



ECONOMIC SURVEYS

I. 2. b. 6.

# ITALY

ORGANISATION FOR ECONOMIC  
CO-OPERATION AND DEVELOPMENT

PARIS JUNE 1967

# BASIC STATISTICS OF ITALY

## THE LAND

Area (1,000 sq. km) .....	301.2	Major cities (1961 census; thousands):	
Agricultural area (1,000 sq. km) .....	219.4	— Rome .....	2,245
Woodland (1,000 sq. km) .....	58.3	— Milan .....	1,598
		— Naples .....	1,196
		— Turin .....	1,050

## THE PEOPLE

Resident population in 1966 (thous.)	53,328	Labour force (1966) .....	(Thousands) 19,653
No. of inhabitants per sq. km. ....	177	Employment (1966) .....	18,884
Net natural increase in population:		— in agriculture .....	4,660
Annual average 1961-1966 (thous.)	470.2	— in industry .....	5,726
Net rate per 1,000 inh. (1961-1966)	9.1	— in construction .....	1,895
— Net emigration (average 1961-1965; thousands) .....	105	— in services .....	6,602

## PRODUCTION

Gross national product in 1966 (billions of lire) .....	38,397	Domestic product in 1966 (at factor cost):	
GNP per head in 1966 (US \$) .....	1,152	— Agriculture .....	12.5 %
		— Industry .....	32.1 %
		— Construction .....	8.0 %
		— Services .....	47.4 %

## THE GOVERNMENT

Public consumption in 1966 (percentage of GNP) .....	14.5	Internal public debt (Ratio to Central Government current revenue in 1966).	94.5
Current public revenue in 1966 (percentage of GNP) .....	31.9	General Government investment in 1966 (percentage of total investment) .....	15.1

## LIVING STANDARDS

Calories per head, per day (1965/66) ..	2,800	Gross average hourly wage of industrial workers in 1966 (lire) .....	530
Meat consumption, kgs. per year, per head (1964/65) .....	35	Nos. per 1,000 inhabitants, 1966:	
Energy consumption, kwh, per year, per head (1965) .....	2,043	— Radio sets .....	207
Steel consumption, kgs. per year, per head (1965) .....	221	— T.V. sets .....	117
		— Cars .....	106

## FOREIGN TRADE

Exports of goods and services as a percentage of the GNP (average 1965-1966)	18.9	Imports of goods and services as a percentage of the GNP (average 1965-1966)	15.9
Main exports (average 1965-1966; percentage of total exports):		Main imports (average 1965-1966; percentage of total imports):	
— Machinery .....	25.0	— Foodstuffs .....	23.2
— Fabrics and textile goods .....	13.0	— Machinery .....	16.8
— Chemical products .....	14.3	— Metals, ores and scrap .....	13.3
— Foodstuffs .....	11.7	— Crude oil .....	12.3
— Motor vehicles .....	11.0	— Chemical products .....	8.3

## THE CURRENCY

Monetary unit: Lira.

Currency units per US dollar .....

625

ECONOMIC SURVEYS BY THE OECD

# ITALY

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

*The Organisation for Economic Co-operation and Development was set up under a Convention signed in Paris on 14th December 1960 by the Member countries of the Organisation for European Economic Co-operation and by Canada and the United States. This Convention provides that the OECD shall promote policies designed:*

- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;*
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development;*
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.*

*The legal personality possessed by the Organisation for European Economic Co-operation continues in the OECD, which came into being on 30th September 1961.*

*The members of OECD are: Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.*

This document was approved  
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## INTRODUCTION

The expansion of economic activity gathered momentum in 1966—a year when the gross national product increased by 5.5% in real terms in conditions of considerable price stability. Unlike the preceding period of recession and subsequent gradual recovery, when the growth of output was virtually sustained by foreign demand, expansion in 1966 was essentially based on the increase of domestic demand. In particular, investment recovered despite the stagnation of construction activity; investment in machinery and equipment—after its earlier drastic fall—started on a marked upswing. The balance of payments again showed a large current surplus, partly offset by considerable capital outflows, which reflected tightening monetary conditions abroad and the relatively easy monetary policies in Italy.

The immediate prospects are that the swift expansion of output and domestic demand will continue, with an improvement in the employment situation (which until recently remained unsatisfactory). Last winter's severe floods caused an important destruction of national wealth but seem unlikely to have a significant adverse effect on the growth of output. Prices are now edging up, though the increases are still modest, and wage rises remain moderate. The most likely potential check to growth in the near future would seem to lie in a flattening of exports because of weak demand trends in certain important foreign markets. But Italian exports have continued to expand until recently, albeit at a lower rate, and the current external surplus had decreased only gradually.

The present survey outlines, in Part I, economic developments in 1966 and early 1967. Part II discusses the short-term prospects and a final section contains the conclusions.



## I. RECENT ECONOMIC DEVELOPMENTS

### a) Demand factors

The recovery from the earlier recession, somewhat protracted and unequally spread among sectors of production until the end of 1965, owed much to the remarkable growth of exports—brought about by the conjunction of weak domestic demand and booming conditions in some of Italy's important export markets. The demand-management measures taken by the authorities<sup>1</sup> helped to limit the deflationary tendencies, but produced significant expansionary results only after some delay. The rise in consumption demand (sustained inter alia by higher public transfers) was partly offset by continuing declines in investment. Furthermore, the expansion of total domestic expenditure was virtually absorbed in both 1964 and 1965 by price increases.

TABLE 1. EXPANSIONARY IMPULSES ON THE ECONOMY

*Annual increases in billion lire.*

	1964	1965	1966
<b>A. At constant, 1963 prices :</b>			
1. Total consumption .....	628	588	1,300
2. Gross domestic asset formation .....	— 616	— 517	387
3. Domestic demand .....	12	71	1,687
4. Net exports of goods and services.....	829	1,006	95
5. GNP at market prices .....	841	1,077	1,782
<b>B. At current prices :</b>			
1. Total consumption .....	2,095	1,954	2,340
2. Gross domestic asset formation .....	— 89	— 430	555
3. Domestic demand .....	2,006	1,524	2,895
4. Net exports of goods and services.....	878	974	— 73
a) Imports .....	(— 145)	(142)	(867)
b) Exports .....	(733)	(1,116)	(794)
5. GNP at market prices .....	2,884	2,498	2,822
6. (= B5 — A5) Effect of prices increases....	2,043	1,421	1,040

Source : Data from the "Relazione Generale" 1966.

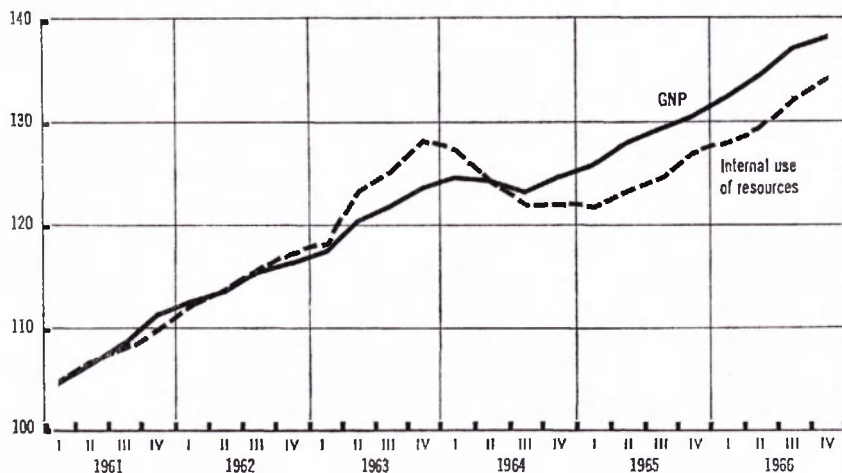
1. For a description of the expansionary policies applied in 1964 and 1965 see the OECD Survey on Italy published in April 1966.



The situation changed markedly in 1966. The growth of output accelerated and, in sharp contrast to the two preceding years, corresponded closely to the volume increase of internal demand. Price increases neutralised just over one third of the additional domestic expenditure, instead of practically the whole increase as before. Exports of goods and services showed new appreciable gains; but a vigorous growth of imports accompanied the speeding-up of re-expansion, so that there was no significant additional impulse from the external surplus on goods and services. The surplus nonetheless remained important, representing nearly 3 per cent of the GNP. For the first time since 1963 all the main categories of domestic demand increased simultaneously.

**Diagram 1. GROSS NATIONAL PRODUCT  
AND INTERNAL USE OF RESOURCES**

QUARTERLY VOLUME INDICES 1960 = 100, SEASONALLY ADJUSTED<sup>1</sup>



1. For 1966, preliminary estimates.

Source: Relazione Generale, 1966.

