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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CURRENT ECONOMIC POSITION AND PROSPECTS OF ITALY

October 4, 1956

Department of Operations
Europe, Africa and Australasia

Conversion Rates of Italian Currency

U.S. $1	-	Lit. 625
Lit. 1	-	U.S. $.0016
Lit. 1,000,000	-	U.S. $1,600

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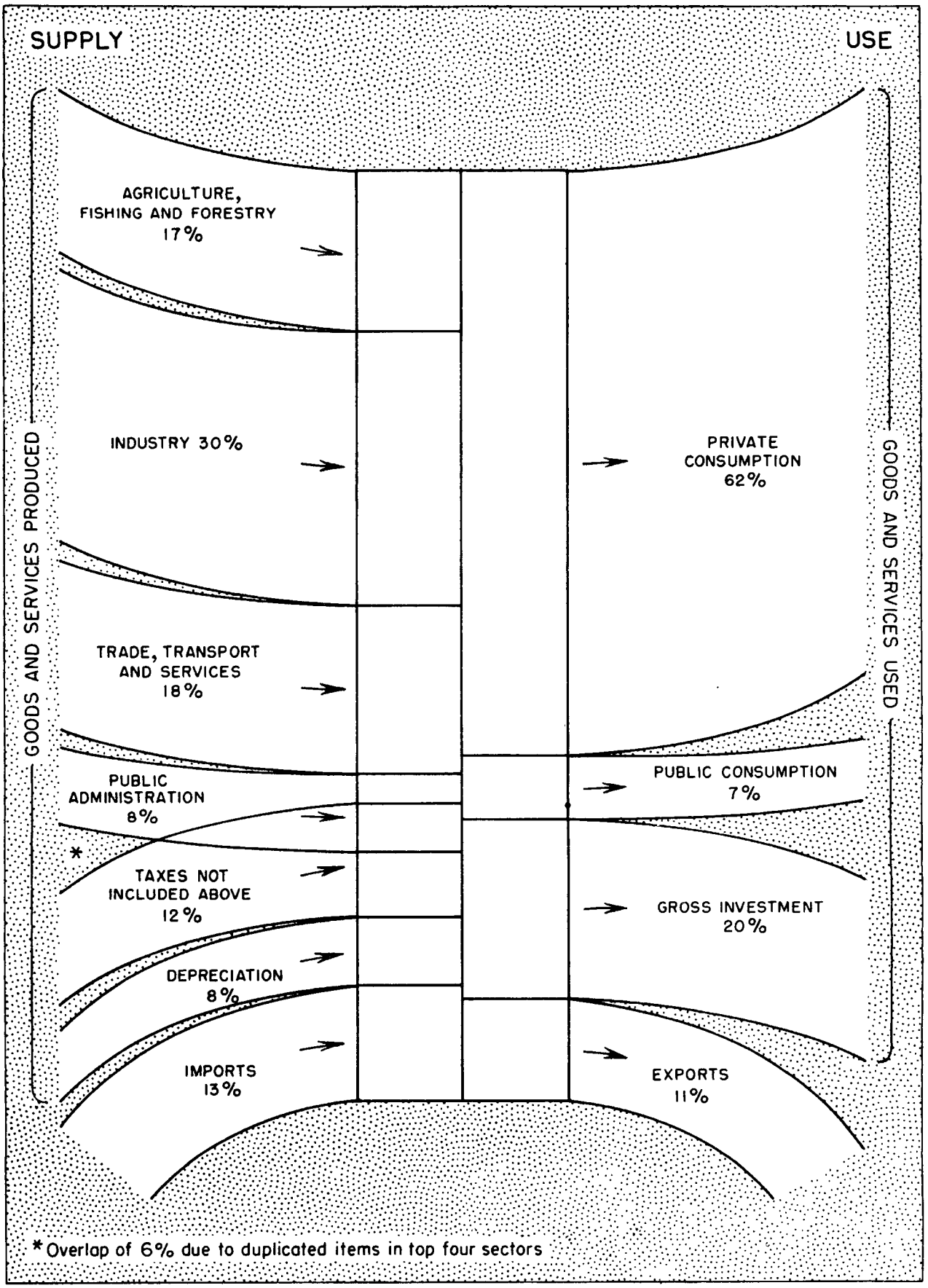
STATISTICAL APPENDIX

ANNEX I - PROGRESS OF THE CASSA PER IL MEZZOGIORNO

ITALY

SUPPLY AND USE OF RESOURCES - 1955

(PERCENT OF TOTAL)



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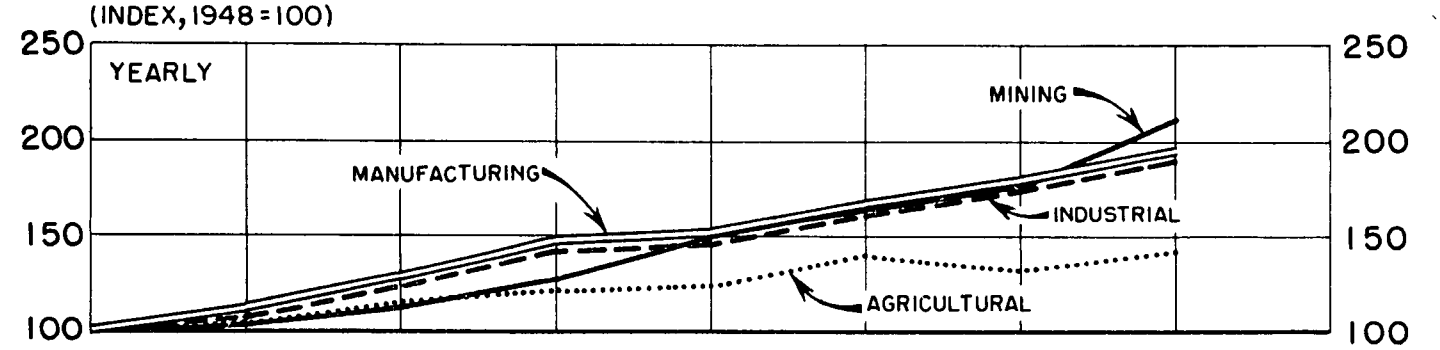
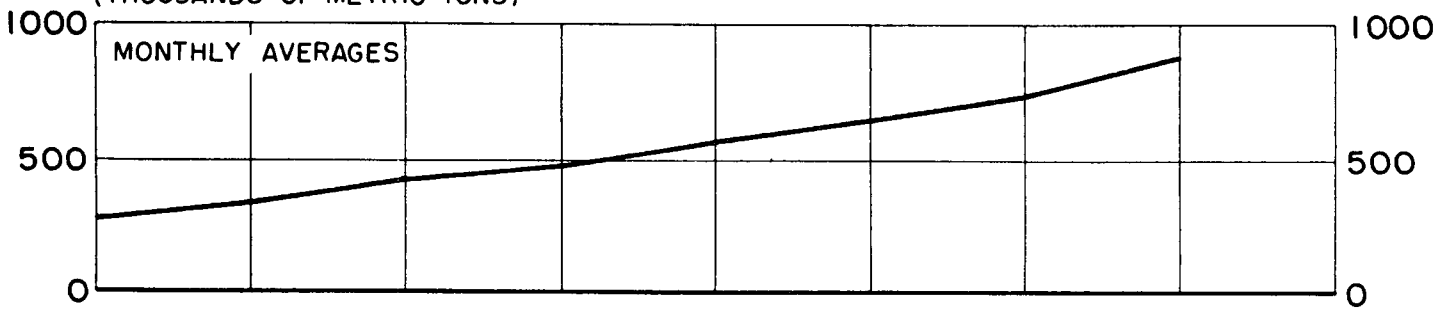
ITALY

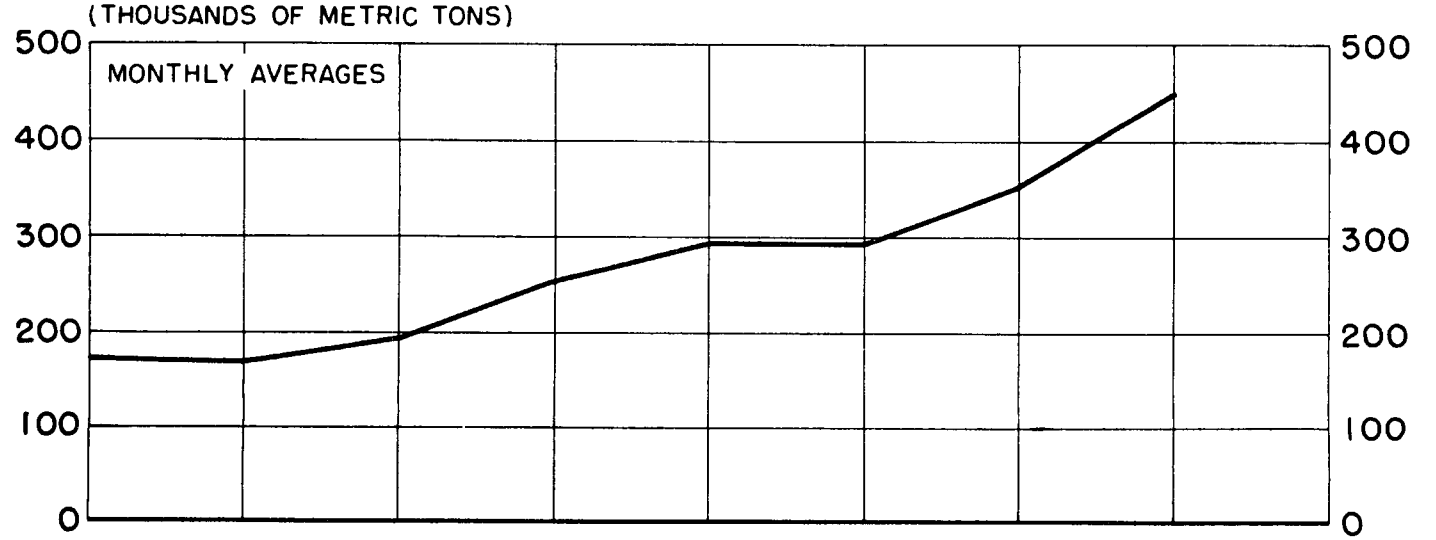
PRODUCTION INDEXES
(INDEX, 1948 = 100)



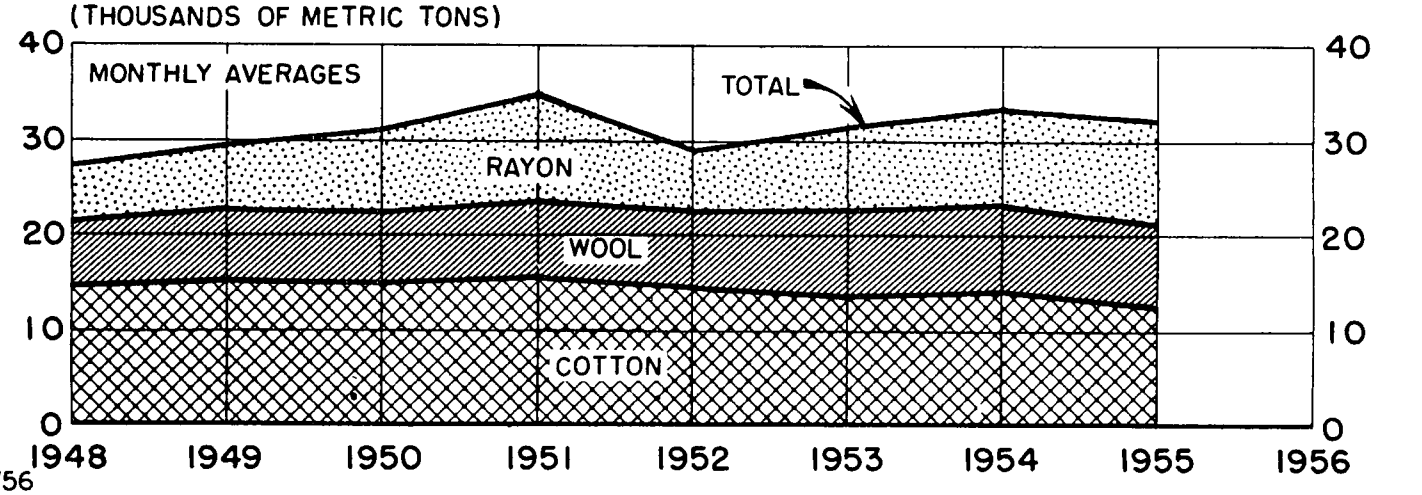
PRODUCTION: CEMENT
(THOUSANDS OF METRIC TONS)



PRODUCTION: CRUDE STEEL (INGOTS AND CASTINGS)
(THOUSANDS OF METRIC TONS)



PRODUCTION: TEXTILES
(THOUSANDS OF METRIC TONS)



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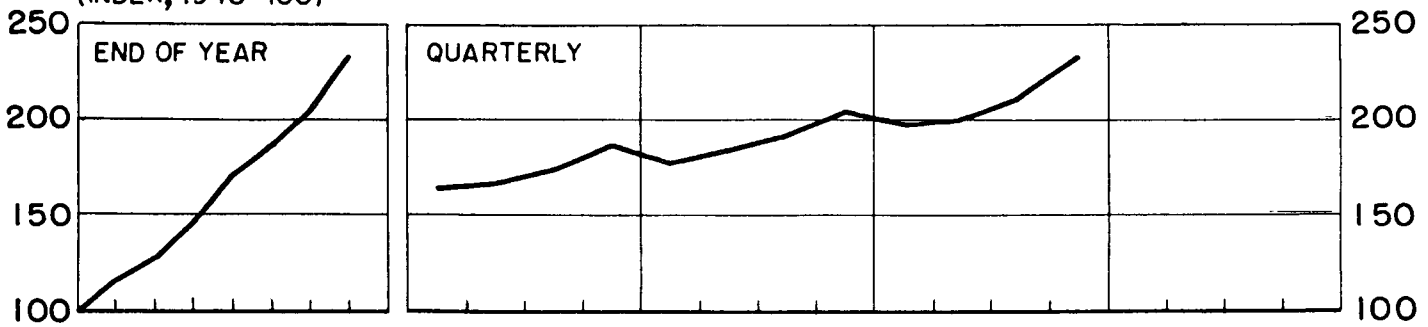
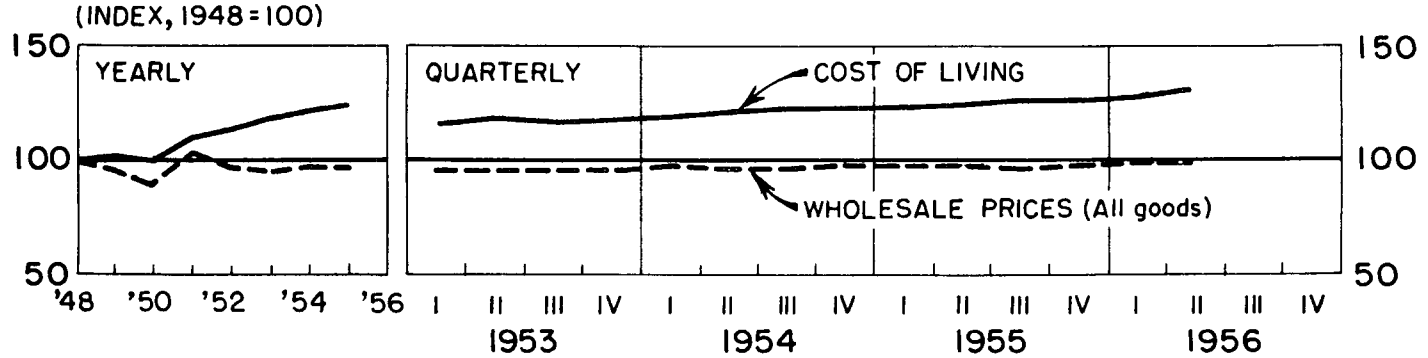
ITALY

