# OECD
## ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

# ITALY

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

MARCH 1977

# BASIC STATISTICS OF ITALY

## THE LAND

| | | | |
|---|---|---|---|
| Area (1 000 sq. km) 1974 | 301.3 | Major cities, 1975: | Thousands |
| Agricultural area (1 000 sq. km) 1974 | 208.3 | Rome | 2 856 |
| Woodland (1 000 sq. km) 1974 | 62.3 | Milan | 1 732 |
| | | Naples | 1 224 |
| | | Turin | 1 203 |

## THE PEOPLE

| | | | |
|---|---|---|---|
| Resident population at end-1975 (thous.) | 56 014 | | Thousands |
| No. of inhabitants per sq. km | 186 | Labour force, 1976 | 19 858 |
| Net natural increase in population: annual average 1966-1975 (thous.) | 394 | Employment, 1976 | 19 126 |
| Net rate per 1 000 inh. (average 1966-1975) | 7 | in agriculture | 2 929 |
| | | in industry | 8 230 |
| | | in services | 7 967 |
| | | Net migration, average 1966-1975 | 8 |

## PRODUCTION

| | | | |
|---|---|---|---|
| Gross Domestic Product in 1975 (billions of lire) | 112 358 | Origin of the gross domestic product in 1975 (at market prices) per cent of total: | |
| GDP per head in 1975 (US $) | 3 070 | Agriculture | 8.5 |
| Gross fixed capital formation: | | Industry | 32.8 |
| Per cent of GDP in 1975 | 21.2 | Construction | 8.2 |
| Per head in 1975 (US $) | 650 | Other | 50.5 |

## THE GOVERNMENT

| | | | |
|---|---|---|---|
| Public consumption in 1975 (percentage of GDP) | 13.8 | Internal public debt (ratio to central government, current revenue in 1975) | 172.7 |
| Current public revenue of general government in 1975 (percentage of GDP) | 34.9 | General government investment in 1975 (percentage of total investment) | 15.4 |

## FOREIGN TRADE

| | | | |
|---|---|---|---|
| Exports of goods and services as a percentage of the GDP, 1975 | 23 | Imports of goods and services as a percentage of the GDP, 1975 | 25 |
| Main exports, percentage of total exports, 1975: | | Main imports, percentage of total imports, 1975: | |
| Machinery | 26 | Foodstuffs | 18 |
| Fabrics and textile goods | 9 | Machinery | 15 |
| Chemical products | 14 | Metals, ores and scrap | 10 |
| Foodstuffs | 7 | Crude oil | 21 |
| Motor vehicles | 6 | Chemical products | 11 |

## THE CURRENCY

| | | | |
|---|---|---|---|
| Monetary unit: Lira | | Currency units per US dollar, averages of daily figures: | |
| | | Year 1976 | 832.136 |
| | | January 1977 | 879.005 |

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

OECD ECONOMIC SURVEYS



# ITALY

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Organisation for Economic Co-operation and Development (OECD) was set up under a Convention signed in Paris on 14th December, 1960, which 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 Members of OECD are Australia, Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

The Socialist Federal Republic of Yugoslavia is associated in certain work of the OECD, particularly that of the Economic and Development Review Committee.

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*The annual review of Italy by the OECD Economic and Development Review Committee took place on 15th February, 1977.*

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## INTRODUCTION

After the 1974-1975 recession the Italian economy made an extremely rapid recovery as from the autumn of 1975; the pace slackened in the spring of 1976 but accelerated again in the latter part of the year. The factors underlying the recovery were the rebuilding of stocks at the end of 1975 and the beginning of 1976, and the sharp increase in demand for consumer goods, which was partly due to the renewal of a number of durables which had been postponed between mid-1974 and mid-1975. In the same way as the effects of the recession were far from fully reflected in the employment situation, the recovery did not bring about any appreciable improvement in that situation: while numbers of hours worked increased, unemployment also continued to rise. The recovery was accompanied by a marked deterioration in the balance of payments from the fourth quarter of 1975 onwards. There then began an inflationary spiral, the deterioration in the current balance causing a depreciation of the lira which was reflected in domestic prices and, through the machinery of indexation, in wages.

Economic policy, and monetary policy in particular, became more restrictive during the first half of 1976 as a consequence of these developments. A prior deposit requirement for purchases of foreign currency was introduced in May 1976 and continued until April 1977, and, in the autumn of 1976, the Government formed after the elections began work on a more comprehensive programme of stabilization which comprised a further tightening of monetary policy and a restrictive budgetary policy including, in particular, a large number of increases in tax rates and public utility charges. It is yet difficult to evaluate the incidence of the austerity programme, but it is likely that final domestic demand will weaken in the course of 1977 and that only exports will contribute to sustain the level of economic activity. Furthermore, the pressure on prices is likely to remain very marked.

The first part of the survey of Italy summarises the recent trends of domestic demand, production and employment, and analyses the trend of prices and incomes; the second deals with external relations (imports, exports, other items of the current balance, capital movements, and exchange rate problems). The third part summarises the trend of economic policy in 1976; the last portion contains forecasts for 1977 and some conclusions for economic policy.

# I RECENT TRENDS

## *Industrial production*

The recovery in industrial production which took place in autumn 1975 progressed at a sustained rate until the spring of 1976 (at a 20 per cent yearly rate). Thereafter, the pace became very irregular, easing slightly in the third quarter and then accelerating sharply again in the latter part of the year: in November and December 1976, the index of industrial production was 18 per cent higher than a year before and nearly 10 per cent higher than six months earlier (seasonally adjusted). In the sectors producing finished goods there was some levelling off at the end of the year. For the months ahead, the business surveys reveal a rather hesitant climate. Orders have stabilized at a level which is still considered low. Adjustment of stock levels seems to have come to an end. On the other hand, production prospects showed an improvement at the end of the year, although they are still poor. The level of utilisation of capacity rose from 68 per cent in the fourth quarter of 1975 to over 75 per cent at the end of 1976. There has been a decline in the margins of unused capacity in all sectors but especially in the intermediate goods sector.

## *Domestic demand*

Private consumption, which had recovered appreciably during the second half of 1975, remained on a high plateau during the first half of 1976 and then probably rose again at the end of the year. The recovery of demand for consumer goods was favoured by the improvement in confidence in the second part of 1975, which probably encouraged households to change their savings behaviour

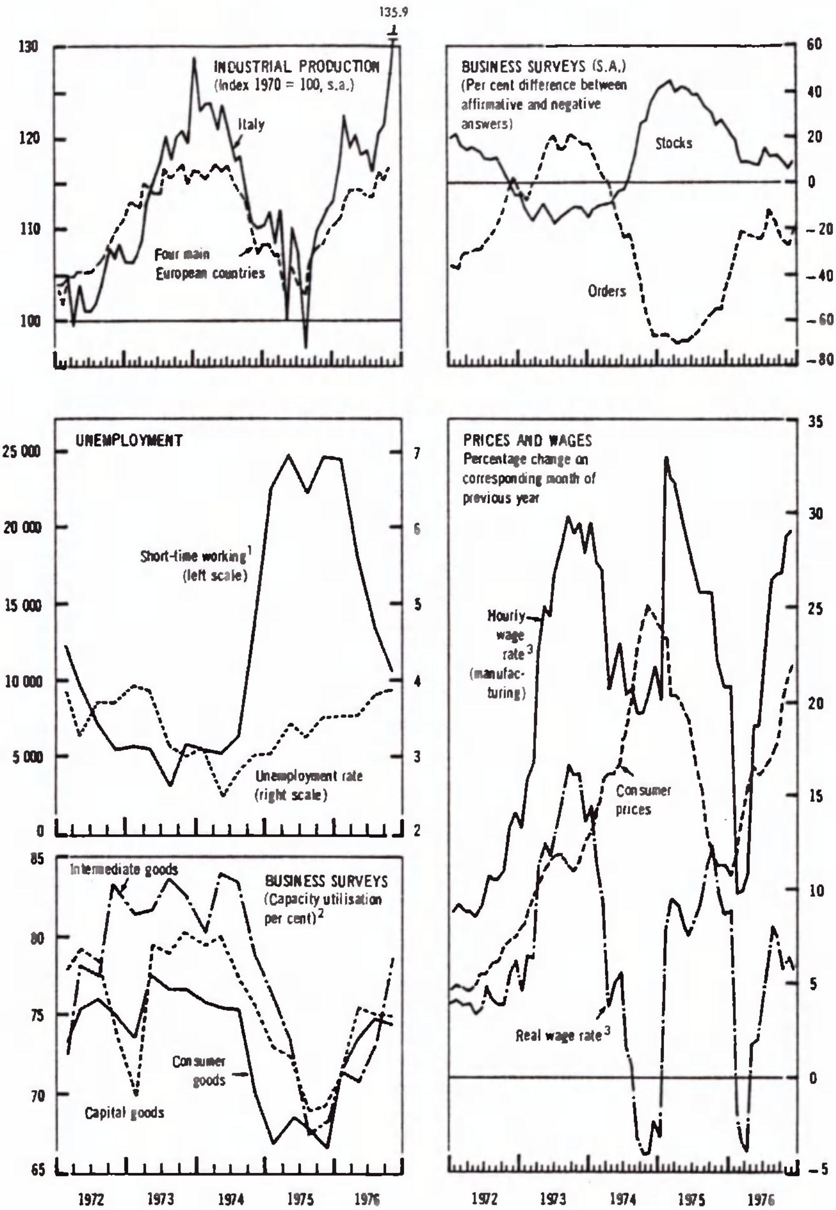
**Table 1 Demand and output**

| | 1975 billion Lire | Percentage change in volume at annual rates at 1975 prices | | | | | |
|---|---|---|---|---|---|---|---|
| | | 1975 | 1976 | 1975 I | 1975 II | 1976 I | 1976 II |
| Private consumption | 75 879 | −1.8 | 3.5 | −3.6 | 5.0 | 3.4 | 2.2 |
| Public consumption | 15 542 | 0.8 | 2.0 | 0 | 2.0 | 2.0 | 2.0 |
| Gross fixed capital formation | 23 807 | −12.7 | 0.3 | −17.1 | −8.4 | 2.4 | 0 |
| *of which:* | | | | | | | |
| Machinery and equipment | 9 930 | −17.4 | 2.0 | −25.7 | −3.6 | 5.5 | 0.8 |
| Construction | 13 877 | −9.0 | −1.0 | −10.0 | −11.6 | 4.4 | 0 |
| Final demand | 115 228 | −3.9 | 2.6 | −6.2 | 1.7 | 3.4 | 1.8 |
| Stockbuilding[1] | −1 374 | −3.0 | 2.2 | −5.7 | 2.2 | 4.6 | −2.6 |
| Domestic demand | 113 854 | −6.4 | 4.8 | −11.5 | 4.0 | 8.0 | −0.6 |
| Exports of goods and services | 26 287 | 3.1 | 12.0 | −10.5 | 20.5 | 6.0 | 16.2 |
| Imports of goods and services | 27 783 | −10.0 | 11.0 | −30.3 | 32.5 | 7.1 | 1.0 |
| Foreign balance[1] | −1 496 | 3.3 | 0.1 | 6.4 | 2.6 | −0.4 | 3.6 |
| GDP at market prices | 112 358 | −3.7 | 5.0 | −5.8 | 1.4 | 8.0 | 2.8 |
| GDP implicit price deflator | | 17.5 | 16.3 | 17.0 | 14.6 | 13.5 | 23.0 |
| Industrial production | | −9.8 | 10.3 | −10.3 | −4.4 | 21.7 | 3.4 |

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

*Sources:* Ministry of the Budget, *Annual Report on the Economic Situation;* ISCO Quarterly Accounts; Secretariat estimates for 1976 and for half yearly changes.

*Diagram 1* **Selected indicators of economic activity**




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

2. The highest figure, recorded in the second quarter of 1969, was 86.1 per cent for the capital goods sector, 81.6 per cent for the consumer goods sector and 88.8 per cent for the intermediate goods sector.

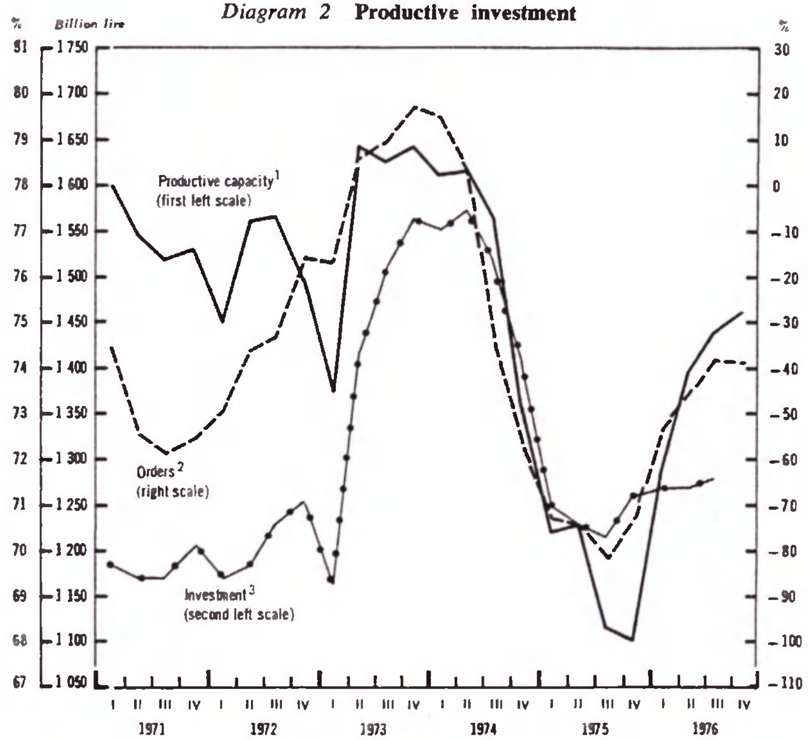
3 Not including family allowances. From 1976 new index linked to previous index on December 1975.

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

and make purchases of consumer durables which had been postponed in 1974-1975[1]. The available statistics of retail sales show that these increased considerably in volume during the second half of 1975. There was also a large increase in registrations of new motor vehicles[2], with a shift of demand towards vehicles of higher engine capacity[3]. There appear to have been shifts in demand in other sectors, especially that of food, meat imports having been some 13 per cent higher during the period January-July 1976 than in the corresponding period of 1975.