According to the official estimates, consumers' expenditure increased somewhat faster than the national product, by 5.7 per cent in real terms. This rate appears high in the light of the decrease in numbers employed and the rather moderate rise of wage rates; it is largely explained by the limited rise of consumer prices, the increase in transfers and, especially, by the fact that the total wage bill rose appreciably more than contractual rates (see below). However, quantitative measurements in this field leave

TABLE 2. SUPPLY AND USE OF RESOURCES

	1966 AT CUR. PRICES		% VOLUME INCREASES (AT 1963 PRICES)				
	BIL. LIRE	% SHARES	1962	1963	1964	1965	1966
1. Private consumption .....	24,214	63.4	6.3	8.9	2.5	2.2	5.7
2. Public consumption .....	5,557	14.5	5.4	5.1	3.4	3.6	3.6
3. Gross fixed investment .....	7,073	18.4	10.1	8.5	- 6.5	- 8.4	3.7
4. Changes in stocks .....	459	1.2	..	..	..	..	..
5. Exports of goods and services .....	7,396	19.4	12.3	6.9	11.6	20.8	12.5
6. Imports of goods and services .....	6,302	- 16.5	16.4	22.4	- 5.1	1.9	13.4
7. GNP at market prices .....	38,397	100.0	6.2	5.5	2.8	3.5	5.5
8. GDP at factor cost .....	33,764	100.0	6.1	5.2	2.7	3.3	5.4
a) Agriculture .....	4,225	12.5	- 1.6	1.2	3.1	3.2	0.5
b) Industry .....	10,837	32.1	9.7	7.5	2.2	4.8	9.7
c) Construction .....	2,699	8.0	6.8	4.3	1.6	- 3.9	0.3
d) Services .....	16,003	47.4	6.1	5.0	3.2	3.5	4.6
<i>Non-consumption items as percentages of GNP at current prices:</i>							
a) Gross fixed investment .....			23.3	23.7	21.8	18.9	18.4
b) Changes in stocks .....			1.5	1.1	0.6	0.7	1.2
c) Foreign balance on goods, services and factor income .....			- 0.2	- 2.3	0.6	3.3	2.8
of which: net factor income .....			0.4	0.4	0.5	0.6	0.7
Total (a + b + c) .....			24.6	22.5	23.0	22.9	22.4

Source : Italian submission to the OECD and Relazione Generale 1966.

certain margins of uncertainty<sup>1</sup>. Public consumption rose at the same rate as the year before and stock accumulation increased (to an estimated 1.2 per cent of GNP) in line with the acceleration of industrial production. But the most noteworthy change was in the trend of fixed investment.

The moderate annual increase of total fixed investment (3.7 per cent in real terms) conceals appreciable differences by types of goods and a pronounced recovery of industrial investment in the course of the year. The fall in housebuilding, which had been important the year before, appears to have ceased in the second half of 1966. But on a year-to-year basis, housing showed a small decline, roughly offset by a 5 per cent rise in the volume of public works and by some increase in other construction. Investment in transport equipment rose by 5 per cent, but the most directly productive investment (in machinery and other equipment) increased by more than 11 per cent in real terms, following declines of as much as 19 per cent in 1964 and a further 18 per cent in 1965.

TABLE 3. FIXED INVESTMENT

	1963	1966	1964	1965	1966	1966
	% SHARES OF GNP <sup>1</sup>		% VOLUME CHANGES (AT 1963 PRICES)			VOLUME INDICES 1963 = 100
1. Gross fixed investment . . .	23.7	18.4	- 6.5	- 8.4	+ 3.7	88.8
2. Depreciation allowances . .	8.5	8.8	+ 5.4	+ 6.3	+ 7.5	120.4
3. Net fixed investment . . . .	15.2	9.6	- 13.2	- 18.4	+ 0.3	71.1
	% OF FIXED INVESTMENT <sup>1</sup>					
<i>By types of goods :</i>						
1. Dwellings . . . . .	30.2	33.8	+ 6.0	- 6.0	- 0.9	98.8
2. Other construction . . . . .	25.6	30.1	- 2.2	- 1.5	+ 2.3	98.6
3. Transport equipment . . . . .	12.6	10.8	- 13.8	- 8.7	+ 4.9	82.5
4. Other machinery and equipment . . . . .	31.6	25.3	- 19.0	- 17.9	+ 11.2	73.9

1. At current prices.

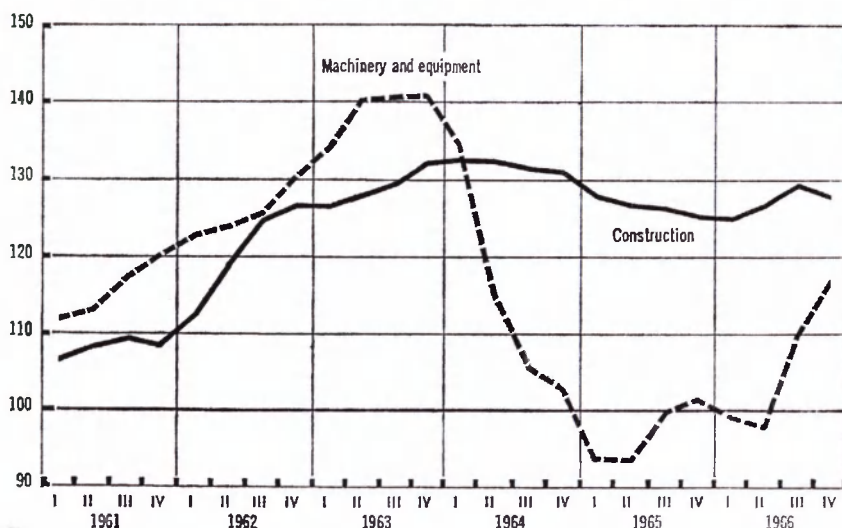
Source: Italian submission to the OECD and *Relazione Generale* 1966.

1. There are no adequate data on income distribution and no estimates of disposable income, so that there is no reliable basis for judgements on the savings ratio. Moreover, statistics on stock movements are rather fragmentary and it is possible that the changes of private consumption shown in the national accounts include some changes in stocks.

This reversal was particularly pronounced in the second half of last year; the estimated increase between the fourth quarters of 1965 and 1966 exceeded 15 per cent (including transport equipment). Moreover, the expansion largely reflected a revival of private investment, especially in industry. The volume of total investment by the State-owned enterprises and the National Electricity Agency in fact showed little change; the efforts to speed them up met with a measure of success, but at the same time there were inevitable declines due to the recent completion of certain major projects—e.g. in the iron and steel sector. Despite its pronounced recovery, investment in machinery and equipment last year was still 26 per cent below the peak of 1963. In the meantime, the volume of industrial production had increased by 18 per cent and the gross national product by 12 per cent.

*Diagram 2. GROSS FIXED INVESTMENT*

QUARTERLY VOLUME INDICES 1960 = 100, SEASONALLY ADJUSTED<sup>1</sup>



1. For 1966, preliminary estimates.

Source: Relazione Generale, 1966.

### b) Output

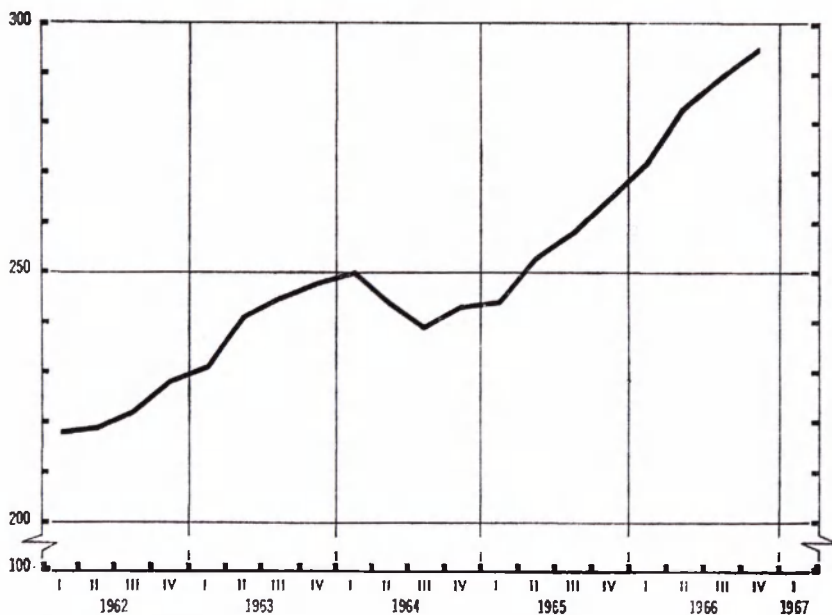
With a GNP increase of 5.5 per cent, the Italian economy in 1966 recovered its pre-recession rate of growth, exceeding the 5 per cent average target of the 1966-1970 Development Programme<sup>1</sup>. To a greater extent

1. The Development Programme is now at the last stage of parliamentary approval.

than in the two previous years the growth of output resulted from the expansion of industrial production. Agricultural output, which had increased appreciably in both 1964 and 1965, was affected last year by unfavourable weather conditions. And the rise in output of services (although showing an acceleration compared with the earlier period) was less than that of GNP. Excluding construction, which expanded only marginally, the volume increase of the product of industry was nearly 10 per cent—a rate not attained since 1962 (cf. Table 2).

The general index of industrial production increased through most of last year at about the same rate as the annual average rise of 11.7 per cent. Practically all branches of industry shared in this trend. A certain deceleration in the last months was probably due to the effect of accidental factors. Some types of production of special significance from the point of view of cyclical developments were actually accelerating in these months. In particular, the output of engineering products, excluding means of transport, which had lacked buoyancy in the first half of 1966 partly because of strikes, picked up sharply in the second half and almost recovered to its 1963 peak. Rising production in this branch seemed to be based increasingly more on domestic demand rather than on exports.

**Diagram 3. INDEX OF INDUSTRIAL PRODUCTION**  
 QUARTERLY AVERAGES SEASONALLY ADJUSTED 1953 = 100



Source: ISCO.



Developments in early 1967 are difficult to interpret, because a new index of industrial production began to be published in January<sup>1</sup>. For the first four months, the general index was 11.7 per cent higher than in January-April 1966. Since there are no seasonally adjusted figures the recent trend cannot be judged with confidence, but the expansion seems to have continued. The most up-to-date partial production figures (e.g. steel and automobiles up to May) as well as all the available indirect evidence suggest further significant gains in industrial output.

