.7	2.7	3.0	3.2	2.7	3.5	3.4
35.5	35.3	35.9	36.0	35.6	35.4	36.0

the intake of new labour (including job transfers) fell by 50 per cent between the first half of 1974 and the first half of 1975. Nevertheless, in the light of developments in other industrialised countries, the rise in unemployment, one year after the start of the recession, is still very limited. This phenomenon may be temporary and simply signify that the labour market is taking longer to respond to downturns in activity. But the fact remains that dismissals have been limited and that the impact of the recession on employment has been spread more evenly over the labour force as a whole than in the past, and it is reasonable to assume that the agreements on shorter working hours concluded between employers and unions in certain large enterprises has contributed to this phenomenon.

There is also reason to think that, on the whole, workers have given maintenance of employment priority over wage claims to a greater extent than in the past. Although the upward movement of money wages continued to accelerate in 1974, it must be stressed that this was due solely to the functioning of the sliding scale and that it was not enough to prevent a deterioration in the purchasing power of wages. For the first time since the early 1960s (with the exception of the fourth quarter of 1962), the purchasing power of industrial wages fell: in the fourth quarter of 1974 it was 2 per cent down from the fourth quarter of 1973 (see Diagram 1). Nominal earnings rose more rapidly than wage rates, but the real increase remained very limited (2 per cent in the third quarter of 1974—the latest known figure—compared with

the same period in 1973). In 1975, on the other hand, an increase in the purchasing power of wage rates was again recorded. In the first quarter this was due to the agreement concluded in January in industry, and subsequently extended to the other sectors, establishing an across-the-board increase of 12 000 lire and an improvement in the indexing mechanism¹⁶. Since the agreement, the only increases recorded have been linked with the sliding scale. For the year as a whole, and not counting the increases to be awarded at the end of the year when the collective agreements are renewed, the rise in nominal wages should be in excess of 25 per cent at an annual rate, which will release considerable purchasing power. But the decline in employment and the reduction of working hours is likely to detract from these gains. In addition, it is probable that, because of the economic climate, 1975 will not see any strong upward wage drift such as occurred in the past during the final year of a period covered by collective agreements. Negotiations for the renewal of some of these agreements began in the autumn of 1975 and concern about one-third of all wage-earners or nearly 4 million persons, chiefly in the private sector. Although the major emphasis has been on the problems of employment and industrial redeployment, the wage demands represent an increase of about 10 to 15 per cent of the average wage in 1975, over and above any indexed cost-of-living adjustments. Furthermore, in order to narrow the wage spread, the unions are asking for an across-the-board increase for all wage-earners.

Table 4 Wages
Percentage change from the corresponding quarter of the previous year

	1973	1974	1974 Q IV	1975		
				Q I	Q II	Q III
<i>Hourly rates under collective bargaining agreements¹</i>						
Agriculture	24.0	31.8	37.9	41.3	40.7	26.4
Industry	23.0	20.1	22.5	30.9	32.5	27.1
Commerce	21.9	24.1	21.4	33.6	36.7	28.4
Public Sector	21.4	3.5	3.5	4.6	4.6	9.2
<i>Hourly rates in manufacturing</i>	22.6	25.2 ⁵				
<i>Real wages in industry²</i>						
— annual change ³	11.4	0.6	-2.6	6.1	10.2	10.5
— quarterly change ⁴			-0.6	7.4	2.7	0.5

1 Not including family allowances.

2 Hourly rates under collective bargaining agreements deflated by the cost-of-living index.

3 Change from corresponding quarter of previous year.

4 Change from preceding quarter.

5 Average of first three quarters.

Source: ISTAT Monthly indicators.

In 1974, the combination of a relatively stable level of employment, escalating wage rates and declining production resulted in an exceptional rise in unit labour costs, estimated by the Bank of Italy to have been 20 per cent for the private sector as a whole. The figures available for industry, strictly defined, show a sharp acceleration in the course of the year (from an annual rate of 14.5 per cent in the first half of 1974 to 33 per cent in the second half), which brings the increase in unit labour costs to 55 per cent between 1970 and 1974. No statistics are available for the first half of 1975, but there is reason to think that the rise in unit labour costs

continued at much the same rate as in the second half of 1974: wage rates rose faster than in the second half of 1974, but the decline in activity is likely to have been a little less marked and to have been accompanied by a fall in the number of hours worked.

As long as demand remained buoyant, entrepreneurs were able to pass on the increase in their costs and even to widen their profit margins. But from the middle of 1974, the rise in wholesale prices decelerated sharply and the overall index remained virtually unchanged from October 1974 to July 1975. Food prices continued to rise (4.8 per cent), whilst non-food prices fell back (-0.6 per cent) although with very different movements according to the stage of production: a fall in the case of raw materials and intermediate goods and an increase in the case of finished products, especially investment goods and consumer durables. Though the slowdown appears remarkable in view of the rate of increase recorded at the beginning of 1974, it is still, given the downturn in activity, less than that recorded in previous recessions. Furthermore, it probably represents a narrowing of entrepreneurs' profit margins and might be short-lived. The figures for the third quarter 1975 (+2.1 per cent from June to September) already point to a resumption of the upward movement.

Retail prices also decelerated somewhat from the end of 1974, but this slowdown was less pronounced. From the summer of 1974 until August 1975 they rose faster than wholesale prices, in contrast to their behaviour in the upswing phase of the cycle. The rate of increase in non-food prices was reduced from 12 per cent from June to December 1974 (17 per cent in the first half) to 2.7 per cent during the first six months of 1975. Food prices continued to rise at a brisker pace (7.4 per cent from December 1974 to June 1975), but this was half the rate experienced in the second half of 1974. Only service prices showed a slight acceleration (10 per cent from December to June compared with 9 per cent for the previous six months). However, this acceleration has by no means made up the loss relative to goods prices in 1973 and especially 1974. One should recall, in making comparisons between 1974 and 1975, the increases in public utility charges and government controlled prices (gasoline, postal services, transport, certain food products) and the tax increases

Table 5 Prices
Average monthly percentage change

	1974	1975 ¹	Average monthly percentage change				
			1974 Q IV	1975 Q I	1975 Q II	1975 Q III	Oct. 75 Oct. 74
<i>Wholesale Prices</i>	40.7	9.4	0.5	0.1	-0.1	0.7	3.2
Food products	21.0	14.0	1.5	0.4	0.3	0.9	8.5
Raw materials	98.2	-7.7	-0.9	-2.1	-1.2	1.4	-6.8
Manufactured goods ²	29.6	15.2	0.8	1.0	0.3	0.8	8.4
<i>Consumer Prices</i>	19.1	18.2	1.5	1.0	1.0	0.6	12.1
Food products	17.8	19.5	1.7	1.1	1.0	0.7	12.4
Other goods	27.4	16.2	1.3	0.3	0.6	0.6	8.3
Services	12.1	18.6	1.6	1.6	1.5	0.6	16.8
<i>Imports (average unit values)</i>	73.4	10.0 ³	1.1	-0.8	-1.7	3.3 ⁴	
<i>Exports (average unit values)</i>	41.9	17.9 ³	2.1	-0.3	-0.5	2.3 ⁴	

1 January-October 1975 compared with the same period of the previous year.

2 Finished goods (excluding fuels and lubricants).

3 January-July 1975 compared with the same period of the previous year.

4 July.

Sources: ISCO Quaderni analitici, ISTAT Monthly Bulletin of Statistics.

(VAT on beef and on luxury goods) which were introduced in 1974. On the whole, there is reason to think that the distributive sector began to build up its profit margins again in the first half of 1975. The deceleration of consumer prices continued until the beginning of the third quarter. However, the August and September figures show a further acceleration, although less pronounced than in the case of wholesale prices.

The changeover to a new system of national accounting as from 1974 caused delays in the publication of transactors' accounts; so far only very partial information about the trend of incomes is available. For households, the national accounts show a further rise in the ratio of total wages to GDP (from 53.3 per cent in 1973 to 55.0 per cent in 1974, the ratio having been 48.3 per cent in 1970). In 1975, given the slow response of employment to the first phase of the recession, this ratio should increase again very appreciably. Estimates of the other sources of household income are extremely uncertain, even for 1974. According to the public sector accounts, transfers to households rose a little less rapidly than prices in 1974. Moreover, direct taxation had risen considerably with the implementation of the system of deducting tax at source, the exceptional taxes introduced in the summer of 1974 and the increase in social security contributions. Overall, households' real disposable income had probably fallen by about 1 per cent, the first time there had been a fall in 15 years; and the households' share in national disposable income decreased by more than two points, primarily to the advantage of the public sector. On the other hand, enterprises are likely to have maintained their share of national income, although probably with a fairly pronounced difference between the industrial sector, which should have increased its profits as a result of the rise in prices, and the service sector, which probably recorded smaller profits than before. In 1975 the real disposable income of households probably stagnated, the increase in wage incomes and transfers being offset by the continuing rapid rise in taxation and the sharp fall, in terms of purchasing power, in households' income from property and entrepreneurship.

Table 6 **Distribution and Use of National Income**
As a percentage of gross national disposable income

	Non-financial enterprises	Households and non-profit institutions	Financial Institutions	Government	Total
Distribution of national income					
1970	5.0	80.0	1.3	13.7	100
1973	4.3	83.4	1.4	10.9	100
1974	4.5	81.2	1.7	12.5	100
Savings					
1970	4.3	17.9	1.0	1.0	24.2
1973	4.2	20.2	0.9	-4.0	21.2
1974	4.6	16.5	1.0	-2.1	20.0
Gross capital formation					
1970	9.3	9.7	0.4	3.5	23.0
1973	10.0	9.1	0.6	3.4	23.1
1974	11.2	9.8	0.6	3.6	25.2
Net lending (+) or net borrowing (—)					
1970	-3.6	8.2	0.2	-3.6	1.2
1973	-5.0	11.0	0.2	-8.1	-1.9
1974	-5.8	6.8	0.2	-6.4	-5.2

Source: Bank of Italy, Annual Report.

In spite of the fall in their real incomes, households continued, in 1974, to increase both their consumption, by reducing their savings ratio, and their house purchases. This had the result of reducing their net lending by more than one-third. Since enterprises increased their investment, financial balance in the economy was achieved in 1974 via a reduction in the public sector's net borrowing and, above all, by a very large increase in the current payments deficit. In 1975 the situation was reversed. Despite the stagnation of their real incomes, households preferred to build up their savings. The fall in consumption and the very sharp reduction in investment made it possible to bring the external account back closer to equilibrium, in spite of the increase in the government borrowing requirement. Thus, from the second half of 1974 it is the domestic sector that has borne the weight of the recession.

II BALANCE OF PAYMENTS

The trend in the balance of payments over the first nine months of 1975 was notable for the spectacular improvement in the current account, which was back in equilibrium (on a seasonally adjusted basis) as from the first quarter of the year, whereas one year earlier it had been in deficit to the extent of nearly \$ 9.6 billion on an annual basis. Capital movements were on a limited scale and the non-monetary transactions account remained close to equilibrium. These two trends are responsible for the lira's good performance on foreign exchange markets: its effective rate of exchange has held firm throughout 1975.

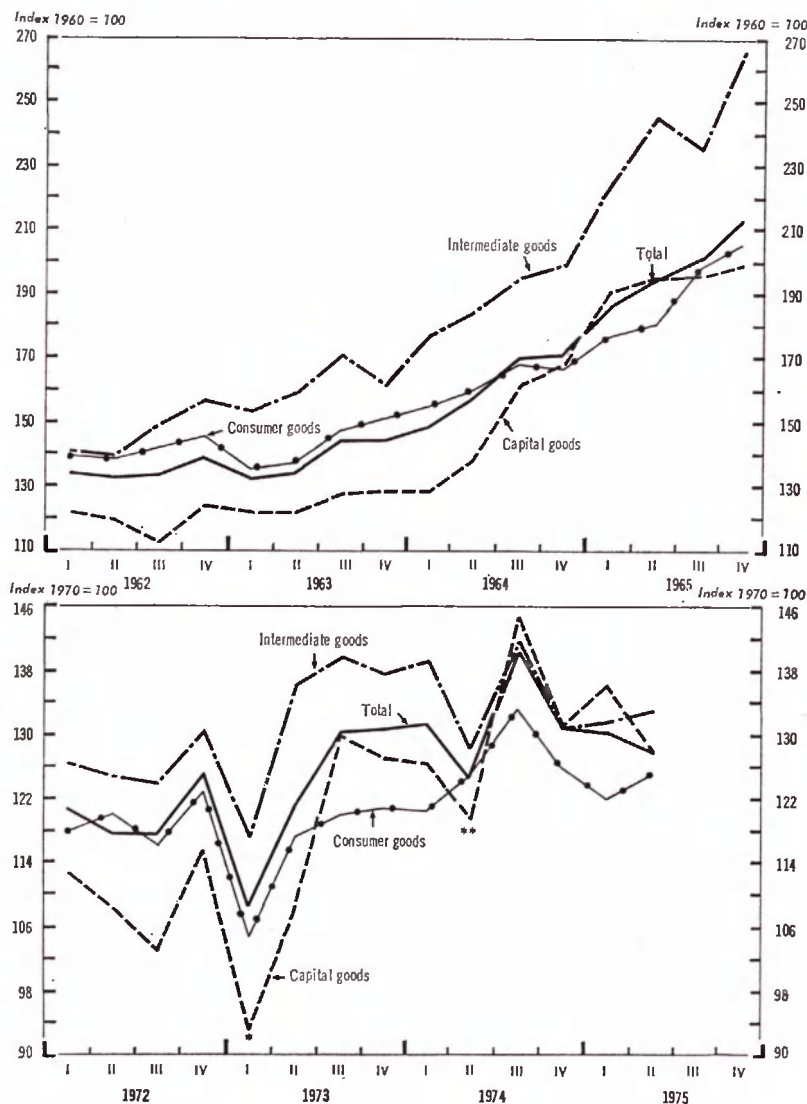
Current account

After having risen by about 1 per cent in the second half of 1974, merchandise exports by volume fell by roughly 5 per cent at an annual rate in the first half of 1975 (on a seasonally adjusted basis). This downturn was due essentially to the weakness of foreign demand and implies further small gains in market shares following those already recorded in the second half of 1974. Exporters were able to take advantage of the lira's earlier devaluation and, despite the considerable rise in domestic costs the trend of relative export prices worked in Italy's favour in the second half of 1974 and especially the first half of 1975. The fact that domestic demand pressure was very light may also have had something to do with the gains in market shares. The decline in exports was most apparent in the industries producing transport equipment and food products. This trend in exports is in contrast to those observed in previous recessions. In 1963-64 and 1970-71 exports rose at an annual rate of 21 per cent and 6 per cent respectively, thus cushioning the impact on activity of the downturn in domestic demand. The absence of this element of support in 1974-75 constitutes one of the main factors of the recession. With regard to the geographical distribution of exports, the shift which began in 1974 continued in 1975. The OPEC countries' share of Italian exports in value terms rose from roughly 5.5 per cent in 1974 to about 10.5 per cent in the first half of 1975, whilst that of the EEC fell from 50 to 44 per cent over the same period.

Merchandise imports, which had declined steadily in volume terms as from the third quarter of 1973, picked up again somewhat in the third quarter of 1974¹⁷ and collapsed subsequently. Their rate of decline (in annual terms) was over 30 per

17 This can probably be attributed to statistical distortions caused by the strikes in the customs service in the second quarter of 1974.