The available data on the trend of productive investment show a sharp recovery in the last quarter of 1975 followed by a much more moderate rise throughout 1976. This reversal of the trend came about at a time when productive capacity was far from being fully utilised, and interest rates were still comparatively high. The reasons for this recovery are perhaps partly structural. In the first

*Diagram 2* **Productive investment**




1 Percentage rate of capacity utilisation in industry as a whole.
2 Level of orders and of domestic demand for capital goods; percentage difference between businessmen's affirmative and negative answers.
3 Investment in capital goods, 1970 prices.
*Sources:* ISCO, *Quaderni Analitici* and Quarterly Accounts.

1 Half-yearly estimates of real disposable income of households are not available. Real disposable household income increased on the average by about 1 per cent in 1975 and 2 per cent in 1976.
2 18 per cent during the first nine months of 1976 compared with the corresponding period of 1975.
3 Production of vehicles of less than 1 000 cc capacity was unchanged in the first half of 1976 compared with the corresponding period in 1975, whereas production of vehicles of 1 000 to 1 500 cc rose by 27 per cent, and that of vehicles of 1 500-2 000 cc by 13 per cent.

place, the investment wave of 1973-1974 had not sufficed to overcome the long period of stagnation of productive investment of the 1960s. The average age of capital stock had grown continually for some ten years and a large proportion of productive equipment had probably reached replacement age. At the same time, the tendency for labour costs to rise more rapidly than those of capital probably encouraged many heads of firms to look systematically for more capital-intensive forms of production. Lastly, the stability of the lira during the second half of 1975 probably led heads of firms to buy capital goods abroad, the more so as the recovery in production probably resulted, still in the second half of 1975, in an improvement of profit margins which probably continued during the first half of 1976.

The information available concerning residential building shows that the number of dwellings completed in the last quarter of 1975 registered a very short-lived rise, as did the number of starts, at the beginning of 1976. Despite this trend, probably a consequence of the measures taken to support construction in August 1975, value added in residential construction in the first half of 1976 was probably considerably below that for the corresponding period of 1975, a trend that is confirmed by the reduction in the level of employment in the sector. Among the reasons for this weakness in residential building are the freezing of rents and the rise in interest rates. So far as non-residential construction was concerned, the downward trend continued throughout 1976.

Stockbuilding was affected by two factors working in opposite directions. Firstly, the recovery of demand in 1975 brought about, initially, a reduction in stocks of finished products until the manufacturing industry reacted to the pull of demand. This running down of stocks of manufactures, especially consumer goods, probably continued until the beginning of 1976. At the same time changes in stocks of raw materials and intermediate goods seem to have followed another trend. The data available show a sharp rise in stocks, partly technical, taking place towards the end of 1975 and early in 1976. Restocking of raw materials and intermediate goods probably continued until mid-1976. Subsequently, although no figures are available, the trend was probably again reversed under the threefold effect of a weakening of demand, the introduction of the prior deposit requirement for purchases of foreign exchange (which made imports still more expensive), and the sharp rise in interest rates, later reinforced by the ceiling on bank credit. On the average, for 1976 as a whole, the contribution made by stockbuilding to the growth of GDP was strongly positive.

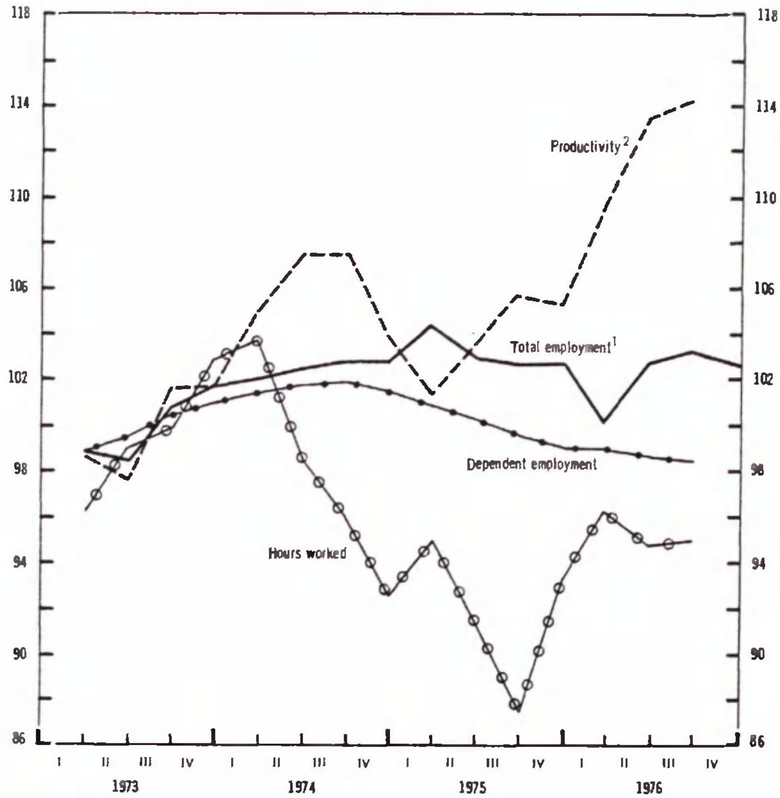
Domestic demand as a whole rose by approximately 2½ per cent in volume terms for the whole of 1976. This rise was the result of an acceleration in the first half-year (at an annual rate of approximately 3 per cent) followed by a slowdown in the second half. The opposing trends of stock changes and of the external balance reflected much sharper fluctuations in GDP over the year as a whole, which showed a rate of advance of 8 per cent (in annual terms) during the first half of 1976, falling to around 3 per cent in the second half-year. For the year as a whole, the rise in GDP might be in excess of 5 per cent, following a decline of 3.7 per cent in 1975[4].

### *Employment*

As was also the case during the recession phase, the labour market only slightly reflected the changes in the level of activity. Total employment rose by 0.7 per cent in 1976, because of the rise in services (plus 3 per cent). In industry,

4 Provisional estimates: the final national accounts figures will be published, according to the customary schedule, at the end of March in the *General Report on the Economic Situation of the Country*.

*Diagram 3* **Employment in manufacturing (s.a.)**




1 Total employment, including construction.
2 N.s.a.
*Source:* ISTAT, *Bolletino mensile di statistica and Notiziario,* foglio 36. Seasonal adjustment by the Secretariat.

on the other hand, it declined by 1 per cent, whereas it had still been rising on a yearly average in 1975 (plus 0.6 per cent). The profile of employment in industry, according to the quarterly survey[5], reached its lowest point at the beginning of 1976 and then rose from the spring onwards. On the other hand, the index of wage-earning employment in firms employing more than 500 workers showed a steady fall in the manufacturing sector from the summer of 1974 onwards. It was in terms of working hours that the effects of the recovery were most noticeable. These were 4 per cent higher in firms with more than 500 employees during the first eleven months of 1976 than in the corresponding period in the previous year, although they did not return to the levels reached before the recession. In addition, the number of hours counting for unemployment pay fell considerably. Finally, the number of under-employed workers (working less than 33 hours per week) declined by 15 per cent as an annual average in 1976.

5 The results of the July survey showed a sharp rise, compared with the previous year, in the figures for active population, employment and unemployment. This may be a statistical phenomenon connected with a change in the field covered by the survey.

## Table 2 Employment

| | 1974 | 1975 | 1975 Q1 | 1975 Q2 | 1975 Q3 | 1975 Q4 | 1976 Q1 | 1976 Q2 | 1976 Q3 | 1976 Q4 |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Thousands* | | *Percentage change from the preceding quarter* | | | | | | | |
| *Seasonally adjusted* | | | | | | | | | | |
| Labour force survey | | | | | | | | | | |
| Total labour force | 19 627 | 19 802 | 0.4 | −0.4 | 0.1 | 0.4 | −1.2 | 1.7 | 2.1 | −1.2 |
| Employment | 18 715 | 18 818 | 0.8 | −1.0 | 0.2 | 0.1 | −0.8 | 1.3 | 1.8 | −1.2 |
| Agriculture | 3 111 | 2 964 | −0.3 | −3.8 | 0.0 | 0.2 | −1.1 | −2.4 | 6.8 | −3.0 |
| Industry | 8 256 | 8 305 | 1.4 | −1.2 | −0.4 | 0.1 | −2.5 | 2.6 | 0.6 | −0.8 |
| Other activities | 7 348 | 7 549 | 0.6 | 0.5 | 0.8 | 0.5 | 0.7 | 1.8 | 0.9 | −0.8 |
| | *Index* | | | | | | | | | |
| Indicators of employment in large enterprises | | | | | | | | | | |
| Dependent employment in manufacturing industry | 101.7 | 100.0 | −0.6 | −0.7 | −0.7 | −0.4 | −0.1 | −0.4 | 0.3 | −0.8[4] |
| Effective hours worked in manufacturing industry | 97.7 | 91.8 | 2.7 | −3.9 | −4.3 | 6.8 | 3.2 | −1.7 | −0.7 | 0.7[4] |
| | *Thousands* | | | | | | | | | |
| *Not seasonally adjusted* | | | | | | | | | | |
| Unemployment | | | | | | | | | | |
| Unemployed (ISTAT) | 560 | 654 | 603 | 667 | 648 | 699 | 681 | 693 | 776 | 777 |
| Underemployed[1] | 303 | 446 | 569 | 502 | 349 | 367 | 476 | 343 | 334 | 364 |
| Unemployed (registered with the Ministry of Labour) | 997 | 1 107 | 1 096 | 1 081 | 1 093 | 1 158 | 1 218 | 1 151 | 1 156 | |
| Short-time working[2] | 7.53 | 23.80 | 22.69 | 25.44 | 22.42 | 24.65 | 24.89 | 18.28 | 13.53 | 10.68 |
| | *Percentage* | | | | | | | | | |
| Unemployment rate (ISTAT, n.s.a.) | 2.9 | 3.3 | 3.1 | 3.4 | 3.3 | 3.5 | 3.5 | 3.5 | 3.8 | 3.9 |
| Labour force participation rate[3] | 35.7 | 35.8 | 35.6 | 35.4 | 36.0 | 35.9 | 35.0 | 35.5 | 36.8 | 36.3 |

1 Working less than 33 hours per week.
2 Million hours not worked and compensated by the "Cassa per l'Integrazione dei Guadagni" in industry, excluding construction.
3 As a percentage of present population.
4 October-November.

*Sources:* ISTAT, *Monthly Bulletin of Statistics;* OECD, *Labour Force Statistics,* quarterly supplement.

While under-employment of the employed work force declined, unemployment continued to increase, reaching nearly 780 000, or 3.9 per cent of the active population, in October, whereas in the summer of 1975, at the lowest point of the recession, it was only 3.3 per cent[6]. The present figure, still an exceptionally low one compared with those for many industrialised countries, reflects the actual state of affairs only imperfectly[7]. The increase in unemployment in 1976 is almost entirely due to the rise in the numbers of those applying for a first job, who account for more than 65 per cent of the total unemployed compared with 53 per cent in 1974. The number of unemployed who had already been at work remained approximately the same, whereas in 1975 unemployment had risen more rapidly among those who had already had a job. As in 1975, the labour force participation rate continued to rise, despite the weakness of firms' demand for labour. Some of the factors underlying the fall in participation rates throughout the 1960s (which has been analysed on several occasions in earlier economic surveys) namely the raising of the school-leaving age, the decline in employment in agriculture, and so on, seem no longer to apply. It follows that from now on an inadequate demand for labour is much more likely than in the past to result in an increase in recorded unemployment.

*Prices*

After levelling off in 1975, the rise in prices again accelerated in 1976. The general index of wholesale prices rose by 31 per cent between December 1975 and December 1976, compared with an increase of only 3.4 per cent for the corresponding period in 1975. The rise in prices was particularly rapid between February and June. During the summer the movement slowed down, but there has been a further acceleration since September. The evolution of prices during the first half of 1976 is due partly to the increase in demand pressure resulting from the recovery of economic activity, but mainly to the depreciation of the lira in the spring of 1976, which was immediately passed on in prices without any appreciable time-lag[8]. The price rises affected all sectors of the economy, although non-food products increased more rapidly than food. The biggest rises in the former category were for primary and intermediate products, those of finished products being more moderate. After the summer slowdown, the combination of seasonal factors affecting the food markets, and a further downward movement of the lira led to a rise in the general index of the order of 8 per cent between August and December.

The index of consumer prices also rose rapidly in 1976, by approximately 22 per cent from December 1975 to December 1976 compared with 11 per cent in the previous twelve months. Here, too, as with wholesale prices, there were increases in all categories of products, the prices of services, however, rising slightly less rapidly than those of other categories. The rate of increase in consumer prices was less than that of wholesale prices throughout the period up to and including September. Since then the trend has been reversed. According to some estimates, the economic policy measures taken in October, 1976 applying to public utility charges and administered prices had

6 Not seasonally adjusted. When seasonally adjusted, results are slightly different with a rate of unemployment of 3.4 per cent in July and 3.8 per cent in October.

7 A special survey carried out by ISTAT in 1975 showed that nearly 500 000 (mostly women) considered themselves to be seeking employment, whereas in the previous quarterly surveys they had been classified as not forming part of the active population and not as unemployed.