The one important sector now coming out of the recession is house-building, though the strength of the incipient recovery is still uncertain. Current statistics refer to building licences (not actual starts) and to occupancy permits delivered after the completion of dwellings. The former rose last year by about 9 per cent, while the latter decreased sharply—by 25 per cent. Because, *inter alia*, of the important time-lags involved, these statistics do not adequately reflect the volume of residential construction. Indirect evidence (e.g. production and sales of building materials, the considerable expansion of mortgage credit, the decrease of short-time working and, lately, signs of increasing employment in construction) suggests that the expansion in construction activity is no longer confined to public works and non-residential building, but now includes the construction of dwellings as well<sup>2</sup>.

### c) *Employment*

The rise in output was not, until recently, accompanied by higher employment, though hours worked in industry increased. The labour force (estimated from quarterly sample surveys) continued to decrease last year—partly as a result of long-term trends but also because the weak demand for labour induced withdrawals from the labour market. Comparisons of yearly averages show a 1.6 per cent fall in total employment in 1966 (resulting from a 6 per cent decline in agriculture and approximate stagnation in non-farm employment) and an increase of unemployment by 6.7 per cent. The fact that dependent employment in manufacturing remained approximately constant contrasts sharply with the increase of output by 11.5 per cent. There has certainly been a significant increase in hours worked between the two years—of the order perhaps of 3 per cent. For the main part, however, the phenomenon reflects the very strong underlying growth of productivity, probably enhanced by efforts toward rationalisation in manufacturing industry. On the other hand, certain special employment

1. The previous index (based on 1953) excluded several production lines which have since become very important — e.g. most household durables. The new index is of much wider coverage, but back figures cover only the year 1966.

2. Estimates of the actual volume of housebuilding are made annually in the national accounts (cf. Table 3).

TABLE 4. EMPLOYMENT<sup>1</sup>

*In thousands.*

	CHANGES IN ANNUAL AVERAGES			SITUA- TION IN 1966	CHANGES		
	1964	1965	1966		JAN. 65 TO JAN. 66	JAN. 66 TO JAN. 67	APR. 66 TO APRIL 67
<b>EMPLOYMENT:</b>							
1. Agriculture .....	- 328	- 11	- 294	4.660	- 264	- 113	- 137
2. Industry .....	+ 10	- 277	- 108	7.621	- 309	+ 278	+ 186
<i>of which:</i>							
a) construction .....	(+ 102)	(- 142)	(- 68)	(1.895)	(- 188)	(+ 95)	..
b) manufacturing, wage and salary earners .....	(- 133)	(- 88)	(+ 3)	(4.344)	(- 121)	(+ 206)	..
c) manufacturing, other .....	(+ 37)	(- 16)	(- 42)	(1.099)	(- 9)	(+ 2)	..
3. Services .....	+ 268	- 102	+ 87	6.602	+ 219	+ 155	+ 127
4. Total employment .....	- 50	- 382	- 315	18.883	- 354	+ 320	+ 176
5. Unemployment .....	+ 45	+ 172	+ 48	770	+ 178	- 134	- 37
6. Labour force .....	- 4	- 210	- 267	19.653	- 176	+ 186	+ 139
7. Non-active population .....	+ 785	+ 860	+ 814	32.274	+ 800	+ 303	+ 351
8. Total present population .....	+ 781	+ 650	+ 547	51.927	+ 622	+ 489	+ 490

1. Estimates of national aggregates extrapolated from quarterly sample surveys.

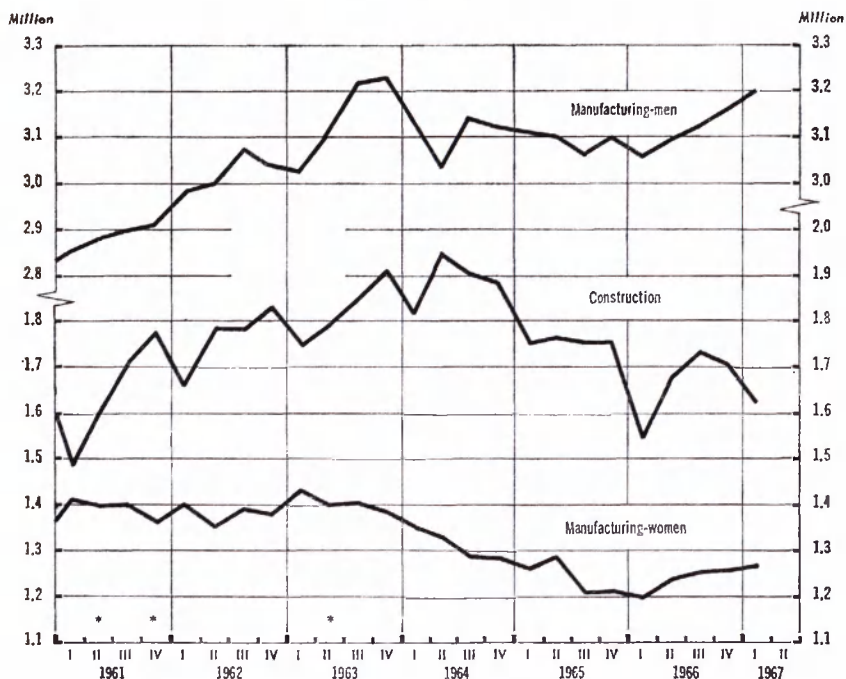
Source : ISTAT.



features of the recession were reversed. Not only did the movement of workers away from the farms again become significant, but the peculiar cyclical increase of marginal employment in the towns subsided.

The situation changed progressively in the course of last year and the survey of January 1967 indicates a distinct improvement. Comparisons with January 1966, when weather conditions were exceptionally bad, exaggerate the degree of improvement. But the distortion is unlikely to be significant for manufacturing, where the survey reveals the first appreciable increase of dependent employment (about 5 per cent) for several years. The survey also suggests a renewed expansion of the labour force, but it is difficult to judge to what extent this change merely reflects the apparently considerable reduction of emigration. The latter seems due to the weak demand for labour in Germany and other recipient countries, and to the special measures taken in Switzerland to limit the number of foreign workers.

**Diagram 4. EMPLOYMENT IN INDUSTRY**  
WAGE AND SALARY EARNERS



\* Surveys taken one month later than usual.

Source: ISTAT, Quarterly sample surveys.

The April survey (details of which are not yet available) seems to confirm the re-expansion of employment in industry. It shows an unemployment ratio of 3.2 per cent (against 3.4 per cent in April 1966). But the readily available manpower resources are most probably higher than suggested by this figure.

d) *Prices and wages*

The substantial degree of price stability last year was partly the result of a favourable trend of food prices. But price increases were also very modest for non-food commodities, despite some increase in import prices. It is noteworthy that prices of industrial products rose less than during the period of recession. More recently, the upward movement has become more pronounced, but it still remains relatively limited and is partly caused by the increased tax on petrol and price increases for certain public utilities<sup>1</sup>.

Increases in minimum wage rates have been kept very moderate by the state of the labour market and the small rise in the cost-of-living (to which they are linked by a sliding-scale arrangement). Wage rises have become more marked in recent months; the wage index for manufacturing in May was 5.3 per cent higher than in May 1966. The renewal of important wage contracts in the last few months should give rise to some appreciable increases; but since their implementation is generally spread out over time, no important acceleration can be expected from this source in the near future.

The trend of earnings is not clear, and detailed figures do not go beyond the third quarter of 1966. These refer to the industrial firms covered by the regular survey of the Ministry of Labour, with a labour force of some 3 million last year compared with a total of about 7.6 million employed in industry and construction. On this basis, average hourly earnings in the first nine months of 1966 showed an increase of only 2.1 per cent over the corresponding period of 1965, but this comparison is somewhat misleading<sup>2</sup>. Average monthly earnings per worker—probably a more meaningful measure in the circumstances—increased by 5.4 per cent over the same period.

The total wage bill has increased faster—the principal reason being that the quickening tempo of re-expansion has entailed significant shifts of manpower towards the high-wage sectors of the economy. According

1. The price indices have been revised since January (and re-based on 1966). Because of differences in coverage and classification, the sub-indices are not exactly comparable with the earlier series.

2. The earnings include compensation for short-time paid out of the wage equalisation fund. The fact that between these two periods working hours increased and these payments fell correspondingly, seems significantly to reduce the overall average increase.

TABLE 5. PRICES AND WAGES

Percentage increases.

	INCREASES OF ANNUAL AVERAGES				DECEMBER TO DECEMBER		APRIL 1967 OVER APRIL 1966
	1963	1964	1965	1966	1965	1966	
1. <i>Implied prices of gross national product</i> .....	8.7	6.6	4.0	2.3			
2. <i>Wholesale prices</i> .....	5.2	3.4	1.6	1.5	1.9	0.1	- 0.9
<i>of which: non-agricultural products</i> .....	4.8	1.0	0.9	1.5	0.8	0.6	- 0.7
3. <i>Consumer prices</i> .....	7.5	5.9	4.6	2.3	3.3	2.4	3.0
<i>of which: non-food products</i> .....	6.1	5.6	2.6	1.4	1.0	2.5	3.2
<i>food products</i> .....	8.2	5.0	5.3	2.0	2.7	0.9	1.1
<i>services</i> .....	7.2	7.7	4.9	3.7	3.4	4.9	6.6
4. <i>Minimum wage rates in industry</i> <sup>1</sup> :							
a) <i>manufacturing</i> .....	14.7	14.0	8.6	3.9	4.7	5.2	5.9
b) <i>construction</i> .....	12.3	33.6	8.4	3.2	5.8	3.6	3.7
5. <i>Hourly wage earnings in industry</i> <sup>2</sup> .....	11.5	11.9	7.1	[2.0]			

1. Excluding family allowances.

2. Firms covered by the Ministry of Labour Survey.

Source : Relazione Generale, ISTAT and ISCO.

to official estimates, total remuneration of employees rose by 6.6 per cent last year. The increase for manufacturing is estimated at 7.3 per cent. Since social security contributions (including those temporarily taken over by the State) and labour income from abroad expanded faster, the increase of labour incomes is put at 7.5 per cent; if deflated by the index of consumer prices, this rate corresponds to an increase of about 5 per cent in real terms. The relative trends of production and wages indicate that industrial profits must have increased considerably during the recent period of re-expansion. The available statistics do not permit adequate measurements in this field, but the broad developments over the last cycle are quite clear. After a long period of rapid increases in output and productivity, accompanied by moderate wage and price rises and by high profits in industry, the 1962-63 "wage explosion" resulted in a marked profit squeeze and an important shift in the distribution of income in favour of labour, despite a strong increase of consumer prices. Wages continued to rise appreciably for some time during the ensuing recession; but even when their increase became moderate, profits continued to be depressed because of the low rates of output. It is only when the expansion of production gathered momentum—with the attendant strong gains in productivity—that profits recovered significantly.