Diagram 5 Foreign Trade: Exports
Index of quantity, seasonally adjusted



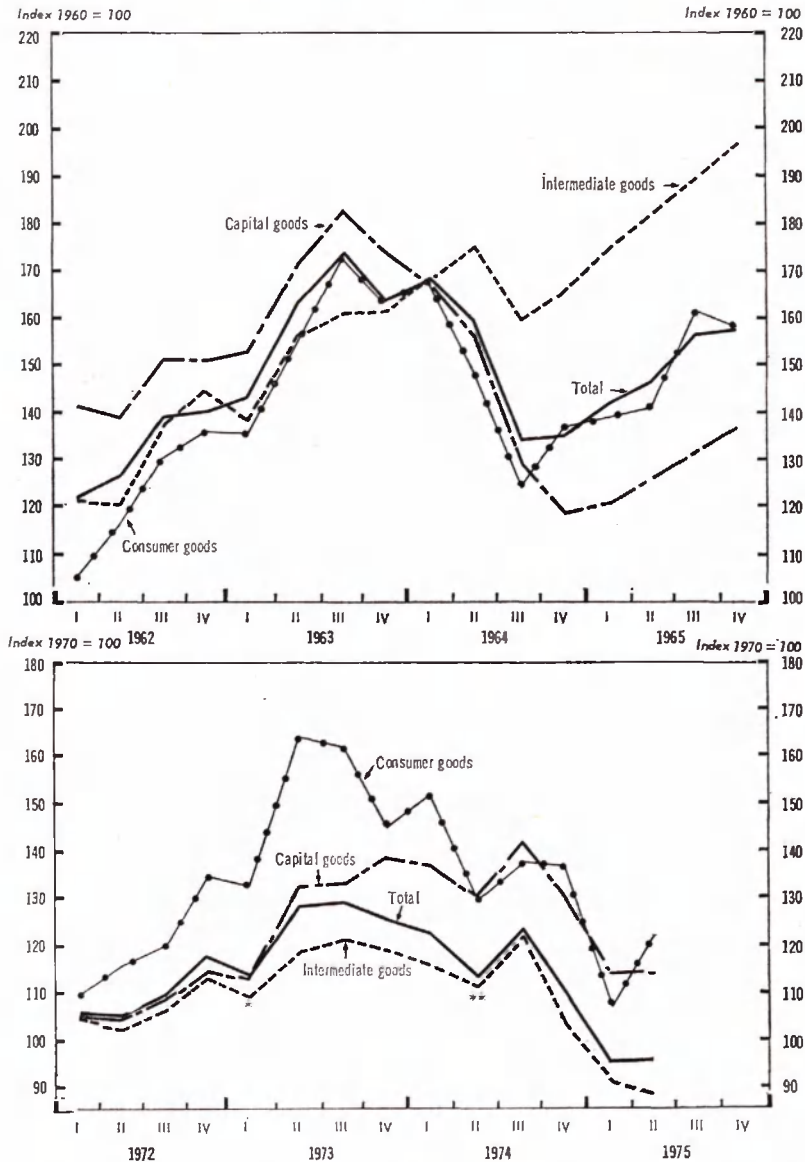
* Strikes in the production sector, especially in mechanical engineering and metal-working.

** Strikes in the customs service.

Source: ISTAT Monthly Bulletin of Statistics. Data seasonally adjusted by the OECD Secretariat.

cent in the first half of 1975, with a very slight upturn in the second quarter of the year. The downtrend in the first half of 1974, when domestic demand was still buoyant, was essentially due to the world-wide rise in prices, which was aggravated in Italy's case by the depreciation of the lira. Italian economic policy further accentuated this trend with the introduction of the prior import deposit and increases in taxes on certain products, mainly imported. In the second half of 1974, and especially the first half of 1975, the fall in domestic production and the very high cost of

Diagram 6 Foreign Trade: Imports
Index of quantity, seasonally adjusted



- * Strikes in the production sector, especially in mechanical engineering and metal-working.
- ** Strikes in the customs services.

Source: ISTAT Monthly Bulletin of Statistics. Data seasonally adjusted by the OECD Secretariat.

financing stocks were additional causes of the decline in imports. Of the different product categories, consumer goods seem to have been the first to be affected, whereas imports of capital goods and intermediate products held up relatively well until the end of 1974. The fall in imports of intermediate goods in 1975 was chiefly due, apart from the downturn in production, to the rundown of stocks by enterprises.

Table 7 Trade Balance
Seasonally adjusted monthly averages
Billion lire

	1972	1973	1974	1974		1975		
				Q III	Q IV	Q I	Q II	Q III
Food products	-130	-214	-246	-213	-233	-236	-220	
Non-food products	95	-57	-331	-342	-184	18	89	
of which: consumer goods	181	135	207	250	280	332	326	
investment goods	40	-29	-46	-53	46	138	197	
intermediate goods	-126	-163	-492	-539	-510	-452	-434	
Total	-35	-271	-577	-555	-417	-218	-131	-105 ¹
Total excluding petroleum products ¹	55	-155	-142	-75	-47	171	187	278

¹ Not seasonally adjusted.

Source: ISCO, Quaderni analitici.

After reaching nearly \$ 10 billion on an annual basis (fob/fob) in the first and second quarters of 1974, the trade deficit (seasonally adjusted) began to narrow as from the third quarter of 1974. This movement gained considerable momentum in 1975, and in the second quarter, merchandise trade showed a deficit of about \$ 700 million on an annual basis. The improvement is entirely due to the non-food account, which moved into surplus in the first quarter of 1975. The continuing deficit on food products reflected roughly parallel falls in both imports (particularly of meat) and exports. Net imports of petroleum products fell from about 45 million tonnes

Table 8 Balance
Billion

	1972	1973	1974
<i>Seasonally adjusted</i>			
Exports, fob	18.48	22.12	29.86
Imports, fob	18.43	26.09	38.32
Trade balance	0.05	-3.97	-8.46
Invisibles, net	1.99	1.31	0.66
Balance on current account	2.04	-2.66	-7.80
<i>Not seasonally adjusted</i>			
Balance on current account	2.04	-2.66	-7.80
Capital movements, errors and omissions	-3.37	2.18	2.63
Balance on non-monetary transactions	-1.33	-0.48	-5.17
Change in banks' net position	0.51	0.18	0.34
Balance on official settlements	-0.82	-0.30	-4.83
Miscellaneous transactions ¹	—	0.25	5.27
Allocation of SDRs	0.12	—	—
Change in reserves (+ = increase)	-0.70	-0.05	0.44
Memorandum item: Compensatory loans	0.60	4.42	2.04

¹ Principally EEC, Bundesbank and IMF loans.

² Estimates.

Sources: Bank of Italy and OECD Secretariat.

in the first half of 1974 to about 40.5 million in the first half of 1975, a decrease of approximately 10 per cent. By value and in dollar terms, however, they showed hardly any change¹⁸.

The reduction of the trade deficit has been accompanied by an improvement in the balance on invisibles account¹⁹, in spite of the burden of debts contracted in 1973 and 1974. Earnings from tourism grew substantially in the first half of 1975, whereas spending by Italian tourists abroad fell steeply²⁰. Remittances from Italian workers abroad also rose considerably, from about \$ 430 million in the first half of 1974 to approximately \$ 640 million in the first half of 1975. This increase might be connected with the repatriation of savings of emigrants returning to Italy for good. It might also be connected with the trend of the lira exchange rate in 1974 and 1975²¹. Interest on loans contracted in 1973-74 is likely to total about \$ 1 billion for 1975 as a whole. In all, the current transactions account, seasonally adjusted, was slightly in surplus in the first quarter of 1975 (by comparison with a deficit of \$ 2.4 billion a year earlier) and showed a surplus of nearly \$ 300 million in the second quarter of 1975.

18 About \$ 3.5 billion in the first half of 1974 and about \$ 3.4 billion in the first half of 1975.

19 It should be remembered that until recently Italy's invisibles account was affected by transactions more in the nature of capital movements. However, according to the Bank of Italy, which makes adjustments to allow for these phenomena, such transactions have been on a small scale since 1974.

20 The increase in earnings from tourism is due in part to exceptional factors, notably the fact that 1975 was declared Holy Year by the Vatican. As to spending by Italians abroad, it has been affected by the introduction of exchange controls. (See Annex : List of economic policy measures.)

21 Since the lira exchange rate depreciated sharply in 1974, emigrants probably postponed a proportion of their remittances until 1975.

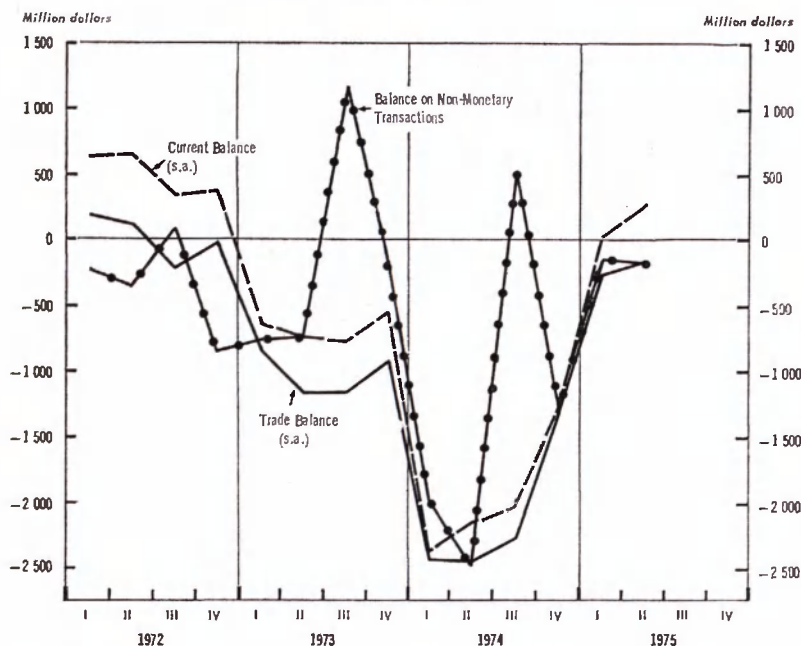
of Payments dollars

1974				1975		
Q I	Q II	Q III	Q IV	Q I	Q II	Q III ^a
6.47	6.93	8.20	8.25	8.35	8.38	8.70
8.90	9.38	10.47	9.57	8.61	8.55	9.04
-2.43	-2.45	-2.27	-1.32	-0.26	-0.17	-0.34
0.06	0.29	0.26	0.06	0.30	0.46	0.25
-2.37	-2.16	-2.01	-1.26	0.04	0.29	-0.09
-2.61	-2.45	-1.20	-1.55	-0.46	-0.01	0.80
0.62	-0.03	1.72	0.32	0.31	-0.18	-1.05
-1.99	-2.48	0.52	-1.23	-0.15	-0.19	-0.25
0.49	1.02	-1.08	-0.09	0.04	0.31	-1.11
-1.50	-1.46	-0.56	-1.32	-0.11	0.12	-1.38
1.73	0.08	2.93	0.54	0.11	-0.18	—
—	—	—	—	—	—	—
0.23	-1.38	2.37	-0.78	-0.22	-0.06	-1.38
0.87	1.20	-0.03	—	-0.10	-0.30	-0.50

Capital movements

The capital account, which showed a net inflow of some \$ 2 billion in the second half of 1974²², was close to equilibrium in the first half of 1975. The capital inflows in the second half of 1974 were due in large part to external financing of the prior deposit on imports²³ and, to some extent, to repatriation of Italian capital from abroad in an attempt to mitigate the effects of the very restrictive monetary policy. In the first half of 1975 these factors became less important. Monetary policy became distinctly expansionary, the prior deposit on imports was lifted and repayment of a proportion of the "compensatory" loans contracted in 1973-74 began. This ex-

Diagram 7 Balance of Payments



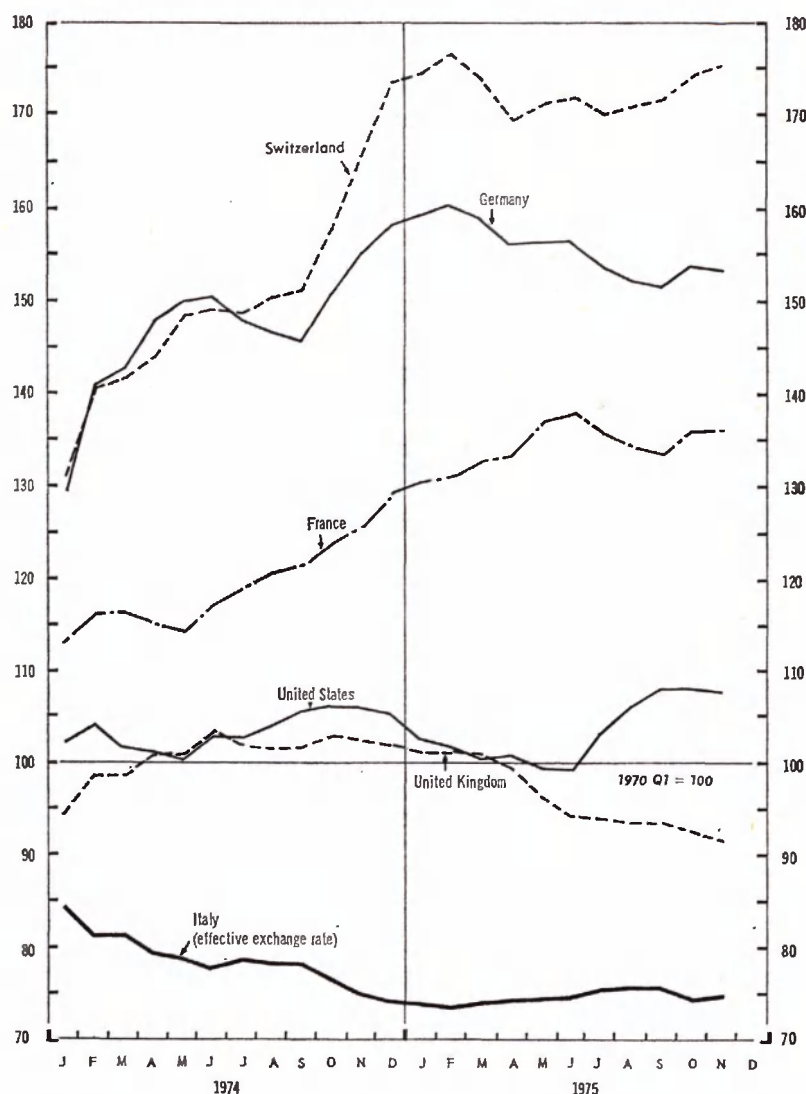
Sources: Bank of Italy and OECD Secretariat.

plains the deficit on non-monetary transactions in the second quarter of 1975 in spite of the fact that the current account (not seasonally adjusted) was in equilibrium; and the trend became more pronounced in the third quarter. The aforementioned factors were reinforced by the relaxation of export credits in August and by the appreciation of the dollar against the lira, which probably encouraged importers to speed up their settlements.

The moderate deficit on non-monetary transactions in the first half of 1975 (about \$ 400 million) was partly offset by a slight increase in the foreign debts of banks (about \$ 350 million). The balance of official settlements remained very close to equilibrium, whereas in the second half of 1974 it had shown a deficit of nearly

22 Short-term and long-term capital, excluding monetary capital. No "compensatory" loans were contracted in the second half of 1974.

23 Despite the efforts of the authorities, who had prohibited the Italian banks from underwriting importers' transactions.

Diagram 8 Exchange Market¹

1 Italian lira's effective exchange rate and certain bilateral parities with the lira.
Source: OECD Secretariat.

\$ 2 billion. Even so, the foreign exchange reserves fell by some \$ 300 million, owing chiefly to the part repayment in the first quarter of 1975 of a loan from the Bundesbank (about \$ 500 million) and a drawing on the IMF of about \$ 400 million. The effective exchange rate for the lira showed some tendency to appreciate throughout 1975. At the end of October 1975 the mean effective depreciation of the lira against its par value in the first quarter of 1970 was approximately 25 per cent. Against the dollar, the lira followed a trend parallel with those of the main European currencies (appreciation in the first half of the year, depreciation in second) but with a much narrower range of fluctuation.

III ECONOMIC POLICY

The size of the external deficit and the strength of the inflationary upsurge caused the Italian authorities to give economic policy a very restrictive thrust in 1974. A set of monetary measures introduced in the spring of 1974 was aimed to reduce credit growth by controlling the monetary base and putting a ceiling on bank credit. They were supplemented by a fiscal package designed to hold down household consumption. These measures, along with the weakness of foreign demand, were partly responsible for the deep recession experienced by the Italian economy. The scale of this recession caused the Italian authorities to ease their monetary policy from the beginning of 1975. The bank credit ceilings were raised, then abolished, the discount rate was reduced and aid was granted to the sectors hardest hit by the recession. Economic policy became increasingly expansionary, and in August 1975 a two-year reflation programme, representing a sum equivalent to approximately 4 per cent of GNP, was decided on.