8 The sharpest price increases were in categories of products with a high import content.

Table 3 **Prices**
Percentage change from previous period

| | 1975 | 1976 | 1976 Q1 | Q2 | Q3 | Q4 | Last available month on corresponding month of previous year |
|---|---|---|---|---|---|---|---|
| *Wholesale prices, total* | 8.6 | 22.9 | 6.6 | 11.6 | 4.1 | 6.0 | 31.5 Dec. |
| *of which:* | | | | | | | |
| Food products | 13.1 | 21.1 | 7.1 | 6.7 | 3.1 | 8.3 | 27.7 Dec. |
| Raw materials | −6.9 | 34.7 | 11.2 | 22.7 | 1.9 | 1.4 | 37.7 Dec. |
| Manufactured goods[2] | 13.9 | 19.7 | 4.6 | 8.6 | 6.2 | 5.5 | 28.7 Dec. |
| *Consumer prices, total* | 17.0 | 14.8 | 4.2 | 6.3 | 2.8 | 6.4 | 22.0 Dec. |
| *of which:* | | | | | | | |
| Food products | 18.0 | 17.1 | 4.5 | 6.4 | 2.5 | 6.6 | 22.5 Dec. |
| Other goods | 14.6 | 17.4 | 3.3 | 7.9 | 3.2 | 8.4 | 25.5 Dec. |
| Services | 18.0 | 15.3 | 4.7 | 4.3 | 2.8 | 3.5 | 16.7 Dec. |
| Imports (average unit values) | 6.2 | 24.5[1] | 5.2 | 21.0 | 1.9 | 1.5[3] | 34.5 Nov. |
| Exports (average unit values) | 13.3 | 19.5[1] | 3.9 | 13.9 | 3.1 | 2.9[3] | 27.5 Nov. |
| Effective exchange rate | −4.9 | −17.4 | −10.3 | −10.8 | 2.5 | −4.5 | −21.5 Jan. 77 |
| Rate against US Dollar | −0.4 | −21.6 | −11.1 | −11.3 | −2.3 | −2.5 | −20.2 Jan. 77 |

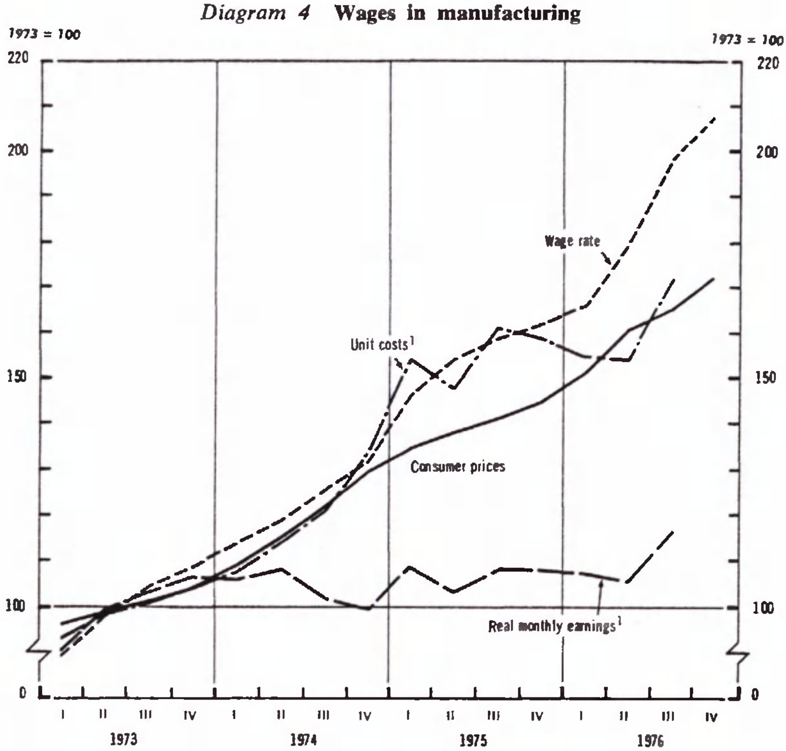
1 January-November (compared with the same period of the previous year).
2 Finished goods excluding fuels and lubricants.
3 October-November.
*Sources:* ISCO, *Quaderni Analitici;* ISTAT, *Monthly Bulletin of Statistics.*

a direct effect on prices of the order of 3 per cent. In all, from January to December 1976, the year-on-year rise in the price index was 17 per cent, the same as in 1975 but with twice as high a rate of increase in the course of the year.

The evolution of prices and production costs within the year determined fluctuations in profit margins. Unit labour costs in manufacturing industries[9] declined from the second quarter of 1975 to the second quarter of 1976. The downward trend of labour costs had been achieved by a combination of increased production, a fall in employment and an increase in the number of hours actually worked. In the second half of 1976, on the other hand, unit labour costs rose sharply under the influences of the renewal of wage agreements, indexation, wage increases following the effects of the depreciation of the lira on prices, and the general slow-down in economic activity. Interest rates, which had been lowered throughout 1975, rose sharply in 1976, as did the prices of raw materials (in lire terms). In all, these factors caused costs to increase slower than industrial prices at the end of 1975 and the beginning of 1976, whereas the subsequent trend was the opposite. Profit margins very probably improved until the first quarter of 1976 owing to the fall in unit labour costs, firms benefitting initially from the depreciation of the lira, while at the same time price increases were well above those of costs. This improvement in margins was only very short-lived, however, and there was subsequently a further erosion of profits in the second half of 1976 when firms were obliged to compensate through the wage indexing machinery for the earlier increases

9 In firms with more than 500 employees. Monthly gains are taken as a measure of compensation.

*Diagram 4* **Wages in manufacturing**




1 S.a.

*Source:* ISTAT, *Bolletino mensile di statistica and Notiziario,* foglio 36. Seasonal adjustment by the Secretariat.

in prices, while at the same time being faced with a slow-down in demand which made it difficult to pass on their increased costs in prices. Nevertheless, the national income share of non-wage incomes probably rose on a year-to-year basis.

*Wages*

The rise in money wages, which had been steadily slowing down throughout 1975 in all sectors, began to accelerate from the spring of 1976 onwards. In the fourth quarter of 1975 wage rates in industry were less than 2 per cent higher than in the previous quarter, and at the beginning of 1976 were 12 per cent above the level of a year earlier. A comparable slowdown was recorded in monthly earnings, despite the strong recovery in activity. As prices rose strongly at the same time, the purchasing power of wages fell back in the fourth quarter of 1975 and at the beginning of 1976. The slowdown in wages was of short duration, however. Through the indexing machinery and the renewal of the main collective wage agreements, the rise in prices led to a further acceleration of wages, and in the third quarter of 1976 the basic rate in industry was 25 per cent above the level of a year earlier. For the year as a whole, the rise in wage rates in industry probably reached 20 per cent on the average, so that purchasing power rose by 3 per cent (compared with 9 per cent in 1975). The increase in monthly earnings is likely to have

Table 4 **Recent trend of wages**
Percentage change from previous period

| | 1975 | 1976 | 1976 Q1 | Q2 | Q3 | Q4 | Last available month on corresponding month of previous year |
|---|---|---|---|---|---|---|---|
| Hourly rates under collective bargaining agreements[1] | | | | | | | |
| Agriculture | 32.7 | 25.1 | (4.9) | 5.6 | 8.4 | 11.8 | 33.6 Dec. |
| Industry | 28.0 | 20.1 | (2.4) | 1.5 | 9.1 | 3.9 | 27.6 Dec. |
| Commerce | 30.7 | 18.3 | (8.1) | 3.7 | 5.2 | 3.6 | 20.2 Dec. |
| Transport | 16.3 | 17.8 | (5.8) | 6.6 | 6.5 | 2.1 | 19.0 Dec. |
| Effective earnings in manufacturing | | | | | | | |
| Hourly earnings, s.a. | 28.0 | 15.1[3] | 1.7 | 2.7 | 12.9 | 1.2 | 18.0 Nov. |
| Monthly earnings, s.a. | 20.8 | 19.9[3] | 3.3 | 4.1 | 13.4 | 1.9[4] | 31.4 Nov. |
| Real wages in industry[2] | | | | | | | |
| Hourly rates under collective bargaining agreements | 9.2 | 2.8 | −1.3 | 3.0 | 6.9 | −2.7 | 5.1 Dec. |
| Monthly earnings | 3.1 | 3.4[3] | — | −2.1 | 10.4 | −4.9[4] | 8.2 Nov. |
| Cost of labour in manufacturing, s.a. | 30.1 | 4.4[5] | −0.4 | −2.2 | 13.0 | | 8.0 Q3 |

1 For manual workers. Not including family allowances. New index base from 1976. Changes between the fourth quarter of 1975 and the first quarter of 1976 are given as an indication.
2 Deflated by the cost-of-living index.
3 Average, January-November.
4 October-November.
5 First three quarters.
*Source:* ISTAT, *Monthly Bulletin of Statistics.*

been comparable (+19.5 per cent for the first 11 months of the year in big enterprises).

Three-year collective agreements covering some five million wage-earners, were renewed in 1976[10]. They provide for uniform increases for all wage-earners (in addition to those resulting from indexation) and the agreements in the chemicals and construction industries provided, for the first time, for the increases to be spread over a period (four-fifths being payable immediately and the remaining fifth a year later). The increases range from 25 000 to 50 000 lire per month depending on the sector, which for the most important sectors involves a rise of less than 10 per cent, or a smaller increase in money terms than that obtained when the agreements were last renewed (1969-1970 and 1972-1973).

The upward trend of wages due to the system of indexation and especially the changes in that system, is more important. In February 1975 it was decided in an agreement between Confindustria and the trade unions—an agreement subsequently extended to the other sectors—to improve the system of indexation and make it more uniform[11]. It may be useful to recall briefly

10 I.e. more than one wage-earner out of three. The most important sectors involved are chemicals, engineering, textiles and clothing, construction, banking and insurance, transport, agriculture and a part of the public sector. These are national agreements which must be supplemented by agreements with individual employers.

11 At the time of writing this survey, an agreement on curbing labour costs is to be signed by the social partners. This includes a number of clauses regarding indexation. In particular the seniority allowance—approximately equal to one month of salary per year worked—is going to cease to be indexed. The remainder of the system has not been altered.

the features of the system of indexation in Italy. Price rises are offset by the payment of an allowance (cost-of-living allowance) which is a fixed sum in lire (the "point value") for each *point* by which the price index rises, the value of the point varying according to the category of wage-earner and being initially fixed (in 1956) at 1 per cent of wages[12]. Under such a system, therefore, the allowance is proportional to prices and not to wages. So long as wages only increase as necessary to offset price rises, there is 100 per cent compensation; but additional contractual increases are not guaranteed. Thus the proportion of actual wages covered has gradually declined, and was below 50 per cent in 1974.

In the February 1975 agreement it was decided to retain the basis of the system[13] but to fix a unified value for the point at the level of the highest category, namely 2 390 lire[14] in stages spread over two years. This re-alignment has led to a very substantial increase in the average cost-of-living allowance: the average point value rose by 23 per cent in 1975 and by nearly 30 per cent in 1976, and will increase again by 21 per cent in February 1977. The combined effects of unification of the point value, and the rise in prices, are the main cause of the trend in wages during the last two years. According to a calculation by Confindustria, indexation in the mechanical engineering industry accounted for more than 80 per cent of the total rise in wages in 1975[15] and more than 52 per cent in 1976, whereas the ratio of the cost-of-living allowance to total remuneration increased from an average of 20 per cent in 1975 to more than one-third in 1976. In February 1977 the final increase in the point value has taken place. Henceforth each increase of one point (and not, we must remember, 1 per cent) in the index of reference prices will result in an increase in direct wages of 2 390 lire. According to the latest estimates this index was nine point higher in the last quarter of 1976 than in the previous quarter, and the rise in wages by February will thus have been more than 21 000 lire for each wage-earner, an amount differing little from that obtained under the renewal of the collective agreements, and involving, still according to Confindustria estimates, an increase of 6 per cent in labour costs.

The implications of this agreement for the trend of wages are very considerable. Firstly, it replaces a system of proportional increases by one of equal increases, and could thus accentuate the reduction in the spread of wages[16] between the various categories of wage-earners brought about by the uniform rises in contractual wages now found in all the national agreements, which have probably been at least partly offset by varying increases in plant-level contracts. This effect will also be strengthened by the partial blocking[17] of indexation for the highest incomes decided on in the autumn of 1976. Under the new system

12 The point value varied from 372 to 948 lire according to the category, with an average value of 490 lire in 1974.

13 The basic mechanism is retained, but the index of reference prices, which had reached 252 at the end of 1974 on the base 1956 = 100, was re-based at 100 in August-October 1974, the point value being multiplied by a factor of 2.52. It was also decided to make a uniform payment of 12 000 lire to cover revaluation of points on the sliding scale awarded in the past.

14 The amount of 2 390 lire corresponds to the highest level multiplied by the factor 2.52.

15 Including the payment of the 12 000 lire allowance to cover past years.

16 The spread of wages is admittedly very wide in Italy. Statistics are not available for categories of wage-earners, but only for sectors. They show that the sector-spread for workers ranges from 1 in the footwear and clothing sector to 2.2 in the petroleum extraction sector, and remained practically unchanged between 1969 and 1975. In Germany, the spread is 1-1.7, and in France and the United Kingdom 1-2. Source: Eurostat hourly gains and work duration.

17 See the Economic Policy Section.

Table 5 **Wages and indexation**

| | 1973 | 1974 | 1975 | 1976[1] | 1977 A[2] | 1977 B[2] |
|---|---|---|---|---|---|---|
| A *Percentage structure of labour cost* | | | | | | |
| Gross wage | 69.7 | 69.0 | 69.0 | 69.0 | 69.0 | 69.0 |
| *of which:* | | | | | | |
| Compensation[3] for cost of living (as percentage of gross wage) | (15.9) | (20.4) | (31.7) | (37.8) | (47.3) | (41.2) |
| Social security contributions | 30.3 | 31.0 | 31.0 | 31.0 | 31.0 | 31.0 |
| B *Increase in wages* (thousand lire) | | | | | | |
| Previous year's wage | 1 714 | 2 107 | 2 577 | 3 109 | 3 665 | 3 665 |
| Increase under collective bargaining agreement | 265 | 279 | 71 | 156 | 130 | 130 |
| Increase[3] due to indexation | 128 | 191 | 461 | 400 | 772 | 299 |
| Percentage rate of coverage of price increase by indexation[3] | 71.9 | 46.7 | 104.1 | 77.1 | 103.2 | 135.9 |

1 In the study published in *Moneta e Credito* the author, G. Faustini, made the assumption that the price index would increase by 7 points during the period August-October 1976. It in fact only rose by 4 points. The end-of-year compensation should have been a little lower.
2 Hypothesis A = 20 per cent year-on-year increase in prices.
Hypothesis B = no increase in prices within the year, but a 6 per cent increase year-on-year because of the carry-over from 1976.
3 Including monthly compensation of 12 000 lire per month introduced in February 1975 or an annual sum of 144 000 lire in 1975 and 156 000 lire as from 1976.
*Source:* Banca Nazionale del Lavoro, *Moneta e Credito*, September 1976.

the effects of inflation are over-compensated for the lowest wages but only partially compensated at the highest levels, the rise in prices being exactly offset when monthly earnings are approximately lire 340 000 (in February 1977)[18]. The resulting redistribution of wages might be on a large scale and might affect the average propensity to consume.