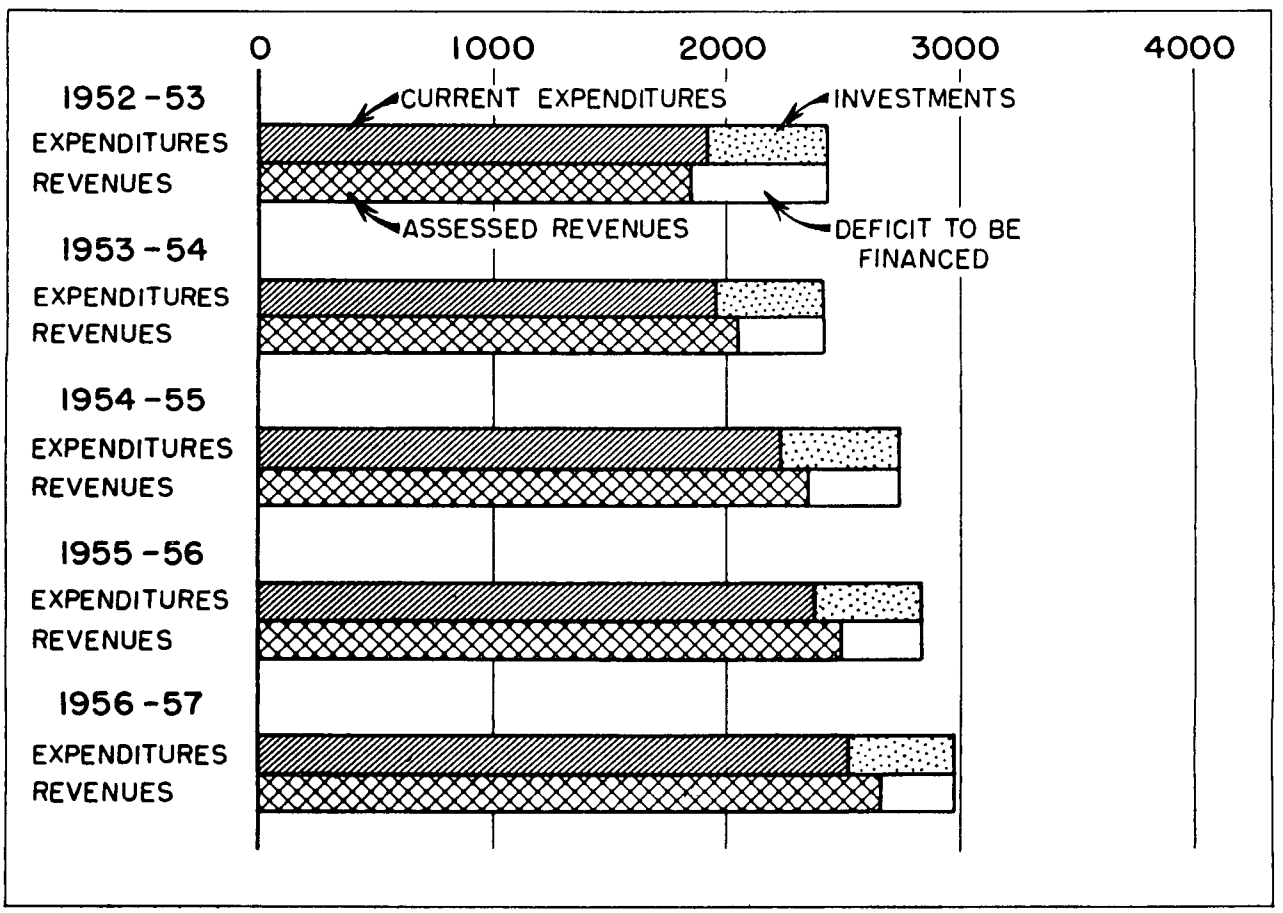
MONEY SUPPLY
(INDEX, 1948 = 100)



WHOLESALE PRICES AND COST OF LIVING
(INDEX, 1948 = 100)



GOVERNMENT APPROPRIATIONS BUDGET
(BILLIONS OF LIRE)



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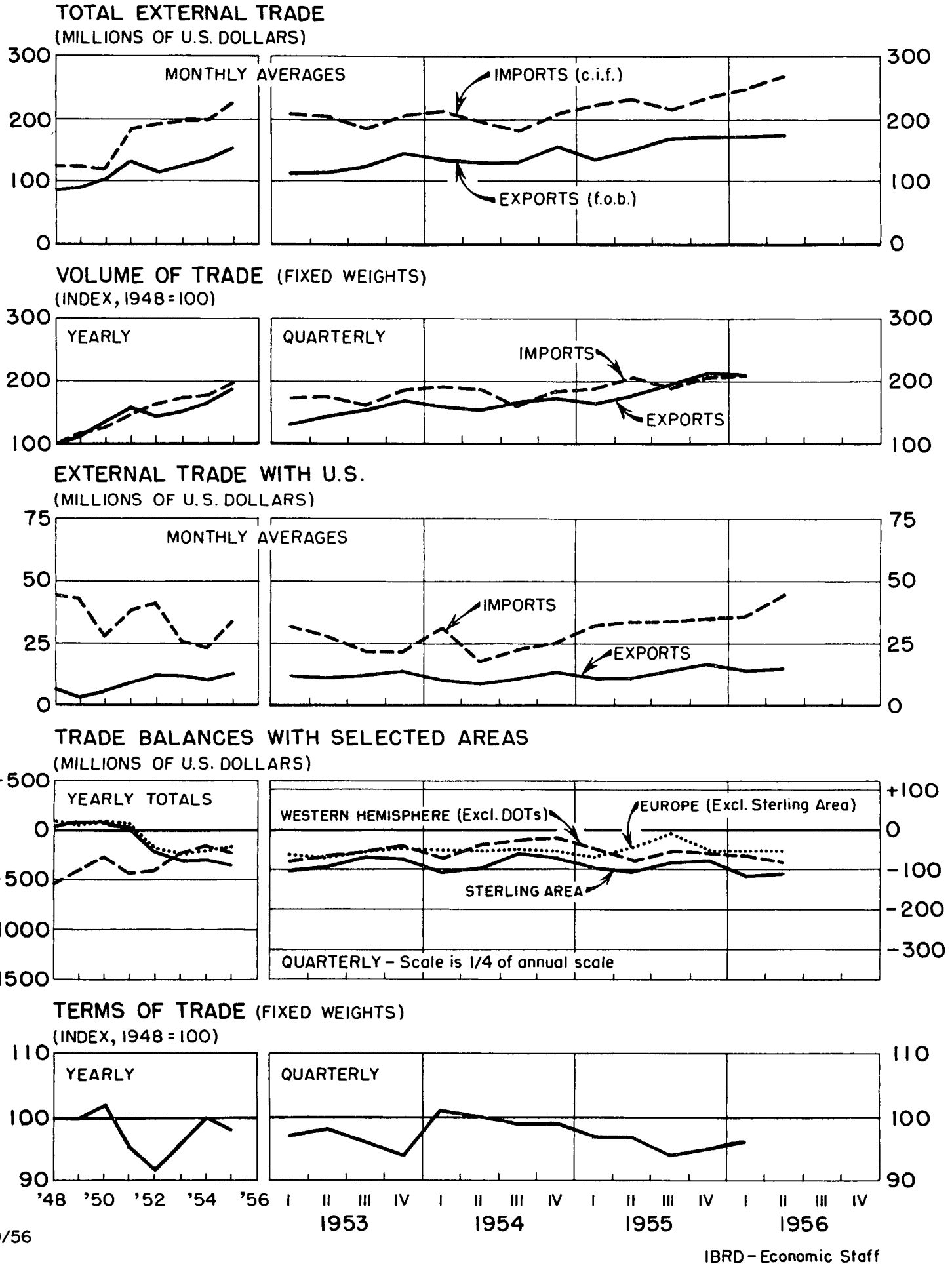
ITALY



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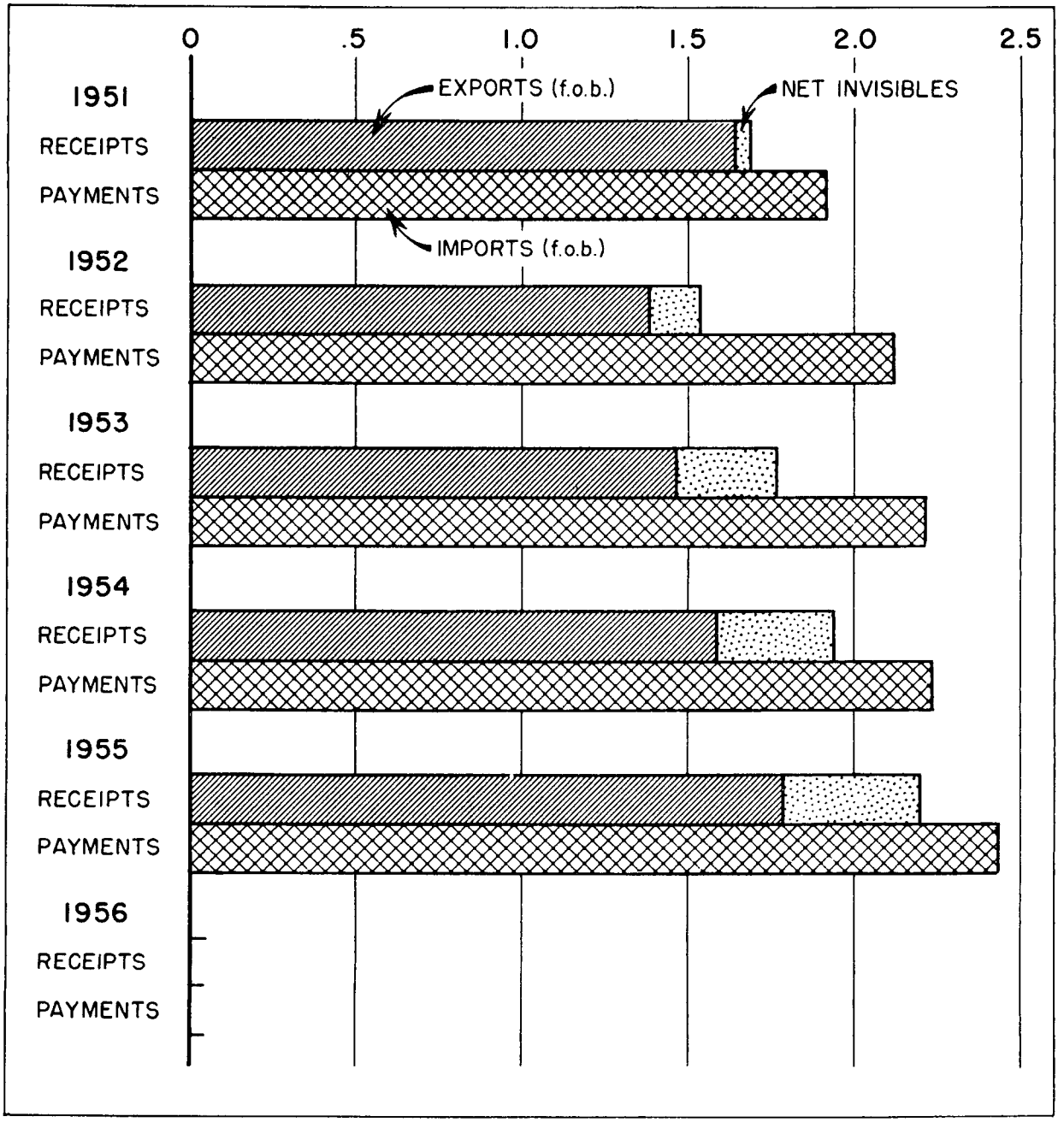
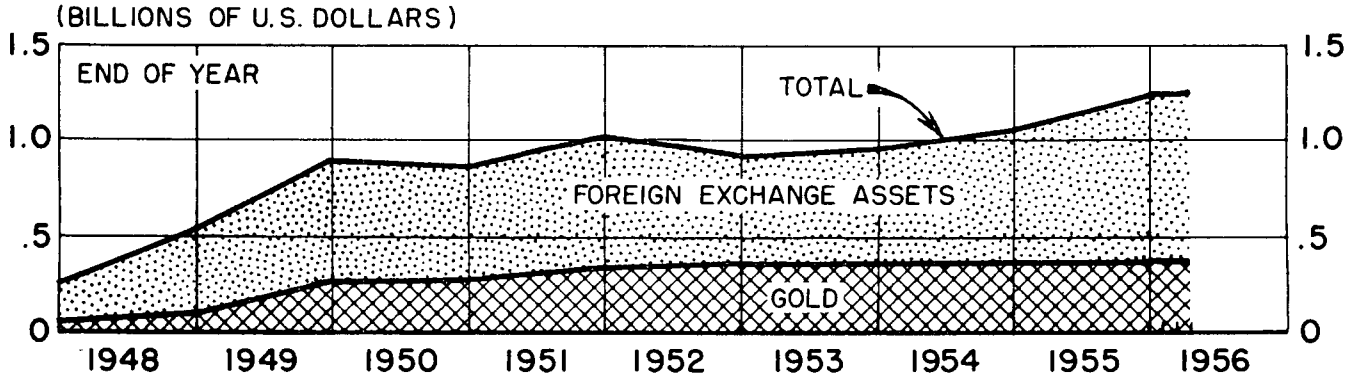
ITALY

BALANCE OF PAYMENTS ON CURRENT ACCOUNT
(BILLIONS OF U.S. DOLLARS)



GOLD AND FOREIGN EXCHANGE ASSETS (GROSS)
(BILLIONS OF U.S. DOLLARS)



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Italy

Basic Data

Population: 48,001,000 (1955)

Area: 119,800 sq. miles

Currency Unit: Italian lire (Lit.)

U.S. $1 = Lit. 625

Trade Statistics (in million $):

	1954	1955
Exports	1,648	1,853
Imports	2,406	2,705
Trade Balance	- 758	- 852

Balance of Payments on Current Account:

	1954	1955
Deficit (in million $ equivalent)	290	233

Gross Gold & Foreign Exchange Reserves:

	End of March 1956
Gold (in million $)	352
Foreign exchange	889
Total exchange reserves	1,241

External Public Debt (Dec. 31, 1955)

Total: Equivalent of $810 million
Dollar debt: $515 million

Gross National Product:

	1955
Current prices (in billion $ equivalent)	19.5

Income Per Head: (1955)
(Adjusted for differences in expenditure patterns)

All Italy $500 - Southern Italy $250

Wholesale Prices:

	1954		1955		1956
	June	Dec.	June	Dec.	June
(1948 = 100)	97	98	98	98	99

Cost of Living:

	1954		1955		1956
	June	Dec.	June	Dec.	June
(1948 = 100)	121	121	123	124	130

Summary and Conclusions

1. The real national income of Italy has been increasing by approximately 5% per annum since 1950 when reconstruction was completed.

2. This growth in real income has made possible an improvement in consumption, an increase in domestic savings and investment which compares favorably with most other OEEC countries.

3. Although overpopulation and unemployment continue to be serious problems, the recent high levels of investment and economic activity are beginning to reduce chronic unemployment and give promise of eliminating it over the next decade.

4. Agricultural production and productivity have been increasing and Italy should be able to achieve an over-all balance on food account in her foreign trade.