Budget policy

In July 1974, the Italian authorities had introduced a set of budgetary measures designed to slow the growth of demand by reducing the budget deficit. Rates of indirect taxation, notably on luxury goods and meat, were increased. The price of motor fuel was raised and it was decided to levy an exceptional tax on motor cars. The rate of taxation of corporate profits was raised, and so were the tax rates in respect of high incomes. On the other hand, tax reliefs on personal incomes were granted in order to keep the tax burden on low incomes constant. A considerable number of public utility charges were adjusted upwards. The additional revenue produced by these various measures should amount to 2 600 billion lire in a full year, or about 2½ per cent of GDP. Their restrictive impact on the economy, which probably began to be felt in the second half of 1974, was tempered early in 1975 by government action to support activity. In February 1975 it was decided to grant aid to agriculture and exports, and to raise pensions and family allowances. In March, a three-year plan to aid construction, calculated to cost 3 000 billion lire, was adopted. In view of the scale attained by the recession, a reflation plan was adopted in August 1975. Its estimated financial impact is roughly 4 400 billion lire (about 4 per cent of GDP), phased over 1975-1976. The main provisions are aid to construction of low-cost housing, the start-up of a public works programme and advance financing of projects to be carried out in Southern Italy. In addition, the terms of export financing have been eased. It is difficult to tell what impact these measures will have on economic activity, given the usual delays in Italy between budget policy decisions and their implementation, but it is reasonable to suppose that their effects, which will be appreciable, will be felt mainly in 1976, and that they will help to promote a moderate recovery in the construction sector.

The measures taken in July 1974 brought about a reduction in the public finance deficit, which, on a national accounts basis, narrowed from 5 638 billion lire in 1973 to 4 911 billion lire in 1974, i.e. from 7 per cent to 5 per cent of GDP. The components of this trend were a reduction of more than 1 300 billion lire in the central government deficit, an unchanged deficit on local authorities account and a reduction of the surplus on social security account. As a result, the Treasury's liquidity deficit in 1974 remained within the limits agreed with the IMF in April 1974²⁴. The differ-

²⁴ The ceiling was 9 200 billion lire; the Treasury deficit was 8 667 billion in 1974. For 1975, the agreement concluded with the EEC in December 1974 recommended that the Italian authorities should keep the Treasury deficit to under 8 400 billion lire.

ent tax measures taken in 1974 and the upheavals caused by the fiscal reform of 1973-74 make it difficult to analyse the trend in tax revenue during the first half of 1975. During this period, and in terms of cash position, current revenue of central government rose by 41 per cent compared with the corresponding period in 1974. VAT on domestic output rose by only 11 per cent, this being less than the nominal increase in domestic demand, despite the fact that certain rates were raised. The steep rise in the yield from direct taxes (63 per cent up from the first half of 1974) is partly attributable to the new system of pay-as-you-earn taxation, which began to operate in February-March 1974, and partly to taxation of bank interest paid on deposits on current account. Current expenditure by central government went up by 50 per cent in the first six months of 1975, which widened the deficit on current transactions of central government from 544 billion lire in the first half of 1974 to 1 636 billion in the first half of 1975. The factors responsible for this enlarged deficit were consolidation of the debts of hospitals and communes (1 667 billion lire in the first six months of 1975, compared with 144 billion in 1974) and the increase in transfers to other public authorities (regional and local authorities). Capital expenditure (two-thirds of which represent transfers) increased proportionately less (41 per cent) than current spending. In all, the central government liquidity deficit for the first six months of 1975 was 4 310 billion lire compared with 2 419 billion in 1974. However, if consolidation of the hospitals' and communes' debts is excluded, the central government deficit is seen to be considerably smaller (2 643 billion lire in the first half of 1975, compared with 2 275 billion in the corresponding period of 1974).

The deficit on local authorities' account, which had levelled off in 1974, rose again in 1975 despite an increase in transfers from central government which much more than offset the loss of receipts due to central government's taking over the

Table 9 **Public Sector Accounts**¹
Billion lire

	1970	1971	1972	1973	1974
<i>Central government</i>					
Current expenditure	9 736	11 454	12 859	16 505	18 814
Current revenue	10 090	11 260	11 943	13 962	17 814
Balance on current account	354	-194	-916	-2 543	-1 000
<i>Local authorities</i>					
Current expenditure	3 039	3 577	4 335	5 058	5 696
Current revenue	2 767	3 163	3 890	4 466	5 204
Balance on current account	-272	-414	-445	-592	-492
<i>Social Security Institutions</i>					
Balance on current account	578	322	-615	640	289
<i>General Government</i> ²					
Current expenditure	18 600	22 300	25 630	29 942	34 942
Current revenue	19 240	21 431	23 267	27 242	33 473
Balance on current account	640	-869	-2 363	-2 700	-1 469
Balance on capital account	-2 426	-2 260	-2 535	-2 938	-3 442
of which: Investment	1 828	1 921	2 124	2 409	2 993
Transfers	898	596	645	754	980
Borrowing requirement (—)	-1 786	-3 129	-4 896	-5 638	-4 911

¹ On a national accounts basis.

² Includes: central administrations (Central Government, Cassa depositi e prestiti, all other central economic agencies for research and for assistance), local authorities and social security institutions.

Source: Ministry of the Budget, Annual Report on the Economic Situation.

collection of a number of local taxes. Local authorities' indebtedness to the banking system (banks and specialised credit institutions) increased at a rate slightly higher than that of total credit growth (16.4 per cent from June 1974 to June 1975, compared with 15.5 per cent). Furthermore, their indebtedness to the Government Deposit Bank increased by 50 per cent during the first half of 1975. The liquidity deficit of the social security institutions is likely to have grown considerably in 1975 as a result of the increase in family allowances and retirement pensions and the compensation of partial unemployment. In the first half of the year, social welfare benefits were up by 30 per cent from the corresponding period of 1974, and the liquidity deficit of the principal social security institutions had more than doubled, from 560 billion lire to 1 290 billion. In all, allowing for a further increase in the deficit on account of autonomous bodies (post office and railways, in particular) and the additional expenditure occasioned by the August 1975 measures, the Italian authorities expect a liquid funds deficit on the Treasury account of more than 10 500 billion lire²⁵ or about 9.5 per cent of GDP.

Financing of the Treasury deficit in 1975 has not caused undue difficulty. For one thing, the revitalization of the capital market made it possible to issue a much larger volume of medium-term securities than in 1974 (about 3 000 billion lire in the first eight months of the year, compared with 137 billion in 1974). A proportion of these security issues (about 1 600 billion lire) represented consolidation of the

Table 10 Public Sector Financing
Treasury, Cassa dep. e pres.¹, autonomous administrations
In billion lire

	1971	1972	1973	1974	January-September	
					1974	1975
<i>Cash requirements</i>						
Central government budget management deficit	-3 046	-3 621	-7 302	-5 204	-3 219	-6 032
Other transactions of central government treasury	-365	-809	847	-2 001	-2 285	-3 186
Cassa depositi e prestiti and autonomous administrations	-1 347	-1 324	-1 510	-1 768	-1 068	-1 772
Total	-4 758	-5 754	-7 965	-8 973	-6 572	-10 990 ³
<i>Coverage</i>						
Medium- and long-term securities (except Bank of Italy)	1 522	1 475	564	-178	-104	2 405
Receipts of postal administration	1 134	1 715	1 528	837	602	1 093
Short-term securities (except Bank of Italy)	978	989	82 ⁴	1 629 ⁴	170 ⁴	5 502 ⁴
Indebtedness towards the Bank of Italy	1 040	1 551	5 016	6 498	5 829	4 382
of which: current account of provincial treasury department	(-212)	(528)	(855)	(50)	(-329)	712
Other indebtedness ²	84	24	775	187	75	-2 392
<i>Memorandum item:</i>						
Creation of monetary base by the Treasury	2 661	4 171	7 235	7 669	6 602	2 912

1 Cassa depositi e prestiti (postal savings banks).

2 Indebtedness abroad + other debts at home.

3 Including 2 262 billion lire of debt consolidation for hospitals and local authorities.

4 Treasury Bonds for free investment.

Source: Bank of Italy Annual Report.

hospitals' debt, the banks having been authorised to include Treasury certificates especially issued for the purpose in their compulsory reserves of securities. Furthermore, the relative easiness of the banks' liquidity position, itself largely due to the weakness of demand for credit, enabled them to absorb a considerable amount of short-term Treasury paper. In all, money creation to finance the public sector deficit is likely to have remained very moderate in 1975.

The budget put before Parliament for 1976²⁶ provides for an appreciably steeper rise in expenditure than in revenue and a considerable increase in the deficit on central government account, from approximately 6 400 billion lire in 1975 to 10 400 billion lire in 1976. The budget figures for the two years are not strictly comparable, however. Part of the 1975 receipts represents the exceptional inflow of revenue resulting from the measures taken in July 1974, which increased the tax burden, and the expenditure figure shown for 1976 allows for the cost of the measures decided on in August 1975. In addition, arrears from previous fiscal years may considerably alter the figures for the current year. In this regard, it is useful to recall the two types of budget arrears in Italy. First, there are the arrears on current account, the size of which varies from year to year. Second, there are the expenditure arrears on capital account, the level of which is very high and has varied little over the past three years²⁷. These two types of arrears may be supplemented by a certain number of liabilities towards social security and other bodies. These will have to be paid sooner or later, even if they are not yet backed by formal appropriations²⁸. The existence of these different types of arrears tends to obscure the budget's economic significance. Two points to note, however, are the much steeper increase in capital expenditure than in current spending (39 per cent as against 25 per cent) and an unchanged level of credits to autonomous enterprises (posts and railways).

In national accounting terms, and taking into account the additional expenditure linked with the fiscal measures of August 1975, the central government deficit for 1976 is estimated at 9 000 billion lire (about 7 per cent of GDP). Allowing for the expected deterioration in the accounts of local authorities (if the trends observed in 1975 continue) and social security institutions (due partly to the depressed level of activity and to the spread of partial unemployment), the deficit of the public sector as a whole might exceed 11 500 billion lire in 1976, or 9 per cent of GDP. Such a deficit expressed in national accounting terms is compatible with the limit of 15 000 billion lire agreed with the EEC authorities in December 1975²⁹; this latter figure refers to the cash needs of the Treasury.

Monetary policy

With the downturn in activity, the circumstances in which the monetary authorities functioned changed significantly in 1975. In the first half of the year, and for the first time in eighteen months, the external sector had a practically neutral impact on money creation. Then in the third quarter, the banks discharged their foreign commitments, despite the removal of the ceiling placed on their net position in 1974,

26 Proposed expenditure commitments.

27 "Residui passivi", which amounted in 1974 to almost 12 000 billion lire or about 12.3 per cent of GDP. About half this sum represented capital expenditure.

28 "Oneri latenti" which amounted to an estimated 6 000 billion lire, about 5.5 per cent of GDP, in 1975.

29 The agreement with the EEC includes a limit of 31 000 billion lire for the increase in total credits to the economy in 1976. The cash needs of the Treasury should remain below 15 000 billion, and the central bank financing for this deficit should not exceed 5 700 billion lire. The main difference between the cash needs of the Treasury and the deficit of General Government in the national accounts is in the treatment of credits to public enterprises. These are not considered to be part of General Government outlays in national accounting terms.

Table 1
Change

	1973	1974
Total monetary base creation	5 078	4 104
by:		
Foreign sector	-205	-3 115
of which: Balance of payments ¹	-208	-3 589
Treasury	7 235	7 669
of which: Central government cash deficit ²	8 065	8 974
Banking system	277	1 362
Other	-2 229	-1 812
of which: Imports deposits	—	-1 237
Deposits against borrowing abroad	-2 164	-1 119

1 Balance on non-monetary transactions.

2 Including consolidation of hospitals' and communes' debts.

Source: Bank of Italy.

and the impact of the external sector was again negative. Furthermore, whereas the budget deficit had been financed almost entirely through money creation in 1974, market conditions were such as to enable a large volume of government securities to be placed direct with the private sector (about 1 000 billion lire in the first nine months of 1975), whilst the Central Bank resold an even larger amount (over 7 000 billion lire) of securities held in its portfolio. Thus, despite a growing budget deficit, the Treasury had a moderately expansionary impact in the first nine months of the year. The monetary authorities were able to abolish the exceptional arrangements for liquidity control which they had introduced in 1974. The import deposit scheme was repealed, which released about 1 300 billion lire during the period from April to August. Refunding of the deposits placed with the Central Bank in 1973 and 1974 as the counterpart of compensatory loans was speeded up. But in all, monetary base creation remained very moderate in the first half of the year and it was not until the summer that there was any noticeable acceleration, due essentially to the development of Treasury transactions. The introduction in September of an automatic rediscounting system between the banks and the Italian Exchange Office to refinance export credits at a preferential rate should prove to be an additional factor in monetary base creation (its impact has been estimated at approximately 1 000 billion lire).

At the same time, the monetary authorities have endeavoured to improve their instruments for regulating bank liquidity by altering the method of calculation and the composition of compulsory reserves, and by adjusting the arrangements for allocating Treasury bonds. Besides the banks, the Bank of Italy and non-bank transactors may take up Treasury bonds for a value and at a rate to be determined in the light of market conditions. This measure should serve to create a primary market for Treasury bonds but will not have any real impact on financial circuits unless most of the bonds are taken up by private transactors—and not mainly by the Central Bank, as in 1974—and unless a secondary money market is formed.

The restrictions on bank credit introduced in April 1974 were not renewed after they had run their term. The downturn in activity and especially in investment and stockbuilding had caused a distinct slackening in demand for credit and the ceiling imposed, 15 per cent from March 1974 to March 1975, was not reached, although, it is worth noting, there was a considerable volume of liquidation of loans at matu-

Monetary Base
million lire

1974				1975		
Q I	Q II	Q III	Q IV	Q I	Q II	Q III
411	1 313	-125	2 505	-419	1 305	2 691
-1 059	-849	-298	-910	-72	37	-961
-1 343	-1 607	214	853	-113	-191	-308
1 835	2 808	1 960	1 067	320	949	1 644
1 754	2 199	2 619	2 402	3 470	3 577	3 943
-241	843	-1 133	1 894	-676	32	850
-124	-1 489	-654	454	9	287	1 168
—	-490	-664	-83	-69	624	544
-508	-728	34	84	270	212	78

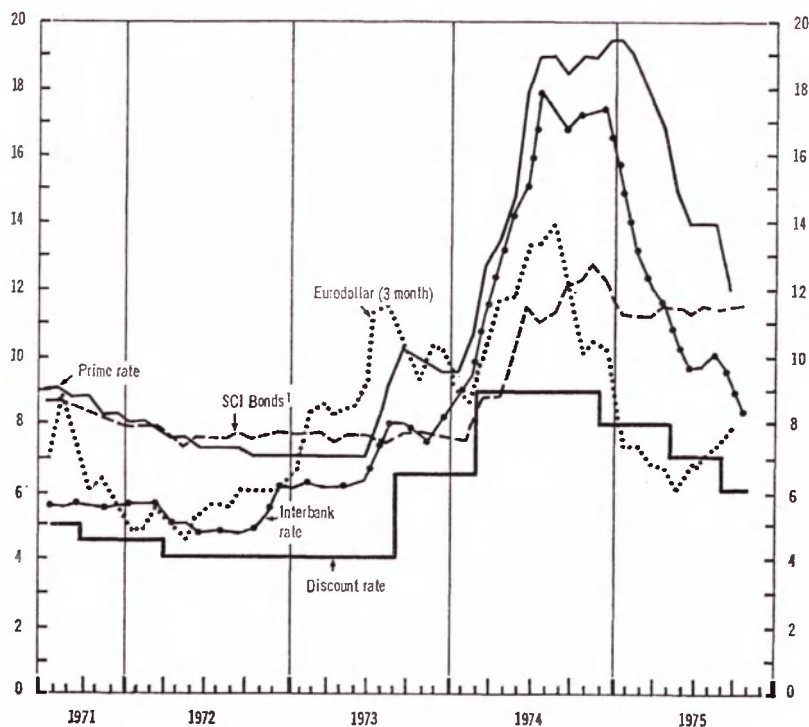
rity³⁰. In particular, credit to small businesses in the private sector showed virtually no change over twelve months. On the other hand, loans to large firms slowed down progressively but were still growing at a significant rate in the first quarter of 1975. In the second quarter, the slowdown in bank credit growth was confirmed: the rate of increase over twelve months, which was still as high as 18.5 per cent at the beginning of the year (after reaching a peak of 26 per cent at the beginning of 1974), fell to less than 12 per cent in June.