No statistics are available for the present level of wages, but in view of the average level of remuneration in industry in 1975 (lire 270 000 per month)[19] and reasonable assumptions about its trend in the most recent period, the average actual wage in February 1977, when the system will have begun to function normally, will probably be very close to the wage that is 100 per cent guaranteed. Total wages in industry will therefore continue to be almost fully indexed so long as there are no contractual rises in accordance with productivity increases. These rises will progressively lower the effective rate of indexation. Furthermore, the "institutional" time-lag, about three months, between the rise in wages and the rise in prices may in the short term modify the proportion of cover provided by the indexing system. Thus, if the rise in prices slows down under the influence of external factors (such as a fall in the prices of imports), earnings will automatically rise more than prices[20]. This is not a new situation, as the system functioned

18 The index of reference prices for indexation was 134 for the period from July to October (the last period for which data are available). Taking into account the probable profile of the index of consumer prices, which differs from the former index, the index of references prices for indexation might climb to 142. The composition of the two indices is however very different; in particular, the items for which there were large price increases under the autumn austerity programme are given little or no weight in the trade union index, an example being petrol.

19 *Source:* ISTAT.

20 A study by G. Faustini (published in the Banca Nazionale del Lavoro magazine *Moneta e Credito*, September 1976) shows that on the assumption that prices rise by 20 per cent in 1977, wages will be covered slightly more than 100 per cent by indexation on the average. If, however, there were to be no price rises in 1977 (implying an annual increase of 6 per cent allowing for what has already occurred), the rate of indexation would be of the order of 135 per cent.

in the same way when the indexation mechanism was introduced, but it is doubtful whether the Italian economy will experience growth rates and productivity increases over the next few years comparable to those recorded until the end of the 1960s. In the present state of the economy such a system has the twofold danger that in the short run it limits the possibilities of adjusting effective demand of consumers by prices (variations in the exchange rate, or changes in indirect taxation) since the greater part of income of households is indexed[21]. Furthermore, consumer demand being largely inelastic in relation to prices, heads of firms do not need to reduce their margins in order to maintain sales, and profits are therefore in effect also indexed.

A wide-ranging discussion is now going on, extending beyond the mere indexation mechanism to the whole problem of wage costs, their composition and their trend in the recent period. The ratio of direct wages to total wage costs is particularly low in Italy. According to a study by the Statistical Services of the European Community, direct wages (including regular allowances) accounted for 53 per cent of total wages in 1972 compared with over 60 per cent in Germany, France and the Benelux countries[22]. On the other hand, compulsory welfare contributions accounted for 26 per cent of wages, compared with only 15 or 20 per cent in the other countries considered. Some very detailed calculations are available for a few sectors. Thus, in the engineering industries, direct wages account for 47 per cent of the total (which includes the cost-of-living allowance, 13.5 per cent), welfare contributions for 30 per cent, and other elements of pay (paid leave, 13th month, sickness allowance, etc.) for 22 per cent.

The rate of increase of wages in Italy, which during the 1960s was average among those in the principal European countries, is now among the highest. From 1972 to 1976 the wage-bill per person employed in industry has more than doubled. On the other hand, the increase in purchasing power has changed little in 1972-1975 compared with the amounts recorded for the 1960s. This development, which Italy shares with the United Kingdom, is appreciably different from that of the other main industrialised countries, which in 1972-1975 underwent a distinct slowdown in the increase in purchasing power of wage-earners. So far as unit labour costs are concerned, Secretariat conclusions show that they

Table 6 **Comparative trends of wages and labour costs**

Average annual percentage changes

| | Earnings per wage-earner in national currency | | Unit costs in national currency | | Unit costs in dollars | Purchasing power of wage earners | |
|---|---|---|---|---|---|---|---|
| | 1963-1972 | 1972-1975 | 1963-1972 | 1972-1975 | 1972-1975 | 1963-1972 | 1972-1975 |
| Italy | 9.9 | 21.7 | 4.8 | 21.7 | 17.4 | 5.4 | 5.3 |
| Germany | 9.1 | 10.5 | 3.6 | 7.6 | 17.4 | 5.7 | 3.7 |
| France | 10.0 | 16.2 | 4.1 | 15.7 | 22.6 | 5.4 | 3.2 |
| United Kingdom | 8.9 | 21.3 | 4.6 | 20.8 | 15.9 | 4.0 | 4.3 |
| United States | 5.7 | 7.6 | 2.8 | 6.6 | 6.6 | 2.4 | −0.8 |

*Sources:* Commission of the European Communities, *The Economic Situation in the Community, 1976-2*, and Secretariat estimates.

21 It must be remembered that pensions are also indexed.

22 Statistics published by the Swedish Employers' Confederation confirm these results: in 1974 the ratio of direct wages to total wage costs was only 53 per cent, whereas it was 80 per cent in the United States and 83 per cent in Canada and Great Britain.

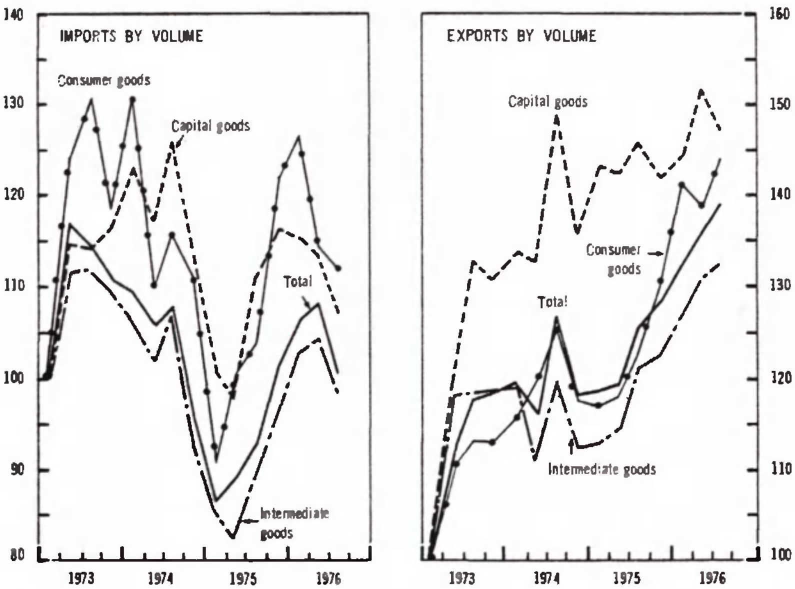
increased twofold in Italy between 1970 an 1975, the increase for the whole area (including Italy) being 50 per cent. Italy's relative position, calculated on the basis of the structure of Italian trade, has deteriorated in national currency terms from a base 100 in 1970 to 134 in 1975 and nearly 150 at the end of 1976. Allowing, however, for the devaluation of the lira, the relative position in dollar terms in 1975 was practically no different from that in 1970[23]. In 1976 the sharp depreciation of the lira probably more than compensated for the increase in wage costs. On the basis of present trends, however, with almost complete indexation, the gap may be expected to widen further in 1977.

## II EXTERNAL RELATIONS

### *Balance of current payments*

After passing through a low point in the first quarter of 1975, the volume of imports grew steadily until the second quarter of 1976, reaching a level 21 per cent higher than that of the second quarter of 1975. Imports subsequently declined in the third quarter of 1976, recovering towards the end of the year. Their rapid recovery, well before business activity began to pick up, may be explained by the need to rebuild stocks, the level of which was very

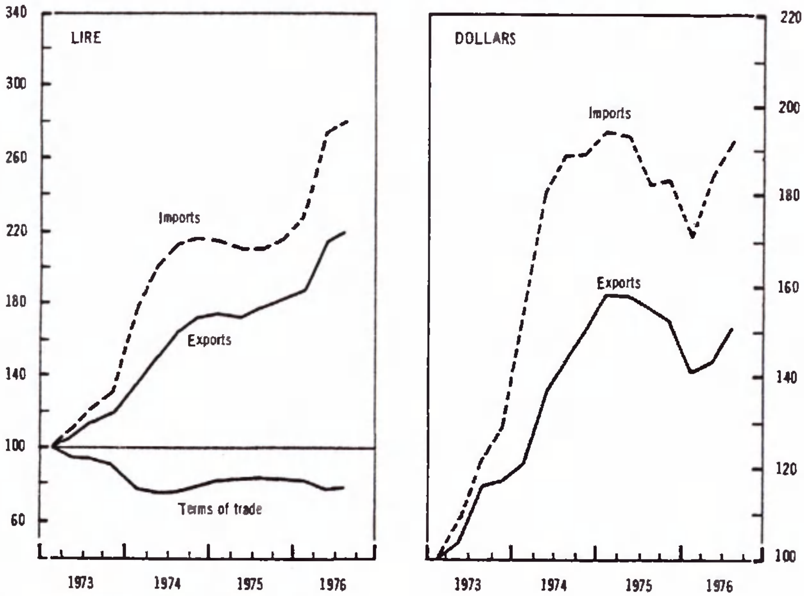
*Diagram 5* **Foreign trade (s.a.)**




*Source:* ISTAT, *Bolletino mensile di statistica.* Seasonal adjustment by the Secretariat.

23 Despite the recent acceleration in wage increases, the level of earnings in Italy is admittedly below the average for the main industrialised countries. In 1974, the wage-bill per employee in all sectors was $5 800 at the current rate of exchange whereas the average for the European Community countries was nearly $7 500, the lowest being Ireland ($4 800) and the highest the Netherlands ($10 500). Even adjusted for changes in prices and rates of exchange, the gap is still substantial, the level being 12 per cent lower than the average at 1970 prices and rates of exchange.

*Diagram 6* **Foreign trade prices**




*Source:* ISTAT and Secretariat estimates.

low at the beginning of 1975, and this movement was helped by the stability of the lira during the second half of 1975. The fall in imports in the third quarter of 1976 was mainly due to the reversal of the stockbuilding cycle, the slowdown in economic activity and the introduction of the prior deposit system in May. Imports of consumer goods appear to have been affected by this measure from the second quarter onwards, but they may also have been influenced by the substantial depreciation of the lira at that time. Imports of capital goods had already begun to fall off, though only moderately, in the first quarter, but imports of intermediate goods, which appear to be more dependent on the level of business activity than on that of prices, continued to expand in the second

Table 7 **Trade balance** (cif-fob)
Seasonally adjusted monthly averages
Billion lire

| | 1973 | 1974 | 1975 | 1975 | | 1976 | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Q3 | Q4 | Q1 | Q2 | Q3 |
| Food products | −214 | −245 | −237 | −213 | −289 | −312 | −300 | −283 |
| Non-food products | −58 | −328 | 41 | 70 | −50 | −150 | −152 | −56 |
| *of which:* | | | | | | | | |
| Consumer goods | 131 | 220 | 339 | 350 | 310 | 289 | 307 | 429 |
| Investment goods | −22 | −38 | 188 | 211 | 195 | 164 | 178 | 212 |
| Intermediate goods | −167 | −510 | −486 | −491 | −555 | −603 | −637 | −697 |
| Total | −272 | −573 | −196 | −143 | −339 | −462 | −452 | −339 |
| Total excluding petroleum products[1] | −155 | −141 | 200 | 241 | 149 | −9 | 139 | 203 |

1 Not seasonally adjusted.
*Source:* ISCO, *Quaderni Analitici.*

Table 8 **Balance of payments**
Billion dollars

| | 1974 | 1975 | 1976[1] | 1975 Q3 | 1975 Q4 | 1976[1] Q1 | 1976[1] Q2 | 1976[1] Q3 | 1976[1] Q4 |
|---|---|---|---|---|---|---|---|---|---|
| *Seasonally adjusted* | | | | | | | | | |
| Exports, fob | 30.06 | 34.40 | 36.57 | 8.47 | 9.00 | 8.32 | 8.58 | 9.45 | 10.52 |
| Imports, fob | 38.55 | 35.56 | 40.66 | 8.61 | 10.29 | 9.20 | 9.77 | 10.03 | 11.77 |
| Trade balance | −8.49 | −1.16 | −4.09 | −0.14 | −1.29 | −0.88 | −1.19 | −0.58 | −1.25 |
| Invisibles, net | 0.48 | 0.60 | 1.00 | 0.29 | −0.07 | — | 0.10 | 0.60 | 0.30 |
| Balance on current account | −8.01 | −0.55 | −3.09 | 0.15 | −1.36 | −0.88 | −1.09 | 0.02 | −0.95 |
| *Not seasonally adjusted* | | | | | | | | | |
| Balance on current account | −8.01 | −0.55 | −3.09 | 0.85 | −1.06 | −1.40 | −1.41 | 0.68 | −0.96 |
| Capital movements[2] | 2.85 | −1.65 | 2.08 | −1.03 | −0.21 | −0.17 | 0.28 | 0.11 | 1.86 |
| Balance on non-monetary transactions | −5.16 | −2.20 | −1.01 | −0.18 | −1.27 | −1.57 | −1.13 | 0.79 | 0.90 |
| Change in banks' net position | 0.34 | −0.55 | 2.29 | −1.21 | 0.19 | 0.27 | 0.94 | 0.08 | 1.00 |
| Balance on official settlements | −4.81 | −2.75 | 1.28 | −1.39 | −1.08 | −1.30 | −0.19 | 0.87 | 1.90 |
| Miscellaneous transactions | 5.26 | 0.78 | 0.64 | 0.73 | −0.06 | 1.46 | 0.51 | −1.03 | −0.30 |
| Change in reserves (+ = increase) | 0.45 | −1.97 | 1.92 | −0.66 | −1.14 | 0.16 | 0.32 | −0.16 | 1.60 |