#### e) *Public finance*

The public sector had played an important role in lifting the economy from the recession in 1965, but last year its expansionary impact was rather moderate. On the expenditure side, the stimulating impact in the earlier period had come not so much from the increase in public investment and capital transfers as from the expansion of public consumption and transfers to households (pensions etc.). On the side of revenue, the nature of the tax system and the legal constraints on the budget limit the automatic stabilising role of public finance and hinder the anti-cyclical use of fiscal policy. In these circumstances the decision of the State to take over, from late 1964, part of employers' social security contributions proved to be an efficient method of action with immediate results. (This arrangement was prolonged for 1965 and 1966.) Thus, the net current saving of general Government dropped sharply from 3.5 per cent of the GNP in 1964 to 0.6 per cent in 1965 and the overall financial deficit increased considerably.

In 1966, both current saving and the overall deficit remained close to the previous year's levels. But, with economic expansion under way, government policy started laying more emphasis on the medium-term objective (inscribed in the five-year programme) of high public savings designed to match the planned expansion of public capital expenditure. Indeed, the central Government succeeded in increasing its current saving, since revenue rose faster than current expenditure. But this was more than offset by the growing deficits of local administrations and the erosion of the



TABLE 6. PUBLIC SECTOR ACCOUNTS  
NATIONAL ACCOUNTS CONCEPTS

Billion lire.

	1964	1965	1966	% INCREASES	
				1965	1966
<b>A. CENTRAL GOVERNMENT</b>					
1. Tax revenue .....	5,538	5,909	6,625	6.7	12.1
2. Other current receipts .....	228	289	399	..	..
3. Total current receipts .....	5,766	6,198	7,024	7.5	13.3
4. Current expenditure on goods and services .....	2,974	3,408	3,637	14.6	6.7
5. Current subsidies and transfers .....	2,051	2,603	2,925	26.9	12.4
6. Total current expenditure .....	5,025	6,011	6,562	19.6	9.2
7. Net current saving .....	741	188	462	..	..
8. Depreciation allowances .....	57	62	68	..	..
9. Capital account receipts .....	3	3	3	..	..
10. Gross investment .....	163	191	191	17.1	-0.3
11. Capital transfers .....	685	1,010	1,126	47.7	11.4
12. Financing needs .....	47	949	785	..	..
<b>B. GENERAL GOVERNMENT CONSOLIDATED ACCOUNT</b>					
1. Direct taxes .....	2,084	2,342	2,550	12.4	8.9
2. Indirect taxes .....	4,146	4,504	4,842	8.6	7.5
3. Social security contributions .....	3,676	3,642	3,794	-0.9	4.2
4. Other current receipts .....	866	958	1,063	..	..
5. Total current revenue .....	10,772	11,446	12,250	6.3	7.0
6. Current expenditure on goods and services .....	4,608	5,197	5,557	12.8	6.9
7. Current subsidies and transfers .....	5,008	6,035	6,540	20.5	8.4
8. Total current expenditure .....	9,616	11,232	12,097	16.8	7.7
9. Net current saving .....	1,156	215	153	..	..
10. Depreciation allowances .....	104	115	124	..	..
11. Capital account receipts .....	7	6	7	..	..
12. Gross investment .....	958	991	1,066	3.5	7.6
13. Capital transfers .....	351	544	530	54.8	-2.6
14. Financing needs .....	43	1,200	1,312	..	..
<b>C. CURRENT SAVING AND OVERALL DEFICIT</b>					
<b>I. Net current saving:</b>					
1. Central administration <sup>1</sup> .....	789	186	433		
2. Local administration .....	-250	-235	-335		
3. Social security .....	617	263	54		
4. Total .....	1,156	215	153		
<b>II. Overall financial surplus (+) or deficit (-):</b>					
1. Central administration <sup>1</sup> .....	-30	-819	-689		
2. Local administration .....	-575	-572	-605		
3. Social security .....	535	191	-18		
4. Total .....	-43	-1,200	-1,312		

1. Central Government and central autonomous institutions.

Source: Relazione Generale 1966.

social security current surplus. The latter was probably in part a lagged effect of the recession; with employment now on the increase, contributions should pick up fairly soon.

The methods of public accounting make economic interpretation of the budget forecasts extremely difficult. The difficulties are increased this year, because the initial forecasts incorporate certain items which were not included previously in the budget. Comparing the initial budget estimates for 1967 with last year's forecasts, but also taking into account changes in extra-budgetary operations, the expected increase of tax revenue appears higher than the probable rise of national income. On the other hand the rise in current expenditure is distinctly lower (6.5 per cent) and that of capital expenditure only 4.2 per cent. The latter, however, depends not only on new authorisations but, to a large extent, on unspent commitments carried over from previous years. These estimates do not, however, take account of the new measures adopted after the floods of November 1966.

To finance expenditure for the repair of flood damage etc., the tax on petrol was raised for just over two years and most direct taxes (excluding taxes on the lower incomes) were increased by 10 per cent for 1967. The additional tax revenue may exceed somewhat the additional public expenditure this year. On the same occasion it was decided to discontinue, in January, the system of paying from the budget part of the social security contributions mentioned earlier—a charge to the budget which represented about 1 per cent of GNP last year. Despite the continuing deficits of local administrations, the consolidated current saving of the public sector is likely to increase in 1967. And although public investment may rise appreciably (because of the long-term programmes, the earlier reflationary measures and the need to repair flood damage) the overall impact of the public sector may be somewhat restrictive, unless there were an acceleration of expenditure on the substantial commitments carried over—in particular of capital expenditure other than direct public investment. In any case, the public sector's indirect expansionary influence—through State guarantees and subsidised loans for housebuilding, flood repairs etc.—may be significant.

#### f) *Money and credit*

Monetary and credit policy continued to be expansionary, in order to help the recovery of economic activity. The monetary authorities have kept the economy fairly liquid, taking positive action, when necessary, to sustain bank liquidity. One of their most important decisions has been to refrain from action to stem the outflow of capital which was largely provoked by interest rate differentials. Indeed, interest rates in Italy were kept virtually stable during a period of marked increases abroad.

The total of money and near-money rose less fast last year—by 13.6 per cent against 15.4 per cent in 1965; but the increase was still appreciable

since liquidity in the economy was already ample at the beginning of the year. The growth of credit became progressively the more important expansionary factor. The Treasury repaid central bank credit, since it issued an amount of long-term bonds considerably exceeding the value of maturing bonds. The timing of these issues was determined by legal requirements concerning the "budget balance" in the administrative sense, but also by conditions in the capital market. But the overall financing needs of the public sector were considerable, if only slightly higher than the year before<sup>1</sup>. On the other hand, the expansionary impact on liquidity of the balance of payments decreased considerably (despite the approximate main-

TABLE 7. MONEY AND CREDIT  
BANK LIQUIDITY. CHANGES IN BILLION LIRE

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

Source: Bank of Italy.

1. For figures on the basis of national accounts concepts see table 6(B) above. In the Italian national accounts, the public sector's transactions are recorded on a cash basis.

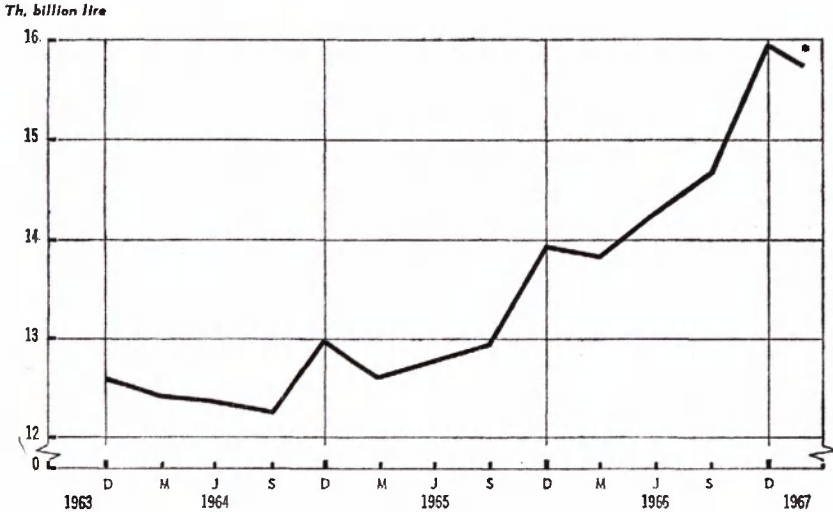


tainance of the large current surplus) because of the large outflow of both non-monetary capital and, more recently, of bank funds. But the banks had recourse to the Bank of Italy to the extent of 530 billion lire, against a reduction of about 140 billion the year before.