While the growth of credit slackened, bank deposits increased at almost the same rate as in the second half of 1974 (about 19 per cent on an annual basis), with an even more marked swing from deposits on current account to time deposits than in 1974, and the ratio of credit to deposits continued to fall, moving down from 65 per cent in January to 60 per cent in June. The increase in banks' liquid assets very quickly affected the inter-bank rate, which fell from 17.5 per cent in December 1974 to under 9 per cent in October 1975. Furthermore, the Central Bank endeavoured to put downward pressure on bank interest rates by lowering the discount rate in stages from 9 per cent in December 1974 to 6 per cent in September 1975, and by announcing that it would give preferential rediscounting facilities to banks which had reduced their rates. Bank interest rates on deposits fell slightly, but enough for the interest rate payable on bonds issued by the credit institutions to become distinctly competitive again. The downturn in bank lending rates began only in the second quarter of 1975 and then accelerated in the summer, and the prime rate fell from 18½ per cent at the beginning of the year to 12 per cent in October.

Although the credit restrictions were lifted, the requirement that the banks hold a minimum amount of fixed-income securities, particularly bonds issued by the specialised credit institutions, was maintained but in a modified form. Whereas in 1974 the amount had been calculated by reference to the level of deposits, the new base was the increase in deposits, with a rate of 40 per cent (reduced in July to 30

30 The series for outstanding credit show a trough in September 1974 (-1.8 per cent, seasonally adjusted, compared with August) and especially in March 1975 (down 3.4 per cent from February). It is probable that banks obtained earlier repayment or postponed the opening of new credit facilities at end of month.

Diagram 9 Interest Rates



1 Specialised Credit Institutions.

Source: OECD Secretariat.

per cent). The implication of the new requirement is that the banks will slightly accelerate their purchases of securities, since in 1974 the ratio of the increase in the banks' portfolios to the increase in their deposits averaged approximately 31 per cent. But in view of the sluggishness of the demand for credit, the requirement does not seem, at the moment, to be very restrictive. In the first eight months of 1975 the banks exceeded the imposed minimum and the increase in their holdings of long-term securities represented nearly 50 per cent of the increase in their deposits. Taking Treasury bond purchases into account, the banks' total purchases of securities during this period represented more than 70 per cent of the increase in their assets compared with 42 per cent a year earlier.

The specialised credit institutions were able to place a large volume of securities, exceeding by more than half, in the space of only seven months, their total issues in 1974. As a result, the volume of their lending increased (11 per cent from December 1974 to July 1975, compared with less than 4 per cent in the same period a year earlier). This is an important development, since the effectiveness of the policy to boost investment depends partly on increasing the lending capacity of these institutions. It should be pointed out that the latter, which provide a large share of the total financing of the economy (about 23 per cent, in terms of outstandings, against 37 per cent for bank credit and 20 per cent for shares and holdings), specialise in long-term lending and notably interest-subsidised loans (which account for about one-third of their total lending). Although the interest subsidies are financed by the central government, the institutions obtain their resources from the private sector by issuing bonds, and their lending capacity is therefore dictated by their issuing

opportunities. In July 1974, the monetary authorities endeavoured to shield the specialised credit institutions from the impact of the restrictions on bank credit by way of the bank portfolio requirement. But they were unable to guard against the indirect effects of their policy on the behaviour of households: the steep rise in interest rates offered by the banks prompted households to liquidate part of their portfolio holdings (about 1 700 billion lire) and build up their bank deposits instead. In 1975 the issues put out by the specialised credit institutions were probably again taken up mostly by the banks, which thus tightened their control over these institutions³¹. It is possible, however, that with the trend of interest rates favouring long-term lending, non-bank transactors, and particularly households, have started to purchase these issues again.

Other aspects of economic policy

In January 1975 management and labour signed an agreement increasing the coverage for partial unemployment and substantially improving the operation of the sliding scale for wages. Where compensation for partial unemployment is concerned, the clauses of the January agreement were further developed in a law passed in May 1975 which provides for a longer period of coverage by the "Cassa Integrazione" in cases of partial unemployment (twelve or eighteen months, instead of three months as before), larger unemployment benefits (80 per cent of the wage instead of 66 per cent) and increased compensation for hours not worked (all hours of unemployment will be compensated instead of just those within the range of 24 to 40 hours per week). The "Cassa Integrazione" will be financed partly by enterprises (from 0.75 to 1 per cent of the wage bill, according to the firm's size) and partly by the government. The agreement on the sliding scale arrangements provides for a better protection of wage-earners faced with price rises. Under the former system, which was based on the level of wages in 1956, only about 50 per cent of the current rise in the cost of living was being compensated for. The progressive narrowing of the spread of the allowance among the different categories of wage-earners, and the award of an across-the-board increase of 12 000 lire for "catching up" purposes, should mean that the rise in prices will be almost fully compensated for in 1975 and to the extent of roughly 80 to 90 per cent in 1976³².

IV SHORT-TERM FORECASTS AND ECONOMIC POLICY CONCLUSIONS

Short-term forecasts

Growth prospects between now and the end of 1976 seem rather poor, on the whole. In the Secretariat's forecast, which was made as usual on the assumption of unchanged economic policy, final demand is predicted to show a further slight decrease in the second half of 1975, level off in the first half of 1976 and show a moderate increase in the second half of that year. Some slight stimulus might come from stockbuilding and from foreign demand. There should also be some slowdown in the upward movement of prices and wages in annual terms, which would offset a resurgence of inflationary pressures expected in the second half of the year. Fi-

31 In 1974 the banks' portfolio holdings accounted for more than 64 per cent of lending by the specialised credit institutions.

32 See Annex: List of economic policy measures.

nally, the current balance should remain approximately in equilibrium, as in 1975. These forecasts, which are roughly similar to those of the national experts, are, however, very uncertain and quite different developments might appear.

Private consumption should remain flat until the first half of 1976, after which it might pick up again slightly. This assumes a growth of about 12 per cent (as an annual average) in total wages, accompanied by a slightly steeper increase in households' disposable income, given the present trend in transfers. It has been assumed that the household savings ratio will rise very slightly from its already high 1975 level as a result of precautionary behaviour in a period of underemployment. The wage-trend prediction is based on the assumption that the collective agreements which will be concluded in the winter of 1975-76, and which will concern about one-third of all persons in dependent employment in the private sector, will produce a rise in wages of about 10 per cent over and above the automatic upward adjustment linked to the cost-of-living index. With regard to the work force as a whole, it has been assumed that demands will be directed more towards security of employment than towards large pay increases. In the light of what is known about the decisions taken in the budgetary field, it has been assumed that public consumption will increase a little more rapidly than in 1975.

Gross fixed asset formation, which fell back considerably in 1975, should be flat in the first half of 1976 and show a moderate recovery subsequently. In annual terms, however, this would represent a further decrease, especially marked in the case of investment in machinery and equipment. In the course of 1976, residential construction might constitute an expansionary factor, since it is reasonable to suppose

Table 12 Forecasts for 1976
At 1974 prices

	Change from preceding year			Change from preceding half-year at annual rate			
	1974	1975 ¹	1976 ²	1975 I	1975 ¹ II	1976 ² I	1976 ² II
A DEMAND AND OUTPUT							
Private consumption	2.3	-2.5	1.0	-1.6	—	0.5	3.0
Public consumption	1.9	0.6	2.0	0.5	2.0	2.0	2.0
Gross fixed capital formation	4.2	-17.8	-2.3	-26.4	-9.4	-0.8	2.1
Final domestic demand	2.7	-5.5	0.5	-7.2	-1.6	0.5	2.7
Plus change in stock-building	-1.3	-2.6	0.6	-5.2	2.2	0.1	0.1
Plus change in foreign balance	1.7	3.9	0.2	7.1	0.2	0.3	0.1
GDP at market prices	3.2	-4.5	1.4	-5.9	0.6	0.9	3.0
GDP implicit price deflator	16.9	19.0	12.4	18.8	14.5	10.3	14.5
<i>Billion dollars, s.a.</i>							
B BALANCE OF PAYMENTS							
Exports	29.86	33.70	36.70	16.72	17.00	17.80	18.90
Imports	38.32	34.60	37.60	17.16	17.45	18.30	19.30
Trade balance	-8.46	-0.90	-0.90	-0.44	-0.45	-0.50	-0.40
Services and private transfers, net	1.27	1.40	1.50	0.75	0.65	0.70	0.80
Official transfers	0.61	-0.30	-0.40	—	-0.30	-0.20	-0.20
Balance on current account	-7.80	0.20	0.20	0.32	-0.10	—	0.20

1 Estimate.

2 Forecast.

Source: Secretariat estimates.

that the full effects of the programme of assistance to construction introduced in August 1975 will be felt in the second part of 1976. Non-residential construction might also exert a positive influence in the second half of next year, but a more moderate one, in view of the longer time taken to complete projects in this sector. The downtrend in machinery and equipment investment is likely to continue in the first half of 1976, although at a slower pace, and should then level off. Overall, the trend of investment in 1976 will be influenced by two conflicting factors: the very pessimistic expectations of businessmen and the very low capacity utilisation rate will exert restrictive influences, whereas monetary policy should help to support demand. But one cannot, even in the best of circumstances, expect more than a halt in the deterioration observed in 1975.

Where stockbuilding is concerned, lack of statistical information on past trends makes forecasting even more uncertain. By and large it seems that the heavy rundown of stocks recorded in the first half of 1975 will continue in the second half of 1975 and throughout 1976, but at a distinctly slower pace. This overall trend will probably incorporate contrasting movements in different product categories. In the case of raw materials and intermediate goods, the large-scale rundown of stocks that occurred in 1975 might give way to something of an upturn in 1976. On the other hand, the level of stocks of finished products is probably still quite high in relation to output, and destocking might continue throughout 1976. In all, given these various demand assumptions, gross domestic product should show a growth of about 1½ per cent by volume in 1976 following its steep decline in 1975. The recovery is likely to be somewhat more pronounced in the second half of the year.

Estimates of recent trends and short-term forecasts concerning employment are very uncertain. One of the most striking features of the present recession, as pointed out earlier, is the low level of registered unemployment. This is partly the result of the agreements concluded between management and labour to limit dismissals and spread the burden of the recession more evenly over the community at large by encouraging partial rather than full unemployment. In 1976 the level of employment will depend not only on the development of production but also on labour force participation rates and on means of financing partial unemployment. The Secretariat's forecast is based on the assumption of a decline in participation rates, roughly of the same order as in the 1972 recession. This would mean that the level of registered unemployment would remain relatively low.

The virtually flat trend in wholesale prices during the first half of 1975 is unlikely to continue during the next few months. The liquidity position of firms probably deteriorated in the first part of 1975, when unit labour costs were rising very much faster than prices. The extreme weakness of domestic demand in the second half of 1974 and the first half of 1975 probably prevented firms from passing on cost increases in full. Import prices should again rise quite steeply in lira terms in 1976 (by about 8 per cent compared with roughly 10 per cent in 1975). It is therefore likely that the start of a phase of even moderate recovery would soon be followed by a renewed upward movement of wholesale prices. The present forecast for retail prices is that their upward movement will accelerate gradually throughout 1976. Their rate of increase between the end of 1975 and the end of 1976 might be about 13.5 per cent compared with less than 11 per cent twelve months before.

With regard to foreign trade, the sharp drop in imports in the first half of 1975 (about 30 per cent by volume on an annual basis) should be followed by a slight technical recovery in the second half-year and a modest growth throughout 1976 consistent with the sluggishness of final demand. Exports should follow the trend of markets. Easier financing and the weakness of domestic demand might offset the unfavourable trend of costs in Italy compared with her main trading partners. Overall, assuming a slight improvement in the terms of trade and a moderate growth of invisible earnings, the current transactions account might remain close to equi-

brium in 1976. Capital movements will be affected by the repayment of foreign debts contracted in 1973 and 1974.

Before looking at the present economic policy issues, it is appropriate to identify the main elements of uncertainty in the forecasts presented and also where the major risks appear to lie. First of all, 1976 may see a steeper fall in investment than that predicted by the Secretariat, of approximately the same proportions as in 1963-64. Similarly, given that the evaluation of stock levels is very doubtful, these might still be considered much too high by entrepreneurs and the adjustment process might be more pronounced than expected. Finally, Italian households might favour caution over spending and increase their savings ratio in 1976 by more than has been forecast. The overall result of such developments might be a continuation of the downtrend in activity, with the consequences this would inevitably have on the level of employment.

There is another risk, too. It has been assumed that wage rates and wage costs will rise less rapidly in 1976 as a result of moderation on the part of management and labour. But this more moderate approach may not materialise and workers may demand substantial wage rate increases to ensure that their real incomes catch up after stagnating in 1975. For their part, enterprises might attempt to pass on the increases in their costs, thus accentuating the price/wage spiral. As a result, the competitive position of Italian goods on foreign markets would deteriorate sharply.

Policy conclusions

The restrictive policies introduced in 1974 have produced a remarkable improvement in the balance of payments: the current account moved from a massive deficit in early 1974 to approximate equilibrium in 1975, the earlier abnormal capital movements have ceased and the effective (trade-weighted) exchange rate has approximately stabilised. Moreover, cost and price increases, though still appreciable, have decelerated considerably. The cost of the adjustment has been a significant decrease in total output (influenced, of course, also by the world-wide recession), a substantial fall in investment and widespread under-utilisation of resources.

The success in overcoming the balance of payments crisis has allowed a progressive shift of policy to an expansionary stance during 1975 in order to arrest the recessionary trend of the economy. Recent indicators suggest that the fall in activity may cease shortly. But prospects for 1976, despite the expected moderate recovery of world trade, are for only a marginal increase of output with a further decline of employment, a continuing decrease of productive investment and rather appreciable price rises. The authorities are, indeed, faced at present with difficult issues of economic policy which, to a large extent, cannot be resolved by short-term measures only.

The balance of payments position remains fragile, as the equilibrium of the current account is essentially due to the sharp decline of imports. Any considerable revival of domestic demand will probably entail a more than proportionate increase of imports, even beyond the phase of restocking of raw materials. Exports of goods and services would undoubtedly benefit from a stronger expansion in the OECD area than foreseen at present. But, quite apart from the risks of loss of competitiveness due to wage cost increases, it may be difficult for Italian exports to gain market shares, as the low rate of investment over several years has probably prevented a sufficient adaptation of the product-mix of exports to the changing pattern of world demand. It should be added that interest payments on foreign loans will remain important during the next few years. With regard to the capital account, there is the risk that outflows would reappear if liquidity were to become too ample relative to other countries and interest rate differentials unfavourable. Moreover, considerable repayments of foreign debt are scheduled up to 1980.

The second major constraint under which economic policy has to operate is the risk of renewed acceleration of inflation. The outcome of the forthcoming wage negotiations will be crucial in this respect. There have been indications in recent months that trade unions were placing more emphasis on maintaining employment than on obtaining substantial increases in basic wages, apart from the automatic adjustments to the cost-of-living. But, if wage rises were to be considerable in coming months, cost and price increases would inevitably accelerate, the external competitive position would be eroded, and firms would face increased financial difficulties; this would not fail to depress further the levels of employment and productive investment. Therefore, in the present circumstances, the first priority for economic policy is to prevent the emergence of a price-wage inflationary spiral.

The risks on the balance of payments and the price and cost side mean that the scope for reflationary policies of a general character is quite small at present, although the margin of unused resources is considerable and may increase further in 1976. If economic expansion in the largest OECD Member countries were to gain strength in the course of next year, Italy could count on a larger contribution of net foreign demand to the recovery of economic activity. But domestic policies need to remain cautious and selective. It will be important, first, to continue with measures aimed at reducing the social costs of the recession. As was described earlier in this Survey, the rise of unemployment has been small so far relative to the fall of output, mainly due to agreements of the two sides of industry to avoid dismissals and reduce working hours instead; this was made possible by increased Government finance of benefits for partial unemployment. For these arrangements to continue it will be necessary to extend the present limits³³ and to provide the necessary funds. Another area of selective action is the State support already decided for housebuilding and the speeding up of public investment. The employment effects of these measures could be significant, but the main problem is to shorten technical and administrative delays which have often been very long in the past. It is too early to judge how the transfer of certain powers from the central government to the regional authorities is affecting the speed of implementation of public investment. But improved co-ordination among them is probably necessary; and certain State-owned enterprises could usefully play a more active role in this area.