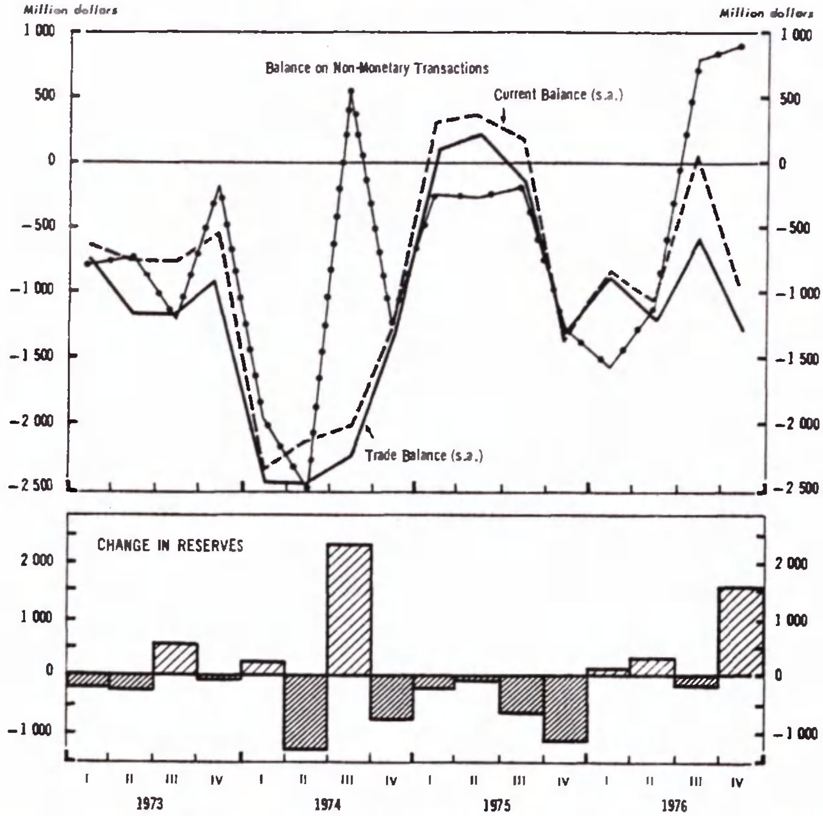
1 Provisional estimates.
2 Including errors and omissions.
*Sources:* Bank of Italy, and Secretariat estimates.

quarter. Import prices, which, reflecting the comparative stability of the lira and the world recession, had slightly fluctuated in lire terms and actually fallen in dollar terms in 1975, rose sharply in 1976, mainly owing to the considerable depreciation of the lira; in the third quarter of 1976, their level in lire terms was nearly 30 per cent higher than in the fourth quarter of 1975.

The volume of exports increased steadily at a seasonally adjusted annual rate of 11 per cent during the first three quarters of 1976, and was 12 per cent above the average level for the first nine months of 1975. There probably were some losses of market shares in the early part of the year, due perhaps to heavy domestic demand pressure, followed by gains in the second half of the year when foreign demand was slowing down. Provisional estimates for the year as a whole show slight gains in market shares; this can probably be explained by Italian prices becoming more competitive as a result of the sharp depreciation of the lira, even though it would seem that Italian exporters are tending increasingly to set their prices in foreign currency terms. Exports of final consumption goods and of intermediate goods rose almost uninterruptedly during the upswing in economic activity, but exports of investment goods fluctuated, probably because world demand for these goods was somewhat sluggish.

The trade balance (seasonally adjusted, fob/fob), which had been slightly in surplus in the first half of 1975, swung back into deficit in the second half and worsened further in 1976. The trade deficit (fob/fob) in 1976 was of the order of lire 3 300 billion, as against 755 billion in 1975. The total balance (excluding food products), which had been in surplus in 1975, showed a deficit in the first half of 1976. This reversal was partly due to a reduction in the

*Diagram 7* **Balance of payments**




*Source:* Bank of Italy. Data seasonally adjusted by the OECD Secretariat. For 1976, provisional estimates.

seasonally adjusted surplus on trade in consumer and capital goods, probably because these were being absorbed by the domestic market, where demand was dynamic, instead of being exported; and partly due to an increased deficit on trade in intermediate goods connected with the upswing phase of the stock cycle. Hence the non-oil trade surplus decreased considerably in the first half of 1976. During the same period the balance on petroleum products deteriorated appreciably by comparison with the first half of 1975, partly because of a 12 per cent volume increase in oil imports, but much more so because of the rise in prices of those imports.

The balance on invisibles showed a marked improvement in 1976, chiefly because of the performance on the tourism account. For the period from January to August, the number of tourists was up 7.6 per cent from a year earlier, although the average length of stay was slightly shorter. The earnings in dollar terms were rather better than in 1975, and that was an exceptionally good year for tourism. On the other hand, interest paid on outstanding loans, an item which has grown continually since the oil crisis, rose along with payments for transport services. Finally, transfers from emigrants were practically the same, in lire terms, in the first half of 1976 as in the same period of the previous year, but in foreign currency terms they declined, which may be due to a fall in employment abroad or to delays in remittances for fear of further depreciation of the lira. As a result of the performance on the invisibles account, the current deficit narrowed considerably in the second half of 1976. For the whole year it was approximately $3 billion, or approximately 1.7 per cent of GDP.

*Capital movements and the foreign exchange market*

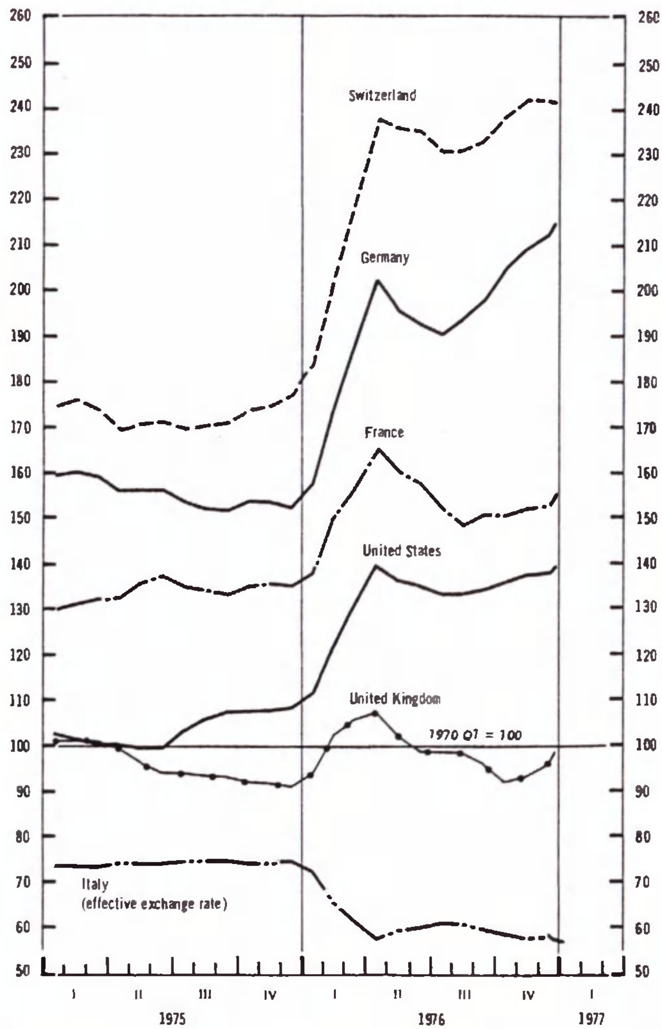
Uncertainty connected with non-economic factors, the level of economic activity and the direction of monetary policy affected capital movements to varying degrees during 1976. The negative balance recorded in the first quarter of 1976 (approximately 200 billion lire) for non-monetary capital was partly due to repayment by Italian firms of trade credits contracted earlier. This movement was reversed in the second quarter of 1976 after the introduction of the prior deposit requirement for imports, which probably provided an incentive to Italian importers to seek financing abroad; the increase in trade credits granted by foreign countries to Italian firms, however, was partly offset by the sharp rise in Italian credit to foreign countries, and in all the balance of non-monetary capital was slightly positive in the second quarter of 1976. In the third and fourth quarters, the inflow of non-monetary capital accelerated. Firstly, domestic monetary restrictions encouraged Italian firms to seek financing abroad while at the same time they were reducing their investments and loans there. Secondly, the granting of a tax amnesty for illegally exported capital resulted in large inflows, especially in November 1976[24]. All in all, the balance of non-monetary transactions showed a deficit of approximately $2.7 billion in the first half of 1976, a surplus of approximately $1.1 billion in the third quarter and one of the same order in the last quarter of 1976.

The deficit on non-monetary transactions was partly financed in the first half of the year by a sharp reduction in the financial assets held abroad by the private banks, and by the floating of a number of financial loans by the monetary authorities with the EEC ($1 billion), the Bundesbank ($500 million), and the Federal Reserve System ($500 million). The last two loans were repaid in the third quarter of the year. In all, the change in gross foreign exchange reserves was moderate during the first nine months of 1976 (an increase of approximately $400 million), but more pronounced in the last quarter when there was an increase of approximately $1.7 billion. As for Italy's foreign indebtedness (monetary institutions and households), it reached approximately $17 billion at the end of November 1976.

After supporting the lira in the last quarter of 1975 and the early weeks of 1976 (at the cost of a substantial fall in the exchange reserves), the monetary authorities decided to close the official exchange market on 21st January, 1976 for an indefinite period. The economic policy measures introduced in February (raising of the discount rate and the banks' reserve ratio among other measures) did not suffice to alter expectations, and as soon as the exchange market re-opened on 1st March, the lira resumed its downward movement. This trend made necessary a further rise in the discount rate (from 8 to 9 and subsequently to 12 per cent) and the introduction on 5th May of a prior deposit on purchases of foreign exchange covering almost all transactions. The adoption of these new measures and the coming of the summer, which is a favourable season both for foreign trade and for invisibles, checked the fall of the lira and enabled it to recover part of its value vis-à-vis the dollar and other currencies.

24 It was estimated that the inflow of capital resulting from this measure was of the order of $1 billion.

*Diagram 8* **Exchange market**[1]




1 Italian lira's effective exchange rate and some bilateral parities with the lira of main trade partners.

*Source:* OECD Secretariat.

The rate of exchange against the dollar, which was 684 lire at the beginning of 1976, rose to over 900 lire at the beginning of May, a depreciation of approximately 25 per cent. Subsequently the rate became stable in the region of 840 lire until October, a depreciation of the order of 20 per cent. Compared with the currencies of competing countries taken together, the depreciation of the lira was of the same order (18 per cent) . In October, faced with new attacks on the lira in the foreign exchange market, the authorities introduced a special 10 per cent tax on purchases of foreign currency for a period of 15 days. This measure followed the decision to prolong the prior deposit on imports until April 1977[25]. During the short period for which the 10 per cent special tax remained in force, the Government raised the discount rate from 12 per cent to 15 per cent and announced a ceiling on bank credit. These measures did not suffice to check the fall of the lira, and on 23rd October the monetary authorities reintroduced the special tax on purchases of foreign exchange for a four-month period, but at a rate of 7 per cent, reduced to 3.5 per cent at the end of 1976 and to 2.5 per cent in January 1977. The tax was finally abolished in February[26]. Since that time the rate of exchange of the lira has been steady at around 870/880 lire to the dollar. At mid-January, the effective exchange rate of the lira had depreciated by 23 per cent relative to mid-January 1976.

The trend of the lira on the exchange market illustrates the difficulties encountered by the Italian economy in bearing the consequences of the deterioration in the terms of trade that occurred in 1973-1974. These difficulties, heightened by the problems that are being encountered in implementing economic policy, became greater with the reform of the indexation system in 1975. In present conditions the depreciation of the lira is in part passed on initially[26 bis] in domestic prices, and subsequently, through the machinery of the quarterly adjustment of the sliding wage scale, in wage costs. The benefits which depreciation brings to the exporting sector are thus quickly absorbed by the sharp rise in costs which follows. At the same time exporters appear to be increasingly setting their prices in foreign currency, thus limiting the effects on the volume of exports which could be expected from depreciation, and at the same time the "perverse" effects in the very short term. In the absence of a stabilizing mechanism within the country (the purchasing power of wages is protected by indexation, which makes private consumption more inelastic) it becomes essential for economic policy to be deployed in making adjustments which the spontaneous market mechanism is no longer able to do. In Italy's case this role has traditionally been played by monetary policy, notably in 1964, 1974 and 1976, which, allowing for the inelasticity of consumption, implies that the greater part of the adjustment falls on investment, with dangerous consequences for the medium-term development of the economy and in particular for exports.

## III ECONOMIC POLICY IN 1976

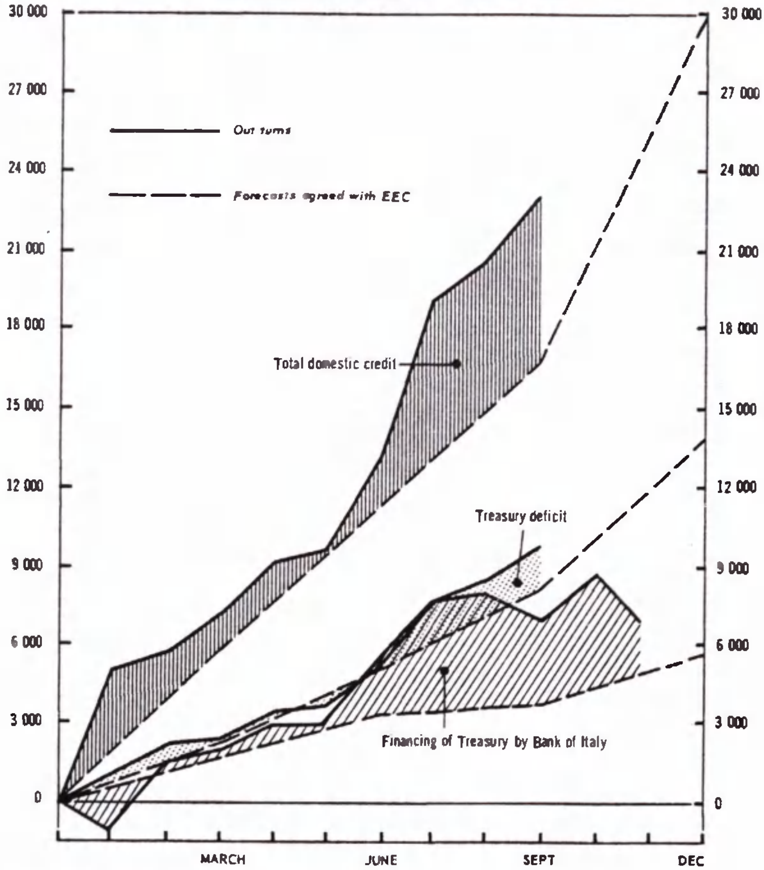
Economic policy became progessively more restrictive throughout 1976. The authorities attempted to check the depreciation of the lira at the beginning of the year by emergency monetary measures (raising of the discount rate, and a prior deposit requirement for purchases of foreign currency) and in the autumn by a set of important budgetary provisions designed to restore current account equilibrium in 1977 at the cost, accepted by the authorities, of zero growth of the economy. But economic policy became increasingly difficult to implement. First, the authorities found themselves forced to increase indirect taxation in order to slow down the rise in households' purchasing power, which had the immediate effect of accelerating the already very rapid rise in prices. Secondly, notwithstanding a marked increase in the rate of interest, the only means of

25 At regressive rates reaching 10 per cent from end-February onwards, to limit the expansionary effect on the monetary base.