5. The rapid development of natural gas, the further exploitation of hydroelectric power resources, the discovery of oil on the Adriatic Coast and in Sicily, the development of natural steam and the possibility of a more efficient utilization of Sardinian coal may reduce dependence on imported sources of energy. If a satisfactory petroleum law is enacted encouraging oil production, the cut in imports could be very important.

6. Manufacturing industries, especially capital goods and durable consumers' goods industries, have greatly increased their output under the impetus of rising domestic investment and export demand. These factors which help reduce unit costs and the access on equal terms to coal and steel in the European coal and steel community are making Italy's manufacturing industries more competitive in domestic and foreign markets.

7. Construction and service industries have also been prosperous. There has never before been so much building--commercial and residential. Hotels and restaurants have been doing well. The shipyards are booked for several years ahead and the merchant marine is prospering.

8. Because of sound monetary policy and rising domestic savings, all this expansion has proceeded with relative price stability.

9. The rise in "transferable domestic savings"[1/] has acted as a stimulant to the capital market and has allowed a substantial increase in long-term financing both for private industry and for public works.

10. Public finances have shown some improvement with revenues now exceeding current expenditures. Financing of public investment has been carried out by largely non-inflationary means.

1/ This covers all savings other than those retained and used by the companies themselves.

11. Exports have on the whole been developing favorably and earnings from invisibles have increased substantially. But because of heavy investment, imports have risen considerably more than exports.

12. With investment in excess of domestic savings, the balance of payments continues to show a deficit on current account. However, external resources in the form of EPU credits, offshore procurements and troop expenditures are in sight for covering substantial deficits in the immediate future and so permitting a high rate of investment to continue.

13. If national income and savings continue to develop favorably and foreign exchange earnings increase as expected, the balance of payments position may be manageable by 1960 even at the investment levels which are presently proposed.

14. If these expectations do not materialize, Italy would have to cut back investment, which would mean that the steady reduction in unemployment would slow down or even be reversed. The willingness of the Italian people to accept this constitutes the largest element of risk in any further lending to Italy.

15. The debt service record is good and it is reasonable to expect it to continue to be so, even if it should entail taking domestically unpopular measures. The external debt service charges on Italy's foreign exchange earnings are relatively small, particularly in non-dollar currencies.

16. Because of all these considerations, Italy may be considered as a good risk for a further loan of approximately $75 million.

I.

GENERAL

Introduction

1. Since the Bank's most recent appraisal of Italian creditworthiness (May 20, 1955), the Italian economy has expanded somewhat faster than had been expected. National income in 1955 rose by 7%, with both industry and agriculture contributing to the increase. The increase in national income for 1956 is now expected to be about 5% which is in line with the Vanoni Plan forecasts. Employment has improved although unemployment and underemployment remain a serious problem. While there is a slight pressure on the price level, there are no indications of any serious inflation. The balance of payments in 1955 improved somewhat over 1954, but it continues to be a weak point.

National Income

2. The continuing growth at satisfactory rates of the national income constitutes the most favorable feature of the recent economic history of Italy. It is due to a soundly guided investment policy with internal monetary and price stability, a high degree of trade liberalization, and favorable economic conditions in the European and world economies.

3. The national product of Italy fell to catastrophically low levels during and immediately after World War II, reaching in 1945 about half the pre-war level. It recovered very rapidly and by 1950 sufficiently exceeded the pre-war level to offset the growth in population and to allow a real income per head equivalent to that of 1938. Once reconstruction was completed with the aid of substantial U. S. grants, the rate of growth of national income subsided somewhat, but nonetheless the performance continued satisfactorily. It is estimated that real national income increased by 7% in 1953, by approximately 5% in 1954, and by an additional 7% during 1955;[1/] that is to say, the pace of growth has been slightly above that in the rest of Western Europe. The performance during 1955 is particularly significant because weather conditions were by no means outstanding. As a result of bad weather and a drop in agricultural output, it is now expected that the national income will rise by 5% in 1956. The expansion in business activity is largely attributable to increased productivity in agriculture and industry as a result of a high level of public investment and of the rising volume of private investment. This record of postwar performance demonstrates the basic vitality of the economy and holds out promise of further growth, with reasonably good fortune.

Uses of National Income

4. Because of increased productivity it has been possible to increase both consumption and investment. Private consumption, which by 1952 exceeded pre-war levels, increased by 6% during 1953, by 3% in 1954 and by 4% in 1955. While consumers were rebuilding their stocks of clothing, furniture and other durable goods in the immediate post-war period, expenditures on foodstuffs lagged somewhat. By now, however, per capita consumption appears to have well surpassed pre-war levels in all major fields. Furniture, electrical

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1/ For details see Appendix Table 2.

appliances, motor vehicles and other durable goods have been selling well. Current expenditures of the government have also risen, but less rapidly than national income, thereby reducing their relative share in the national product.

5. A substantial part of the increased incomes has been saved. Indeed, for the future growth and viability of the economy, the post-war growth in total savings and the more recent large increases in "transferable domestic savings"[1] are most encouraging. Gross investment[2] was at a rate of about 20% of gross national product during 1951-54 and in excess of 21% in 1955, which is somewhat better than the Western European average. An appreciable increase in private investments took place in 1955, while public investment remained at roughly the same level. If income and consumption continue to increase in the same proportion as in recent years, the growing volume of savings should assure continued high levels of private and public investment. This would make it possible to increase the national product per head above its present level of approximately $500 equivalent annually. The most urgent need to increase incomes is in the South where they are only about half the national average.

Investment Activity

6. Public works and housing together now account for roughly a third of total investment and have registered the largest percentage growth of all sectors. This is explained by the rapid growth in housing construction and by the public works of the Cassa per il Mezzogiorno which in many instances serve as forerunners of increased private and public investments both in agriculture and in industry. Industrial investment in 1955 amounted to almost a third of gross investment in Italy.

Gross Investment[2] 1948-1955
(in billions of current lire)

	1948	1949	1950	1951	1952	1953	1954	1955
1. Agriculture	160	190	180	265	270	310	337	370
2. Industry	460	520	570	700	780	740	750	846
3. Transport & communications	280	250	270	270	330	358	414	422
4. Public works and housing	260	340	410	485	620	726	821	951
5. Others	50	70	90	115	120	120	132	146
6. Total	1210	1370	1520	1835	2120	2254	2454	2735
7. Percentage of investment to GNP	17.1	13.0	18.1	18.9	20.8	20.3	20.5	21.2

7. The recent growth in investment has been largely made possible by the rise in "transferable savings." The flow of savings through financial institutions and the capital market has practically trebled since 1951. About one-third of total savings are now thus available through the market; the other two-thirds are still utilized directly by the companies making them and by the government's investing its current account surplus and social

1/ This covers all savings other than those retained and used by the companies themselves.
2/ Exclusive of inventories.

security funds and postal savings. The public sector, including the Treasury, parastatal agencies, local authorities and public housing, takes between half and three-fifths of the "transferable savings" and the remaining portions are utilized by the private sector. More than two-thirds of all investment activity in Italy during 1955 was carried out by private enterprise, while all public entities combined were responsible for approximately one-third.

8. The sources of financing of private and public investment in 1955 are shown below:

Financing of Investment[1/]
1955

Total: 2,925 billion lire

Sources of private investment	Amount in billion lire	% of total investment	Sources of public investment	Amount in billion lire	% of total investment
Capital market	403	13.8	Budgetary surplus over current account	202	6.9
Self-financing, direct savings and short-term credits	1,562	53.4	Borrowing	659	22.5
			Note issue	99	3.4
Sub-total private	1,965	67.2	Sub-total public	960	32.8

Capital from abroad, including E.P.U. credits, U.S. aid and IBRD funds, provided roughly 3% of total investment resources.

9. Public investment, in addition to the Cassa per il Mezzogiorno (Fund of the South) program, covers a wide scope of activities besides the usual public works included in the budget. Investment appropriations in the budget (including funds for the Cassa per il Mezzogiorno) have accounted during the last several years for approximately half of total public investment, the remainder being carried out by the several parastatal corporations in the fields of industry, mining, communications, transportation, as well as by local and regional authorities. The public investments (outside of the Cassa per il Mezzogiorno) included in the budget are coordinated by the usual budgetary processes and influenced by the normal economic, social, and political pressures. The public investments outside of the budget are in part influenced by market needs, as well as the possibilities of raising funds and in part by the profit expectations of managements. Although the bulk of public investments has not been coordinated by any overall program, certain studies of the problem are going forward, which are alluded to in the following paragraph.

1/ For details see Appendix Table 3.

10. The so-called "Vanoni Plan" is not a plan in the normal sense of that word. Its author, the late Budget Minister Vanoni, has himself described it as "a statement of the problem." On the basis of certain assumptions, probably not all of them valid - assumptions as to extent of unemployment and underemployment, population growth, normal growth of employment opportunities in the private and public sectors, changes in consumption and investment habits, etc., the "plan" sets an employment goal of four million new jobs in ten years. It then goes on to analyze the domestic and foreign investment resources which would be required under still other assumptions to reach that goal. It concludes, probably correctly, that the magnitude of such investment would be well beyond Italy's unaided resources. While as an analytical tool its value is unquestionable, it does not purport at this stage to be a firm plan to be carried out in all its details. It has, however, stimulated interest in the direction of coordinating public investments. An analysis of the investments included in the budget has been undertaken by the economic staff of the Ministry of the Budget to determine their relationship to the Vanoni investment framework. This useful first step will be followed in the fall of 1956 by a broadening of the study to include the whole field of foreseeable public investment, both budgetary and parastatal. It is hoped that this study will result in a further tightening of controls over the use of scarce public investment resources.

11. The implementation of the Cassa program has on the whole proceeded satisfactorily. Progress was recorded during the sixth year (1955/56) in screening investment applications and in the awarding of project contracts. The cumulative value of contracts awarded increased in the course of the year from Lit. 472 billion to Lit. 606 billion. Total works completed under the Cassa program reached Lit. 266 billion as compared with Lit. 184 billion at the end of 1954/55, and if the land reform works financed by the Cassa are added, the total completed reached Lit. 347 billion--almost 30% of the funds for the entire twelve-year program. Investments actually realized under the Cassa program in the course of the year amounted to roughly Lit. 170 billion in 1955/56, or about the same as in the preceding year. These investments have continued to stimulate the development of the economy of the South and have induced additional investments in power, industry and other sectors within the area. The equivalent of 200,000 full-time jobs have been created directly and indirectly by the Cassa program and it is continuing to stimulate the demand for investment and consumers goods made in Northern Italy. All told the Cassa program has continued to give a satisfactory account of itself. (For more details see Annex I to this report).

12. On the other hand, the expenditures by the Cassa during the past two years, well in excess of the current annual appropriations (Lit. 100 billion), have placed a heavy burden on the Treasury and indirectly on the Banca d'Italia. In order to alleviate somewhat this burden and enable the Cassa program to proceed at its recent pace without current inflationary consequences, an inflow of external capital is essential. This function was performed by Loan 117-IT and would continue to be performed by any additional lending by the Bank to the Cassa.

Population and Unemployment

13. Italy's most serious economic and social problem is population pressure. Compared to other western countries, the current rate of growth, 0.68% per year, is not high. Nor is it too high in relation to the amount of current investment available to put to work the annual net increase in labor force. The problem is an inherited one; it is due to the existence of a large pool of unemployed and underemployed. This pool was essentially created in the period since the first World War, and particularly during the 'thirties and the second World War. Up to World War I, the population was kept down by emigration, particularly from the South where birth rates were high. The curtailment of emigration to the United States in the early 'twenties and then to the rest of the world during the depression of the 'thirties and World War II and after, coupled with the then national policy of encouragement of a high birth rate, led to a growth of population beyond the capabilities of the economy - as organized - to provide sufficient investment capital to put the growth in labor force to work. It is this accumulated surplus that constitutes the population problem.

14. The current outlook is for an annual increase of population of roughly 400,000. Since emigration prospects are limited and are not likely to relieve Italy of more than 200,000 persons annually, the net increase in population may be estimated at 200,000 and in the labor force at roughly 100,000. Population growth is not expected to cease until 1981 when total population is expected to be around 51 million.

15. In a very real sense, the population pressure has become the focal point of economic policy. With unemployment at a level of about 1.3 million and widespread structural underemployment, bridging the gap between the growing labor force and available employment opportunities constitutes the greatest challenge to Italian social and economic policy. With reconstruction fully completed and with the economy having been raised to a much higher level of efficiency, employment-creating investments are receiving much greater emphasis, particularly in the public sector. Various estimates indicate that the increases in employment during the past two or three years were sufficiently large to absorb the natural increase in the labor force as well as to furnish jobs for some 150,000 to 200,000 workers formerly unemployed. Although this represents only a dent in the employment problem, it is a significant development. Providing that domestic investment resources continue to be used effectively and reasonable amounts of capital from abroad are received, the next decade could witness the disappearance of Italy's sore spot - unemployment. With its disappearance Italy should become more productive and government policies would become less susceptible to pressures emanating from social instability. Thus while a large

population is likely to continue to exert a depressing effect on incomes because of the need to develop relatively low yielding resources, large scale chronic unemployment need not remain a permanent feature of the economy.

II.

SPECIFIC ECONOMIC SECTORS

Agriculture

16. Agriculture is Italy's primary economic pursuit, giving employment to approximately 40% of the total working population and producing about one-third of the national product. Although her agriculture is severely handicapped by such natural factors as mountainous terrain and inadequate water, modern scientific techniques can increase its productivity.

17. The progress in agricultural output since the end of the war has been satisfactory. Agricultural production by 1950 exceeded prewar levels. An increase in output of about 5% took place during the ensuing 2 years and a further rise of roughly 10% in 1953 as a result of exceptionally good weather as well as of some improvements in techniques. Even with bad weather in 1954, output was 5% above 1952 and the 1955 harvest is estimated at about 8% above 1954, largely as a result of the use of improved seed selection.1/ The most significant increases in output have taken place in such commodities as fruits and vegetables, sugar beet, wines, olive oil, milk and cheese. The production record of cereals was on the whole not very impressive until 1953, when an unprecedently large crop was raised on a reduced acreage. Grain production suffered in 1954 owing to exceptionally bad weather conditions; but the rising trend was resumed in 1955 when enough wheat was produced to meet domestic needs. Because of unfavorable weather, the 1956 wheat crop is now estimated at 9 million tons as against the record yield of 9.5 million tons in 1955. Meat output is somewhat above prewar and the outlook appears favorable as the livestock population has been growing.

18. Considerable agricultural potentialities exist and they will have to be exploited if the economy is to be strengthened. Broadly speaking, the present agricultural policy is to raise output in all branches of agriculture, largely by a more rational utilization of the country's sparse land resources, by introduction of scientific farming techniques,

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1/ For details see Appendix Table 4.

and by improvement in credit facilities. Studies made in Italy suggest that an increase of up to a fourth of the current levels in agricultural output could be achieved over the next decade. Achievement of this goal is largely predicated on the continuation for some years to come of present high levels of public and private investments in agriculture, and on a successful campaign by the Ministry of Agriculture Extension Service to overcome the inertia of farmers' adherence to antiquated farm methods and practices. If this goal is realized, and it is an ambitious one, it would permit Italy to achieve an over-all external balance on food account, at the same time allowing a small increase in caloric (and protein) consumption. The program primarily contemplates a reduction in cereal imports, increased imports of meat and an expansion in exports of fruits, vegetables and other specialty foods. Its achievement will thus depend not only on the success of the Italian development efforts but also on foreign markets.