The more difficult problem at present is, perhaps, how to prevent a further deterioration of productive investment. No real recovery can be expected until rates of capacity utilisation and business expectations of sales become more normal. Nevertheless, some special measures may be useful—in particular for smaller firms; an example is some form of consolidation of debts to the Special Credit Institutions which is at present under study by the authorities. But the weakness of business investment is not a purely cyclical phenomenon. As stated earlier, the capital stock of Italian industry has been becoming obsolescent since about the mid-1960's and the upsurge of investment in 1973-74 has been interrupted by the balance of payments crisis and the subsequent recession. Thus, a more lasting solution to the problems of the level and pattern of investment is intimately linked with longer-term and structural policies.

It is in this general economic context that the large deficit of the public sector in 1975 and the probably larger one of 1976 should be considered. An appreciable part of this deficit is of a purely cyclical nature and as such is not merely inevitable but positively appropriate; one need only mention as examples of cyclical developments the stagnation of revenues from indirect taxes (whereas the fiscal reforms should have entailed a considerable increase) and the sharp rise in unemployment benefits paid from public funds. But medium-term trends in public receipts and expenditure

³³ From three months to one year for benefits to workers totally or partially unemployed, and in certain exceptional cases up to 18 months for those partially unemployed.

should also be considered. The elasticity of tax revenue has been too low in the past and its pattern unsatisfactory, reflecting both an antiquated tax system and widespread tax evasion. The very important reforms introduced in recent years should normally redress the situation considerably, but there seems to be a real need to improve methods of tax collection and control so that the potential benefits from the reforms should be realised.

On the expenditure side, the main problems in the past have been: uncontrollable rates of increase of certain types of current expenditure, subsidies and capital transfers, and the unpredictability of the time of implementation of public investment projects. These problems, of course, exist in many Member countries. But they have been particularly acute in Italy, partly due to the "timelessness" of the budgeting system (explained in earlier OECD Surveys) and to organisational difficulties in the administration. Improved forecasting and control of expenditure by the whole public sector is a pre-condition of fiscal and budgetary policies better integrated into general economic policy. When private demand revives in due course, and the purely cyclical element of the budget deficit is eliminated, it will most probably be necessary both to reduce the size of the lasting component of the deficit and, perhaps more important, to ensure that it reflects increased investment—notably in social infrastructures—rather than excessive levels of current expenditure and subsidies.

Many of the present difficult issues of short-term economic policy are linked with longer-term and structural problems with which many Member countries are faced at present. The specific aspects of the Italian situation suggest that it would be highly appropriate at present to revive the medium-term planning efforts, which were virtually abandoned due to the urgency of short-term problems. The methods for planning should probably differ greatly from those followed in the past under different circumstances. Active participation of representatives of both sides of industry would seem necessary. And efforts to arrive at a consensus concerning norms for income distribution would seem to be an essential part of any realistic planning exercise; this would involve co-operation of employers' and workers' representatives with the Government in formulating new industrial policies and, more generally, an economic development strategy for the future. The solution of Italy's medium-term economic problems could be facilitated if the two sides of industry could adopt a global approach in dealing with the present short-term difficulties. And the Government could play an important role in this context, by highlighting the general economic constraints—notably with respect to inflation, employment and the external balance—and by promoting the compatibility of the various groups' interests.

Annex

MAIN ECONOMIC POLICY MEASURES TAKEN IN 1974 AND 1975

1974

1st January

Reform of the tax system: introduction of a single tax on personal income, a deduction of 15 per cent from bank interest on deposits and a deduction, at variable rates according to the type of security, on income from bonds.

18th March

Discount rate and the interest rate on ordinary and fixed-term bank advances raised to 9 per cent.

22nd March

The two-tier exchange market introduced on 22nd January, 1973 was abolished.

Imports and exports of Italian banknotes by residents and non-residents limited to a maximum of 20 000 lire per trip and per person.

6th April

Growth of bank credit to local authorities and to corporations whose outstanding indebtedness exceeds 500 million lire was limited to 15 per cent for the period from 31-3-74 to 31-3-75. The ceiling was set at 12 per cent for wholesale and retail businesses, for financial, commercial and insurance activities and for private individuals. The following categories of credit were exempted from the ceiling: credit to the power generation and distribution sector, the health services, the State railways and the Agency for intervention on agricultural markets, and credit to customers borrowing not more than 30 million lire.

8th April

The flat-rate deduction at the source from dividends was reintroduced at the rate of 30 per cent. For non-residents the deduction from dividends and interest was set at 15 per cent.

10th April

IMF agreement with the Italian government for a stand-by credit of SDR 1 billion. The Italian government undertook to limit the growth of domestic financing resources to 22 400 billion lire during the period from 31-3-74 to 31-3-75.

20th April

Corporations and independent traders required to pay in 1974 an advance instalment of tax on their 1975 incomes.

2nd May

With effect from 7th May, importers were required to deposit in a non-interest-bearing account with the Bank of Italy for a period of 180 days the equivalent in Italian lire of 50 per cent of the value of their cif imports of certain products, chiefly consumer goods, in excess of 1 million lire (about 40 per cent of total imports). To guard against the possibility of external financing for Italian importers, the banks were instructed not to underwrite the external transactions of the importers affected by this measure.

2nd May

The limit on imports and exports of Italian banknotes by residents and non-residents was raised from 20 000 to 35 000 lire per trip. A maximum foreign currency allowance for residents was set at the equivalent of 500 000 lire per year.

4th June

The price control system introduced in July 1973 was not renewed except in the case of rents and a small number of staple food products (chiefly meat, pasta, oil and sugar), and provision was made for building buffer stocks of those products. A few other products remain "under surveillance".

6th July

Fiscal measures: six decree-laws were approved by Parliament in their final version and provided for:

- advance payment of certain direct taxes and revaluation for tax purposes of incomes from real estate (estimated yield: about 50 billion lire);
- introduction of an exceptional surtax ("una tantum") of 5 per cent on personal incomes of between 10 and 14 million lire and of 10 per cent on incomes in excess of 14 million lire (estimated yield: about 50 billion lire);
- higher rates of tax on corporate bodies (up from 25 to 35 per cent), private financial companies (up from 7.5 to 10.5 per cent) and public financial companies (up from 4.6 to 8.8 per cent) (estimated yield: about 80 billion lire);
- tax reliefs for the lower income groups (estimated loss of revenue: less than 550 billion lire);
- extension of VAT to all services connected with the professions (estimated yield: 135 billion lire);
- tightening of controls on tax evasion;
- raising of VAT rates from 18 to 30 per cent on luxury goods and from 6 to 18 per cent on beef (estimated yield: 420 billion lire);
- an increase of 40 lire per litre in the price of gasoline (estimated yield: about 475 billion lire);
- introduction of an exceptional tax ("una tantum"), graded according to fiscal horsepower category, on motor vehicles (estimated yield: about 233 billion lire).

Electricity charges and public transport fares raised.

18th July

The amount of fixed-income securities which the banks are required to hold was raised to 12 per cent of the amount of their deposits at 31-12-73 for the second half of 1974.

19th July

The prior import deposit requirement was abolished in respect of certain farm goods and the rate was reduced to 25 per cent for beef imports.

Ceiling placed on banks' net foreign liabilities, restricting them to their level at 19th July, 1974.

31st August

Agreement between the Bank of Italy and the Bundesbank for a loan of \$ 2 billion secured to a gold deposit valued at a price based on the market price.

15th September

Reference interest rate for government interest subsidies and rates on postal deposits and bonds raised from 9 to 13.8 per cent.

18th December

Agreement with the EEC for a medium-term loan of \$ 1.4 billion, with the provision that the increase in domestic financing resources will be limited to 24 700 billion lire during the period from 1-4-75 to 31-3-76.

23rd December

Removal of restrictions on credit to large firms (borrowing in excess of 500 million lire) and to firms engaged in export activities.

Certain securities issued in order to finance public works projects were added to the list of securities eligible for inclusion in the compulsory reserves.

24th December

Preferential export credit fund increased by 100 billion lire.

27th December

Discount rate lowered from 9 to 8 per cent. Penalty rates on ordinary and fixed-term advances raised by 0.5 per cent.

1975

16th January

Electricity charges reduced for certain categories of low-income consumers (estimated loss: 145 billion lire) and increased for other categories, chiefly in the production sector.

25th January

Agreement concluded between Confindustria and the trade unions on the industrial wage indexing mechanism, this agreement being subsequently extended to the other sectors with some adjustments. It should be remembered that the Italian indexing system is based on the award of a fixed allowance (the "value of one point" ranging from 372 to 948 lire according to wage category with a median value of about 490 lire) for each 1-point rise in the price index¹. When the mechanism was introduced in 1956, the value of the point was calculated as 1 per cent of the wage. But because wages rose much more rapidly than prices, the percentage of the price rise compensated for grew progressively smaller. On the other hand, given the level of the price index (252 in August-October 1974 on the basis of 1956 = 100), a 1 per cent increase in prices resulted in a 2.5 point rise in the index. But all told, with the two effects combined, the indexing mechanism compensated for no more than about 50 per cent of the rise in prices in 1974. Under the January agreement, the price index base was changed to August-October 1974 = 100 (although the composition of the index was left unchanged) and the value of the point was adjusted upward by a coefficient of 2.52. Furthermore, between now and 1977 it is planned to unify by stages, for all categories, the value of the point at the highest level. Thus, in 1975 the value of the point has ranged from 1 045 to 2 389 lire according to category with a median value of about 1 500 lire, i.e. an increase of 23 per cent. Finally, it was decided to raise all wages by 12 000 lire, this increase representing the revaluation of the sliding scale points received in the past.

30th January

The ratio of banks' compulsory cash reserves was reduced to 15 per cent of the increase in deposits for all categories of banks². The banks were required to invest 40 per cent of the increase in their deposits in fixed-income securities³, including the securities which formed part of the compulsory reserves, of which 300 billion lire in securities issued by the Treasury to finance the public hospitals' deficit. Steps were taken to facilitate credit to agriculture (interest subsidies totalling 300 billion lire, removal of the credit ceiling).

20th February

The initial draft budget forecasts for 1975 tax revenue were adjusted upwards (by over 1 000 billion lire). In the revised draft budget, the purposes to which this additional revenue was allocated were a reduction of the budget deficit (200 billion lire), increased subsidies for export credit and farm credit, and transfers to the regions.

27th February

Repayment of the first instalment of the \$ 500 million loan from the Bundesbank.

21st March

The prior import deposit requirement was abolished with effect from 24th March.

21st March

It was decided not to renew the 15 per cent ceiling on bank credit growth. Nevertheless, the limit on domestic credit growth between April 1975 and March 1976 (24 700 billion lire) was maintained. To improve the functioning of the money market and the control of the monetary authorities, non-bank transactors were authorised henceforth to purchase Treasury bonds.

27th March

Telephone charges raised: the resulting inflow of revenue was expected to be 300 billion lire.

1 This is a special index, the movement of which may differ somewhat from that of the consumer price index or of the cost-of-living index.

2 In January 1962 the compulsory reserve ratio for commercial banks was set at 22.5 per cent of the amount of their deposits, of which at least 10 per cent had to be kept in cash and the balance in one-year Treasury bonds. Subsequently, the banks were authorised, provided that they observed the minimum cash requirement, to place in the reserves an increasingly wide range of long-term securities. The reserves of the savings banks, which were not subject to the requirement to keep in cash a minimum percentage of their deposits, consisted almost entirely of long-term securities.

3 The securities were valued at their nominal worth; consequently, effective investment in securities would be equal to about 33 per cent of the increase in deposits between the end of November 1974 and the end of May 1975.

28th March

Raising of the ceiling below which private persons are not required to submit returns of income.

11th April

With effect from 1st July, State railway rates were raised (by about 10 per cent).

15th April

The procedures for the refund of VAT to exporters were simplified; it was estimated that this would serve to release about 1 000 billion lire.

20th May

Following the agreement of 12-1-1975 between the trade unions and Confindustria⁴, Parliament approved legislation on an earnings guarantee, which provided for an improvement of the arrangements for compensation of short-time working. The new legislation did not introduce any innovation with regard to the circumstances in which the "Cassa Integrazione Guadagni" may intervene. Ordinary interventions are provided for in the case of temporary lay-off or short-time working and extraordinary interventions in the event of a crisis (sectoral, national or local). Administrative authorisation is sufficient for ordinary interventions and will be given after a commission has been consulted; the commissions, one for each province, comprise workers' and employers' representatives and government officials. The state of crisis which justifies extraordinary interventions has to be declared by inter-ministerial order. Ordinary intervention by the fund lasts three months and may be extended up to twelve months. Extraordinary intervention lasts six months and may be extended up to twelve months, and in some cases indefinitely. The amount of benefits paid to workers is set at 80 per cent of gross pay for all hours, up to a total of 40, which are not worked. (Under the previous scheme, benefits were limited to 66 per cent of pay for hours not worked within the range of 24 to 40 hours per week.) Firms which request the intervention of the "Cassa Integrazione Guadagni" have to pay to the fund 8 per cent of the benefits due to workers. In addition, the "Cassa Integrazione Guadagni" is financed by way of a contribution from firms of 1 per cent of their total wage bill (or 0.75 per cent for small firms employing up to 50 persons) together with a government subsidy of 20 billion lire a year.

26th May

Family allowances raised with effect from 1st February.

27th May

Parliament approved a three-year programme of support to the construction industry for a total of 3 000 billion lire, of which 1 000 billion was to be used in 1975.

28th May

Discount rate lowered to 7 per cent together with the rate on fixed-term advances. Penalty rates were reduced by 0.5 per cent.

3rd June

Pensions improved. With effect from 1st January, 1975, pensions of less than 100 000 lire were increased (taking into account the 13 per cent increase due to the movement of the sliding scale). As from 1st January, 1976, the minimum pension will be equal to 27.75 per cent of the average wage in industry. The minimum envisaged for 1976 is 63 850 lire compared with 55 950 in 1975. The value of one point on the sliding scale will be 400 lire in 1976, 500 in 1977, 600 in 1978, 680 in 1979 and 758 lire, i.e. 80 per cent of the value of one point for workers in employment, in 1980. This increase in pensions is to be financed by raising the contribution of employees by 0.4 per cent as from 1st July, 1975 and by 1 per cent as from 1st January, 1976. The total cost for the period from 1975 to 1979 has been estimated at 8 000 billion lire, of which 950 billion in 1975.

6th June

The ceiling on export insurance raised to 1 400 billion lire.

7th June

Renewal of financing under expired legislation providing for government contributions (interest subsidies and capital transfers) to certain industrial investments (textile industry, small and medium-size businesses, Mezzogiorno, etc.).

4 In force since 1st February, 1975.

15th June

Prime rate lowered to 14 per cent by interbank agreement.

16th June

The limit on banks' net indebtedness to abroad was abolished (see 19-7-1974), but banks were still prohibited from having a positive net position vis-à-vis non-residents.

25th June

The freeze on rents was extended until 31st December, 1975. A further extension until 30th June, 1976 was decided on 21st July.

5th July

The minimum amount of fixed-income securities to be held by the banks was reduced from 40 to 30 per cent of the increase in their deposits for the second half of 1975. Since the securities are valued at their nominal worth, about 25 per cent of new deposits will be used to purchase these securities.

25th July

Italian workers returning from abroad for reasons of unemployment were given entitlement to unemployment benefits, family allowances and medical assistance for a period of up to 180 days.

6th August

Unemployment benefits for construction workers increased to two-thirds of their average daily pay over the last four weeks of employment.