26 The gradual removal of the special tax had only a very small repercussion on the quotation of the lira.

26bis According to some estimates, the indirect effect on prices has a range of two years.

*Diagram 9* **Financing of the economy in 1976**
Cumulative changes in billion lire




*Source:* Bank of Italy.

financing the Treasury deficit was to resort extensively to money creation, which conflicted with the authorities' original aims and with commitments agreed with the EEC. These developments can be explained by the strength of private sector demand for credit, partly to finance the compulsory deposit for purchases of foreign exchange, which reduced the scope for medium- and long-term security issues by the Government and made it increasingly difficult to control monetary expansion. In these circumstances, and taking into account the desire of the authorities to keep the interest rate within reasonable limits, it became impossible to control the supply of money through a flexible manipulation of the monetary base, and the authorities had to fall back on the use of quantitative restrictions on the growth of bank credit.

*Budget policy*

While the Italian authorities had guided budget policy in a decidedly expansionary direction in the second half of 1975 by approving a programme of support for investment and making various reductions in direct taxation, in

1976 the acceleration of price rises and the worsening of the external deficit caused them to adopt a much more restrictive approach. In agreement with the EEC, it was decided to set ceilings of 39 700 billion lire[27] for budgetary expenditure and 13 800 billion lire for the Treasury's cash deficit (compared with more than 14 000 billion lire in 1975) and to limit financing of the Treasury by the Bank of Italy to 5 700 billion lire (8 500 billion lire in 1975).

Within this general framework some taxes were increased[28] as from March, producing additional revenue of 1 200 billion lire. In addition, the date of payment of income tax not deducted at source was brought forward[29]. In September a special tax was levied on motor vehicles to finance part of the cost of rebuilding after the Friuli earthquake (500 billion lire). Lastly, in October, a major austerity programme was put before Parliament resembling the 1974 stabilization programme in size and in the choice of measures. The programme, which has the general aim of holding down demand and is designed to restore equilibrium in the current balance in 1977, includes: increases in administered prices amounting to about 2 300 billion lire, higher indirect taxes[30], higher public utility charges (1 200 billion lire) and, as regards direct taxation, an increase in taxes on non-wage incomes[31] in 1977 and an increase in land tax. The supplementary revenue will be used in part to finance new investment. Finally, in accordance with this programme of austerity, it was decided to freeze payments of cost-of-living allowances arising from the sliding scale mechanism for the highest paid wage and salary earners[32].

According to official estimates, the increase in revenue of the public sector, including ENEL (electricity), should amount to some 4 750 billion lire[33] (about 3 per cent of forecast GNP for 1977) collected mainly from households[34]. Furthermore, forced savings in the highest wage groups will amount to some 700 billion lire in 1977. However, these figures do not show the net effect of the measures, particularly on households. These will be in the form of price rises which, will at first affect the real income of households. However, due to

27 These ceilings are part of the March 1976 agreement which confirms or makes stricter the terms of the preceding agreement of November 1975.

28 VAT on some items, taxes on mineral oils, and income tax deducted at source—now payable in advance—on interest paid by banks.

29 When making their 1975 declaration, taxpayers had themselves to assess and pay their income tax without waiting for the demand.

30 The price of standard-grade petrol was raised to 500 lire per litre, yielding 1 200 billion lire additional tax revenue.

31 Tax on non-wage incomes, which would normally be payable in 1978 on income received in 1977, will be paid in advance in September 1977, to the extent of 75 per cent. This measure should increase tax revenue in 1977 by 1 500 billion lire (of which 800 billion lire from self-employed workers and 700 billion lire from corporate enterprises). The due date has been brought forward on a permanent basis and will therefore apply to subsequent years.

32 The full amounts of the raises originating from the sliding scale are converted into Treasury bills not negotiable for five years. This applies for incomes from dependent employment above 8 million lire (approximately $9 200). For incomes between 6 and 8 million lire ($6 900-$9 200) the scheme will apply for half of the additional sliding scale payments. Since statistics in this area are scarce, it is difficult to estimate the percentage of wage-earners affected by this measure. However, by taking inflation into account, a rapidly increasing number of wage earners will be affected by this arrangement in the following months.

33 Allowing for tax relief designed to offset the impact of the increase in petrol prices on the lowest incomes. These revenues are allocated to the Treasury (4 000 billion lire, of which 3 500 for the budget and 500 for the autonomous administrations) and to ENEL (800 billion).

34 The gross amount is estimated at about 7 000 billion lire, of which 3 600 from households and 3 200 from enterprises. But the latter recoup approximately 2 000 billion lire in higher charges.

Table 9 **Central Government cash revenue and expenditure**
Thousand billion lire

| | 1974 | 1975 | 1976[1] | Percentage changes 1975/1974 | Percentage changes 1976/1975 |
|---|---|---|---|---|---|
| Current revenue | 18.36 | 23.82 | 32.01 | 29.7 | 34.4 |
| Fiscal | 17.56 | 20.64 | 27.93 | 17.5 | 35.3 |
| Other | 0.80 | 3.18 | 4.08 | | 28.3 |
| Current expenditure | 18.98 | 27.49 | 33.07 | 44.8 | 20.3 |
| Transfers | 8.48 | 13.58 | 14.86 | 60.1 | 9.4 |
| Balance on current account | −0.62 | −3.67 | −1.06 | | |
| Capital expenditure | 4.65 | 6.61 | 9.63 | 42.2 | 45.7 |
| Transfers and granting of credit | 4.13 | 6.07 | 8.93 | 47.0 | 47.1 |
| Balance on budgetary transactions | −5.20 | −10.22 | −10.38 | | |
| Cash transactions | −1.94 | −4.20 | | | |
| Cassa depositi e prestiti and autonomous institutions | −1.82 | −2.15 | −4.50 | | |
| Treasury cash deficit | −8.96 | −16.56 | −14.88 | | |
| Deficit, net of consolidation operations | −8.65 | −14.17 | −14.48 | | |

1 Provisional estimates.
*Source:* Bank of Italy.

the indexation mechanism, this loss of purchasing power will rapidly be compensated (with an approximate lag of three months) by wage increases which in turn will be partially offset by the incidence of direct taxation (if income steps are not increased). The final effects of the austerity programme on household consumption are therefore very difficult to assess.

According to the Italian experts, this more restrictive turn in budget policy has made it possible to hold the 1976 budget deficit at its 1975 level through the extremely rapid growth of tax revenue, particularly from direct taxes. The latter were 43.5 per cent higher[35] in 1976 than in 1975. Thus, in 1976 as in 1975, the elasticity of revenue from direct taxes in relation to value growth of GNP will have been in the vicinity of 2, whereas the average for 1970-1974 was 1.4. The rapid growth of revenue from direct taxation can be explained by various exceptional factors: that 1975 was the first full year in which the system of deducting tax from wages at source was in operation; that in 1976 two-thirds of the tax on interest paid by banks was paid in advance; that part of the income tax due in 1975 was held over until 1976, one of the reasons being a strike by some categories of civil servants; and that the system of self-taxation was introduced. But it is also, undoubtedly, attributable to the reform of the tax system, and to inflation. The system of taxing wages at source has considerably reduced the possibilities of tax evasion. As regards to inflation, it tends to increase the total tax burden under a system of progressive taxation if there is no major revision of tax schedules[36]. The yield of indirect taxes also made a substantial recovery, rising by nearly 33 per cent over the first ten months of the year, against only 12 per cent during the corresponding period of 1975. The reasons for this rapid increase were the higher rates introduced in the spring

35 Provisional estimates by the Bank of Italy. The outturns will be published, as in each year, at the end of March in the *General report on the economic situation.*

36 This effect did not occur in full in 1976, since the tax schedules had been adjusted at the end of 1975 to take account of inflation.

of 1976, the recovery of economic activity and the acceleration of prices, particularly of imports. In all, tax revenue increased by 35 per cent in 1976 (compared with 18 per cent in 1975)[37].

While revenue accelerated, current expenditure decelerated sharply rising by 20 per cent in 1976 (compared with 45 per cent in 1975). However, if transactions connected with consolidation of the debts of the health organisations are excluded, the rates of change were 29 and 22 per cent respectively. Interest payments all but doubled. On the other hand, expenditure on wages and purchases of goods and services rose not much more than prices. Transfers were up by less than 10 per cent. In contrast, capital expenditure rose very steeply in 1976, more than 45 per cent up from 1975. This increase is essentially attributable to the very rapid growth of financial transactions.

Overall, the cash deficit of the Central Government budget will be of the same size in 1976 as in 1975, slightly over 10 000 billion lire. Non-budgetary operations administered by the Treasury[38] are expected to show a shortfall of 4 500 billion lire. The Treasury's cash deficit should therefore amount to 14 500 billion lire in 1976, compared with over 16 500 billion lire in 1975, and the ceilings agreed with the EEC should on the whole have been complied with. According to the Italian estimates, although total budget expenditure will have amounted to nearly 42 700 billion lire instead of 39 700 billion lire, the 800 billion lire paid out to specialised credit institutions and not included in the EEC agreement, the 500 billion lire disbursed after the Friuli earthquake, and finally the 500 billion lire capital grant to the ENEL, paid in advance, should all be deducted from total expenditure. The ceiling set on the Treasury's cash requirement has also been complied with, since disbursements to the specia lised credit institutions should be deducted from the actual deficit of 14 800 billion lire, as opposed to the 13 800 billion lire originally agreed on.

Table 10 **Financing of treasury deficit**

Thousand billion lire

| | 1974 | 1975 | 1976[1] | 1976 I | 1976 II[1] |
|---|---|---|---|---|---|
| Medium- and long-term financing by banking and private sectors | −0.17 | 3.58 | 0.87 | 1.17 | −0.30 |
| Financing creating monetary base | 7.67 | 7.78 | 11.79 | 6.87 | 4.92 |
| *of which:* | | | | | |
| By the Bank of Italy | 6.50 | 8.82 | 9.86 | 6.53 | 3.33 |
| Other short-term financing | 1.46 | 5.21 | 2.22 | −2.33 | 4.55 |
| *of which:* | | | | | |
| Treasury bills for voluntary subscription | 1.63 | 5.04 | 2.18 | −2.40 | 4.58 |

1 Provisional estimates.
*Source:* Bank of Italy.

37 In addition to tax revenue, the central government's cash operations show non-tax receipts which are mostly transfers from the social security institutions to the central government, which undertakes payments to the hospitals.

38 "Cash management" which covers the transactions of the "autonomous administrations" and postal savings banks, Social Security transactions paid for by the postal system and the current account transactions of other public administrations, particularly the Cassa per il Mezzogiorno.

On the other hand, the ceiling on monetary financing of the Treasury's cash requirement was exceeded by a substantial amount. In 1975 the downturn in activity was accompanied by a slowdown in private sector demand for credit, which meant that a large proportion of the Treasury's deficit could be financed by medium- and long-term borrowing (3 500 billion lire), the creation of monetary base by the Treasury being similar to the 1974 figure (about 7 800 billion lire), whereas the total financing requirement was nearly twice as great as in 1974. The progressive decline in Treasury bill rates during 1975 (from 14 per cent in January to below 9 per cent in December) reflects the ease with which it was possible to place the public debt. In 1976, on the other hand, the Treasury had to compete with the private sector on the capital markets where, in the first half of the year, there were net sales of short-term government paper by the private sector despite the rapid increase in Treasury bill rates, which reached 18 per cent in September. For this reason the financing of the Treasury by the Bank of Italy reached the very high figure of over 6 000 billion lire during the first half on the year, though under the terms of the EEC agreement it should not have exceeded 3 300 billion lire during that period. For the whole year, financing of the Treasury by the Bank of Italy will have been nearly twice the amount agreed with the EEC (over 10 000 billion lire instead of 5 700 billion), despite a revival in purchases of securities issued by the banks at end-year. It

Table 11 **Consolidated account of General Government**
Billion lire

| | 1974 | 1975 | 1976 Estimates | 1976/1975 % | 1977 Forecasts | 1977/1976 % |
|---|---|---|---|---|---|---|
| Current revenue | 34 047 | 39 267 | 50 600 | 28.9 | 64 900 | 28.3 |
| *of which:* | | | | | | |
| Direct | 6 634 | 8 420 | 11 800 | 40.1 | 16 000 | 35.6 |
| Indirect | 10 866 | 10 947 | 14 600 | 33.4 | 19 800 | 35.6 |
| Social Security contributions | 14 155 | 17 132 | 21 200 | 23.7 | 25 700 | 21.2 |
| Other | 2 392 | 2 768 | 2 900 | 4.8 | 3 400 | 17.2 |
| Current expenditure | 35 715 | 44 718 | 55 600 | 24.3 | 67 700 | 21.8 |
| *of which:* | | | | | | |
| Consumption | 13 737 | 15 228 | 18 200 | 19.5 | 22 200 | 22.0 |
| Social Security benefits | 16 675 | 21 655 | 26 000 | 20.4 | 31 000 | 19.2 |
| Contributions to production | 1 772 | 2 885 | 3 100 | 7.5 | 3 600 | 16.1 |
| Interest payments | 2 501 | 3 770 | 6 900 | 83.0 | 9 300 | 34.8 |
| Other | 1 030 | 1 180 | 1 400 | 18.6 | 1 600 | 14.3 |
| Capital expenditure (net) | 3 736 | 4 631 | 5 380 | 18.1 | 6 920 | 27.8 |
| *of which:* | | | | | | |
| Investment | 3 252 | 3 661 | 4 300 | 17.5 | 5 550 | 17.9 |
| Capital transfers | 1 016 | 1 229 | 1 380 | 11.2 | 1 730 | 23.1 |
| Borrowing requirement | 5 404 | 10 082[1] | 10 420[1] | | 9 720[1] | |
| *As a percentage of GDP* | | | | | | |
| Current revenue | 34.3 | 34.9 | 36.9 | | 39.7 | |
| Current expenditure | 36.0 | 39.8 | 40.5 | | 41.4 | |
| Borrowing requirement | 5.4 | 8.9 | 7.6 | | 5.8 | |

1 Excluding consolidation of mutual benefit agencies' debts towards hospitals. It should be remembered that the latter are included in the private sector in the new system of national accounts.