Mining and Energy

19. Until recently the subsoil resources have been believed to be limited and of low grade. Mining has therefore been largely confined to relatively small quantities of poor quality coal, iron ore and such non-ferrous ores as bauxite, lead and zinc. Consequently, extractive industries have played a very minor role in the economy and have contributed only about 1% of national income.

20. This picture has been materially altered during the past several years as the result of the discovery of natural gas in Northern Italy and will be further improved when the recently found oil deposits on the Adriatic coast and in Sicily are developed. The gas is of the greatest importance to Italy because of her heavy dependence on coal imports. Her industry is now in a position to expand substantially without the need to increase coal imports; on the other hand, should industrial growth proceed more slowly than gas output goes up, large savings in coal imports may be realized. Development of gas has proceeded rapidly as is indicated by the following table:

Year	Million of Cu. M. of Gas Produced
1950	522
1951	977
1952	1,443
1953	2,298
1954	2,982
1955	3,627

The 1955 output is equivalent to 4 million tons of imported coal. Present plans envisage an expansion of natural gas over the next decade to the level of 6,000 million cubic meters annually or 7 million tons of coal equivalent.

21. Another important development may materialize in Sardinia. The coal reserves located in the southwestern part of the island are estimated at 600 million tons, but because of the high sulfur content, costly mining and

transportation, exploitation has proceeded slowly with actual extraction fluctuating around 1 million tons annually. Recent construction of an overhead conveyor belt to the sea should reduce costs somewhat and make this coal more attractive. The Sardinian regional authorities have been also exploring the possibilities of establishing a heavy chemical industry, based on the sulfur content of the coal. Natural steam also is being slowly developed as a power source.

22. In addition to importing about 10 million tons of coal annually at a landed cost of approximately $180 million, Italy now also imports about 10 million tons of petroleum for domestic use at a cost of approximately $200 million. The combined cost of these two, about 15% of total imports, constitutes a heavy drain. The oil companies now operating in Sicily may produce at an annual rate of 1 million tons by the end of 1956. Exploration on the Adriatic coast suggests the existence of sizeable petroleum deposits there. If these turn out to be only partly as rich as first preliminary reports seemed to indicate, substantial import savings would be realized. Enactment of satisfactory legislation which would encourage exploration and exploitation by domestic and foreign private capital is essential. Progress in this direction has so far been very slow and the most recent developments have been disappointing.

23. The magnitudes and sources of energy utilized by the Italian economy in 1955 are readily seen from the following table:

Energy Source	Amount	Equivalent in million tons of coal (7,400 calories)	Percent of Total
Electric energy	38 billion kwh	21.5	42.3
Petroleum	9.7 million tons	13.1	25.8
Coal	10.4 million tons	10.6	20.9
Natural gas	3.6 billion m^3	5.6	11.0
		50.8	100.0

Because of the importance of hydroelectric power, Italy has implemented a large hydroelectric development program in the postwar period, installing new capacity in excess of a million kw since 1951 alone. While it is intended to increase the supply of hydro power by 50% over the next decade, greater reliance will henceforth have to be placed on thermal power because it is expected that the economic hydro resources of Italy will soon be fully harnessed, and because of the need for a more balanced system. In this connection, the role of natural gas, of Sardinian coal, and especially of the newly discovered petroleum resources will be most important as savers of foreign exchange.

Industry

24. Manufacturing plays an important role in the economy since it is responsible for nearly 40% of the national income and gives employment to about 35% of the working population. Badly damaged during the war, plant and equipment have now been completely reconstructed, modernized and in some industries even expanded. All this has been achieved through substantial

private and public investments. While Italian industry has been able to increase exports of mechanical products, further rationalization will be necessary to assure its future vitality. Especially important are adjustments required by the newly introduced common European market in coal and steel and further reduction in costs in order to compete effectively abroad.

25. The postwar performance of the manufacturing industries has been satisfactory. By 1951, the index of manufacturing production exceeded 1938 by 40% and it rose by an additional 25% between 1951 and 1954, or at an average annual rate of 8%. A further increase of 9% took place during 1955. In very large measure, this performance was made possible by the growth in the output of investment goods industries. Although overshadowed, the production of consumers' goods has also developed favorably. Practically all the major manufacturing industries have been recently enjoying a high degree of prosperity. The chemical, mechanical and building materials industries have been particularly prosperous. The textile industries which experienced a recession because of a severe decline in export demand after the boom during the Korean war have only partially recovered, and the cotton sector is still suffering.1/

26. The outlook for Italian manufacturing industries has greatly improved as the result of the establishment of a common European market for coal and steel. By giving Italy access on equal terms to the raw materials for her new and efficient iron and steel plants, the high domestic price of steel -- as much as 50% above other Western European countries--should be eliminated in the next few years and one of the chief obstacles to the competitiveness of her mechanical industries will go with it. Steel production in 1955 reached 5.4 million tons and exceeded 1954 by as much as one-third.

27. The mechanical industries, which suffered from chronic overcapacity in the early postwar period, now find themselves in a particularly favorable position. The reduced cost of steel, the increased demand for capital goods because of the high level of domestic investment and the substantial offshore orders by the U.S. Government have all served to bolster them. Even export prospects have been rendered more favorable as volume of output has risen and Italian prices have become more acceptable to the highly competitive international markets.

28. All these developments are of particular significance to the shipbuilding industry. This industry, which suffered from overcapacity more than any other, has been revitalized as a result of a number of measures taken by the Government. Italy has an annual shipbuilding capacity of 300,000 tons of which domestic requirements do not exceed 100,000 tons. The need for export orders is obvious, but until very recently, the high cost of steel, the practice of carrying excessive labor as an overhead cost and the pyramiding of indirect taxes have managed to price the Italian shipbuilding industry out of the market. Somewhat belatedly, the damage done by these practices was recognized and corrected with the result that the Italian shipbuilding industry is now operating at full capacity and is booked well in advance.

1/ Detailed figures are contained in Appendix Table 5.

29. The outlook for the other manufacturing industries, including chemicals, textiles (other than cotton) and building materials depends on the continued growth of the domestic economy and export markets. Petroleum refining currently has an overcapacity, but this should be altered in the long run as the result of the normal growth in the demand for petroleum products. Consumption is now limited because of the foreign exchange cost of imported crude oil but should domestic reserves prove large, it is likely to rise quickly to a point where no overcapacity in refining will exist.

Construction and Services

30. The recent expansion in production, incomes and profits has acted as a powerful stimulus to the service and construction industries, which contribute approximately a quarter of the national income. The improved position of the consumer coupled with government subsidies for low cost housing have increased residential construction to boom levels by Italian standards. Some 972,000 habitable rooms were completed in 1953, as compared with 749,000 in 1952 and only 592,000 in 1951. The housing boom has recently further expanded, reaching 1.2 million habitable rooms during 1954, and 1.4 million in 1955. Furthermore, public works construction increased from less than 100 million man-days in 1951 to about 135 million man-days in 1955. To support this high rate of construction, it was necessary to nearly double cement production between 1951 and 1955 and also to increase the production of bricks and tiles by more than 50%. Expansion in construction activities has served as the main source of additional employment during the past several years. The outlook for the building and construction industries is favorable, providing investment and national income continue to grow at least at the present rates.

31. Most service industries are prospering and their performance in 1955 was on the average as satisfactory as that of the other sectors of the economy. Noteworthy among these, for the national income and even more the balance of payments, are the activities centering around tourism, hotels and restaurants, and ocean shipping. Expansion in moderate priced tourist facilities, the active attempt on the part of the Cassa and other agencies to develop and popularize new tourist attractions, should encourage more tourists to come to Italy. Barring deterioration in the international situation, the outlook for tourism continues to be favorable.

32. The merchant marine has staged a complete comeback, and the serious war losses have now been more than made up. The gross registered tonnage was 4 million tons at the end of 1955, which is 25% above prewar. As a result, the large postwar balance of payments deficit on shipping and freight accounts has now been almost eliminated. With the recent further expansion in the passenger and tanker fleet, a moderate surplus may be reasonably projected on transportation account. Needless to say, its realization will depend on continued high levels of international trade and a growing tourist traffic.

III.

MONETARY, FINANCIAL AND FISCAL POSITION

Price Stability

33. Italy has maintained a high degree of price stability in the face of an accelerated investment program and greatly expanded demand. This has been accomplished mainly by a sound domestic monetary policy and a high degree of liberalization of foreign trade. The "opening up" of the economy has injected a vital element of competition and has increased production in response to growing demand, allowing wholesale prices to remain stable or even to drop in some instances. On the other hand, behavior of the cost of living indices indicates the existence of a slight inflationary pressure.

34. The wholesale price index has remained virtually unchanged during the past several years. The actual cost of living in 1955 was somewhat higher than a year earlier and has continued to increase in 1956. This was due in part to an increase in indirect taxes, to authorized increases in controlled rents and utilities, but also to an upward pressure on foods and sundry expenditures.[1/] Italian prices of investment goods, which rose more in the post-Korean boom than did international prices, have now dropped more steeply, placing Italy in a more competitive position in international markets. On the other hand, prices of consumers' goods, which were held down in Italy during the post-Korean period better than in other countries, have been edging forward during the past two or three years and are now less favorable in international comparisons.

Capital Market

35. By far the most significant recent development in the Italian economy has been the rise in "transferable savings" and the growing availabilities of long-term funds. Although this savings trend is observable in many economically developed countries, it is particularly significant for Italy where the capital market is thin, the propensity to consume is very high because of living standards lower than those in most of Western Europe, and where the need to maintain development investment at high levels is a constant threat to internal monetary stability and to foreign exchange reserves. The Italian capital market has been expanding considerably as evidenced by the increase in the amounts of securities issued. The aggregate amount of funds raised in the market by the Government, by special credit institutions and by corporations has been much larger in the last two years than in the preceding ones.[2/] The widening demand for investment capital was well absorbed by the market which continued to maintain a liquid position.

36. Resort to the capital market for the financing of industry is carried out either directly by the larger firms or indirectly through a variety of "special financial institutions." The latter, including IMI and others, play

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1/ Detailed figures are contained in Appendix Table 6.
2/ Detailed figures are contained in Appendix Tables 7 and 8.

an important role in providing medium- and long-term funds to smaller Italian industrial firms. Although these special institutions are frequently government owned, as are the major banks of Italy, they furnish investment funds on a commercial basis, mostly to private firms. Depending on prevailing conditions, they raise funds by selling their obligations to the public and to the banks, as well as by securing funds from the government, and they channel them into productive investment.

37. The total amount of new capital drawn from the market by the directly productive sectors was $627 million in 1955 as compared with $465 million in 1954. Likewise, the capital market took up at the beginning of 1955 a nine-year Treasury bond issue equivalent to $366 million which was $59 million larger than in 1954.

Short-Term Credit Market

38. The position of the credit market has greatly benefited from the same factors which contributed so much toward the stimulation of the long-term capital market. Increases in "transferable savings" are reflected in growing bank deposits, in increased loans to customers and in the narrowing of the spread between the interest rates paid on deposits and those charged on loans. Time deposits in the banking system increased by Lit. 338 billion ($541 million) in 1954; and by Lit. 371 billion ($594 million) in 1955, and in the postal savings system by Lit. 117 billion ($187 million) and Lit. 96 billion ($152 million) respectively.1/

39. The financial resources of the postal savings system are utilized by the government to finance its own activities as well as those of state enterprises. Consequently an increase in deposits has the effect of reducing resort of the government to the money market. As for the banking system, it used the added resources to increase commercial loans and to pre-finance fixed investments. In the course of 1954 and 1955 the banking system increased its loans and investments by 15% and 16% respectively. At the same time the liquidity of the banking system has been maintained and no stringent credit situation had developed.

40. Bank credits granted during 1954 amounted to Lit. 471 billion ($754 million), and during 1955 to Lit. 521 billion ($434 million). Of the credits opened in 1955, the construction industries received 12%, agriculture 24%, and the remaining sectors of productive activity 64%. The role of the banking system in financing construction and in pre-financing fixed investments in agriculture, power, communications and industry appears to be significant. This was achieved by extending short-term credits until the capital market was receptive to their consolidation and funding.

Public Finances

41. The progress made by the economy has favorably affected the public finances. Budgeted expenditures have risen from Lit. 2,410 billion in 1952/53 to Lit. 2,991 billion in 1956/57. On the other hand, rising national income, combined with some changes in the rates of taxation, has raised government

1/ Detailed figures are contained in Appendix Tables 9, 10, and 11.

revenues from Lit. 1,839 billion in 1952/53 to Lit. 2,671 billion in 1956/57. Although about 80% of public revenues are still derived from indirect taxes, some progress has been made in increasing the yield from direct taxes.1/

42. Actual Treasury expenditures have reached Lit. 2,483 billion in 1954 and Lit. 2,707 billion in 1955. Total Treasury cash receipts rose to Lit. 1,934 billion in 1954 and to Lit. 2,143 billion in 1955. The over-all cash deficits have moved as follows:

	1952	1953	1954	1955
		(in billion lire)		
Deficit	597	545	549	564
Means of financing:				
Foreign aid	129	74	56	25
Borrowing	386	405	429	430
of which: from banks	(152)	(139)	(155)	(165)
from public	(234)	(266)	(274)	(265)
Net increase in Treasury indebtedness to the Banca d'Italia	65	54	62	101
Issue of currency by Treasury	17	13	2	8
Total financing	597	545	549	564

The significance of cash deficits has declined to roughly one-fifth of total expenditures. In financing the deficit, the role of foreign aid has been reduced, while reliance on domestic capital and the money market has been rising. Because of the large increase in "transferable savings", even the somewhat larger share taken by the Treasury left a larger amount for the use of the rest of the economy. The extent to which the deficit was financed by new money creation directly by the Treasury or through the Bank of Italy has on the whole been very moderate and so far has not engendered any serious inflationary pressures.

43. The outlook for the public finances is reasonably good. Government revenue will continue to rise with national income since most taxes are directly related to business activity. Some small increase in revenue may also be expected in the form of direct taxes as a result of better enforcement; also as a result of the recently enacted corporation tax and higher consumption taxes. The weight of evidence is that the general Italian tax structure is not apt to change basically in the foreseeable future and that indirect taxes will continue to account for most of the tax revenues. Indeed, recent increases in taxes on sugar, salt and coffee have placed a further emphasis on indirect taxation. Current public expenditures are quite high but at around 12% of GNP they are below the Western European average. It is probably this which makes it possible for gross investment in Italy, on the other hand, to be above the Western European average. Although pressures to raise expenditures further will continue, the fiscal and monetary authorities have adequately demonstrated their determination to contain public expenditures within limits set by the requirements of internal monetary stability.

1/ Detailed figures are contained in Appendix Table 12.

The cumulative effect of government deficits on the public debt should not be too serious because of the latter's sharp decline in real terms as compared with prewar. Finally, current revenue is expected to yield a small surplus over current expenditures in the current fiscal year as well as last year, and the government's borrowing, therefore, is strictly for investment. In a poor country like Italy, where the use of savings to finance current public consumption is a waste, the government's success in eliminating this in the last few years is commendable.

IV.

EXTERNAL ACCOUNTS

Foreign Trade

44. Broadly speaking, it is normal for Italy to incur a substantial foreign trade deficit within the limits set by her invisible earnings and receipts. In her trade relations her heavy dependence on imports of many essential raw materials is a weakness since it renders compression of imports very difficult. On the other hand, the competitiveness of her exports has been gradually improving. Moreover, her commercial policy has attained the highest degree of foreign trade liberalization within EPU and more recently imports from the U.S. have been substantially liberalized. These developments have proved very salutary for the Italian economy and have gained for her a good standing in the international trading community.