8th August

Introduction of a multi-year reflation programme by way of two decree-laws which were approved by Parliament on 14th October and concern:

- (a) *Exports*: the ceiling on export insurance, which was 1 400 billion lire, was raised to 2 500 billion lire for 1975 and 1976; cover for transactions partly insured during previous periods was increased up to a ceiling of 1 000 billion lire; the Medio Credito ceiling on interest subsidies for export credits was raised by 100 billion lire per year from 1975 to 1977.
- (b) *Housing*: the funds put at the disposal of the public institutions (Istituti autonomi per le case popolari) for construction of low-cost housing were increased by 600 billion lire; 45 billion lire was earmarked for interest subsidies for loans to private individuals and co-operatives building dwellings meeting certain specifications; the administrative formalities relating to construction projects were relaxed.
- (c) *Public works*: increase in budget appropriations of 1 000 billion lire, of which 600 billion for construction of hospitals, 235 billion for public works projects carried out by the regions, and 50 billion for maritime infrastructure work.
- (d) *Transport*: new expenditure on airports (134 billion lire), metropolitan railways (3 billion per year from 1976 to 1978 and 2 billion in 1979), purchase of public transport facilities by the regions (30 billion lire per year from 1975 to 1979).
- (e) *Aid to industrial firms*: increase in financing under previous legislation providing for central government contributions (interest subsidies and capital transfers) to certain industrial investments (630 billion lire, of which 15 billion in 1975 and 85 billion in 1976); increase of 20 billion lire (of which 2 billion in 1975 and 10 billion in 1976) in funds allocated to the purchase of machine tools.
- (f) *Agriculture*: the total amount of aid provided for is about 684 billion lire, of which 215 billion for livestock farming, 260 for irrigation and 85 billion to develop the mechanisation of farms; a few tax reliefs were also decided on.
- (g) *Shipyards*: financing for shipyards was increased by 20 billion lire.
- (h) *Mezzogiorno*: allocation of 1 000 billion lire to the Cassa per il Mezzogiorno, of which 300 billion for agriculture; at least half of these funds will be used to finance special projects.

26th August

For the period from 15th September, 1975 to 15th January, 1976 the Italian Exchange Office undertook to rediscount for the banks their dollar claims against lire at a maximum rate of 7.5 per cent, for the purpose of refinancing export credit transactions.

12th September

Discount rate reduced to 6 per cent as from 15th September. The penalty rates on ordinary and fixed-term advances remained in force. Interest on export credits was lowered from 8.50 to 7.50 per cent. The prime rate was cut from 14 to 12 per cent by interbank agreement.

30th October

The reference interest rate for State interest subsidies was reduced by 1 per cent (from 13.80 to 12.80 per cent).

26th November

Direct taxation was lightened to offset a proportion of the effects of inflation, notably through adjustment of the tax scales and raising of the exemption limit for personal income tax. Enterprises may henceforth revalue their balance sheets: each asset may be revalued upwards by 40 per cent of the purchase value or total assets may be revalued upwards by not more than 50 per cent of the capital and the reserves.

TECHNICAL ANNEX

I Investment functions

The various equations constructed by Italian economists for the purpose of identifying the determinants of investment¹ show that the rate of capital stock utilisation and the level of profits are the key variables. In all the equations in which these variables are used, the coefficients are statistically significant. Less satisfactory results are obtained when business expectations are introduced and economic interpretation becomes difficult. Furthermore, the variables used as proxies to business expectations are usually dependent on capacity utilisation or profits, which often gives rise to collinearity problems.

The results obtained when other variables are introduced are more questionable. It has, admittedly, been possible to show the impact of wage rises on investment, but despite the good results obtained, it could be argued that the variable which is significant in this case is in fact the change in the cost of labour relative to that of capital. It is indeed probable that during the 1960s and especially during the 1970s there has been some substitution of capital for labour, but this assumption cannot be confirmed by simply introducing the rate of wage increases into an investment function. As to the cost of capital, introduction of the long-term interest rate does not usually give a significant result. On the other hand, when variables reflecting the availability of credit to firms rather than the cost of capital are introduced, better results are obtained as far as the statistical significance of the coefficients is concerned (although there is high collinearity in certain equations). The most significant variables in this regard are those which in one way or another take into account credit from the Specialised Credit Institutions.

Fazio and Vicarelli² use an approach which is rather different from those described in the foregoing paragraphs. In their function, the dependent variable is not investment itself but the gap between actual investment and investment initially desired. Desired investment is obtained by minimising a total production cost function with a previously estimated production function constraint. The results confirm the importance of profits and the degree of capital stock utilisation in determining investment. They also show that the long-term rate of interest plays a significant part in determining the optimal mix of factors of production.

In Table 13 the main results of a number of models are very briefly summarized. In some cases, model variants are shown (indicated by the letters A, B or C under the name of the model). The dates in brackets under the names of the models refer to the period covered by the estimate. The letters (a) and (q) indicate whether estimates are annual or quarterly. The figures in brackets below the coefficients are the Student "t" values.

1 Cf. among others P. Sylos Labini, *Prices, Distribution and Investment in Italy, 1951-1966: an Interpretation* in Banca Nazionale del Lavoro, Quarterly Review, Dec. 1967; C. Dal Monte, *Un modello econometrico per l'economia italiana utilizzato a fini previsivi*, in Rassegna Economica, January-February 1973; G. Ietto, *Estimates of Annual and Quarterly Investment Demand Functions for the Italian Economy*, in Metroeconomica, May/August 1971; Several authors under the direction of G. Fuà, *Analisi quantitativa per la programmazione di breve periodo*, ISCO, 1971; P. Nardi, J. Pontolillo and C. Tresoldi, *Gli investimenti industriali ed il loro finanziamento tramite gli istituti di credito speciale*, Bank of Italy, October 1973; Project Link, a *Quarterly Econometric Model of the Italian Economy*, Discussion Paper No. 70105, July 1971.

2 A. Fazio and F. Vicarelli, "un modello di domanda per beni d'investimento: formulazione teorica e applicazione al settore estrattivo e manifatturiero della economia italiana" in Rivista di Politica Economica, November 1966.

Table 13 Investment

Models	Capital or labour cost	Expectations	Rate of capital stock utilisation
<i>Sylos Labini:</i> (1951-65) (a) (A) $r^2 = 0.99$ D.W. = 1.82			-2.55 (7.3)
(B) $r^2 = 0.87$	Long-term rate of in- terest 1.10 (0.7)		-1.93 (4.1)
<i>Dal Monte:</i> (1951-70) (a) (A) $r^2 = 0.96$ D.W. = 2.47	Rate of change in wages lagged 4 years 1.26 (11.1)		-2.74 (14.6)
(B) (1951-68) (a) $r^2 = 0.96$ D.W. = 2.42			-2.7
<i>Ietto:</i> (1951-67) (a) (A) $r^2 = 0.95$ D.W. = 1.87		Difference between v.a. and potential output lagged one period 1.17 (9.6)	
(B) $r^2 = 0.95$		v.a. in industry 0.50 (6.2) Ratio, lagged one period, of capital stock to used capacity -0.25 (5.9)	

Functions

Profits	Financing	Other
Ratio of gross profits to national income 0.76 (5.6)	Rate of change in total liquidity 0.83 (2.0)	Constant term -64.38
0.84 (4.2)		Constant term 39.19
0.87 (9.5)	Rate of change in total liquidity 0.49 (2.1)	Rate of change in total investment of public enterprises 1.05 (8.7) Constant term -50.3 (6.6)
0.90 (10.0)	Rate of change in total liquidity 0.40 (1.5)	Dummy variable 18.34 (8.7) Constant term 52.00 (6.1)
		Capital stock lagged one period 0.14 (15.3)
		Investment in industry lagged one period 0.43 (3.7)

Table 13 (cont'd)

Models	Capital or labour cost	Expectations	Rate of capital stock utilisation
(C) (q) $r^2 = 0.98$		Gross product of private sector 0.07 (5.4)	Ratio, lagged one period of capital stock to capa- city utilisation -0.02 (5.0)
ANCONA: (G. Fuà) (1952-71) (a) $r^2 = 0.99$ D.W. = 1.26			Difference be- tween capacity use and the current ratio supplied by pri- vate firms
BANK OF ITALY: M2 B 1 (1958-72) (a) (A) $r^2 = 0.98$ D.W. = 1.03			(Lagged one period) 49.3 (3.8)
(B) (q) $r^2 = 0.90$ D.W. = 1.03	Difference (lagged 3 periods) between value added in industry at constant prices and the ratio value added/capacity used		0.51 (4.6)
BOLOGNA: (Project Link) (1957-70) (q) $r^2 = 0.92$ D.W. = 1.06		GDP at factor cost lagged one period 0.06 (7.9)	(Lagged one period) 0.88 (3.2)

Investment Functions

Profits	Financing	Other
		Investment lagged one period
		0.79 (17.5)
Between maximum in the past rate multi- plicity lagged one period		Investment lagged one period
0.51 (1.5)		0.49 (6.4)
Difference between v.a. and income of independent workers lagged one period		
15.01 (9.2)		
Gross profits in industry	Credit of SCI lagged one period	Requests for credit accepted by SCI
0.24 (3.0)	0.06 (0.4)	0.47 (5.9)
	Ratio of SCI credit at a subsidised rate to credit at market rate (lagged one period)	
	221.6 (4.3)	
Value added less income of depen- dent workers	Credit of SCI lagged 2 periods	Requests for credit accepted by SCI
0.33 (4.4)	0.14 (4.7)	0.30 (5.0)
	Ratio of SCI credit at a subsidised rate to credit at market rate (lagged 2 periods)	
	0.37 (3.4)	
Ratio of profits to GDP in industry lagged 3 to 8 periods with dimi- nishing weights		Dummy variable (strikes in 1969)
22.79 (5.2)		1.30 (4.6)

II Average age of capital

A series for the average age of capital in industry³ and services was estimated by the Secretariat starting out from the assumption of a constant rate of depreciation. The basic data used are to be found in "Documentazione statistica di base" by P. Ercolani, which appeared in *Lo Sviluppo economico in Italia* published by G. Fuà⁴. This series, which covers the period 1950-74, shows that the average age of capital falls sharply until the mid-1960s and rises steadily thereafter. The series estimated was tested with a Cobb-Douglas function for the period 1950-63. The equation obtained is as follows:

$$\ln Va - 0.03 T - \ln TR = 0.33 [\ln (STC \times CE) - \ln TR] - 0.03 AM + 0.15$$

(2.1) (1.7) (0.5)

R = 0.97
 DW = 2.3
 VA = value added
 T = time trend
 TR = labour (hours worked)
 STC = capital stock
 CE = rate of output capacity utilisation
 AM = average age of capital stock

The figures in brackets below the coefficients are the Student "t" values.

Until the mid-60s the time path of the capital stock series based on the assumption of a constant rate of depreciation follows fairly closely that of G. Esposito's series published in "G. De Meo, Sintesi statistica di un ventennio di vita economica italiana (1952-71)" (ISTAT, Annali di statistica, serie VIII, vol. 27). New estimates of Italy's capital stock have recently been published by ISTAT, notably in *Problemi relativi alla definizione, stima, rilevazione ed utilizzazione del capitale* (Annali di statistica, serie VIII, vol. 28, Roma 1975) and *Il capitale fisso riproducibile delle attività industriali, anni 1951-1972* in Note e relazioni, No. 52, March 1975.

³ Excluding building and public works.

⁴ Vol. III, ed. F. Angeli.

STATISTICAL ANNEX

Table A National Accounts
Expenditure and Output
Billion lire

	Current prices					1970 prices				
	1970	1971	1972	1973	1974	1970	1971	1972	1973	1974
EXPENDITURE:										
1 Private consumption	37 660	41 027	45 233	53 290	65 188	37 660	38 776	40 158	42 403	43 358
2 Public consumption	7 333	8 897	10 060	11 530	13 622	7 333	7 732	8 119	8 340	8 495
3 Gross domestic fixed capital formation	12 336	12 793	13 540	16 970	22 752	12 336	11 949	11 997	12 981	13 531
of which: Construction	7 755	7 622	7 967	9 562	12 492	7 755	7 217	7 160	7 318	7 408
Machinery and equipment	4 581	5 171	5 573	7 408	10 260	4 581	4 732	4 837	5 663	6 123
4 Change in stocks	1 054	432	460	1 785	1 781	1 054	358	375	1 323	786
5 Exports of goods and services	9 985	11 142	12 712	15 223	23 113	9 985	10 700	11 959	12 600	13 962
6 less: Import of goods and services	10 431	11 235	12 979	17 980	29 029	10 431	10 679	11 925	13 139	13 447
7 GDP at market prices	57 937	63 056	69 026	80 818	97 427	57 937	58 836	60 683	64 508	66 685
OUTPUT:										
1 Agriculture, forestry and fishing	5 122	5 299	5 403	7 006	8 141	5 122	5 148	4 767	5 101	5 174
2 Manufacturing, mining and public utilities	19 548	21 012	22 912	26 623	32 660	19 548	19 686	20 568	22 470	23 559
3 Construction	4 910	5 025	5 278	6 242	7 975	4 910	4 676	4 666	4 803	4 870
4 Services, private sector ¹	21 016	23 322	26 125	29 389	34 281	21 016	21 760	22 763	23 813	24 588
5 Public administration	6 159	7 230	8 159	9 436	11 080	6 159	6 369	6 607	6 841	7 003
6 Import duties	1 182	1 168	1 149	2 122	3 290	1 182	1 197	1 312	1 480	1 491
7 GDP at market prices	57 937	63 056	69 026	80 818	97 427	57 937	58 836	60 683	64 508	66 685

1 Less imputed bank services.

Source: ISTAT (National Accounts).

Table B Quarterly National Accounts

Billion lire, 1970 prices

	1972	1973					1974					1975	
	Year	I	II	III	IV	Year	I	II	III	IV	Year	I	II
1 GDP at market prices ¹	60 683	15 448	16 096	16 391	16 573	64 508	16 919	16 996	16 660	16 110	66 685	15 973	15 861
of which: Agriculture	4 767	1 242	1 254	1 281	1 324	5 101	1 314	1 276	1 264	1 320	5 174	1 327	1 340
Industry	20 568	5 206	5 649	5 798	5 817	22 470	6 063	6 180	5 882	5 434	23 559	5 342	5 187
(including energy sector)													
Construction	4 666	1 207	1 196	1 193	1 207	4 803	1 238	1 225	1 213	1 194	4 870	1 177	1 171
Services	29 370	7 456	7 617	7 736	7 845	30 654	7 916	7 946	7 925	7 804	31 591	7 787	7 823
2 Imports of goods and services	11 925	3 033	3 360	3 368	3 378	13 139	3 416	3 301	3 415	3 315	13 447	2 823	2 838
3 Exports of goods and services	11 959	2 961	2 979	3 268	3 392	12 600	3 394	3 445	3 585	3 538	13 962	3 351	3 465
4 Total domestic demand	60 649	15 520	16 477	16 491	16 559	65 047	16 941	16 852	16 490	15 887	66 170	15 445	15 234
of which: Investment in machinery and equipment	4 837	1 163	1 421	1 514	1 565	5 663	1 547	1 603	1 545	1 428	6 123	1 371	1 288
Investment in construction	7 160	1 846	1 822	1 815	1 835	7 318	1 882	1 863	1 846	1 817	7 408	1 792	1 782
Consumption plus stocks	48 652	12 511	13 234	13 162	13 159	52 066	13 512	13 386	13 099	12 642	52 639	12 282	12 164

¹ Including import duties.

Sources: ISTAT Relazione Generale 1974 and Secretariat estimates.