The financial system, helped by the monetary authorities, has been able to satisfy rising credit demand. Outstanding credit by the commercial banks increased last year by about 2,000 billion lire (14.6 per cent) compared to 933 billion (7.2 per cent) in 1965. The expansion was strongest for short-term credit. The special credit institutions lent some 1,100 billion, against 820 billion the year before. But net capital issues by business (about 470 billion) were slightly less than in 1965. The large increase in total net security issues (from 2,380 billion in 1965 to 3,290 billion in 1966) was mainly due to Treasury bonds, net issues of which rose from 660 billion in 1965 to 1,550 billion last year.

*Diagram 5. BANK CREDIT*

CREDIT BY THE COMMERCIAL BANKS, AMOUNTS OUTSTANDING



\* February.

Source: Bank of Italy.

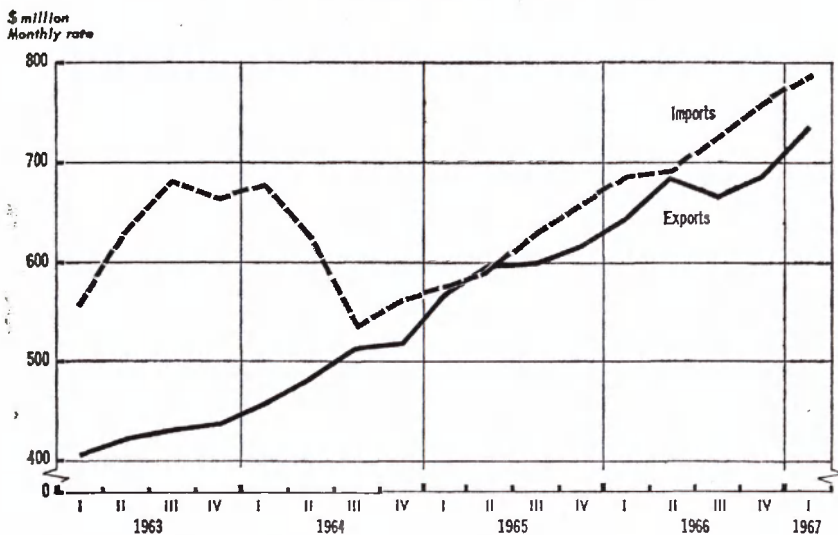
The information so far available for 1967 suggests that the contractionary impact on liquidity (largely of a seasonal character) of both the Treasury's operations and of the balance of payments in the first quarter was roughly similar to that of the first quarter 1966. But the fast expansion of

bank credit seems to have continued, allowing for seasonal factors. Credit to the private sector in February was 15.8 per cent higher than in February 1966; the increase over the six months to February corresponds to an annual rate of over 19 per cent, compared to about 13 per cent for the same period a year earlier. Since bank deposits have increased roughly in line with credits, the ratio of credit granted to deposits (66.6 per cent) remained at about the same low level as a year earlier. But the banks have continued to acquire important amounts of securities (in December they represented 23 per cent of their assets, compared to 19 per cent at the end of 1965). And their liquidity ratio declined to 4.9 per cent in January-February against 6.3 per cent for the first two months of 1966. Bond rates have not varied significantly in the early months of 1967, but the share market has recently been disturbed by the changes in the tax law on dividends.

*g) Balance of payments*

The considerable expansion of economic activity in 1966 had only a very slight effect on the current external surplus, which again was well above \$ 2 billion; a reduction of the trade surplus (imports, fob) was virtually offset by higher net earnings on invisibles (about \$ 1.8 billion) espe-

**Diagram 6. FOREIGN TRADE**  
 QUARTERLY AVERAGES, SEASONALLY ADJUSTED



Source: OECD, Main Economic Indicators.

TABLE 8. BALANCE OF PAYMENTS

\$ million.

	1964	1965	1966	1965	1966				1967 <sup>1</sup>
				IV	I	II	III	IV	I
1. Imports, fob .....	6,508	6,458	7,577	1,709	1,849	1,852	1,848	2,028	2,119
2. Exports .....	5,863	7,104	7,924	1,905	1,863	2,010	1,963	2,088	2,093
3. Trade balance .....	- 645	646	347	196	15	158	115	60	- 26
4. Services .....	955	1,221	1,392	241	134	330	683	245	131
5. Balance on goods and services .....	310	1,867	1,739	437	149	488	798	305	105
6. Transfers .....	311	342	391	133	73	81	134	103	78
7. Current balance .....	621	2,209	2,130	570	223	569	932	407	183
8. Capital movements, errors and omissions .....	153	- 615	- 1,435	- 283	- 145	- 369	- 388	- 533	- 471
9. Overall balance .....	774	1,594	696	287	78	200	544	- 126	- 288
10. Monetary movements:									
a) official settlements .....	- 332	- 960	- 288	- 425	152	- 185	- 367	111	159
b) commercial banks .....	- 442	- 634	- 408	138	- 230	- 15	- 177	15	129
Total .....	- 774	- 1,594	- 696	- 287	- 78	- 200	- 544	126	288

1. Provisional estimates.

Source : Bank of Italy.

cially from tourism and emigrants' remittances. But the net outflow of non-monetary capital more than doubled—attaining some \$ 1.4 billion—so that the overall surplus was drastically reduced from \$ 1.6 billion in 1965 to \$ 0.7 billion in 1966. In the course of the year the current surplus tended to decrease gradually (allowing for seasonal factors) while the capital outflow became more important.

The increase of imports (cif) amounted to 16.2 per cent and concerned all the main categories, unlike 1965 when the rise of food imports had exceeded the small increase in the total. Total imports increased fast throughout last year, allowing for some variations in food imports. Of special interest was the progressive recovery of imports of capital goods. The expansion continued in early 1967; imports up to April were 15 per cent higher than in the first four months of 1966. The seasonally adjusted series suggests a deceleration in the more recent period. But non-food imports—clearly a better indicator of cyclical developments—have maintained a fast rate of expansion.

The rise of exports in 1966 was appreciable (11.6 per cent) but much lower than the exceptional increase of 1965 (20.8 per cent). The deceleration was partly due to the virtual stability of food exports and to the disappearance of the earlier exceptional exports of iron and steel products. But a more general cause was the weaker trend of demand in certain important foreign markets, while domestic demand was expanding considerably. It does not seem, however, that supply limitations linked with the growth of internal demand have played any appreciable role so far in holding back the increase of exports. The degree of deceleration in the growth of exports is difficult to judge. After an absolute decline in the third quarter of 1966—on a seasonally adjusted basis—exports picked up again considerably, by no less than 10 per cent up to the first quarter of 1967; the most recent figures, however, suggest a slower expansion. The rise of exports between the first four months of 1966 and 1967 works out at about 14 per cent. Exports to Germany (20 per cent of the total in 1966) were 5 per cent lower compared to a year earlier and exports to the United Kingdom slightly higher. But over the same period increases of 16 per cent were registered in exports to other OECD countries in Europe and over 20 per cent to both North America and to non-OECD countries. These rates probably exaggerate the underlying trends, but it seems fairly clear that the position of Italian exports remains quite strong.

The slight deterioration of the trade account between the first quarters of 1966 and 1967 led to a small reduction of the current surplus, since net invisible receipts were virtually unchanged between these two periods. The current surplus remained nonetheless substantial; taking account of seasonal factors, it corresponded still to an annual rate of about \$ 2 billion.

Last year's substantial outflow of non-monetary capital was largely the result of policy decisions. Apart from the prepayment of debt (some

\$ 100 million) and a considerable increase in export credits, the results of interest rate differentials and of the rather ample supply of funds in Italy were felt both in the capital operations of Italians abroad and in the opposite sense, including issues of \$ 120 million in Italy by international organizations. In applying monetary and credit policies which did not discourage the various forms of capital outflow, the monetary authorities took account—among other considerations—of the higher returns to the economy of foreign lending compared to the short-term alternative of increases in gold and foreign reserves. This policy—made possible by the continuing current surplus and the high level of the reserves—has played an important stabilising role in the international monetary scene. Moreover, last year's overall surplus on non-monetary transactions was more than financed by the increase in Italy's IMF position (\$ 336 million, including a special credit of \$ 250 million linked to drawings by the United States) and the rise of commercial banks' net foreign assets (\$ 338 million). Although total official reserves<sup>1</sup> increased by some \$ 115 million, the gold and foreign currency reserves actually declined.

In the first quarter of 1967, the heavy outflow of non-monetary capital continued, even though interest differentials between Italian and foreign markets had started narrowing; there were, however, signs of a reduction in the most recent period. The increase of net credits on trade account (as measured approximately by the difference between the customs returns and statistics of foreign exchange settlements) accounts only partly for the higher outflow. The balance of payments swung to an overall deficit of \$ 288 million compared to a surplus of \$ 78 million in the first quarter 1966. The deficit was financed by a decrease of net official foreign assets of \$ 160 million and a reduction of the commercial banks' foreign position by about \$ 130 million. Nonetheless, the official gold and currency reserves, after an increase of \$ 180 million in April and May, were as high as \$ 3.7 billion. Including the IMF position (about \$ 600 million) and other net short-term official assets, total net official reserves amounted to \$ 4.7 billion.

## II. SHORT-TERM PROSPECTS

### a) *Outlook for demand and supply*

The latest trends of domestic demand point to further considerable increases of both consumption and investment during the rest of 1967. The only check to rapid expansion which seems at all likely in the near future would be the effect on exports of goods and services of the defla-

1. Total of gold, convertible currencies, the IMF position and net short-term foreign assets of the monetary authorities.



tionary trends in certain important foreign markets. Economic growth in Italy has in the past been geared so closely to a strong rise of exports that the effects of any prolonged interruption in their increase are very difficult to foresee. But a temporary levelling-off of exports at their present high level should not significantly hold back the rate of growth of the economy given the apparent strength of domestic demand.