45. Italian foreign trade is characterized by imports of such basic foodstuffs as cereals and meats and such vital raw materials as coal, petroleum, cotton, wool, hides, and rubber. Due to the virtually complete liberalization of trade vis-a-vis EPU countries, the establishment of a common European coal and steel market and the acceleration of Italian investment, imports of metallurgical and mechanical products have greatly increased in recent years and now constitute the largest single import category. On the export side, fruits, vegetables, cheeses and other specialized foods, textiles and machinery account for over two-thirds of the total. Refined petroleum products and chemicals account for an additional 15% of exports and the remaining 15% consist of miscellaneous products, including leather and rubber goods.1/

46. Both in quantity and in value Italian exports have been growing in recent years. The volume index has increased slowly from 92 in 1950 to 124 in 1955 (1953 = 100). A somewhat more pronounced trend is observable in the value of exports which has risen annually (with the exception of 1952 when foreign markets shrank temporarily due to the world textile recession) from $1,205 million equivalent in 1950 to $1,858 million in 1955. Imports, however, have increased even faster both in quantity and in value. The volume index rose from 73 in 1950 to 113 in 1955 (1953 = 100) and the value of imports (c.i.f.) rose from $1,482 million equivalent in 1950 to $2,706 million in 1955.2/ Thus, exports covered 81% of imports in 1950 and only 70% in 1955, while the trade deficit increased from $277 million to $848 million. Since imports are treated on "c.i.f." basis, and the proportion of Italian foreign

1/ Detailed figures are contained in Appendix Tables 13 and 14.
2/ Detailed indexes are contained in Appendix Table 15.

trade carried by its own ships has greatly increased, the actual foreign exchange burden on Italy was somewhat less, amounting to $650 million annually. Nevertheless, it is clear that as a result of trade liberalization and heavy domestic investment, a substantial increase in imports has taken place in recent years and this increase may be expected to continue.

47. The geographical distribution of Italian foreign trade reveals some striking recent shifts. In the immediate postwar years, Italy had to rely heavily on dollar area imports, which were largely financed by grants from the U.S. Government. At the same time the sterling area and other OEEC countries served as the major outlets for her exports. This resulted in her first accumulating large sterling balances and in later becoming a substantial creditor in EPU. As the supply situation outside the dollar area improved and Italy liberalized her imports from EPU countries, the geographical distribution of her imports changed very appreciably. Imports from U.S. and Canada dropped by $232 million between 1952 and 1954, while those from the EPU area increased by $344 million. This change improved Italy's dollar position, but brought about a serious deterioration in her EPU situation. The trade balance vis-a-vis the U.S. and Canada and the EPU area, developed as follows:

	1952	1953	1954	1955
	(in million of U.S. $)			
U.S. and Canada	-392	-202	-174	-258
EPU area	-411	-636	-597	-603

The increased deficit with U.S. and Canada in 1955 resulted from growing trade liberalization toward the dollar area.1/

Balance of Payments

48. The balance of payments continues to be a problem. However, the character of the recent balance of payments deficits differs from those in the immediate postwar years in that they are not associated with a low state of activity of the economy. On the contrary, these deficits are the result of a rapid expansion in economic activity and especially in the level of investment above the level of current domestic savings and represent the import of capital or the use of available credits.

49. Italy's trade deficit is very substantial and amounted to $649 million in 1954 and to $655 million in 1955 on an f.o.b. basis. Earnings from tourism, receipts from emigrant remittances and other invisible items have provided an offset in 1955 in the magnitude of $422 million, thereby reducing the payments deficit in 1955 to $233 million. This figure was further reduced by $190 million as a result of such special receipts as offshore procurements, U.S. troop expenditures and infra-structure. The remaining deficit of $43 million was financed out of EPU credits. As a result of all these payments and receipts and of fluctuations in short-term claims and liabilities, net gold and foreign exchange holdings of Italy increased from $891 million to $998 million during 1955. Thus, on balance, 1955 showed some improvement in the balance of payments and a strengthening of foreign exchange reserves.2/ The balance of payments during 1956 is likely to be about the same as in 1955.

1/ Detailed figures are contained in Appendix Tables 16-21.
2/ Detailed figures are contained in Appendix Tables 22, 23 and 24.

50. The shape of things to come beyond 1956 can only be described in a hypothetical manner. If the volume of international trade continues expanding, the greatly increased Italian merchant marine may be expected to get a growing share and thereby convert Italy's transportation account deficit of approximately $15 million during 1955 into a surplus of roughly $10 million annually by around 1960. Similarly, if international conditions do not deteriorate, Italy's net earnings from tourism may be expected to reach $225 million in 1960 as against $190 million in 1955. Emigrants' remittances, and earnings of Italian workers abroad, which reached $125 million in 1955, may also be expected to rise to an average level of $150 million as a result of continuing emigration, providing high levels of production and employment persist in the countries of immigration. Thus "invisibles" could improve the balance of payments by about $85 million annually.

51. In 1955 Italy experienced a deficit of $41 million on food account. As a result of the present intensive efforts in agriculture, it is expected that this deficit will be eliminated in spite of a growing population and rising consumption. Increased domestic production of cereals, industrial crops, fruits and vegetables as well as of various kinds of specialty foods like cheeses, olive oil, etc., should both decrease imports and increase exports. The net surplus of $183 million which Italy enjoyed in her exchange of manufactured products with the outside world during 1955 could be expanded. Recent heavy investments in the mechanical and chemical industries should produce favorable results. Lastly, the shipbuilding industry, which has been hampered by high costs and unwise pricing policy until 1954, has now become competitive and is booked through the nineteen fifties. All told, the export-import balance on account of foodstuffs and manufactures could improve by about $150 million in the years to come.

52. Italy's biggest foreign trade deficit is in raw materials and semi-manufactures. Although some internal shifts in this account, accompanied by foreign exchange savings, are possible, on the whole it would be unrealistic to put too much reliance on it. In fact, increased exports of manufactures will require additional wool, iron ore, metals, etc., which may more than offset the import savings, and, on a net basis, some increase in the deficit for raw materials and semi-manufactures may result. The effect of all these changes might be an increase in net foreign exchange earnings of about $200 million a year by 1960.

53. This improvement in the balance of payments would go a long way toward eliminating the gap of $233 million which existed in 1955. It is, of course, quite possible that some of the increases may not materialize. On the other hand, it should be borne in mind that the above projections made no allowances for possible further foreign exchange savings resulting from a more rapid development of domestic natural gas supplies, and the successful petroleum exploration and development program. Some savings may be achieved in the case of coal imports if the natural gas program is accelerated and if some means are found to use economically the Sardinian coal deposits. Italy's growing hydro-electric network will also contribute towards this end. Some relief may also be forthcoming from the now slowly developing, but potentially promising, natural steam. The crucial factor, however, in the case of subsoil energy resources is likely to be the present petroleum explorations on the Adriatic Sea and the drilling in Sicily. Italy now spends approximately $200 million annually for imports of petroleum for domestic use and if any substantial proportion could be replaced by domestic production, it would make a

noteworthy contribution to the balance of payments. The exploration of domestic petroleum could be the key to the problem and make possible balance of payments equilibrium without any changes in rates of investment or savings. This makes the need for a good petroleum law all the more imperative. Furthermore, no provision has been made in the above calculations for any special receipts in the form of offshore purchases, troop expenditures or other such inter-governmental transfers. These items, if they exist in the future, constitute an additional margin of safety.

Creditworthiness

54. If as previously suggested, national income, savings and foreign exchange earnings continue to grow at satisfactory rates as a result of recent and current high levels of investment and if the international situation remains satisfactory, the balance of payments deficits should become much more manageable. On the basis of reasonable assumptions, without the need to cut back investment, the prospects for achievement of equilibrium in the current account balance of payments position by 1960 are promising, especially if petroleum for domestic needs becomes available in Italy by that time.

55. It is, of course, only realistic to question the underlying assumptions of the above projections for 1960 and to ask what would happen if the expected increases in foreign exchange earnings do not materialize. Postwar Italian monetary and fiscal authorities have adhered to a policy of cutting their coat to suit the cloth. Thus, if the foreign exchange earnings do not increase as projected, the authorities could curtail foreign exchange expenditures by approximately $250 to $275 million if this became necessary to balance their current accounts and to service the external debt. Although such a measure would be very painful, it would not create unmanageable difficulties for reasons described below. Nonetheless, Italy's ability to take this measure constitutes the largest element of risk in any further lending to her.

56. The most recent import surplus is under 1% of annual resources used by the Italian economy and around 3% of gross annual investment. Assuming that no reduction in consumption can be effected, the level of gross investment would have to be reduced from approximately 21% to about 20%. This would still be a very satisfactory level by Western European standards, although it might slow down somewhat the rate of eliminating chronic unemployment. Thus, even under unfavorable assumptions, the authorities should find it possible to bring the balance of payments into equilibrium and to service the debt even if the debt burden were somewhat increased. The past record of Italy gives every reason to conclude that debt service will be given a very high priority.

57. As of the end of 1955 the estimated external public debt of Italy amounted to a total of $810 million equivalent, of which the U.S. dollar debt accounts for $515 million. In addition, Italy is subject to war reparations claims equivalent to about $135 million. Against these claims there are, however, Italian assets and claims which in the case of some countries may wholly or partially offset them. Annual service payments on this debt (excluding reparations) average around $64 million in the 1956/59 period, drop to about $53 million in 1960 and decline steadily thereafter. Of these amounts, amortization payments account for between $38 million and $51 million in the earlier years, and under $25 million in the later ones. Total service

payments of $64 million constitute less than 3% of Italy's global foreign exchange earnings at the 1955 rate. Consequently if she can re-establish equilibrium in her balance of payments on current account - and the earlier analysis concluded that she should be able to do so - the burden of servicing this debt would be relatively light.

58. The Italian debt service record is satisfactory. There was no record of default on any publicly held external obligations until June 1940 when Italy entered the war. Debt service payments on dollar bonds were resumed under the "Lombardo Plan" which went into effect in December 1947. Similar plans were adopted in 1948 for the sterling bonds and in 1951 for the Swiss franc bonds. To date all payments have been made promptly. Current yields on Italian bonds in New York, London and Zurich are 6.19, 5.72, and 5.10, respectively. Growing confidence in Italian creditworthiness in the Swiss capital market has been demonstrated when a group of private Swiss banks made a Sw. frs. 100 million loan to Italy in 1954 for a 5-year term at an average interest rate of 3-1/2%, although it was partially covered by foreign exchange deposits with the lending bank. In addition, other Swiss funds have been flowing into Italy, among them a Sw. frs. 50 million loan to Instituto Mobiliare Italiano, the Swiss Government loan of Sw. frs. 200 million to the Italian State Railways, and substantial amounts to private Italian borrowers.

59. Although the balance of payments position is still difficult and substantial deficits may be expected during the next several years, the economy is being increasingly strengthened and should be able to carry an external debt above the present level. A loan to Italy at this time in an amount of about $75 million would not increase service payments beyond 3% of present foreign exchange earnings. Given Italy's sound record of internal monetary management and external debt service, such a loan would carry with it a good prospect of repayment.

60. Italy's foreign exchange earnings both from exports of goods and from invisibles in European currencies are almost three times as large as its dollar earnings. On the other hand, five-eighths of her present debt is in dollars. For these reasons it is easier for her to service non-dollar debt.

Table 1: ITALY - EXTERNAL PUBLIC DEBT OUTSTANDING DECEMBER 31, 1955

National and Government Guaranteed Debt

(In thousands)

Item		Debt outstanding December 31, 1955: In currency of payment	In U.S. dollar equivalents
TOTAL EXTERNAL PUBLIC DEBT			809,812 /1
U.S. DOLLAR DEBT	$	514,619	514,619
Publicly-issued bonds	$	135,767	135,767
$39,651,900 Rep. of Italy Ext. S.F. 1%-3%, 1947-1977 /2			
Assented bonds	$	33,738	33,738
Non-assented bonds	$	1,327	1,327
$37,243,200 Italian Credit Consortium for Public Works Gtd. Ext. S.F. 1%-3%, 1947-1977 /2			
Assented bonds	$	32,580	32,580
Non-assented bonds	$	1,365	1,365
$1,921,000 Italian Credit Consortium for Public Works Gtd. Ext. S.F., Second Series, 1%-3%, 1947-1977 /2	$	1,852	1,852
$55,076,600 Italian Public Utility Credit Inst. Gtd. Ext. S.F. 1%-3%, 1947-1977 /2			
Assented bonds	$	48,277	48,277
Non-assented bonds	$	1,338	1,338
$15,000,000 Italian Public Utility Credit Inst. Gtd. Ext. S.F., Special Series, 1%-3%, 1947-1970 /3	$	15,290	15,290
Privately-placed debt	$	6,825	6,825
$1,180,125 participation in Export-Import Bank loans to Istituto Mobiliare Italiano 3 1/2% /4 /5	$	825	825
$5,000,000 participation at 3 3/4% for 1958-1960 in $70,000,000 IBRD loan to Cassa per Il Mezzogiorno 4 3/4%, 1955-1975 /4	$	5,000 /6	5,000
Portion sold at 3 3/4 % for 1961 of $70,000,000 IBRD loan to Cassa per Il Mezzogiorno 4 3/4%, 1955-1975 /4	$	1,000 /6	1,000
Loans held by IBRD	$	78,500	78,500
$10,000,000 loan to Cassa per Il Mezzogiorno 4 3/4%, 1951-1976 /4	$	10,000	10,000
$10,000,000 loan to Cassa per Il Mezzogiorno 5%, 1953-1978 /4	$	10,000	10,000
Portion of $70,000,000 loan to Cassa per Il Mezzogiorno 4 3/4%, 1955-1975 /4	$	58,500 /6	58,500

See footnotes at end of table

Table 1: ITALY - EXTERNAL PUBLIC DEBT OUTSTANDING DECEMBER 31, 1955 (CONTINUED)

National and Government Guaranteed Debt

(In thousands)

Item		Debt outstanding December 31, 1955 In currency of payment	In U.S. dollar equivalents
U.S. DOLLAR DEBT (CONTINUED)			
U.S. Government loans	$	293,527	293,527
Export-Import Bank	$	54,634	54,634
To Istituto Mobiliare Italiano /4			
$100,465,375, 3 1/2%, 1947/1952-1959 /5	$	28,279	28,279
$1,930,000, 1955	$	1,930 /7	1,930
$6,000,000, 4 5/8%, 1955-1961	$	6,000 /7	6,000
$3,000,000, 4 1/2%, 1955-1960	$	3,000 /7	3,000
$2,000,000, 4 3/4%, 1955-1965	$	2,000 /7	2,000
$5,000,000, 4 3/4%, 1955-1965	$	5,000 /7	5,000
$2,070,000, 4 3/4%, 1955-1965	$	2,070 /7	2,070
$6,355,000 loan to Aerolinee Italiane Internazionali 5%, 5 years /8	$	6,355 /7	6,355
Other	$	238,893	238,893
$73,000,000 ERP loan 2 1/2%, 1949-1983	$	73,000	73,000
$22,600,000 MSA loan 2 1/2%, 1952-1987	$	22,600	22,600
$65,222,110 Maritime Admin. loan 3 1/2%, 1946-1965	$	31,633	31,633
Surplus property credits /9			
$124,432,050 Bonner-Corbino credit 2 3/8%, 1946-1975	$	98,174	98,174
$18,000,000 Taff-Del Vecchio credit 2 3/8%, 1947-1976	$	13,486	13,486
DEBT IN EPU UNITS OF ACCOUNT	u/a	179,032	179,032
u/a 117,000,000 Consolidated debt 1%, 1954-1959/1960 /10	u/a	56,200	56,200
Credit from EPU /11	u/a	122,832	122,832
SWISS FRANC DEBT	SwF	410,268	95,745
Publicly-issued bonds	SwF	71,268	16,632
SwF 22,682,200 Italian Public Utility Institute Foreign loan 1%-3%, 1947-1977 /12			
Assented bonds	SwF	21,161	4,938
Non-assented bonds	SwF	107	25