Table C Price Indices
1970 = 100

	1972	1973	1974	1974				1975		
				I	II	III	IV	I	II	III
WHOLESALE PRICES ¹ :										
Agricultural products	112.7	143.4	168.2	167.0	164.6	166.6	174.7	178.2	184.4	187.5
Non-agricultural products	106.7	122.9	178.8	159.4	176.3	187.4	192.1	192.3	191.4	192.9
Investment goods	104.2	127.2	177.9	158.6	178.0	186.4	188.5	190.3	191.5	191.7
Consumer goods	109.4	125.8	159.1	147.9	154.6	164.0	170.0	171.1	172.1	
Intermediate ggoods	106.0	123.7	274.0	233.4	275.0	290.1	297.7	293.2	286.5	285.5
General index	107.6	125.9	177.2	160.6	174.6	184.3	189.5	190.2	190.4	192.1
CONSUMER PRICES:										
Food products	110.6	123.9	145.9	134.3	140.2	149.1	159.8	165.6	170.4	173.9
Non-food products	111.3	122.5	156.1	140.1	150.6	161.9	171.5	174.9	176.2	179.4
Services	110.7	121.3	136.0	128.7	133.2	137.8	144.3	152.2	159.8	162.7
General index	110.8	122.8	146.3	134.5	141.5	150.0	159.2	164.9	169.4	172.6
CONSUMER PRICES FOR WORKING CLASS FAMILIES ² :										
Food	110.2	123.2	145.7	133.7	139.6	149.1	160.4	165.9	170.5	174.3
Clothing	113.8	127.5	150.4	140.0	146.5	151.8	163.4	167.6	171.6	173.1
Housing	105.9	111.9	116.2	112.3	114.0	117.5	121.0	127.0	130.5	132.7
General index	110.9	122.4	146.2	133.6	140.8	150.4	160.0	164.9	169.3	172.9

1 New series from January 1973, not comparable with the preceding series because of the different incidence of fiscal factors.

2 Previously "cost-of-living index".

Source: ISTAT.

Table D Employment¹
Thousands

	1968	1969	1970	1971	1972	1973	1974	1974				1975			
								Jan.	April	July	Oct.	Jan.	April	July	Oct.
A LABOUR FORCE, TOTAL	19 484	19 266	19 302	19 254	19 028	19 168	19 458	19 306	19 246	19 599	19 681	19 549	19 436	19 797	19 807
Total in % of population	37.4	36.8	36.6	36.2	35.5	35.5	35.7	35.5	35.3	35.9	36.0	35.6	35.4	36.0	
1 Employment															
Dependent employment	12 396	12 591	12 830	12 981	12 988	13 239	13 620	13 532	13 532	13 624	13 792	13 812	13 618	13 862	13 914
Independent employment	6 404	6 020	5 863	5 664	5 343	5 261	5 278	5 174	5 230	5 424	5 284	5 134	5 151	5 287	5 204
Total employment	18 800	18 611	18 693	18 645	18 331	18 500	18 898	18 706	18 762	19 048	19 076	18 946	18 769	19 149	19 118
of which: Underemployed	255	275	250	311	278	283	303	410	254	234	314	569	502	349	367
2 Unemployment															
Unemployed (excluding school leavers)	358	304	269	279	262	248	193	241	176	154	203	248	251	234	
School leavers	326	351	340	330	435	420	367	359	308	397	402	355	416	414	
Total unemployment	684	655	609	609	697	668	560	600	484	551	605	603	667	648	689
Total in % of labour force	3.5	3.4	3.2	3.2	3.7	3.5	2.9	3.1	2.5	2.8	3.1	3.1	3.4	3.3	3.5
B OTHER POPULATION	32 558	33 110	33 469	33 870	34 520	34 813	35 083	35 132	35 237	34 949	35 015	35 312	35 481	35 159	
C TOTAL PRESENT POPULATION	52 042	52 376	52 771	53 124	53 548	53 981	54 541	54 438	54 483	54 548	54 696	54 861	54 917	54 956	

¹ Estimates of national aggregates extrapolated from quarterly sample surveys.

Sources: ISTAT and Relazione Generale 1974.

Table E Wages and Salaries
Indices, 1966 = 100

				1973		1974				1975			
				III	IV	I	II	III	IV	I	II	II	
I INDICES OF WAGES AND SALARIES													
A Minimum contractual wage rates:													
1	Agriculture	200.6	248.8	328.0	256.1	272.0	288.0	304.1	344.7	375.1	406.8	427.8	444.3
2	Industry	172.6	212.3	255.0	219.7	226.5	235.4	245.1	262.3	277.4	308.1	324.9	333.5
	of which: Manufacturing	178.7	222.0	271.8	232.2	241.6	252.7	264.3	279.0	291.4	324.4	342.8	352.0
	Construction	163.6	197.5	229.4	199.6	202.4	207.9	214.8	237.2	257.6	284.7	297.0	
3	Transport	152.6	173.1	219.6	176.0	181.2	212.0	218.2	221.7	226.4	240.9	251.7	262.4
4	Commerce	162.2	197.7	245.3	216.9	220.5	224.9	231.6	256.9	267.6	300.4	316.6	329.9
B Minimum contractual salaries:													
1	Industry	155.6	185.9	216.0	191.8	196.3	202.1	210.1	220.6	231.0	252.7	265.1	271.6
2	Commerce	157.2	188.6	230.2	204.2	207.7	211.7	217.9	240.7	250.5	277.1	290.5	
3	Public administration	125.0	151.8	157.1	132.5	151.8	157.1	157.1	157.1	157.1	164.4	164.4	171.5
		1969	1970	1971	1972	1973	1974						
Including family allowances													
II HOURLY WAGE EARNINGS (in lire)													
Industry ¹		675	819	957	1 082	1 324	1 685						
of which: Construction		678	807	905	987	1 185	1 490						

¹ Firms covered by the Ministry of Labour survey.

Sources: ISTAT and Relazione Generale 1974.

Table F Public Sector Accounts

(a) Central Government¹*Billion lire, current prices*

	1970	1971	1972	1973	1974
1 Tax revenue	9 053	9 792	10 565	12 597	16 324
2 Other current receipts	1 771	2 020	2 232	2 587	2 807
3 Total current receipts	10 824	11 812	12 797	15 184	19 131
4 Current expenditure on goods and services	5 007	6 204	6 809	7 828	9 480
5 Subsidies, current transfers and depreciation	5 600	6 512	7 432	10 268	11 089
6 Total current expenditure	10 607	12 716	14 241	18 096	20 569
7 Net current saving	217	-903	-1 444	-2 912	-1 438
8 Depreciation allowances and capital account receipts	452	420	456	426	769
9 Gross investment	998	1 053	1 169	1 330	1 392
10 Capital transfers	1 105	880	856	1 079	1 699
11 Financing needs: overall surplus = (—)	1 434	2 416	3 014	4 896	3 761

¹ Excluding central autonomous institutions.

Sources: ISTAT (National Accounts) and Relazione Generale 1974.

(b) Local Authorities

Billion lire, current prices

	1970	1971	1972	1973	1974
1 Tax revenue	1 483	1 625	1 869	1 528	977
2 Other current receipts	1 284	1 538	2 020	2 938	4 227
3 Total current receipts	2 767	3 163	3 889	4 466	5 204
4 Current expenditure on goods and services	1 897	2 135	2 610	2 985	3 327
5 Subsidies, current transfers and depreciations	1 198	1 503	1 789	2 150	2 453
6 Total current expenditure	3 095	3 638	4 399	5 135	5 780
7 Net current saving	-328	-475	-510	-669	-576
8 Depreciation allowances and capital account receipts	310	426	375	554	1 045
9 Gross investment	673	753	811	948	1 388
10 Capital transfers	123	118	121	144	300
11 Financing needs: overall surplus = (—)	813	920	1 067	1 207	1 219

Sources: ISTAT, National Accounts and Relazione Generale 1974.

Table G Money and Credit
 (a) The monetary base, 1965-1974
Changes in billion lire

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
A <i>Origin of liquid assets:</i>										
1 Net impact of the foreign sector	627	235	243	123	-648	319	478	-415	-173	-3 115
2 Net impact of the public sector	932	481	405	922	1 500	2 991	2 611	4 171	7 235	7 669
3 Banks	-165	562	627	221	469	-1 276	90	935	277	1 362
4 Other sectors	-78	-58	-126	-74	-134	-102	174	-1 091	-2 261	-1 812
5 Total net impact	1 316	1 220	1 148	1 191	1 187	1 932	3 353	3 599	5 078	4 104
B <i>Use of liquid assets:</i>										
6 Liquidity in the hands of the public	780	813	950	527	1 094	763	1 824	2 408	3 305	2 041
7 Compulsory bank reserves	463	314	250	403	416	782	1 162	1 237	1 662	1 494
8 Bank liquidity	74	93	-51	261	-323	387	367	-46	112	568
9 Total	1 316	1 220	1 148	1 191	1 187	1 932	3 353	3 599	5 078	4 104
10 Total including reserves in long term securities	1 581	1 694	1 573	1 633	1 584	2 176	3 805	4 288	6 079	

Source: Bank of Italy.

Table G Money and Credit

(b) Selected indicators

Billion lire, end of period

	1971	1972	1973	1974				1975	
				I	II	III	IV	I	II
I MONEY									
1 Currency in circulation ¹	7 139	8 009 ^a	9 601	9 446	9 807	9 651	10 757	10 387	10 949
2 Sight deposits	29 978	35 540 ^a	44 451	43 737	45 644	45 788	49 043	46 678	46 713
3 Saving deposits	17 688	21 033	25 782	27 374	28 214	29 452	33 069	38 188	41 898
4 Post office saving deposits	6 977	8 423	10 175	10 611	10 935	10 786	11 004	11 211	111 226
5 Money supply broadly defined (1 + 2 + 3 + 4)	61 782	73 005	90 009	91 168	94 600	95 677	103 873	106 464	111 226
II CENTRAL BANK									
1 Credit to Treasury	7 758	9 333	14 426	15 594	18 277	20 250	20 674	21 656	23 624
2 Credit to banking sector	1 040	2 505	2 304	2 163	2 938	1 831	3 413	2 667	3 007
III OTHER BANK									
1 Total deposits	47 224	57 670	69 273	70 078	72 609	74 030	80 926	83 453	86 786
2 Credit	30 586	36 368	43 340	45 404	47 051	46 633	52 046	50 383	52 666
3 Government securities, shares and debentures			22 100	22 396	23 742	25 300	27 502	31 912	34 782
IV SPECIAL CREDIT INSTITUTIONS									
Credit to the economy	19 422	22 136	27 848	28 337	28 659	29 607	31 040	32 386	33 715

¹ In the hands of the non-bank public.² Adjusted for random movements at end 1972.

Sources: Bank of Italy, Rassegna congiunturale and IMF.

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

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
A By issuer and type of security											
1 Government bonds	232	664	1 555	1 002	1 297	1 550	1 090	2 234	2 605	3 121	1 232
in % of total bonds issues	(16.0)	(33.5)	(55.1)	(41.3)	(41.6)	(46.3)	(41.8)	(44.4)	(43.6)	(29.9)	(35.5)
2 Special Credit Institutions	721	646	861	987	1 189	1 284	1 483	2 229	2 446	6 438	2 153
3 ENEL, ENI, IRI	469	557	314	246	403	466	94	454	696	625	243
4 Business companies	33	90	3	156	113	37	-50	55	62	172	-147
5 Foreign bonds ¹	—	14	72	15	44	12	-2	36	106	38	-2
6 Total bonds ²	1 454	1 983	2 823	2 425	3 116	3 351	2 610	5 034	5 969	10 453	3 473
7 Shares	581	394	473	385	449	673	997	977	1 241	1 983	771
8 Total capital market issues	2 035	2 377	2 296	2 809	3 565	4 024	3 607	6 011	7 210	12 436	4 244
B By subscriber and type of security											
1 Non banks											
bonds	275	766	1 262	1 220	1 233	954	645	1 663	1 784	1 469	-1 945
(in % of total bonds)	(18.9)	(38.6)	(44.7)	(50.3)	(39.6)	(28.5)	(24.7)	(33.0)	(29.9)	(14.0)	(-56.0)
shares	585	373	449	342	441	653	978	968	1 217	1 944	730
2 Banks and other financial Institutions											
bonds	995	1 181	1 360	1 049	1 665	1 182	877	2 450	3 006	6 445	3 801
(in % of total bonds)	(68.4)	(59.6)	(48.2)	(43.3)	(53.4)	(35.3)	(33.6)	(48.7)	(50.4)	(61.7)	(109.4)
shares	-8	34	15	38	6	18	17	6	3	40	33
3 Bank of Italy											
bonds	184	36	201	156	219	1 215	1 089	922	1 180	2 539	1 617
(in % of total bonds)	(12.7)	(1.8)	(7.1)	(6.4)	(7.0)	(36.2)	(41.7)	(18.3)	(19.8)	(24.3)	(46.6)
shares	4	-1	6	5	2	2	1	3	21	-1	8

1 International Institutions issues.

2 Total including Local Authority bonds but excluding special 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 1973	1972		1973		1974		1967-1971 average
		Total	Foreign sources	Total	Foreign sources	Total	Foreign sources	Total
Short-term credit	30 198	3 278	—	4 608	—	6 548	—	1 972
Medium and long-term credit	25 769	3 199	86	5 445	768	4 399	480	2 007
<i>of which: Special Credit Institutions</i>	18 125	2 274	—	4 062	—	2 742	—	1 424
Bonds	7 583	757	—	797	—	96	—	394
Shares and participations	24 534	1 157	423	1 708	349	739	385	926
Total	88 084	8 391	509	12 558	1 117	11 782	865	5 299
in % of GNP		13.0		15.5		12.1		10.1

Source: Bank of Italy Annual Report.

Table H Balance of Payments, OECD Basis
Millions of dollars

	1967	1968	1969	1970	1971	1972	1973	1974
Exports, fob	8 605	10 098	11 642	13 117	14 839	18 480	22 117	29 859
Imports, fob	8 626	9 050	11 100	13 498	14 724	18 425	26 093	38 315
Trade balance	-21	1 048	542	-381	114	55	-3 976	-8 456
Services, net	1 257	1 239	1 386	1 312	1 522	1 540	1 114	696
Balance on goods and services	1 236	2 287	1 928	931	1 636	1 595	-2 862	-7 760
Private transfers, net	427	488	508	522	573	639	586	572
Official transfers, net	-64	-148	-96	-320	-306	-191	-386	-607
Current balance	1 599	2 627	2 340	1 133	1 902	2 043	-2 662	-7 795
Long-term capital (excl. spec. trans.)	-1 064	-1 329	-3 194	-21	-390	-1 125	2 897	3 279
(a) Private ¹	-1 000	-1 264	-3 199	-756	-492	-956	1 957	3 040
(b) Official ²	-64	-65	5	735	102	-169	940	239
Basic-balance	535	1 298	-854	1 112	1 512	918	235	-4 516
Non-monetary short-term private capital ³	78	-362	-393	-571	-490	-1 573	-145	-832
Errors and omissions	-237	-275	-82	-138	-278	-672	-571	184
Balance on non-monetary transactions	376	661	-1 329	403	744	-1 327	-481	-5 164
Private monetary institutions'								
short-term capital	180	-722	661	-11	214	507	177	344
(a) Assets	-305	-1 583	-2 080	-2 878	-3 148	-6 573	-5 326	11 098
(b) Liabilities	485	861	2 741	2 867	3 362	7 080	5 503	-10 754
Balance on official settlements	556	-61	-668	392	958	-820	-304	-4 820
Use of IMF credit	—	—	—	—	—	—	—	1 683
Special transactions ⁴	—	-75	154	—	—	—	—	—
Miscellaneous official accounts	-4	-79	374	-210	73	-3	254	3 590 ⁵
Allocation of SDR's	—	—	—	105	107	115	—	—
Change in reserves (+ = increase)	552	-215	-140	287	1 137	-708	-50	453
(a) Gold	-14	523	33	-69	-3	-1	4	—
(b) Currency assets ⁵	609	-790	-141	865	917	-810	-20	1 006
(c) Reserve position in IMF	-43	52	-32	-586	73	-20	-35	-355
(d) Special Drawing Rights	—	—	—	77	151	123	2	-198

Exchange rates: 1 US \$ = 625 lire (incl. 1971).

1 US \$ = 582 lire (1972 and 1973).

1 US \$ = 650 lire (1974).

1 Long-term private capital includes remittances of Italian banknotes from abroad.

2 Long-term official capital includes the item "titoli in valuta rappresentative di debiti dell'italia" (taken from movimento valutarie) but excludes the prepayments of official debts.

3 Non-monetary short-term capital consists only of commercial credits.

4 Special transactions: 1968: debt prepayment to the United States (\$ 38 million Q. 1, \$ 37 million Q. 3). 1969: reversal of debt prepayment made to the United States in 1966 (Q. 3).

5 Currency assets include convertible Roosa bonds and Canadian bonds (\$ 100 million: purchase in 1968 Q. 2; retirement in 1970 Q. 2).