Private consumption seems due for an appreciable new rise in 1967. Employment in manufacturing has started to increase in recent months and wages are likely to rise somewhat faster this year. The considerable increases of industrial output with very little additional employment, which have been a remarkable feature of the last two years, would seem much less likely from now on. And the impending recovery of housebuilding may entail an appreciable expansion of employment and labour incomes. The consequences on the 1967 harvests of last winter's unfavourable weather should adversely affect farm incomes. And transfers from abroad may decline because of lower emigration. Nevertheless, total personal incomes will probably rise considerably. Consumers' expenditure—as well as stock accumulation and repairs—are already receiving a special stimulus from the need to replace and repair goods damaged by the floods. For instance, private car registrations in the first four months of 1967 were 27 per cent higher than a year earlier, helped by special facilities granted by the producers to flood victims.

Fixed investment is also likely to increase considerably. Investment in machinery and equipment has already begun what looks like a strong recovery; but its absolute level is still probably abnormally low on the basis of historical comparisons (see page 10 above). With the reduction of excess capacity, and assuming a continuation of expansionary government policies, it is likely to continue growing fast in the near future. According to the monthly business surveys (up to April) about one fourth of the firms producing investment goods were expecting to increase their production in the near future, while only a negligible proportion expected decreases. More generally, the latest surveys reveal a favourable business climate and a degree of optimism in expectations unequalled since the boom conditions of 1962.

Public direct investment and State-supported private investment are both likely to increase significantly this year. The stepping-up of public works decided on as part of the reflationary measures of 1964-65 should give rise to increased outlays this year. And repair of destruction caused by the floods entails additional expenditure. The second "Green Plan", the final approval of which had been delayed, should now help to increase agricultural investment. Moreover, the revised programme of public investment and incentives aimed at the economic development of the South should give rise soon to higher investment. As regards housebuilding, the application of the special scheme approved late in 1965 (credits on

favourable terms with State guarantees and subsidised interest rates) has been delayed by problems of organisation; but important results can probably be expected in the near future.

The probable strong expansion of domestic demand and production is unlikely to lead, in the near future, to any considerable pressure on the price level, although price increases may be somewhat higher than last year. There are no signs so far of any general pressure on plant capacity; and the readily available resources of manpower are probably very important. Any partial limitation of supply should be made good immediately by the swiftly rising imports. But in general—although there is a pressing need to raise industrial investment to keep up the efficiency of firms—plant already in operation seems, in most branches of industry, sufficient to take care of considerable increases in output in the coming months. After the sharp productivity increases which must have accompanied the return to more normal rates of capacity utilisation in the recent past, the rise in productivity from now on should normally be closer to long-term trends. But wage increases likely in industry in the near future do not appear very high, so far as can be judged from recent collective agreements.

#### b) *The balance of payments*

The large surplus on the current balance of payments has been decreasing rather slowly in recent months. The decrease may be expected to continue in the near future; but, on present evidence, its pace seems likely to depend more on demand trends in foreign markets rather than on internal developments in Italy. For over two years, there has been a surplus on foreign trade (imports fob)—an exceptional occurrence, judged against the balance of payments structure of earlier years. At present, the foreign trade account must be approaching balance (allowing for seasonal factors) and the current surplus approximately equal to net invisible earnings (which yielded some \$ 1.8 billion in 1966). There are certain signs that invisible receipts may not rise significantly this year and might possibly decrease somewhat, notably because of lower workers' remittances from abroad<sup>1</sup>. But any drastic change in the current account depends on developments in foreign trade.

Imports seem likely to continue to rise fast, but there are no signs of any acceleration. It is true that, in the past, imports have sometimes increased much faster during periods of recovery. But their present phase of expansion has now lasted for nearly three years; and in estimating future trends the import content of Italian exports should not be neglected. The short-term outlook for exports is more uncertain. If they were to stagnate

1. No reasonable estimates of receipts from tourism can be advanced before the start of the main tourist season.



at the (seasonally unfavourable) level of January-April during the rest of the year, there would still be an increase of about 6 per cent on a year-to-year basis. Although a temporary absolute decline cannot be completely ruled out, a moderate increase of exports this year seems plausible on the basis of the latest indications of trends in foreign markets.

TABLE 9. RELATIVE PERFORMANCE OF ITALIAN EXPORTS 1960 TO 1965

I. GLOBAL CALCULATION		\$ MILLION			
1.	Italian exports 1960 .....			3.669	
2.	Italian exports 1965 .....			7.188	
3.	Absolute increase .....			3.519	
4.	Amount corresponding to percentage increase of total exports by OECD Member countries .....			1.867	
5.	Excess of actual over hypothetical increase (= 3 — 4) .....			1.652 <sup>1</sup>	
II. DETAILED CALCULATION OF EXPORT PERFORMANCE					
Gains and losses in \$ million, compared to the corresponding increases of total OECD exports					
A. BY MARKETS		C. BY MARKETS AND COMMODITY GROUPS COMBINED			
		STIC (0+1) <sup>2</sup>	OTHER	TOTAL	
1.	Germany .....	427	48	262	310
2.	France .....	183	— 36	133	97
3.	USA .....	— 10	— 9	— 32	— 41
4.	Switzerland .....	— 16	— 15	— 3	— 18
5.	UK .....	16	— 14	— 9	— 23
6.	Netherlands .....	147	— 4	145	141
7.	Belgium, Luxembourg .....	108	4	95	99
8.	Spain .....	65	— 1	74	73
9.	Austria .....	— 11	— 10	4	— 6
10.	Other OECD .....	134	— 21	240	219
11.	Total OECD .....	1,043	— 57	909	852
12.	Non OECD .....	367	— 3	406	403
13.	World .....	1,410 <sup>1</sup>	— 60	1,315	1,255 <sup>1</sup>
B. BY COMMODITY GROUPS .....			0	1,595	1,595 <sup>1</sup>

1. Because of the index-number problem different methods of calculation give different totals.
2. Food, live animals, beverages and tobacco.

NOTE. Cf. detailed tables and notes in the Annex. For a discussion of the methods of measuring export performance and their ambiguities see the OECD Survey on the Netherlands published in April 1967.

Significant limitations on industrial exports from the supply side seem improbable in the near future. And for a given state of demand in foreign markets Italian exports are likely to show a better-than-average performance. Their share of world exports, and exports by OECD Member countries in particular, has been increasing steadily for many years. This process was interrupted only during the 1958 recession and during 1963, when the Italian economy was overheated. It should be added that, even in 1963, non-food exports increased by 11 per cent. The rise in the share of Italian exports—particularly fast during the period of recession and gradual recovery—does not seem to have stopped with the recent strong expansion of domestic demand. Table 9 and the tables in the Annex show the absolute and relative changes in Italian exports from 1960 to 1965<sup>1</sup> both in total and by main markets and commodity groups. Interpretation of the reasons lying behind Italy's export performance (as in the case of other industrialised countries) is extremely difficult—not least because commonly accepted views about the role of relative wages, costs and prices do not seem to offer a satisfactory explanation. But there seem no convincing reasons for supposing that Italy's export performance—remarkable so far throughout the business cycle—will change appreciably in the near future.

### III. CONCLUSIONS

After the earlier rather gradual recovery of economic activity, economic expansion accelerated in 1966. With a 5.5 per cent increase in GNP, the Italian economy regained its pre-recession rate of growth, but maintained relative price stability. Industrial investment, which had fallen considerably during the two previous years, started progressively to strengthen. But the fall in housebuilding has not yet given place to any strong revival and it is only recently that the substantial rise in industrial production has led to any appreciable improvement in the employment situation.

In early 1967 all the main components of domestic demand seem to have gained strength, holding out the prospect of considerable increases in both consumption and investment this year. The destruction caused by last winter's floods seems unlikely to hold back the growth of output at all significantly, while the needs of replacement and repair add an extra stimulus to domestic demand. The main possible uncertainty now about the trend of demand concerns the impact which the lack of buoyancy in certain important foreign markets may have on exports.

Despite the strong rise of output and domestic demand so far, an appropriate degree of utilisation of national resources has not yet been

1. Comparable details by commodity groups are not yet available for 1966, when the total share of Italian exports in world markets continued to increase.

attained. The current external surplus remains substantial; spare plant capacity has been considerably reduced, but seems still by no means insignificant; and the unused, readily available manpower resources are still very important. Although both prices and wages are likely to rise somewhat faster than last year, there are no signs of any appreciable pressures on the price level developing in the near future. It seems, therefore, appropriate that the authorities should maintain their generally expansionary policies. The possible restrictive change this year in the impact of the public sector's current transactions could be largely offset by the effect of capital account transactions. In particular, special efforts seem necessary to step-up investment in infra-structure, in line with the objectives of the long-term programme. And both credit policy and other Government policies should continue to stimulate private investment. The state of the foreign reserves provides ample scope for expansionary policies—the importance of which would be increased should a temporarily unfavourable development of exports risk holding back the rate of expansion significantly.

The current surplus of the balance of payments, which is still far in excess of the general objectives laid down in the Italian five-year programme, will probably decrease this year but remain substantial. The pace of its decrease may depend rather more on developments in foreign than in domestic demand in the near future. Imports will probably continue to increase rapidly. And the important structural surplus on invisibles may be affected, inter alia, by a decline in workers' remittances from abroad. But the effects of weaker foreign demand on exports are very difficult to judge, given the continuing steady gains in Italy's export shares in many important markets. A moderate increase of exports may reasonably be assumed for 1967 on the basis of present evidence.