*Sources:* Ministry of the Budget, *Annual Report on the Economic Situation,* and information supplied by the Italian authorities.

should be remembered, however, that the forecasts for money creation were drawn up a year ago on the basis of much weaker growth prospects and before the introduction of the compulsory deposit for purchases of foreign currency.

Only very incomplete information is available with respect to the other public sector transactors. Owing to the acceleration of money wages and the rise in contribution rates decided on in 1975, social security contributions rose more rapidly than benefits. The deficit of the local authorities on the other hand, is likely to have worsened. The Italian Government therefore intends to consolidate the local authorities' short-term debts in 1977 to the extent of 6 000 billion lire, so that the reform of local finances scheduled for 1978 can be carried out on better financial terms. As a whole, the finance requirement of the public sector on a national account basis should reach 10 400 billion lire in 1976, which is roughly the same as in 1975 in absolute terms, but a much smaller percentage of GDP. (7.6 in 1976 compared to 9 per cent in 1975[39].)

According to the Italian authorities this improvement should continue in 1977. It should be remembered that this year, in addition to the budget commitments ("bilancio di competenza") approved each year by Parliament, the Italian experts have drawn up forecasts on a national accounts basis for the whole of the public sector and forecasts on a settlements basis for the Central Government budget. As regards the latter, the Italian experts expected prior to the autumn measures that tax revenue would grow by some 20 per cent. In addition to this increase forecast on the basis of spontaneous trends, there is the revenue resulting from the autumn 1976 programme for economic recovery, which allocates some 3 500 billion lire to the Central Government budget. Tax revenue is thus expected to rise sharply again in 1977 (+ 35 per cent on 1976) and total revenue to increase by almost 36 per cent. On the expenditure side there should be an increase of 27 per cent, bringing it up to nearly 52 600 billion[40], including the additional investment recently decided upon of 600 billion lire[41]. This overall package of 52 600 billion lire also contains provision for large payments of the order of 5 500 billion lire, to regularise previous operations[42]. Given the foreseeable increase in prices, these estimates probably imply a fall in central government expenditure in real terms in 1977.

In all, the cash deficit of the Central Government budget is forecast by the Italian experts at some 9 600 billion lire, or barely below the figure for 1976. On the other hand, the shortfall on cash transactions should be much lower (500 billion lire compared with over 4 000 billion lire in 1976) because of transfers out of the budget and, to a lesser extent, the reduction in the deficit of the autonomous administrations account brought about by raising their charges in the autumn. Lastly, while it was expected in the summer that the Treasury's cash deficit would remain at its 1976 level (13 800 billion lire), the figure is likely to be lower, i.e. 9 800 billion lire[43].

As regards the public sector as a whole, on a national accounts basis, the

39 Exclusive of consolidated debts of mutual benefit institutions.

40 These estimates were made before the agreement signed at the end of December concerning the renewal of civil servants' contracts and the part-financing of social security contributions from the central government budget decided on in February.

41 In the context of the industrial conversion programme (600 billion lire, of which 500 billion lire for public enterprises), sectoral measures (500 billion lire for agriculture, residential construction and motorways) and measures to promote employment of young persons (100 billion lire).

42 In particular, interest paid on Treasury bonds, and Central Government transfers to social security institutions (INPS) actually paid out of the cash account but not yet included in the budget. It should also be noted that these forecasts do not take account of the increase in civil servants' pay agreed at the end of December 1976.

43 10 100 billion lire if transfers to specialised credit institutions are taken into account.

Italian experts forecast a marked improvement. The public sector financing requirement is estimated at 9 700 billion lire, or less than 6 per cent of GDP. But the estimates of budget expenditure seem extremely cautious and might be overrun by considerable amounts unless part of the deficit on the public finance account is passed on to the private sector. For example, no allowance seems to have been made for actual liquidation of mutual benefit agencies' debts towards the hospitals which belong, it should be remembered, to the private sector. This means that the hospitals will have to continue to resort to bank credit.

*Monetary policy*

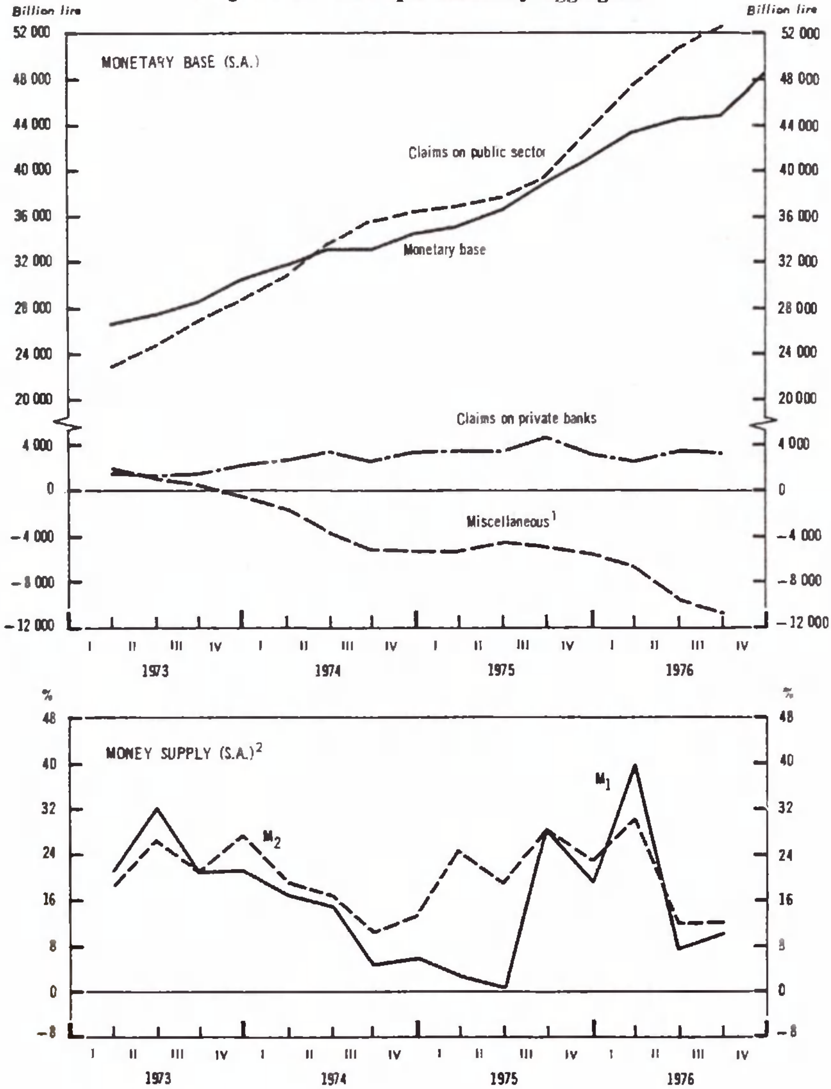
The monetary policy pursued throughout 1976 was designed to reduce the disequilibria resulting from the great increase (in real and money terms) in demand that took place at the end of 1975. The emergency measures taken while the foreign exchange market was closed in January-February 1976 (increasing of discount rates, raising of the banks' reserve ratio) were later supplemented by a requirement for prior deposits on imports, by further increases in the discount rate, and by the introduction of a ceiling on bank credit. The purpose of all these measures was to mop up the surplus liquidity produced by the measures taken to support business activity in the second half of 1975, to scale down new inflationary pressures and to moderate the rate of growth of output which was proving to be incompatible with the external equilibrium of the economy.

The discount rate has been raised on several occasions, moving from 6 per cent at the beginning of 1976 to 15 per cent in October, a level that had not been reached since the end of the last war (18 per cent if account is taken of possible penalties); the banks' reserve ratio, which applies to new deposits, was raised from 15 per cent to 15.75 per cent in February; and the banks were required to make, in February-March, an additional payment equal to 0.75 per cent of total deposits at the end of 1975, and a further payment of 0.5 per cent in October (of total deposits at end June 1976). In May 1976 a prior deposit requirement for purchases of foreign currency was introduced, applying to practically all transactions. The deposits, which bore no interest, had to be placed with the Bank of Italy for a three-month period, in an amount equal to 50 per cent of the amount of currency to be purchased. At its expiry in August it was extended until April 1977, but at a regressive rate in order to avoid too marked an effect on the liquidity of the economy. Finally, in October 1976 it was decided to place a ceiling on increases in bank credit during the period November 1976-March 1977.

These measures are in line with the agreements made with the EEC concerning increases in credit to the economy in 1976. Under those agreements, the increase in total domestic credit to the economy[44] was not to exceed 28 500 billion lire in 1976 (approximately 18 per cent more than the 1975 increase) which, taking into account the ceiling of 13 800 billion lire for the public sector deficit, implied a ceiling of 15 700 billion lire for the other sectors (an increase of approximately 15 per cent). In view of the trend of prices, these ceilings left little margin for expansion in real terms. At the end of September the Treasury's cash deficit was approximately the amount fixed in agreement with the EEC, and so far as credit to the other sectors was concerned, the increase exceeded the amount planned by approximately 4 000 billion lire. This was equal to the amount sterilised by the prior deposits on foreign currency purchases, and was probably largely financed by domestic credit.

44 Defined as credit from the banking system (banks and specialised credit institutions), bond issues and Treasury finance.

*Diagram 10* **Principal monetary aggregates**




1 Including foreign sector.
2 Percentage change on previous quarter at annual rates.
*Source:* Bank of Italy. Seasonal adjustment by OECD Secretariat.

The monetary base still expanded considerably during the first nine months of 1976 despite the restrictive nature of monetary policy at the beginning of the year. In the first half of 1976, growth was of the order of 19 per cent at an annual rate[44 bis] compared to the second half of 1975. If, however, the amount sterilised by the February measures[45] is deducted from the monetary base, the increase is a good deal smaller. The cause of this strong expansion of the

44bis After seasonal adjustments made by the Secretariat.
45 The sterilisation of 0.75 per cent of the amount of deposits at 31st December, 1975 was equivalent to withdrawing some 850 billion lire from the banks' liquid funds.

monetary base was the financing of the Treasury deficit, which could only be achieved by the creation of new money despite the high level of interest rates on Treasury bonds. The banks in effect reduced their holdings of Treasury bonds to meet the requirements for liquidity following the increased demand for credit from the private sector. In the first half of 1975 the Treasury deficit (approximately 7 000 billion lire) was financed only as to 1 300 billion lire by the creation of new money. In the first half of 1976, however, the monetary effect of the public sector deficit was more than 1 000 billion lire greater than the Treasury cash deficit (6 900 billion lire effect for a deficit of 5 700 billion lire) in consequence of net sales by the banks of Treasury bonds amounting to some 1 200 billion lire.

The effect on the monetary base of the financing of the Treasury deficit was partly offset in the first half of 1976 by the balance-of-payments deficit. But in the third quarter of 1976, the reduction in the deficit on current account and the inflow of monetary and non-monetary capital resulted in a net creation of liquidity of external origin. So far as Central Bank support for the private banks was concerned, the abolition of the provisions for automatic rediscounting of export credits led to an appreciable reduction in the monetary base in the first half of 1976. Finally, the reintroduction of the prior deposit requirement for foreign exchange purchases made it possible to sterilise some 4 000 billion lire between May and August. After that date, a gradual reduction in the rate of the deposit[46] was expected to yield an expansion of the monetary base of the order of 400 to 500 billion lire each month until April 1977. To compensate for that effect it was decided to increase the compulsory reserve ratio by 0.5 per cent of the amount of deposits[47] with effect from 1st October. In all, monetary base creation (s.a.) showed little change between June and September but accelerated again in the last months of 1976.

The banks have had to deal with the large volume of demand for credit resulting from the economic recovery and the rise in prices. The expansion of credit was

Table 12 **Banking sector**

| | Outstanding at 31.12.75[1] | Percentage change on corresponding period of previous year | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 1975 | | | | 1976 | | |
| | | March | June | Sept. | Dec. | March | June | Sept. |
| Assets | | | | | | | | |
| Credit | 58 769 | 11.0 | 9.9 | 16.6 | 12.9 | 23.4 | 22.1 | 26.1 |
| Security holdings | 39 169 | 42.5 | 87.4 | 50.9 | 42.4 | 22.7 | 11.9 | 7.6 |
| Liquidity[2] | 3 573 | 2.14 | 1.81 | 3.36 | 3.52 | 2.00 | 1.88 | 1,27 |
| Liabilities | | | | | | | | |
| Sight deposits | 52 098 | 6.2 | −0.2 | 7.9 | 11.2 | 21.8 | 23.7 | 20.4 |
| Savings deposits | 49 243 | 38.1 | 40.8 | 46.8 | 44.5 | 30.8 | 22.1 | 20.1 |

1 In billion lire.
2 As a percentage of total deposits.
*Source:* Bank of Italy.

46 On 28th September, 1976 it was decided to reduce the rate of the deposit to 45 per cent with effect from 15th October, 40 per cent with effect from 30th November, 25 per cent with effect from 15th January, 1977 and 10 per cent with effect from 28th February.