6 EEC and Bundesbank credit.

Source: OECD Secretariat.

Table I Foreign Trade and Reserves
Million dollars

	1970	1971	1972	1973	1974	1974				1975		
						I	II	III	IV	I	II	III
FOREIGN TRADE (customs basis), monthly averages												
1 Imports, total (cif)	1 245	1 332	1 606	2 318	3 414	3 092	3 459	3 607	3 501	3 005	3 116	3 058
non-food	1 009	1 043	1 241	1 797	2 803	2 520	2 971	2 977	2 757	2 539	2 562	
2 Exports, total (fob)	1 099	1 260	1 545	1 853	2 524	2 082	2 419	2 741	2 856	2 690	2 874	2 907
non-food	1 006	1 148	1 404	1 698	2 313	2 003	2 323	2 453	2 478	2 568	2 705	
3 Trade balance	-146	-71	-61	-465	-890	-1 010	-1 040	-866	-645	-315	-242	-151
<i>Seasonally adjusted</i>												
1 Imports	—	—	—	—	—	3 129	3 401	3 707	3 438	3 091	3 013	3 131
2 Exports	—	—	—	—	—	2 207	2 399	2 712	2 727	2 904	2 818	2 893
3 Trade balance	—	—	—	—	—	-922	-1 002	-996	-711	-187	-195	-237
FOREIGN RESERVES, end of period												
1 Official reserves:												
Gold	2 887	3 131	3 130	3 483	3 535	3 483	3 483	3 427	3 535	3 601	3 570	3 361
Convertible currencies	2 113	3 063	2 225	2 181	3 185	2 502	1 089	3 949	3 185	2 993	2 953	2 309
IMF position	276	378	359	359	—	338	326	—	—	—	—	—
Special Drawing Rights	77	247	371	414	221	414	415	225	221	203	172	132
Total	5 352	6 820	6 084	6 436	6 941	6 737	5 313	7 601	6 941	6 797	6 695	5 802

Sources: OECD Main Economic Indicators, ISCO and IMF.

Table J Commodity Breakdown of Foreign Trade
Billion lire

	1968	1969	1970	1971	1972	1973	1974
(i) IMPORTS cif							
1 Food, drink and tobacco	1 285	1 486	1 692	2 054	2 302	3 470	4 254
2 Crude oil	894	972	1 120	1 416	1 431	1 984	6 273
3 Metals, ores and scrap	824	1 074	1 468	1 181	1 268	1 875	3 591
4 Textile materials and products	477	595	666	582	725	1 209	1 334
5 Wood and products	240	291	320	304	336	609	828
6 Automobiles and spares	214	306	456	501	638	845	883
7 Other engineering products	1 082	1 353	1 670	1 804	1 944	2 683	3 631
8 Chemical products	605	739	887	927	1 129	1 588	2 731
9 Paper and cardboard	144	179	212	186	221	308	553
10 Other imports	664	797	865	946	1 271	1 653	2 525
11 TOTAL IMPORTS	6 429	7 792	9 356	9 901	11 265	16 224	26 603
(ii) EXPORTS fob							
1 Food, drink and tobacco	552	653	716	836	988	1 095	1 545
2 Metals, ores and scrap	390	421	451	575	668	814	1 572
3 Textile materials and products	793	929	956	1 099	1 286	1 466	1 862
4 Clothing and shoes	443	567	638	711	839	918	1 280
5 Automobiles and spares	553	634	761	856	951	1 185	1 597
6 Other means of transport	220	265	244	274	412	455	597
7 Other engineering products	1 720	1 994	2 415	2 605	2 932	3 350	4 838
8 Chemical products	885	902	1 002	1 183	1 223	1 730	3 633
9 Other exports	810	965	1 071	1 223	1 550	1 956	2 760
10 TOTAL EXPORTS	6 366	7 330	8 254	9 362	10 849	12 969	19 684

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

INTERNATIONAL COMPARISONS

BASIC STATISTICS : INTERNATIONAL COMPARISONS

			Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxem- bourg	Nether- lands	New Zealand	Norway	Portugal	Spain	Sweden	Switzer- land	Turkey	United Kingdom	United States	Yugo- slavia ¹
POPULATION		Mid-1973	13 132	7 521	9 742	22 125	5 027	4 643 ²	52 177	61 967	8 972	212	3 051	54 888 ³	108 350 ⁴	350	13 438	2 932	3 961	8 564	34 730	8 138	6 431	37 930	56 026	210 404	20 960
Net average annual increase		1963 to 1973	1.87	0.48	0.48	1.55	0.71	0.26	0.88	0.77	0.57	1.37	0.68	0.70	1.22	0.77	1.17	1.46	0.77	-0.46	1.06	0.68	1.09	2.49	0.43	1.07	0.95
EMPLOYMENT	Total civilian	1973	5 640	3 039	3 818	8 759	2 385	2 153	20 953	26 202	(3 320)	(88)	1 042	18 310	52 330	154	4 564	1 137	1 654	(3 109)	12 844	3 879	3 097	13 810	24 553	84 409	8 009 ^{5 10}
	Agriculture		7.2	16.1	3.9	6.5	9.5	17.1	12.2	7.5	(34.1)	(15.9)	25.1	17.4	13.4	9.0	6.8	12.1	11.4	(28.8)	26.5	7.1	(7.3)	63.4	3.0	4.1	49.5
	Industry ⁶	% of total	35.5	40.1	43.3	31.3	33.8	35.7	39.3	49.5	(25.7)	(37.5)	30.7	44.0	37.2	48.6	36.2	34.7	33.9	(33.8)	38.0	36.8	(46.2)	15.1	42.3	31.7	50.5
	Other		57.3	43.8	52.8	62.2	56.7	47.1	48.5	43.0	(40.2)	(46.6)	44.2	38.6	49.4	42.4	57.1	53.2	54.7	(37.4)	35.5	56.1	(46.5)	21.5	54.7	64.2	
PRODUCTION	GDP ⁷ per head	1973	4 900	3 550	4 650	5 410	5 460	3 720	4 900	5 610	1 790	4 870	2 130 ¹³	2 510	3 760	5 200	4 410 ¹³	4 080 ¹⁷	4 780	1 250	1 750	6 140	6 190	540	3 100	6 170	792 ¹³
GDP by sector:	Agriculture	1973	7.1 ^{9 10 11}	5.8	3.9	5.2 ¹¹	8.2 ¹¹	12.0	6.3	2.9	20.4 ¹¹	..	18.0 ^{11 13}	8.8	5.9	4.4 ^{11 12}	5.3 ^{11 13}	18.8 ¹²	5.6	16.3 ¹¹	12.7 ¹¹	3.8	..	26.1	3.0 ¹¹	4.4	16.6 ^{11 13}
	Industry	% of total	41.4 ^{9 10 11}	50.1	40.1	36.2 ¹¹	39.9 ¹¹	44.2	93.7	52.1	32.4 ¹¹	..	33.8 ^{11 13}	41.2	48.3	57.5 ^{11 12}	44.9 ^{11 13}	28.0 ¹²	33.4	43.2 ¹¹	35.5 ¹¹	36.6	..	28.8	42.4 ¹¹	33.9	46.6 ^{11 13}
	Other		51.5 ^{9 10 11}	44.1	56.1	58.6 ¹¹	51.9 ¹¹	43.8		45.0	47.2 ¹¹	..	48.2 ^{11 13}	50.0	45.9	38.1 ^{11 12}	49.8 ^{11 13}	53.2 ¹²	61.0	40.6 ¹¹	51.8 ¹¹	59.6	..	45.1	54.6 ¹¹	61.7	36.8 ^{11 13}
GDP ^{7 14} annual volume growth		1973	5.6	5.5	5.4	6.8	3.9	6.0	6.0	5.3	9.4	6.2	7.2	6.4	11.0	7.5	4.2	4.8 ¹⁷	3.7	7.6	7.4	3.3	3.5	4.6	5.3	5.9	..
		1968 to 1973	5.1	6.4	5.5	5.2	4.7	6.8	6.0	5.1	8.9	6.3	4.6	4.3	9.5	5.2	5.3	3.1 ¹⁷	4.5	6.4	7.0	3.2	4.6	6.2	2.8	3.6	..
INDICATORS OF LIVING STANDARDS																											
	Private consumption per head	1973	2 850	1 870	2 810	3 080	3 050	1 910	2 913	3 000	1 200	2 990	1 370	1 620	1 910	2 780	2 430	2 410 ¹⁷	2 530	900	1 170	3 240	3 640	320	1 960	3 840	425 ¹³
	Public expenditure on education	1970	4.3	4.7	5.4 ¹⁵	8.6	7.0	6.3	4.7	4.0	2.2	4.3	4.8 ¹⁵	4.3	4.1	4.4	7.3 ¹⁵	4.4 ¹⁵	5.9	2.0	2.4	7.8	4.2	2.9	5.5 ¹⁵	5.4 ¹⁵	4.3 ¹⁶
	Passenger cars, per 1 000 inhabitants	1971	314	177	212	321	231	163	260	239	30	222	140	209	100	296	211	324	206	72	81	290	233	4 ¹²	219	443	42
	Television sets, per 1 000 inhabitants	1972	227	226	236	349 ¹⁰	282	256	237	293	31 ¹⁰	220	173	202	225	220 ¹⁰	243 ¹⁰	250	241	63	145	333	239	4	305	474	113
	Telephones, per 1 000 inhabitants	1972	340	226	240	499	377	295	199	268	160	370	114	206	315	361	299	458	320	99	164	576	535	19	314	628	44
	Doctors, per 1 000 inhabitants	1971	1.25	1.87	1.60	1.50	1.41 ¹³	1.11	1.38	1.71 ¹²	1.67	1.44	1.09 ¹⁵	1.83	1.15	1.07	1.31	1.16	1.45	0.98	1.39	1.36 ¹²	1.67	0.45	1.29	1.57 ¹²	1.06
GROSS FIXED INVESTMENT ¹⁴ Total		1968-72 average	25.8 ⁹	29.0	20.8	21.4 ¹⁸	23.6	24.1	26.3	25.9	25.7 ¹⁹	28.7	24.2	19.8	38.7	23.6	25.3	..	..	19.0	24.2	23.1	27.8 ²⁰	16.9 ²¹	19.6	17.0 ²²	..
	Machinery and equipment	% of GDP ⁷	10.9	12.5	8.8	7.9	12.1	8.9	12.0	12.4	8.2	8.6	12.2	8.4	32.1 ²³	..	10.5	..	..	8.8	12.8	8.6	9.5	5.8	9.5	7.0 ²²	..
	Residential construction		5.2	16.5 ²⁴	4.7	4.4	4.6	5.8	6.5	5.2	8.0	5.3	4.3	5.9	6.6	..	5.7	..	..	2.7	3.7	5.0	7.1	3.3	3.5	3.5	..
	Other construction		9.7	— ²⁴	7.3	9.1	6.9	9.4	7.8	8.3 ²⁵	9.5	14.8	7.7	5.5	— ²³	..	9.1	..	..	7.5	7.7	9.5	11.2	7.8	6.6	6.5	..
WAGES/PRICES	Hourly earnings ²⁶	Annual increase 1967 to 1972	7.6 ^{27 28}	9.3 ²⁹	10.2	8.2 ²⁷	12.4 ³⁰	11.8	11.3 ³¹	9.3 ²⁷	8.3 ²⁷	18.3 ³²	13.5 ²⁷	11.2 ³³	15.6 ³⁴	..	10.4 ³⁵	10.3 ²⁷	10.0 ³⁰	10.2 ³⁸	12.6 ³⁷	9.9 ³⁸	6.5 ³⁹	12.8 ³⁷	9.6 ⁴⁰	6.0 ⁴¹	16.1 ^{38 37}
	Consumer prices		4.2	4.3	4.0	3.9	6.2	5.5	5.6	3.8	2.6	13.3	7.6	3.9	5.8	3.9	6.2	6.5	6.1	8.6	5.8	5.0	4.3	10.5	6.6	4.6	11.3
	GDP ⁷ deflator		5.8	4.4	4.6	4.0	6.4	6.5	5.5	5.2	2.9	17.2	9.3	5.0	4.8	5.9	6.6	6.9 ¹⁷	..	4.3	6.0	5.2	6.0	10.5	6.6	4.4	..
FOREIGN TRADE	Imports ⁴²	1972	\$ million ⁸ 6 180	6 290	14 570	23 130	6 080	3 680	32 070	51 150	2 530	300	2 240	23 600	24 910	1 050	20 100	1 980	5 810	2 630	7 250	9 590	9 710	1 400 ¹⁰	33 620	74 830	3 820
	% of GDP ⁷		13.2	30.9	40.9	21.8	28.6	27.4	16.4	19.9	20.7	39.5	40.6	20.1	8.5	77.8	43.4	23.1	38.3	32.2	16.2	23.2	32.6	10.9	21.8	6.3	23.2
	Exports ⁴²		\$ million ⁸ 7 500	6 220	15 430	23 750	6 240	3 700	33 760	55 730	1 470	290	1 930	24 040	31 800	1 100	21 320	2 320	6 060	2 220	7 190	10 110	9 720	900 ¹⁰	33 350	62 690	3 480
	% of GDP ⁷		16.0	30.5	43.4	22.4	29.4	27.5	17.2	21.6	12.0	38.2	35.0	20.4	10.8	81.5	46.1	27.1	39.9	27.1	16.1	24.4	32.7	7.0	21.6	5.3	21.2
BALANCE OF PAYMENTS	Current balance	1968-72 average	% of GNP -2.1 ⁹	-0.4	2.5 ⁴⁴	0.0	-2.1	-1.2	-0.2	0.8	-3.6	-4.2	-3.3	2.1	1.7	—	0.3	1.4	-1.0	3.3	0.5	-0.1	1.3	-0.5	0.8	-0.2	..
	Official reserves ⁴³ , end-1973: per cent of imports of goods in 1973		88.3	42.4	23.3 ⁴⁴	24.7	17.2	14.8	22.8	60.8	30.1	28.1	36.7	23.1	32.0	—	26.9	119.8	25.3	99.1	70.3	23.9	69.5	102.8	16.7	20.8	32.9
	Change	Sept. 1974 - Sept. 1975	Mill. SDR's -109	942	603 ⁴⁴	-412	88	-79	1 970	-672	2	-3	155	-1 420	304	—	297	-194	259	-502 ⁴⁵	109 ⁴⁵	994	130	-787 ⁴⁵	-1 024	414	-262

- 1 National source.
2 Does not include total net migration between Finland and the other Nordic countries.
3 Total resident population.
4 From 1972, including Okinawa prefecture.
5 Private and socialised sector.
6 According to the definition used in OECD Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
7 GDP at current prices.
8 At current prices and exchange rates.
9 Fiscal year-Beginning July 1st.
10 1971.
11 GDP at factor cost.
12 1970.
13 1972.
14 At constant (1970) prices.
15 1969.
16 1968.
17 Fiscal year-Beginning April 1st.
18 Excluding transfer costs of land and existing assets.
19 Excluding ships operating overseas.
20 1965-1969.
21 1967-1971.
22 Government and government enterprise expenditure on machinery and equipment is included in government current expenditure.
23 "Other construction" included under "machinery and equipment". Work in progress on heavy equipment and ships for the domestic market are included in fixed asset formation.
24 "Other construction" included in "residential construction".
25 Including transfer costs of land.
26 Industry.
27 Manufacturing.
28 Males.
29 Monthly, wage earners.
30 Mining and manufacturing, males.
31 Hourly rates in manufacturing.
32 Hourly wages rates, unskilled workers.
33 Hourly rates in manufacturing, excluding family allowances.
34 Monthly earnings in manufacturing. Cash payments including bonuses, regular workers.
35 Hourly rates in industry, males.
36 Monthly.
37 Manufacturing, including salaried employees.
38 Mining and manufacturing.
39 Hourly rates.
40 Hourly rates in manufacturing, males.
41 Manufacturing, gross earnings per production worker.
42 Goods and services, excluding factor income.
43 Including reserve position in the IMF and special drawing rights.
44 Including Luxembourg.
45 August 1974 - August 1975.

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

Sources: Common to all subjects and countries, except Yugoslavia (for special national sources see above): OECD: Labour Force Statistics, Main Economic Indicators, National Accounts, Balance of Payments, 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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