Table 1: ITALY - EXTERNAL PUBLIC DEBT OUTSTANDING DECEMBER 31, 1955 (CONTINUED)

National and Government Guaranteed Debt

(In thousands)

Item		Debt outstanding December 31, 1955 In currency of payment	Debt outstanding December 31, 1955 In U.S. dollar equivalents
SWISS FRANC DEBT (CONTINUED)			
Publicly-issued bonds (Continued)			
SwF 50,000,000 Istituto Mobiliare Italiano 4 1/2%, 1955-1971	SwF	50,000	11,669
Privately-placed debt			
SwF 100,000,000 Swiss banks loan to Mediocredito 3%-4%, 1954-1959 /13	SwF	89,000 /14	20,770
Loan from BIS			
SwF 50,000,000 loan to Istituto Mobiliare Italiano 4%, 1955-1960	SwF	50,000	11,669
Intergovernment loan			
SwF 200,000,000 Swiss Railways to Italian State Railways 3 3/4%-4 3/4%, 1955-1981 /4 /15	SwF	200,000	46,674
ARGENTINE PESO DEBT	M$N	246,511	13,694
Intergovernment loan			
M$N 316,860,600 Argentine Govt. loan to Rep. of Italy 3 3/4%, 1947-1972	M$N	246,511	13,694
NETHERLANDS GUILDER DEBT	f.	20,900	5,500
Loan held by IBRD			
Portion of $70,000,000 loan to Cassa per Il Mezzogiorno 4 3/4%, 1955-1975 /4	f.	20,900 /6	5,500
STERLING DEBT	£	436	1,222
Publicly-issued bonds			
£ 462,460 Rep. of Italy Maremmana Railway loan of 1862, 1%-3%, 1947-1977 /16	£	436	1,222

Exchange rates - The following exchange rates have been used:
Par values: f.1 = $0.26316; £ 1 = $2.80
Current market rate: SwF 1 = $0.23337
Other rates: EPU u/a 1 = $1.00; M$N 1 = $0.05555

/1 Does not include the following:

a. Italy's obligation on the Austrian Guaranteed Conversion Loan 1934-1959. Italy guarantees the principal and interest up to 20 1/2%. This loan is payable in several currencies. Payment of interest and sinking fund by the Austrian Government was suspended in 1939. The Italian Government, as one of the guarantors, advanced its

/1 (Continued)
share of the principal and interest beginning in 1948. Under an agreement concluded in December 1952, Austria resumed service of this loan.

b. Italy's obligation on World War II reparations as follows:

(In U.S. dollar equivalents)

	Original amount	Creditor country	Debt outstanding Dec. 31, 1955
Total			150,000,000
	100,000,000	U.S.S.R.	100,000,000
	125,000,000	Yugoslavia	20,000,000
	25,000,000	Ethiopia	25,000,000
	5,000,000	Albania	5,000,000

The following information has been received in regard to these debts:

1) U.S.S.R. - In December 1948 the two governments agreed to subtract from this debt the value of Italian properties in Hungary, Bulgaria and Rumania. The Italian Government believes the value of these properties to be at least equal to the amount of the debt. Any balance is to be paid in goods. A joint Italian-Soviet Commission was to assess the value of the properties but no decision has yet been reached.
2) Yugoslavia - An agreement of December 1950 provided for an initial payment equivalent to $30,000,000. A part of this (the equivalent of Lit 10,000,000,000) was to be withheld by the Italian Government on account of Italian properties nationalized by Yugoslavia. Under the agreement reached in 1955, this obligation was settled at the equivalent of $30,000,000. The debt is to be paid in deliveries of goods and investment credits equivalent to $10,000,000 each year from 1955 through 1957.
3) Ethiopia - According to The New York Times of March 6, 1956, Italy and Ethiopia have agreed to settle this obligation for the equivalent of $16,300,000. Italy is to build a hydroelectric power station in Ethiopia and to provide additional reparations in the form of equipment and installations.
4) Albania - According to Economic News from Italy dated July 15, 1955, the debt to Albania has been settled for the equivalent of $2,600,000, to be paid by delivery to Albania of Italian industrial products. The difference (equivalent to $2,400,000) from the original amount has been credited against Italian property located in Albania which Albania failed to return to the proper owners.

c. On May 23, 1955 the United States agreed to lend Italy the equivalent of $30,000,000 for the development of Southern Italy, Sicily and Sardinia. Although the initial agreement has been signed, the loan will not become effective until supplemental agreements (now under negotiation) are signed. The loan is to have a term of 40 years, and is to be repayable in either U.S. dollars or Italian lire at the sole option of Italy. Interest is to be calculated at 3% on the outstanding balance when payments are made in U.S. dollars, and at 4% when payments are made in lire.

/2 Service on Italian bonds was paid without interruption until 1940 when payments were suspended because of the war. In December 1947 a debt adjustment plan was put into operation. This plan (the Lombardo Plan) provided for the issuance of four series of bonds:

a) $39,651,900 Republic of Italy bonds to holders of Kingdom of Italy 7% bonds due 1951.
b) $37,243,200 Credit Consortium for Public Works bonds to holders of bonds of the Credit Consortium, the cities of Rome and Milan, and the Mortgage Bank of the Venetian Provinces.
c) $55,076,660 Public Utility Credit Institute bonds to holders of twelve issues of public utility and industrial corporation bonds not formerly guaranteed by the Republic of Italy.
d) $1,921,000 Credit Consortium for Public Works bonds to International General Electric Co.

The new bonds of the Credit Consortium for Public Works and the Public Utility Credit Institute are guaranteed by the Republic.

Each bondholder received a principal amount of new bonds equivalent to the face amount of his old bond plus unpaid interest from June 10, 1940 to January 1, 1947. This unpaid interest amounted in most cases to between $400 and $500 per $1,000 bond. The new bonds are dated January 1, 1947 and mature on January 1, 1977. Interest is payable at the rate of 1% per annum from January 1, 1947 to January 1, 1950, at 2% from January 1, 1950 to January 1, 1952, and at 3% thereafter. The bonds are to be retired by a cumulative sinking fund of 1% per annum of the total bonds issued in the years 1952 to 1957 inclusive, and 2% per annum thereafter.

/3 International Power Securities Corporation (a United States company) was the holder of a group of bonds of Italian companies, amounting to $26,642,000. The Public Utility Credit Institute gave this corporation $18,000,000 of new bonds in exchange for these. The reason for the reduction from $26,642,000 to $18,000,000 was that a large portion of the obligations of International Power Securities Corp. was held by Italian residents. The new bonds bear interest at the rate of 1% for the years 1947-1949, 2% for 1950-1951, and 3% thereafter. The bonds mature on January 1, 1970 and are to be redeemed by a cumulative sinking fund of 1% per annum starting in the second half of 1950 and increasing to 2% per annum in the second half of 1957.

/4 Guaranteed by the Republic of Italy.

/5 Private companies in the United States participate in the Export-Import Bank loan granted in 1952 to Istituto Mobiliare Italiano to the extent of $1,180,125. As of December 31, 1955 Italy reported a total of $29,108,959 outstanding on the debt to Export-Import Bank and to participants. Of this amount, $3,569 was undisbursed. The amount outstanding on the debt to participants was derived by subtracting the amount that Export-Import Bank reports as outstanding from the total amount reported by Italy.

/6 The status of this loan as of December 31, 1955 was as follows:

	In currency of payment	In U.S. dollar equivalents
Total		70,000,000
Disbursed and still outstanding		12,986,659
Held by IBRD		6,986,659
U.S. dollars	$ 1,305,545	1,486,659
Netherlands guilders	f.20,900,000	5,500,000
Held by participants without IBRD guarantee (U.S. dollars)	$ 5,000,000	5,000,000
Held by third parties without IBRD guarantee (U.S. dollars)	$ 1,000,000	1,000,000
Undisbursed portion of effective loan		37,013,341
Portion of loan not yet effective		20,000,000

In February 1956, an additional $7,456,000 was declared effective, leaving a balance of $12,544,000 not yet effective

/7 As of December 31, 1955 this loan was completely undisbursed.

/8 Guaranteed by the Istituto Mobiliare Italiano.

/9 The agreement provides that the United States may elect to accept either real property and improvements to real property or local currency instead of U.S. dollars for repayment of this obligation, to be used for U.S. Government purposes, including cultural and educational programs.

/10 As of June 30, 1954 Italy's debt to EPU amounted to u/a122,000,000. Of this amount u/a 5,000,000 remained unconsolidated, owing to EPU, and u/a 117,000,000 was settled as follows:

	(In millions of u/a)			
Country	Total debt settled June 30, 1954	Repaid in July 1954	Funded in bilateral settlements	Term(in years)of bilateral settlements
Total	117	39	78	
Austria	3	1	2	5
BLEU	30	10	20	5
Germany	48	16	32	5
Portugal	6	2	4	5
Sweden	6	2	4	5
Switzerland	24	8	16	6

Payments to Portugal have been temporarily suspended for as long as Portugal remains a debtor of EPU. As of

/10 (Continued)
December 31, 1955 u/a 3,600,000 was outstanding on the debt to Portugal.

/11 By the end of December 1955 the cumulative accounting deficit was u/a 716,127,000 of which u/a 122,830,000 was settled by credit from the Union.

/12 These bonds were given in exchange for SwF 17,440,000 First Mtge. Ref. S.F.Gold Series B bonds 6 1/2%, 1930-1960 of the Piedmont Hydro-Electric Co. plus unpaid interest from April 1, 1940 to December 31, 1946 in the amount of SwF 5,242,028. The new bonds are dated January 1, 1947 and mature July 1, 1977. They bear interest at the rate of 1% per annum from January 1, 1947 to January 1, 1950, at 2% from January 1, 1950 to January 1, 1952, and at 3% thereafter.

/13 This loan is secured up to 50% by earmarked gold. It was granted to the "Istituto Centrale per il Credito a medio termine a favore delle medie et piccole industrie" by la Societe de Banque Suisse, le Credit Suisse and l'Union de Banques Suisse. The proceeds of this loan were transferred through the EPU, and the cumulative accounting deficit of Italy was thereby reduced.

/14 Estimated by IBRD.

/15 This loan bears interest of 3 3/4% per annum during the first six years, 4 1/4% from the seventh to twelfth years, and 4 3/4% thereafter. The proceeds of the loan were transferred through the EPU, thereby reducing Italy's cumulative accounting deficit. Before ratification of the agreement, 50% of the loan was to be transferred to Italy in gold. Payments of principal and interest are to be made in free Swiss francs.

/16 These bonds were in default from July 1, 1940 until 1948. At that time interest due July 1, 1940 through September 15, 1947 was paid at the old contractual rate of 5%. The debt adjustment plan provides that the bonds will mature on July 1, 1977 and bear interest at the rate of 1% per annum from September 16, 1947 to July 1, 1950, at 2% thereafter to July 1, 1952, and at 3% thereafter. The bonds are to be redeemed by an annual sinking fund of 1% per annum from January 1, 1953 to June 30, 1957 and 2% thereafter.

IBRD - Economic Staff
August 20, 1956

Table 2

National Income and Expenditures

1953 - 1955

(in billions of current lire)

Sources of Income	1953	1954	1955	Expenditures	1953	1954	1955
Agriculture, fishing and forestry	2,479	2,462	2,586	Consumption			
Industry	3,507	4,001	4,404	- private	8,317	8,653	9,213
Trade, transport and services	2,462	2,463	2,700	- public	832	923	1,000
Net product of public administration	998	1,091	1,216	Total consumption	9,149	9,576	10,213
Duplicated items	-779	-872	-952	Gross investment 1/	2,284	2,489	2,925
Net product at factor cost	8,667	9,144	9,954	Total use of resources internally	11,433	12,065	13,138
Taxes not included in the estimate of goods and services	1,439	1,634	1,816	Exports of goods and services (incl. receipt of incomes			
Net product at market prices	10,106	10,778	11,770	from abroad)	1,337	1,433	1,620
Net income from abroad	29	20	19				
Depreciation	958	1,022	1,113				
Gross national income	11,093	11,820	12,902				
Imports of goods and services (incl. income payments abroad)	1,677	1,678	1,856				
Total available resources	12,770	13,498	14,758	Total available resources	12,770	13,498	14,758

1/ Inclusive of inventories

Table 3

Financing of Investment
1954-55
(in billion lire)

	1954		1955	
	Amount	%	Amount	%
Sources of Private Investment				
Issue of stocks and bonds	153	6.1	159	5.4
Investments of special institutes for agricultural, real estate and housing credit	81	3.2	93	3.2
Investments of special institutes for mortgage credit	102	4.1	137	4.7
Medium and long-term investments of credit institutions	19	0.8	20	0.7
	355	14.2	409	14.0
Less funds supplied to above institutes and institutions by the Treasury	40	1.6	49	1.7
	315	12.6	360	12.3
Investments of insurance companies	19	0.8	43	1.5
	334	13.4	403	13.8
Depreciation reserves	851	34.1	944	32.3
Self-financing, direct savings and short-term credits	423	17.1	618	21.1
Total	1,608	64.6	1,965	67.2
Sources of Public Investment				
Budgetary surplus over current expenditures	144	5.8	202	6.9
Treasury bonds	318	12.8	249	8.5
Postal savings funds	118	4.7	109	3.7
Railroad bonds	-3	-0.1	72	2.5
Bonds of parastatal entities	20	0.8	20	0.7
Bank of Italy and Treasury note issue	65	2.6	99	3.3
Borrowings by local and regional administrations	59	2.4	36	1.2
Investments by insurance companies and credit institutes	78	3.1	76	2.6
Current accounts with savings institutes and banks	56	2.2	67	2.3
Funds of Cassa per il Mezzogiorno	-3	-0.1	10	0.3
Social security funds	29	1.2	20	0.7
Total	881	35.4	960	32.8
Grand Total	2,489	100.0	2,925	100.0

Table 4

Agricultural Production

	1936/39	1951	1952	1953	1954	Percentage Change 1953/54	1955	Percentage Change 1954/55
General Index (1948 = 100)	112	122	124	140	132	- 6	143	+ 8
				(millions of metric tons)				
Wheat	7.6	7.0	7.9	9.1	7.3	-20	9.5	+30
Maize	3.0	2.7	2.4	3.2	3.0	- 6	3.2	+ 7
Potatoes	2.7	2.8	2.7	3.1	3.2	+ 3	3.4	+ 6
Tomatoes	0.9	1.2	1.1	1.4	1.5	+ 7	1.6	+ 5
Sugarbeets	3.3	6.0	5.9	6.2	6.6	+ 6	9.2	+30
Grapes	6.2	8.0	7.4	8.3	8.0	- 4	9.3	+16
Olives	1.4	2.1	1.1	2.0	1.7	-15	1.1	-36
Citrus fruits	0.7	0.9	1.0	1.0	1.0	-	1.0	-
Meat	0.7	0.6	0.7	0.7	0.7	-	0.7	-
Milk	5.0	6.1	6.5	6.5	6.7	+ 3	6.9	+ 3

Table 5

Industrial Production

Index 1938 = 100

Annual Average

	1951	1952	1953	1954	1955
Total	144	150	165	181	196
Main Categories					
Manufacturing	140	145	159	176	190
Foods	140	147	152	158	163
Textiles and clothing	116	108	115	117	104
Cotton	127	111	109	115	100
Silk and artificial fabrics	132	78	87	88	82
Metallurgical	134	150	149	173	212
Engineering	142	154	171	178	203
Chemicals and products	184	185	225	278	313
Chemicals	170	165	194	240	279
Coal and petroleum	356	462	591	733	784
Artificial fibers	118	70	96	114	118
Mining (including natural gas)	124	150	179	200	241
Manufactured gas and electricity	185	194	205	219	233

Table 6

Prices and Wages

(1948 = 100)

	1952		1953		1954		1955		1956
	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June
Cost of living	115	116	118	117	121		123	124	130
Wholesale prices	94	97	96	96	97	98	98	97	99
Raw materials	104	111	108	106	105	109	108	112	n.a.
Semi-manufactured products	103	101	94	94	94	95	96	96	n.a.
Finished goods	87	90	93	94	95	96	95	95	n.a.
Wages (hourly earnings)	134	141	143	144	147	153	154	154	160
Estimated real wages	116	121	121	123	121	126	124	n.a.	n.a.