Last year's very important outflow of capital was due to a large extent to wide interest rate differentials. While rates were increasing sharply abroad, the monetary authorities kept the Italian economy fairly liquid and interest rates practically stable. In so doing they have both facilitated the re-expansion of economic activity and helped to produce an important stabilising influence on the international monetary scene. In addition, the movement of funds abroad has yielded not negligible returns to the economy, compared with the immediate alternative of increases in gold and official foreign currency reserves.

*STATISTICAL ANNEX*

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TABLE Ia. NATIONAL PRODUCT AND EXPENDITURE

Billion lire.

	AT CURRENT PRICES				AT 1963 PRICES		
	1963	1964	1965	1966	1964	1965	1966
1. Private consumption .....	19,281	20,869	22,234	24,214	19,771	20,206	21,348
2. Public consumption.....	4,101	4,608	5,197	5,557	4,239	4,392	4,550
3. Gross fixed capital formation.....	7,150	7,201	6,714	7,073	6,686	6,126	6,351
4. Changes in stocks .....	346	206	263	459	194	237	399
5. Exports of goods and services .....	4,753	5,486	6,602	7,396	5,306	6,409	7,210
6. Total use of resources .....	35,631	38,370	41,010	44,699	36,196	37,370	39,858
7. Imports of goods and services .....	5,438	5,293	5,435	6,302	5,162	5,259	5,965
8. Gross national product at market prices .....	30,193	33,077	35,575	38,397	31,034	32,111	33,893
9. Gross domestic product at factor cost .....	26,611	29,241	31,383	33,764	27,341	28,243	29,775
<i>of which:</i>							
10. Agriculture, forestry and fishing .....	3,718	3,947	4,194	4,225	3,833	3,955	3,976
11. Mining, manufacturing and public utilities .....	8,705	9,281	9,785	10,837	8,896	9,324	10,231
12. Construction .....	2,106	2,503	2,583	2,699	2,139	2,056	2,063
13. Services .....	12,082	13,510	14,821	16,003	12,473	12,908	13,505
14. Net factor income from abroad .....	121	152	208	270	143	187	237
15. Gross national product at factor cost .....	26,732	29,393	31,591	34,034	27,484	28,430	30,012

Sources. Italian submission to the OECD and Relazione Generale 1966. The figures for 1964 and earlier years were revised substantially in 1966.

TABLE Ib. ESTIMATES OF QUARTERLY NATIONAL ACCOUNTS

Volume indices 1960 = 100 (at constant 1963 prices), seasonally adjusted.

	1964				1965				1966 <sup>1</sup>			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
1. Gross national product at market prices.....	124.7	124.2	123.2	124.7	125.9	128.0	129.5	130.5	132.4	134.5	137.2	138.3
2. Imports of goods and services .....	168.5	157.4	149.7	144.5	149.1	155.4	157.2	170.0	173.1	176.0	178.7	188.7
3. Total resources .....	129.8	128.1	126.3	127.0	128.6	131.2	132.8	135.2	137.1	139.3	142.2	144.3
4. Exports of goods and services .....	146.1	156.1	157.5	163.9	178.5	188.2	191.3	195.1	202.4	213.5	214.7	216.7
5. Domestic use of resources.....	127.6	124.3	122.0	122.0	121.8	123.4	124.8	127.0	128.2	129.3	132.2	134.4
6. Gross fixed investment .....	133.6	125.2	120.6	119.1	113.5	112.8	115.2	115.2	114.0	114.6	121.3	123.4
a) in construction .....	132.7	132.4	131.6	131.1	128.0	126.9	126.4	125.3	125.0	126.8	129.6	128.0
b) in machinery and equipment .....	134.7	115.3	105.6	102.7	93.7	93.6	99.9	101.5	99.1	98.0	110.0	117.2
7. Resources available for consumption, including stock movements .....	126.0	124.0	122.4	122.7	124.1	126.3	127.4	130.2	132.1	133.3	135.2	137.3

1. Provisional estimates.

Source: Relazione Generale 1966.



TABLE IIa. INDUSTRIAL PRODUCTION

Monthly averages, 1953 = 100.

	1963	1964	1965	1966	SEASONALLY ADJUSTED INDICES									
					1964		1965				1966			
					III	IV	I	II	III	IV	I	II	III	IV
1. Mining .....	190	203	197	206	199	209	211	202	184	191	209	216	200	199
2. Manufacturing .....	246	248	259	291	243	246	248	257	264	269	277	288	297	301
3. Food, drink and tobacco .....	189	183	187	190	180	185	172	189	199	186	187	185	189	198
4. Textiles .....	140	131	116	134	129	123	114	111	113	125	133	134	132	135
5. Iron and steel .....	303	292	387	415	281	321	350	385	397	415	386	404	436	434
6. Engineering goods <sup>1</sup> .....	204	183	174	192	173	175	168	170	177	178	180	183	195	209
7. Transport equipment .....	355	321	328	380	299	294	300	360	352	301	308	402	422	389
8. Chemicals .....	364	413	434	504	423	428	432	421	430	455	491	503	506	515
9. Petroleum products .....	379	453	546	632	464	479	542	507	538	596	630	577	625	697
10. Electricity and gas .....	200	210	226	246	207	216	221	223	222	239	239	243	241	261
GENERAL INDEX .....	241	244	255	285	239	243	244	253	258	265	272	283	290	295
1. Investment goods <sup>2</sup> .....	231	218	232	250	209	216	219	229	236	245	238	245	256	262
of which:														
Final investment goods .....	218	192	186	205	180	182	181	180	187	196	195	198	209	220
2. Consumption goods <sup>2</sup> .....	195	195	194	217	193	191	186	192	198	202	211	216	219	222
3. Intermediate products .....	304	342	368	420	344	355	366	358	362	386	411	414	418	437

1. Excluding metal structures.

2. Excluding automobiles.

Sources: ISTAT and ISCO.

TABLE IIb. INDUSTRIAL PRODUCTION  
NEW INDICES, NOT SEASONALLY ADJUSTED

Monthly averages, 1966 = 100.

	1966			1967
	JAN.- APRIL	MAY- AUG.	SEPT.- DEC.	JAN.- APRIL
1. Mining .....	96.2	103.7	100.1	95.3
2. Manufacturing .....	96.0	97.5	106.5	107.7
3. Food .....	95.5	101.2	103.2	101.9
4. Textiles .....	98.8	94.0	107.2	102.1
5. Chemicals .....	99.7	99.8	100.5	105.2
6. Basic metals .....	93.2	99.0	107.8	109.8
7. Engineering .....	95.8	91.9	112.3	115.7
8. Transport equipment .....	91.7	101.9	106.4	112.7
9. Electricity and gaz .....	100.2	93.2	106.6	109.8
10. GENERAL INDEX .....	96.3	97.7	106.5	107.6

Source: ISTAT.

TABLE III. PRICE INDICES

*Averages.*

	1963	1964	1965	1966	1965	1966				1967 NEW INDICES, 1966 = 100 <sup>1</sup>	
					IV	I	II	III	IV	I	APRIL
<b>WHOLESALE PRICES (1953 = 100):</b>											
Agricultural products.....	119.8	119.7	124.5	126.7	127.8	128.4	127.2	124.8	126.3	98.7	98.7
Non-agricultural products.....	104.0	108.5	109.5	111.1	110.1	110.9	111.5	111.6	110.8	99.9	99.7
Investment goods.....	109.1	112.2	111.3	112.3	111.0	112.2	112.8	112.3	112.0	99.9	99.6
Consumer goods.....	107.7	111.3	114.2	116.2	115.9	116.6	116.7	115.5	115.8	99.4	99.2
Intermediate goods.....	100.3	103.9	105.3	106.1	106.0	106.5	105.5	105.8	106.6	101.2	100.9
GENERAL INDEX.....	107.3	110.9	112.7	114.4	113.9	114.6	114.8	114.0	114.1	99.7	99.5
<b>CONSUMER PRICES (1953 = 100):</b>											
Food products.....	128.6	135.1	142.3	145.2	144.1	145.1	145.2	145.0	145.5	100.8	100.9
Non-food products.....	115.4	121.9	125.1	126.8	125.4	125.2	125.9	127.3	128.4	101.6	101.8
Services.....	164.6	177.2	185.8	192.7	188.6	190.7	192.1	192.5	195.8	107.7	108.8
GENERAL INDEX.....	132.5	140.3	146.7	150.1	148.3	149.3	149.7	150.1	151.4	102.8	103.1
<b>COST OF LIVING (1961 = 100):</b>											
Food.....	113.8	119.2	124.9	127.2	126.0	126.9	127.4	127.2	127.4	100.3	100.5
Clothing.....	110.5	116.8	119.5	121.3	119.9	120.3	121.1	121.5	122.3	101.5	101.8
Housing.....	119.6	132.0	137.4	141.8	139.2	140.2	141.4	142.4	143.2	102.1	102.6
GENERAL INDEX.....	112.4	119.7	124.9	127.4	125.9	126.7	127.4	127.4	128.2	101.2	101.5

1. Because of differences in coverage and classification, the sub-indices are not exactly comparable with the earlier series.

Source: ISTAT.

TABLE IV. INDICES OF WAGES AND SALARIES

1938 = 1.