Table 7

Net Investments in Shares and Bonds of Joint-stock companies[1/]

(In billions Lit.)

	1954	1955
Banks, stock market, financial and insurance institutions	6.0	11.9
Transportation and communications	14.0	14.7
Electricity, gas and water	16.1	21.0
Hotels, rest homes and amusements	1.5	1.2
Housing, public works and land reclamation	1.4	3.0
Food products	3.6	6.7
Wood	-	0.5
Non-metallic minerals	5.7	4.1
Steel, metallurgical and mechanical products	60.6	47.0
Chemical products	10.3	8.6
Paper and printing	2.7	1.8
Leather and hides	0.4	0.5
Textiles and clothing	10.4	8.8
Miscellaneous products	2.6	1.3
Retail trade and sundry services	1.6	0.9
Natural gas and petroleum	18.0	27.3
Total	153.0	159.3

1/ Excluding IRI

Table 8

Total Recourse of the Several Economic Sectors to the Banks, Special Financial Institutions and the Capital Market

(1955 breakdown and 1949-54 totals)
(Annual increases in billion lire)

	Economic Sector	Banks	Special Financial Institutions	Stocks and Bonds	Total	Percentage Distribution 1955
1.	Private institutions	50.7	-	-	50.7	5.2
2.	Para-statal agencies	16.4	8.6	-	25.0	2.6
3.	Banks, stock market, financial and insurance institutions	11.1	-1.5	11.9	21.5	2.2
4.	Transportation and communications	18.2	24.5	14.7	57.4	5.9
5.	Electricity, gas and water	3.5	65.0	20.7	89.2	9.2
6.	Hotels, rest homes and amusements	7.3	6.0	1.2	14.5	1.5
7.	Housing, public works and land reclamation	58.4	67.0	3.0	128.4	13.2
8.	Agriculture, related primary materials and equipment	13.9	37.0	-	50.9	5.2
9.	Cereals and other food products	108.2	54.3	6.7	169.2	17.4
10.	Wood	14.0	1.6	0.5	16.1	1.7
11.	Non-metallic minerals	48.7	8.4	31.8	88.9	9.1
12.	Steel, metallurgical and mechanical products	99.4	13.4	47.0	159.8	16.5
13.	Chemical products	32.8	12.0	8.6	53.4	5.5
14.	Paper and printing	8.1	0.5	1.8	10.4	1.1
15.	Leather and hides	2.7	0.2	0.5	3.4	0.3
16.	Textiles and clothing	-22.4	1.0	8.8	-12.6	-1.3
17.	Miscellaneous products	1.5	-4.4	0.9	-2.0	-0.2
18.	Retail trade and sundry services	45.9	1.1	0.9	47.9	4.9
	Total 1955	521.4	291.7	159.3	972.4	100.0
	1954	470.6	216.8	153.0	840.4	
	1953	493.8	198.4	181.7	873.9	
	1952	463.4	178.9	116.6	758.9	
	1951	269.9	169.6	81.9	521.4	
	1950	292.5	176.9	89.7	559.1	
	1949	323.2	141.6	104.6	655.8	

Table 9

Money Supply and Time Deposits

(in billions of lire - end of period)

	1953	1954	1955	March 1955	March 1956
Money supply	3,720	4,020	4,472	3,912	n.a.
Currency	1,417	1,491	1,629	1,392	n.a.
Deposit money	2,302	2,529	2,848	2,521	2,787
Time deposits	1,755	2,094	2,465	2,152	2,561

Table 10

Foreign Assets and Domestic Credits of the Bank of Italy and Other Banks

(in billion lire)

	December					March	
	1951	1952	1953	1954	1955	1955	1956
1. Foreign assets	757	732	703	707	766	695	n.a.
2. Loans to the Government							
(1) Bank of Italy	661	652	672	784	855	763	759
(2) Other banks	776	923	1063	1214	1280	1267	1376
3. Loans to the private sector							
(1) Bank of Italy	117	129	164	175	186	159	178
(2) Other banks	2023	2573	3106	3556	4155	3519	4143
(a) own resources	1863	2369	2890	3310	3923	3299	3900
(b) Bank of Italy resources	160	204	216	246	232	220	243

Table 11

Liquidity of the Banking System[1/]

(billions of lire)

Assets	December 1951	December 1952	December 1953	December 1954	Dec. 1955	March 1955	March 1956
Cash (incl. deposits at the Bank of Italy)	260	248	241	263	274	272	n.a.
Credit to the Government	776	923	1063	1214	1280	1267	1376
Credit to the private sector	2023	2573	3106	3556	4155	3519	4143
Liabilities							
Demand deposits	1659	2019	2302	2529	2848	2521	2787
Time deposits	1161	1453	1755	2094	2464	2152	2561
Borrowing from the Bank of Italy	160	204	216	246	232	220	243

1/ Includes commercial banks as well as savings banks and so-called cooperative banks, to which reserve requirements do not apply.

Table 12

Government "Appropriations" Budget

(billion Lit.)

	1952/53[1]	1953/54[1]	1954/55[2]	1955/56[2]	1956/57[2]
Authorized expenditure					
Current civilian expenditure	1,396	1,486	1,558	1,883	n.a.
Current military expenditures	480	454	421	444	n.a.
Investment expenditures	509	439	410	434	n.a.
Other capital expenditures	25	30	30	14	n.a.
Total authorized expenditures	2,410	2,409	2,419	2,775	2,991
Assessed revenue					
Taxes on income and property	383	440	400	537	n.a.
Indirect taxes and other current revenue	1,376	1,563	1,658	1,909	n.a.
Capital revenue	130	43	13	17	n.a.
Total assessed revenue	1,889	2,046	2,071	2,463	2,671
Deficit	-521	-363	-348	-312	-320

1/ Final estimate
2/ Initial estimate

Table 13

Commodity Distribution of Exports

(in millions of $)

	1951	1952	1953	1954	1955
Foodstuffs	328	315	363	403	419
Textiles	616	320	339	326	347
Metals and minerals	65	75	69	72	101
Machinery	298	318	307	323	408
Coal and coke	-	8	3	2	2
Mineral oils	48	86	144	179	163
All other	293	264	283	333	416
Total	1,648	1,387	1,507	1,638	1,856

Table 14

Commodity Distribution of Imports

(in millions of $)

	1951	1952	1953	1954	1955
Foodstuffs	448	401	448	344	438
Textiles	501	456	418	405	365
Metals and minerals	190	256	259	288	354
Machinery	197	314	357	362	360
Coal and coke	224	190	163	149	181
Mineral oil	210	256	293	336	350
All other	398	462	483	554	658
Total	2,168	2,336	2,421	2,438	2,706

Table 15

Italy: Foreign Trade

(1953 = 100)

	1951	1952	1953	1954	1955
Volume					
Exports	104.8	94.4	100	108.3	124.0
Imports	83.3	92.2	100	102.5	113.0
Exports : Imports	125.8	102.4	100	105.6	109.7
Unit Value of Trade					
Exports	111.9	104.7	100	103.6	102.0
Imports	113.7	109.8	100	99.8	101.0
Terms of trade	98.4	95.3	100	103.8	101.0

Table 16

Regional Distribution of Trade

(in millions of $)

	1952	1953	1954	1955	Change 1953 over 1952	Change 1954 over 1953	Change 1955 over 1954
EPU area							
Exports	906	986	1090	1182	+80	+104	+92
Imports	1317	1622	1661	1776	+305	+39	+115
Balance	-411	-636	-571	-594	-225	+65	-23
U.S. and Canada							
Exports	149	158	141	176	+9	-16	+35
Imports	541	360	309	433	-181	-51	+124
Balance	-392	-202	-168	-257	+190	+35	-90
Other dollar area							
Exports	43	46	59	73	+3	+13	+14
Imports	46	40	32	33	-6	-8	+1
Balance	-3	+6	+27	+40	+9	+21	+13
Other countries							
Exports	289	317	346	426	+28	+29	+80
Imports	432	399	400	464	-33	+1	+64
Balance	-143	-82	-54	-38	+61	+28	+16
Total							
Exports	1387	1507	1637	1857	+120	+130	+220
Imports	2336	2421	2402	2706	+85	-19	+304
Balance	-949	-914	-765	-849	+35	+149	-84

Table 17

Percentage of Total Imports of Certain Staple Commodities Supplied by EPU Countries

(Percentage of total value)

	1950		1951					
	1st half	2nd half	1st half	2nd half	1952	1953	1954	1955
Cotton	19	41	44	29	15	24	26	28
Wool	82	87	85	84	96	89	96	94
Wheat	12	0	14	20	11	26	28	24
Coal	78	84	51	46	51	75	69	44
Crude oil	21	27	30	28	26	62	41	93
Copper	28	37	44	23	40	77	79	55
Total	36	41	40	34	57	67	67	70

Table 18

Imports from U. S. and Canada

(in millions $)

	1951	1952	1953	1954	1955
Cereals and flour	67.0	88.8	64.9	3.0	5.9
Cotton	125.0	144.0	60.8	50.9	40.1
Coal	85.6	70.1	28.2	35.7	92.9
Oils and fats	20.3	11.5	8.8	10.2	17.4
Iron and steel	13.6	18.6	15.3	16.9	16.9
Chemicals	31.5	33.4	26.8	48.2	57.8
Machinery	71.8	95.8	76.9	65.3	48.4
Others	89.0	73.0	78.3	78.6	153.9
Total	503.6	540.7	360.0	308.8	433.3

Table 19

Exports to U.S. and Canada

(in millions $)

	1951	1952	1953	1954	1955
Foods	26.4	31.2	34.5	32.6	31.1
Textiles and clothing	26.4	24.3	32.2	29.6	18.9
Base metals	14.1	10.2	9.7	8.2	7.0
Machinery	12.6	27.5	25.4	19.5	27.9
Others	42.9	55.6	54.6	51.8	90.8
Total	122.4	148.8	156.4	141.7	175.7

Table 20

Goods and Services Trancactions with EPU Area

(in millions $)

	1951	1952	1953	1954	1955
Trade balance (exports fob and imports cif)	+18.0	-362.2	-562.3	-567.4	-621.8
Foreign travel	+63.1	+59.0	+82.7	+80.6	+86.4
Investment income	-2.3	-1.9	-3.5	-9.1	-15.8
Emigrants remittances	+37.9	+62.6	+68.1	+62.3	+65.1
Other services	+83.9	+119.0	+102.9	+139.3	+196.3
Balance goods and services	+200.6	-123.5	-312.1	-294.3	-289.8

Table 21

Goods and Services Transactions with Convertible Currency Areas

(in millions $)

	1951	1952	1953	1954	1955
Trade deficit (imports cif and exports fob)	-421.9 1/	-342.1 1/	-129.9 1/	+ 3.4 1/	- 46.9 1/
Foreign travel	+ 12.1	- 17.4	+ 46.8	+ 55.7	+ 76.7
Investment income	+ 4.5	+ 3.7	+ 4.4	- 0.7	- 1.7
Emigrant remittances	+ 21.3	+ 28.2	+ 43.4	+ 49.2	+ 57.3
Other services	+ 47.2	+ 69.4	+ 83.8	+105.2	+ 56.2
Deficit on goods and services	-336.8	-223.4	+ 48.5	+212.8	+141.6

1/ Includes offshore exports as follows (in millions of $) 1951, 0; 1952, 1.2; 1953, 61.3; 1954, 132.5; 1955, 128.8

Table 22

Balance of Payments

(transactions basis)
(in millions U.S. $)

	1951	1952	1953	1954	1955
1. Current Account					
Exports (f.o.b.)	1641.3	1378.6	1473.1	1581.5	1778.3
Imports (f.o.b.)	-1915.2	-2124.3	-2212.8	-2230.5	-2433.5
Transportation and insurance (net)	101.0	-57.5	-46.7	-19.6	-18.2
Tourism (net foreign travel)	71.9	75.0	130.7	138.1	190.1
Emigrant remittances	72.9	107.0	125.6	118.6	124.7
Investment income	-7.3	-12.9	-5.7	-12.1	-17.7
Government services	2.8	-3.8	-3.1	+9.0	2.1
Other	-0.5	41.6	88.5	125.1	141.0
Sub totals	-235.1	-596.3	-450.4	-289.9	-233.2
2. Special Receipts					
Offshore procurements	0	1.2	61.3	132.5	128.8
Troop expenditures	13.4	14.9	14.1	7.1	7.6
Infra structure	0	25.9	33.7	13.8	26.6
Sub totals	13.4	42.0	109.1	153.4	163.0
Deficit	-221.7	-554.3	-341.3	-136.5	-70.2
3. Financing of Deficit (including capital movements)					
U.S. aid	277.4	199.6	124.4	63.3	37.2
Contractual repayments	28.0	-42.9	-46.2	-37.8	-29.9
Trade credits	66.6	191.4	127.3	-4.7	-42.7
Other credits (net)	63.3	90.7	65.4	194.2	244.6
Short term assets and liabilities (net)[1/]	-155.4	93.1	57.1	-55.4	-108.6
Sub totals	223.9	531.9	328.0	159.6	100.6
4. Errors and Omissions	-2.2	22.4	13.3	-23.1	-30.4
Total	221.7	554.3	341.3	136.5	70.2

1/Minus (-) represents an improvement in position

Table 23

EPU Position

(in millions $)

	Surplus or deficit during period[1]	Credit accumulated or repaid by Italy during period[2]	Gold or $ received by or paid in by Italy during period[3]	Credit or debit balance end of period[4]	Cumulative net amount of gold or $ received or paid by Italy at end of period[5]
1952					
1st quar.	+13.7	+6.9	+6.9	+251.4	+105.2
2nd quar.	-42.6	-21.3	-21.3	+208.8	+83.9
3rd quar.	-3.8	-1.9	-1.9	+205.1	+82.0
4th quar.	-57.6	-28.8	-28.8	+147.4	+53.2
1953					
1st quar.	-95.3	-47.7	-47.7	+52.1	+5.6
2nd quar.	-64.1	-53.5	-5.6	-12.0	-
3rd quar.	-28.8	-24.8	-4.1	-40.8	-4.7
4th quar.	-71.7	-47.1	-24.5	-112.5	-28.6
1954					
1st quar.	-51.2	-16.4	-34.8	-143.3	-63.4
2nd quar.	-59.6	-22.0	-76.5	-166.7	-139.9
3rd quar.	-29.8	+27.4	-18.2	-95.0	-158.2
4th quar.	-52.3	-21.9	-30.4	-116.9	-188.6
1955					
1st quar.	-77.2	-35.3	-41.9	-152.2	-230.5
2nd quar.	-68.6	-30.5	-38.2	-182.7	-268.7
3rd quar.	+46.9	+22.7	+24.0	-160.0	-244.7
4th quar.	-91.7	-19.0	-72.5	-179.0	-317.2
1956					
1st quar.	-37.2	-6.0	-31.2	-185.0	-348.4
2nd quar.	-48.4	+23.0	-71.3	-162.0	-419.7

1/ Surplus (+); deficit (-)
2/ Credited accumulated (+); credit repaid (-)
3/ Received (+); paid (-)
4/ Credit (+); debit (-)
5/ Received (+); paid (-)

Table 24

Official Gold and Foreign Exchange Reserves

(in millions of $)

	End of 1951	End of 1952	Change during 1952	End of 1953	Change during 1953	End of 1954	Change during 1954	End of 1955	Change during 1955
Gold	333.4	345.8	+12.4	345.8	-	346.0	+0.2	324.6	-21.4
Convertible foreign exchange	233.8	199.1	-34.7	334.5	+135.4	485.5	+151.0	702.9	+217.4
EPU Balance	145.0	85.0	-60.0	-95.2	-180.2	-116.9	-21.7	-179.0	-62.1
Payment agreements balances and other currencies	273.1	262.3	-10.8	249.9	-12.4	176.1	-73.8	150.8	-25.3
Total	985.3	892.2	-93.1	835.1	-57.1	890.7	+55.6	999.3	+108.6

ANNEX I

PROGRESS OF THE CASSA PROGRAM

Introduction

1. The Cassa per il Mezzogiorno was fourded in August 1950 as an agency of the Italian Government to carry out the program for the development of Southern Italy. The law by which the Cassa was established was amended in July 1952. The life of the Cassa was extended to 12 years (1950-1962), and the total amount to be spent by the Cassa for the development of Southern Italy was increased to Lit. 1,280 billion.

2. A general study of the Cassa, its program and the progress of its activities was prepared early in 1955. The results of this study were made available in report EA-51 (Cassa per il Mezzogiorno and the Economic Development of Southern Italy, May 20, 1955). One of the conclusions of that report was that the execution of the Cassa program had made a slow start, but that after the first three years the volume of activities had risen to a satisfactory level.

3. The purpose of this Annex is to trace the progress of the Cassa program since the former study was made, so as to determine whether the expectations of 1955 were realized. This Annex deals especially with the subjects treated in paragraphs 11-20 of EA-51, and the information used in it was largely collected during the Bank's mission of March 1956.

4. The central office of the Cassa organized a series of discussions with representatives of all the regional organizations which it finances. The purpose of these discussions was to establish clearly for which projects of the local agencies the Cassa will allocate funds for the rest of its life. At the time of the Mission the Cassa had conducted about half of the interviews.

5. The recent progress in the execution of the Cassa program is traced below in five stages:

a) final projects approved
b) contracts awarded
c) financial transactions of the Cassa
d) total investments
e) volume of works completed

a) Projects approved

6. During the seven months interval between June 30, 1955, and January 31, 1956, the Cassa approved projects amounting to Lit. 74 billion. The total rose from Lit. 578 billion to Lit. 652 billion, which is 51% of the planned total (Lit. 1,280 billion). As of January 31, 1956, the Cassa had been in operation for about five years and the program is to be completed in 12 years. A percentage of 51 for projects approved at this stage shows that the effects of the slow start have been largely eliminated.

7. The figures for the various categories are:

Projects Approved

	June 30, 1955	Jan. 31, 1956	Revised 12-year Cassa Program	% Approved at Jan. 31 1956
		(billion lire)		
1. Land reclamation	197	232	-2/	
2. Mountain slope work	35	32 1/	-2/	
3. Aqueducts	77	86	150	57%
4. Roads	94	98	115	85%
5. Tourism	13	15	30	50%
6. Railroads	67	77	75	102%
Total public works	483	539		
7. Private works	95	113	----	----
General total	578	652	1,280	51%
1 + 2 + 7 combined 2/	327	377	910	41%

b) Contracts awarded

8. The number of contracts awarded rose from 33,000 on June 30, 1954, to 46,000 on June 30, 1955, and 55,500 on February 29, 1956. The total amounts of awarded contracts were respectively Lit. 403 billion, Lit. 472 billion, and Lit. 539 billion. This last amount which indicates the situation after 5 years of actual operation of the Cassa, represents 42% of the program total. This is satisfactory.

1/ Reduction probably due to a shift between categories.

2/ This combination is made because of a reshuffling of categories, which makes a comparison between Program and realization for the separate categories 1, 2 and 7 difficult. A comparison between the figures of various dates and the Program is however correct for the combination of categories 1, 2 and 7.

9. By categories the figures are:

Contracts Awarded

	June 30, 1954	June 30, 1955	Feb. 29, 1956	Revised 12-year Cassa Program	% Awarded at Feb. 29, 1956
	(billion lire)				
1. Land reclamation	141	159	184		
2. Mountain slope work	28	33	31 1/		
3. Aqueducts	57	63	71	150	47%
4. Roads	82	79	83	115	72%
5. Tourism	8	10	12	30	40%
6. Railroads	22	33	42	75	56%
Total public works	338	377	423		
7. Private works	65	95	116		
General Total	403	472	539	1,280	42%
1 + 2 + 7 combined	234	287	306	910	34%

The value of contracts awarded for land improvement works (categories 1, 2, and 7 combined) lags behind the average. This is understandable because these projects are often very complicated, and need careful checking.

c) Finances of the Cassa

10. The financial resources of the Cassa for the Twelve-Year Program are provided from the Government budget through annual appropriations fixed by law. In addition, the Cassa receives certain interest and amortization payments from various loans made by Government agencies since 1947 with the counterpart of United States economic aid. Its funds are further increased by interest on its cash reserves, interest derived from its own credit operations and also by the proceeds of the three IBRD loans made so far. The Government appropriations represent by far the largest part of the Cassa's resources, as will be seen from the following table, giving a breakdown of total funds made available to the Cassa since its inception up to March 31, 1956, covering a period of 5 years and 9 months.

1/ Reduction probably due to a shift between categories.

		As of March 31, 1956 (in billions of lire)
Government appropriations		548.6
IBRD loans: 1st loan $10 million	6.25	
2nd loan $10 million	6.25	
3rd loan $70 million, of which withdrawn $17.2	10.70	23.2
Other resources mentioned above		39.9
Total Receipts		611.7

11. Total expenditures made by the Cassa up to March 31, 1956, amounted to Lit. 526.5 billion, as follows:

	(in billions of Lire)
Twelve-Year Program	475.2
Credit Operations including investments of IBRD funds	47.3
Sundry investments and Cassa administration expenditures still to be prorated	4.0
Total Expenditures	526.5

12. With cumulative receipts of Lit. 611.7 billion and expenditures of Lit. 526.5 billion, the Cassa's available cash reserve as of March 31, 1956, amounted to Lit. 85.3 billion. During the first three years of its operations, investments made by the Cassa for the program lagged considerably behind funds made available to it; and as a result a considerable cash balance was built up during those early years. This trend was reversed starting with the fiscal year 1953/54, as will be seen from the following table:

Fiscal Year	Total Receipts	Total Expenditures	Excess of Receipts over Expenditures	Cash Balance end of year
		(billion lire)		
1950/51	101.0	7.3	93.7	93.7
1951/52	103.6	53.4	50.2	143.9
1952/53	98.4	71.7	26.7	170.6
1953/54	112.7	127.4	(-) 14.7	155.9
1954/55	109.9	156.9	(-) 47.0	108.9
1955/56 9 mos. only up to 3/31/56	86.1	109.7	(-) 23.6	85.3
	611.7	526.4		

13. These figures confirm the impression that the Cassa program has gained considerable momentum during recent years. If the present rate of expenditures

is maintained, the cash reserve may become depleted within the not too distant future. In this connection it should be mentioned that the law provides for the possibility of the Cassa receiving advances on the funds provided from the budget if the need for such advances would arise.

14. The figure of Lit. 475 billion shown above as disbursements for the Twelve-Year Program can be compared with the latest available total for contracts awarded (Lit. 539 billion as of February 29, 1956). This comparison shows that disbursements follow the money-value of contracts awarded fairly closely.

d) Total investments made

15. The total amount of the Cassa program of Lit. 1,280 billion refers to government investments to be made in the categories of work listed for the various sectors (see paragraph 8 of report EA-51). In various cases private individuals or organizations (such as the Consortia for land improvement) are obliged under existing Italian laws (for instance, the Reclamation Law of 1933) to supplement the government investments. For this reason, the total amount of investment resulting from the execution of the Cassa program is somewhat larger than the total of Cassa disbursements.

Investments resulting from Cassa activities
(billion lire)

	1951	1952	1953	1954	1955	Total 5 yrs.
Public Works	17	86	132	139	146	519
Total, including industry and tourist promotion	17	88	141	152	167	565

Total investments by main categories
(billion lire)

	5-Year period
Agricultural improvements	373
Aqueducts	45
Roads	75
Tourism	7
Railroads	18
Total Cassa works	519
Industrial and tourist ventures partly financed by Cassa funds	46
General total	565

16. These figures show that vigorous progress has been made in the last two years. There is a reasonable prospect that the Cassa will complete its program in the 12-year period of the present level of activity can be maintained.

17. The investments in industry, included in the last item of the above table, are financed partly by credits which the Cassa makes available to the three regional development institutes, ISVEIMER for the southern mainland, IRFIS for Sicily, and CIS for Sardinia, for their programs of medium and long-term lending for industrial projects. Part of the funds for these credits becomes available to the Cassa from the counterpart of the IBRD loans and the remainder arises from the other sources of Cassa income. Up to the end of March 1956, the Cassa had made industrial credit commitments to the institutes as follows:

	Cassa Funds	IBRD Funds (billion lire)	Total
ISVEIMER	14.786	8.270	23.056
IRFIS	7.030	9.831	16.861
CIS	2.424	--	2,424
Total	24.240	18.101	42.341

18. Of the Lit. 24.240 billion of Cassa funds allocated to industrial projects up to March 31, 1956, Lit. 16.290 billion had been disbursed. About one-third of the industrial allocations of IBRD funds was for projects which have been completed and in operation for some time and the balance is for projects in the 1955 loan which are only now getting under way.

e) Works completed

19. Of the greatest significance are the figures about the completion of constructions. In this respect there are two categories: projects that are completed, and projects under construction of which a certain part is finished.

20. The total for completed projects rose from Lit. 108 billion on June 30, 1954, to Lit. 236 billion on January 31, 1956. This latter figure is 18.5% of the program total.

21. Projects under construction amounted at January 31, 1956, to Lit. 295 billion. This total included finished parts with a value of Lit. 158 billion. The total of works completed on January 31, 1954, was therefore Lit. 394 billion, or 31% of the program total. Taking into consideration that the execution of the Cassa program made a slow start, as every complicated program does, the present situation is satisfactory. It suggests again that there is a good chance that the program will be executed by the end of the 12-year period.

Works completed and under construction on January 31, 1956
(billion lire)

	1	2	3	4	5	6
	Completed	Under construction	Part Executed	1 + 3	Revised 12-year Cassa Program	4 in % of 5
1. Land Reclamation	73	110)	65	151		
2. Mountain slope work	13	17)				
3. Aqueducts	26	44	20	47	150	31%
4. Roads	61	22	12	73	115	63%
5. Tourism	5	6	2.5	7	30	23%
6. Railroads	9	32	12	21	75	28%
Total public works	187	231	112	299		
7. Private works	49	63	46	95	———	——
General Total	236	295	158	394	1,280	31%
1 + 2 + 7 combined	135	190	111	246	910	27%

22. It is impossible to give a description of the work accomplished by the Cassa in a brief report, because the work covers such a wide field, technically and geographically. However, the mention of some examples may give an impression of the significance of the work of the Cassa. Some information of a general nature is moreover included in the list of physical data on achievements on page 8.

23. In the field of irrigation work is progressing satisfactorily in the Catania plain on Sicily. At the same time, construction is progressing on works to irrigate the Cagliari plain on Sardinia, the Volturno plain near Naples, and several other projects on the eastern and southern coasts of the Peninsula. In the Bari-Brindisi area extensive works for the irrigation with subsoil water are in progress.

24. The projects for the improvement of mountain slopes and for afforestation are spread all over the Cassa territory. Their general purpose is to improve the water catchment areas, to produce timber and firewood, to diminish erosion, to serve as windbreaks, and to make bare areas more attractive to tourists.

25. The highway building and improvement program will facilitate greatly the marketing of farm and industrial products. It consists mainly of the improvement of existing roads, the building of access roads, and the construction of a few highways. One of the main highways under construction (Terracina-Formia) will give much improved connections between Rome, Naples and points south. A great part of this highway has already been completed.

26. As of June 30, 1955, 245 villages with 1,350,000 inhabitants have been supplied with potable water by the building of aqueducts, pumping stations and purification plants.

27. The railroad works included in the program will improve traffic all along the coast of the Peninsula, from Pescara on the east coast, via Taranto on the south coast, Reggio-Calabria at the toe to Battipaglia on the west coast. Most of these works began in 1953/54 and a great part has been completed.

28. The storage of crops has been greatly improved by the building of more than 150 warehouses, and in the credit program for industry a great deal of work is done for the financing of processing factories.

29. To promote tourism (a major source of foreign exchange) many excavations and restorations are under way, access roads have been built, and the construction of more than 100 hotels has been financed by Cassa credits.

30. A list of data about completed works in physical units as of December 31, 1955, is added. In some cases these figures can be compared with those of report EA-51. This comparison gives a good impression of the accomplishments since June 1954.

Physical data about achievements up to Dec. 31, 1955

		Dec. 31, 1955	June 30, 1954
River improvement and drainage works			
Canals, improved riverbeds	km	1,590	772
Area with improved drainage	ha	125,500	17,900
" protected against flooding	ha	153,800	
Irrigation works			
Main and secondary canals	km	1,187	871
Area included in schemes	ha	46,300	30,000
" actually irrigable	ha	23,300	
Capacity of reservoirs	mln m3	5	
Road building			
New roads constructed	km	2,125	1,700
Roads improved	km	9,283	7,670
Mountain slope work			
Watersheds consolidated	ha	4,100	
Land prepared for planting	ha	27,400	
" planted or seeded	ha	29,300	21,400
Number of trees planted	mln	67	
Forest thinned or improved	ha	48,600	
Aqueducts			
Canals and pipes	km	2,097	
Capacity of reservoirs	1000 m3	330	

The number of man-days worked in Cassa-financed projects amounted up until January 31, 1956, to 99 million. This is the equivalent of 400,000 man-years at 250 work-days per year.

31. It is moreover estimated that the farm improvement works financed by the Cassa until June 30, 1955, would give an increase in annual labor requirements on farms of 11.9 million man-days; this is the equivalent of 47,500 permanent farm jobs.

Summary and Conclusions

32. The Cassa has on the whole discharged its responsibilities satisfactorily. At the half-way mark, it approved projects amounting to more than 50% of its programmed resources and awarded more than 55,000 contracts. It disbursed by the end of March 1956, $330 million against work completed or in progress and has directly induced investments of an additional $60 million. In physical terms, it has completed 1,600 km of canals and improved river beds; 1,200 km of main and secondary irrigation canals; irrigated 46,000 ha. of land; constructed 2,100 km of new roads and improved 9,300 km of old ones; planted 67 million trees; and brought potable water to 245 villages with 1,350,000 inhabitants. It is estimated that the farm improvement works already financed by the Cassa provide the equivalent of 47,500 permanent farm jobs. These achievements suggest that the Cassa should be able to complete its program during the period set for it, if operations are maintained at recent levels.