	EXCLUDING FAMILY ALLOWANCES						INCLUDING FAMILY ALLOWANCES					
	ANNUAL AVERAGES				DEC. 1966	APRIL 1967	ANNUAL AVERAGES				DEC. 1966	APRIL 1967
	1963	1964	1965	1966			1963	1964	1965	1966		
<b>A. MINIMUM CONTRACTUAL WAGE RATES:</b>												
1. Agriculture .....	147.7	168.9	183.6	195.6	196.7	201.8	158.2	173.8	191.1	199.9	201.1	204.4
2. Industry .....	113.9	133.7	144.9	152.2	154.6	156.7	121.2	139.0	150.6	155.3	158.5	160.2
<i>of which:</i>												
Manufacturing .....	115.9	132.1	143.3	151.1	153.7	156.0	117.0	129.5	140.1	146.3	148.1	150.0
Construction.....	110.1	147.1	159.5	166.3	168.2	169.4	130.2	163.8	178.4	185.0	186.8	187.9
3. Transport.....	95.7	112.8	119.2	122.8	123.2	124.0	115.4	131.8	141.8	145.5	146.2	146.9
4. Commerce .....	103.6	116.5	129.9	134.1	134.6	137.7	119.2	131.1	144.9	149.8	150.6	153.3
<b>B. MINIMUM CONTRACTUAL SALARIES:</b>												
1. Industry .....	91.7	104.7	112.4	118.3	120.3	121.7	94.7	106.1	114.5	120.1	121.8	123.1
2. Commerce .....	97.9	111.7	123.6	129.9	130.4	133.1	103.2	114.6	126.5	132.0	132.5	135.0
3. Public administration .....	112.2	117.7	123.8	130.4	130.6	132.9	109.9	114.4	119.2	124.5	124.7	126.5

Source: ISTAT.

TABLE V. BALANCE OF PAYMENTS

*Million dollars.*

	1964	1965	1966
<b>A. CURRENT ITEMS:</b>			
1. Imports, fob.....	6,508	6,458	7,575
2. Exports .....	5,863	7,104	7,924
3. Trade balance .....	- 645	646	349
4. Foreign travel .....	827	1,062	1,199
5. Workers' remittances .....	337	421	472
6. Other services .....	- 209	- 262	- 270
7. BALANCE ON GOODS AND SERVICES.....	310	1,867	1,750
8. Private transfers .....	345	408	437
9. Public transfers .....	- 34	- 65	- 46
10. CURRENT BALANCE .....	621	2,209	2,130
<b>B. CAPITAL MOVEMENTS:</b>			
1. Private .....	671	- 208	- 742
a) Direct investment .....	398	109	197
b) Trade credits .....	- 248	- 371	- 543
c) Other .....	521	55	- 397
2. Public .....	16	67	- 84
3. Repatriation of Italian banknotes.....	- 577	- 314	- 559
4. TOTAL .....	110	- 455	- 1,385
<b>C. ERRORS AND OMISSIONS:</b>			
	44	- 160	- 50
<b>D. MONETARY MOVEMENTS:</b>			
1. Total official settlements .....	- 332	- 960	- 288
a) Gold and convertible currencies (increase = -) .....	- 497	- 189	165
b) Accounts with IMF .....	84	- 338	- 335
c) Other net reserves .....	51	- 281	55
d) Medium and long-term position .....	30	- 152	- 173
2. Commercial banks .....	- 442	- 635	- 408
3. TOTAL .....	- 774	- 1,594	- 696

*Source:* Bank of Italy.



TABLE VI. COMMODITY BREAKDOWN OF FOREIGN TRADE

*Billion lire.*

	1963	1964	1965	1966
<i>i) IMPORTS</i>				
1. Food, drink and tobacco .....	991	941	1,113	1,203
2. Crude oil .....	414	489	581	646
3. Metals, ores and scrap .....	661	548	593	734
4. Textile materials and products .....	398	414	381	488
5. Wood and products .....	190	163	158	185
6. Automobiles and spares .....	202	126	115	143
7. Other engineering products .....	909	848	660	753
8. Chemical products .....	359	363	377	452
9. Paper and cardboard .....	100	105	115	124
10. Other imports .....	520	536	651	630
11. TOTAL IMPORTS .....	4,744	4,533	4,592	5,357
<i>ii) EXPORTS</i>				
1. Food, drink and tobacco .....	448	454	544	566
2. Metals, ores and scrap .....	132	215	318	294
3. Textile materials and products .....	479	551	592	645
4. Clothing and shoes .....	195	225	264	319
5. Automobiles and spares .....	234	275	301	372
6. Other means of transport .....	131	167	193	183
7. Other engineering products .....	748	865	1,073	1,306
8. Chemical products .....	430	510	641	719
9. Other exports .....	356	470	566	616
10. TOTAL EXPORTS .....	3,153	3,724	4,492	5,020

Source: ISTAT.

TABLE VIIa. ITALIAN EXPORTS, 1960

Million dollars.

SITC SECTIONS	0 + 1	3	5	6	7	8	2 + 4 + 9	TOTAL
<i>Exports to :</i>								
1. Germany .....	178.0	5.3	28.7	136.1	130.5	88.6	37.7	604.9
2. France .....	52.5	15.4	14.6	53.4	97.6	30.3	13.3	277.1
3. U.S.A. ....	44.5	2.7	15.7	120.4	89.5	98.1	17.9	388.7
4. Switzerland .....	59.7	45.3	11.9	50.4	36.2	29.3	12.9	245.8
5. United Kingdom .....	69.0	8.1	15.4	47.1	57.7	43.3	11.1	251.8
6. Netherlands .....	10.0	16.3	6.4	23.8	29.2	17.2	4.5	107.5
7. Belgium, Luxemburg .....	12.6	2.3	5.3	23.5	27.7	19.4	4.2	95.0
8. Spain .....	0.4	5.6	7.2	9.8	9.6	1.2	1.4	35.1
9. Austria .....	30.9	12.5	6.8	22.4	21.7	6.2	11.7	112.1
10. Other OECD .....	31.0	22.3	26.7	55.8	86.0	66.5	21.8	309.8
11. Total OECD .....	488.6	135.8	138.7	542.7	585.7	400.1	136.5	2,427.8
12. Non OECD .....	74.2	84.7	123.5	425.2	430.5	62.9	39.7	1,241.3
13. World .....	562.8	220.5	262.2	967.9	1,016.2	463.0	176.2	3,669.1

TABLE VIIIb. ITALIAN EXPORTS, 1965

Million dollars.

SITC SECTIONS	0 + 1	3	5	6	7	8	2 + 4 + 9	TOTAL
<i>Exports to:</i>								
1. Germany .....	334.2	11.5	66.4	373.1	360.0	285.4	93.8	1,524.3
2. France .....	89.0	21.3	56.7	153.9	262.5	127.5	30.7	741.4
3. U.S.A. ....	50.6	7.6	22.7	169.5	111.4	231.9	24.4	618.1
4. Switzerland .....	87.0	48.9	20.3	83.9	73.7	59.9	16.0	389.7
5. United Kingdom .....	63.7	34.7	28.7	61.9	85.1	46.0	17.5	337.6
6. Netherlands .....	15.9	36.1	28.4	77.6	107.9	60.1	14.7	340.7
7. Belgium, Luxemburg .....	26.4	48.5	18.9	51.8	88.9	41.4	8.5	284.5
8. Spain .....	0.6	3.1	22.0	39.6	91.7	8.1	13.3	178.6
9. Austria .....	38.3	13.9	8.9	32.0	45.6	16.3	10.9	165.9
10. Other OECD .....	38.1	33.0	66.9	134.4	205.0	98.0	30.2	605.6
11. Total OECD .....	743.8	258.6	339.9	1,177.7	1,431.8	974.6	260.0	5,186.4
12. Non OECD .....	94.6	52.9	259.8	534.4	741.3	130.4	76.7	1,890.0
13. World .....	849.7	392.2	604.6	1,719.4	2,177.4	1,106.8	338.1	7,188.0

TABLE VIIc. RELATIVE PERFORMANCE OF ITALIAN EXPORTS 1960 TO 1965

Excess or short-fall (in \$ million) of actual increases of Italian exports compared to the increases which would have taken place if Italy had maintained her 1960 share of total OECD exports: overall (D); in each market (C); in each commodity group (B); or in each commodity group within each market (A).

Million dollars.

SITC SECTIONS	A. BY MARKETS AND COMMODITY GROUPS COMBINED								C. BY MARKETS
	0 + 1	3	5	6	7	8	2+4+9	TOTAL	
<i>Exports to:</i>									
1. Germany .....	48.1	3.0	10.8	151.0	15.4	40.1	41.6	310.0	427.1
2. France .....	-35.8	4.8	19.6	56.3	25.8	12.4	13.9	97.0	183.3
3. U.S.A. ....	-8.8	0.4	-2.5	-26.8	-64.6	58.0	2.8	-41.5	-9.7
4. Switzerland .....	-14.7	-15.0	-0.2	11.7	8.9	-4.6	-3.9	-17.8	-15.6
5. United Kingdom .....	-14.0	20.9	3.3	8.3	-20.8	-25.4	4.9	-22.8	15.7
6. Netherlands .....	-4.1	13.4	16.6	38.9	50.3	17.8	7.7	140.6	146.8
7. Belgium, Luxemburg .....	3.7	45.3	9.1	3.4	30.7	4.9	2.3	99.4	108.1
8. Spain .....	-1.0	2.0	3.0	-3.0	53.6	7.6	11.0	73.2	64.8
9. Austria .....	-9.5	0.6	-2.1	-1.9	10.2	3.1	-6.0	-5.6	-10.8
10. Other OECD .....	-21.4	8.8	26.4	57.9	60.5	86.7	0.2	219.1	133.7
11. Total OECD .....	-57.5	84.2	84.0	295.8	170.0	200.6	74.5	851.6	1,043.0
12. Total non OECD .....	-3.0	-2.7	75.5	80.4	182.3	65.2	5.6	403.3	366.7
13. Total World .....	-60.5	81.5	159.5	376.2	352.3	265.8	80.1	1,254.9	1,410.0
									D. GLOBAL CALCULATION
B. BY COMMODITY GROUPS .....	-0.8	112.3	176.1	392.6	500.8	336.1	77.7	1,594.8	1,652.0

Sources: OECD and UN Foreign Trade Statistics.

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