47 Purchases of Treasury bonds by the banks increased sharply in September (approximately 2 000 billion lire).

particularly strong in the first quarter of 1976 (some 20 per cent over the corresponding period of 1975), slackened somewhat in the second quarter and accelerated again in the third quarter of 1976. Such an expansion was only possible because the banks had reduced their liquidity by approximately 1 700 billion lire during the first nine months of 1976 and had modified the composition of their assets to include more credit and fewer securities[48] despite the raising of the ratio of purchases of fixed-interest securities in June 1976[49]. This sharp rise in credit led them to exceed the ceilings agreed with the EEC for the rise in total credit to the economy, which led in turn to the imposing of strict ceilings on increases in bank credit over the period November 1976-March 1977. At the end of the latter month the amount of bank credit outstanding is not expected to exceed the end-June 1976 figure by more than 11 per cent. This limit corresponds to an annual rate of approximately 15 per cent, whereas the rate of increase in September 1976 over the September 1975 levels was approximately 26 per cent. Some of the 1976 increase in credit was however due to the prior deposit requirement for purchases of foreign currency (approximately 4 000 billion lire), while the return of these deposits by the Central Bank should result in a slowdown in demand for credit by importers unable to obtain finance externally. So far as the specialised credit institutions are concerned, the expansion of their credit [approximately 8 per cent at an annual rate (n.s.a.) over the first nine months] was held back by difficulties in placing their bonds with the banks and with the public in general.

The large increase in the volume of credit in 1976 benefited the private sector (66 per cent of the increase in credit to the economy by the financial intermediaries went to private firms) and central Government, to the detriment of the State enterprises, which admittedly had taken a considerable proportion of total credit in the second half of 1975. Within the private sector, small firms benefited most from the rise in bank credit. During the first nine months of 1976 they increased their indebtedness to the private banks by more than

Table 13 **Distribution of credit**
All financial intermediaries

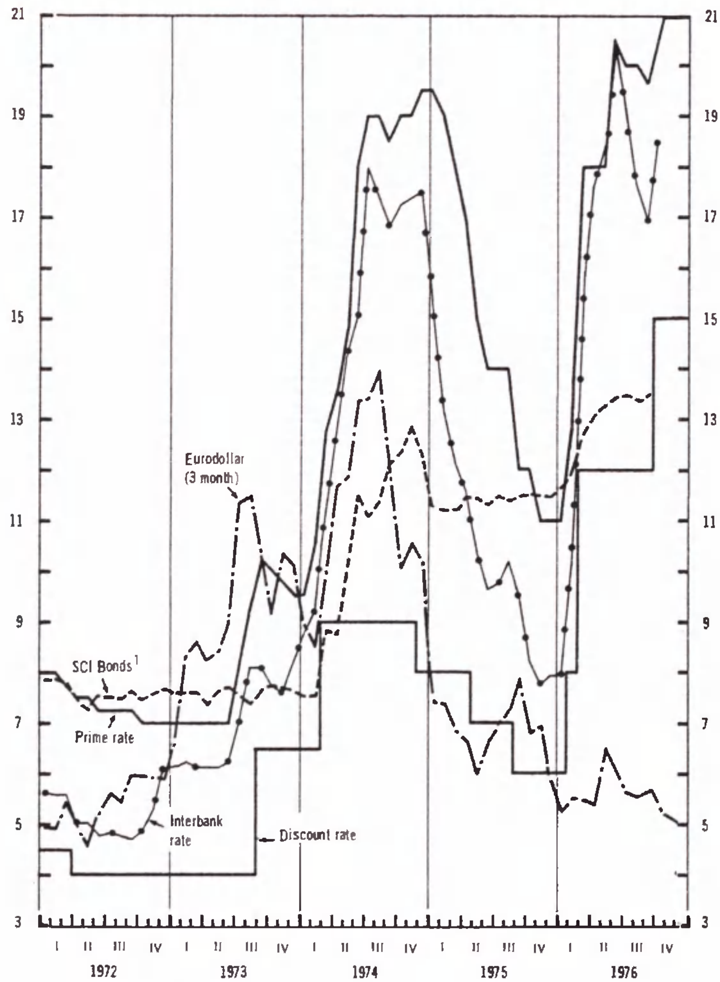
| | Out-standing[1] at 31.12.75 | Changes in billion lire | | |
|---|---|---|---|---|
| | | 1975 I | 1975 II | 1976 I |
| Public enterprises | 18 049 | 74 | 3 007 | 1 064 |
| *of which:* Hospitals | 1 283 | −1 283 | 103 | 15 |
| Private enterprises | 53 496 | 2 961 | 4 533 | 5 393 |
| General government | 11 370 | 1 054 | 585 | 1 837 |
| *of which:* Local authorities | 10 596 | 929 | 1 435 | 845 |
| Households | 1 756 | 79 | 285 | 258 |
| Total | 84 671 | 4 168 | 8 410 | 8 552 |

1 In billion lire.
*Source:* Bank of Italy.

48 In September 1976 the proportion of credit in bank assets was approximately 54.2 per cent and that of securities approximately 32.6 per cent, compared with 50.4 per cent and 35.5 per cent respectively a year earlier.

49 The banks were obliged to acquire fixed-interest securities in an amount equal to 42 per cent of the increase in their deposits during the second half of 1976. The ratio was 30 per cent in the first half-year.

*Diagram 11* **Interest rates**




1 Specialised Credit Institutions.
*Source:* OECD Secretariat.

6 300 billion lire (3 200 billion lire in 1975) compared with 2 000 billion lire in the case of the large firms, whose indebtedness increased by the same amount as in the previous year.

Interest rates as a whole followed the upward movement of the discount rate. The inter-bank rate rose from 8.33 per cent in December 1975 to 16.76 per cent in December 1976, after reaching a maximum of 19.67 per cent in June, as a consequence of the monetary restrictions brought about by the introduction of the prior deposit requirement for imports in May. The rate of interest on Treasury bonds was maintained from April onwards in the region of 18 per cent, and the banks' base rate rose from 12 per cent in December 1975 to approximately 20 per cent in December 1976. Long-term interest rates increased regularly throughout 1976, though they did not attain the level of the short-term rates. Thus the rate on bonds of specialised credit institutions was 13.89 per cent in December 1976 compared with 10.82 per cent a year earlier.

So far as the capital market was concerned, the amount of share issues in the first ten months of 1976 was of the same order as in the corresponding period of 1975. On the other hand, bond issues by the specialised credit institutions fell back by about approximately 34 per cent during the same period of 1976. The private banks, faced with a strong demand for credit, preferred to expand their credit to firms rather than take up bonds of the specialised credit institutions; the need of firms and private individuals for liquid funds deterred them from buying these bonds, too. In all, net share and bond issues during the first ten months of 1976 were some 24 per cent lower than in the same period of 1975.

## IV FORECASTS FOR 1977 AND PROBLEMS OF ECONOMIC POLICY

### *The outlook for 1977*

The outlook for 1977 is subject to great uncertainties concerning mainly the interpretation of the most recent short-term developments and the assessment of the effect of economic policy, namely the stabilisation programme of October 1976 and the measures taken at the beginning of 1977. Before presenting the short-term prospects, it is necessary to point out the nature of the most recent measures which are intended to deal with the major disequilibria of the Italian economy.

At the end of January 1977, an agreement was reached between the social partners. The main provisions of this agreement, which covers only the industrial sector, concern: the elimination of some holidays; labour mobility within the enterprise—which had declined sharply over the last few years because of very rigid job descriptions; better control of absenteeism, which is particularly high in Italy; and, finally, the end of indexation of severance payments[50]. Furthermore, the Government decided to partially budgetise social security contributions as from February 1977. This will apply only for industry and will mean a reduction in monthly contributions by enterpreneurs of 14 000 lire per employee which will become 24 500 lire as of May 1977. According to official estimates, this amounts to a reduction of 2.8 and 5 per cent of labour costs respectively. The corresponding Government payments to social security institutions shall be financed by an increase in VAT on non-food products and by raising the price of energy products, exclusive of petrol, which should increase fiscal receipts by 1 000 and 400 billion lire respectively during the twelve-month period 1st February 1977 to 31st January 1978. The Government also announced that price increases arising from these changes in VAT and tariffs shall not be taken into account when cost-of-living compensation is computed. The decrees containing these decisions are immediately applicable but have to be ratified by Parliament within two months. Enterprises which grant, in plant-level negotiations, wage and salary rises beyond those agreed to in national collective bargaining shall not benefit from this budgetisation. In addition, wage increases in excess of the national norms will be considered as enterprise profits for tax purposes. According to government estimates, the overall effect of these measures will be to moderate in 1977 the rate of increase of wage costs in industry from a previous annual trend of 28 per cent to 16 per cent.

50 Cf. note 11 to p. 15.

The Italian experts had formulated in December a forecast for 1977 which was very close to that of the Secretariat[51]. According to this forecast, the stabilisation programme of October 1976 should bring about a fall in real domestic demand and a surplus on the current balance of payments in 1977. Private consumption should decline somewhat in volume terms, after having grown appreciably in 1976. Taking into account the assumptions made on the development of wages and especially on the increase of fiscal pressure, this moderate decline would imply a new decrease in the household saving ratio. It seemed likely that the expected weakness of total demand, the important excess capacity in the economy, the tight credit policies and very high rates of interest would all lead to a considerable fall in investment. The main factor likely to sustain economic activity would be exports for which the official forecast assumed a growth similar to that of foreign demand. For the year as a whole, GDP was expected to stagnate in volume terms and imports to decrease slightly. Finally, although price increases would remain rapid (with an annual average rise of consumer prices of about 20 per cent), the forecast in fact implied a distinct deceleration of inflation in the course of the year.

Table 14 **Forecasts for 1977 prepared by the Italian Experts**

| | Percentage changes in volume[1] | | |
|---|---|---|---|
| | 1975 | 1976[2] | 1977[3] |
| Private consumption | −1.8 | 3.5 | −0.5 |
| Public consumption | 0.8 | 2.0 | 1.0 |
| Gross fixed capital formation | −12.7 | 0.3 | −4.0 |
| Final domestic demand | −3.9 | 2.6 | (−1.0) |
| *Plus* change in stockbuilding[4] | −3.0 | 2.2 | |
| *Plus* change in foreign balance[4] | 3.3 | 0.1 | (+2.2) |
| GDP at market prices | −3.7 | 5.0 | 0 |
| GDP implicit price deflator | 17.5 | 16.3 | 20.9 |

1 1975 prices.
2 Secretariat estimates.
3 Preliminary forecasts of Italian experts and OECD Secretariat
4 As a percentage of GDP.
*Sources:* Documents supplied by the Italian authorities, and OECD Secretariat.

These forecasts seem now very uncertain. In the first place there are difficulties in assessing the degree of restrictiveness of economic policy and its effects in 1977. It would appear that the introduction of restrictive policies has not prevented a marked recovery of activity at the end of 1976. Furthermore, it is difficult to evaluate the effect of the agreement between the social partners and of the partial budgetisation of social security contributions. Finally, a reappraisal of economic policy will be held in summer. Another element of uncertainty concerns the interpretation of the most recent conjunctural tendencies: the indicators available show that the level of production at the end of 1976 was distinctly higher than expected; and the latest business surveys suggest that this level could be maintained in the next few months. Ceteris paribus, the higher "carry-over" at the beginning of 1977 would entail a moderate growth of GDP for the year as a whole, instead of the stagnation predicted in the earlier forecasts. If such growth were essentially due to a more buoyant development of domestic

51 Cf. OECD, *Economic Outlook*, No. 20, pp. 98 et seq.

demand than was foreseen, the achievement of equilibrium in the current balance of payments might be retarded. But the major uncertainty concerns the development of prices and wages. In February, very large wage increases were due under the indexation system—partly owing to the quarterly adjustment to cost-of-living increases and partly to the final stage of the 1975 agreements under which the indexation rules of many sectors were unified to conform with the most generous prevailing standards. The recent policy measures were aimed precisely at slowing down the wage-price spiral, but it is difficult to assess their quantitative impact. With inflation exceeding recently an annual rate of 20 per cent and the widespread use of indexation in the economy, there are elements of instability in the system which make the usual technical assumptions of economic forecasting (notably stable exchange rates and unchanged policies) questionable.

*Conclusions: The problems of economic policy*

There are important immediate steps which have to be taken by Italy if national and international efforts to cope with the economy's present acute problems are to succeed. These are summarised in pp. 43 and 44. But there are also more fundamental imperatives to be observed if Italy is to return to the mainstream of economic progress. Bold policies to arrest the immediate crisis must not be allowed to go to waste by subsequent failure to correct the more basic disequilibria from which the economy is suffering. In drawing conclusions from its Annual Survey of the Italian economy, therefore, the Economic and Development Review Committee of the OECD finds it important to put its immediate recommendations into a wider framework.

At the beginning of 1977, the economic situation in Italy is still precarious. There is widespread agreement in the country on the need for an effective stabilisation programme, and important measures of fiscal and monetary restraint have already been adopted. However, at the time of writing, no agreed lasting solution had emerged on a fundamental component of the Government's stabilisation policy—an efficient method of breaking the spiral of prices and incomes which the existing system of wage indexation is exacerbating. The sacrifices implied by the inevitable measures of restraint—stagnation of production, deterioration of the employment situation and a decline in productive investment—risk being of no avail if inflation of the order of 20 per cent per annum persists much longer. Drastic stabilisation policies are ineluctable in present circumstances to avoid the danger of mutually reinforcing domestic inflation and further depreciation of the currency and the risk that the improvement of the balance of payments resulting from depressed domestic demand may be only temporary. But given the nature of the disequilibria that have developed over many years, these alone will not suffice to bring the economy back to a path of balanced growth. Some brief reference to past economic developments may help to illustrate the complexity of the tasks with which policy is now faced.

This is not the first time in recent years that external disequilibrium has required the brakes to be put on at a relatively early stage on an upswing. The strong recovery of 1973 which, unlike the 1975-1976 recovery, reflected a substantial increase of investment, was cut short by fiscal and monetary restraint in 1974 because of a large external deficit. The current account balance achieved in 1975—essentially due to the sharp decline in imports—was seen at the time to be fragile[52]. The recovery that started in late 1975 and continued in 1976 was a basic cause of a new external deficit on current account and very strong

52 Cf. the OECD Survey published in January 1976, p. 36.

pressure on the exchange rate. Once again, therefore, restrictive policies, including certain measures of an emergency nature, have had to be introduced. And the situation is even more difficult than previously, if only because of the accumulated foreign debt.

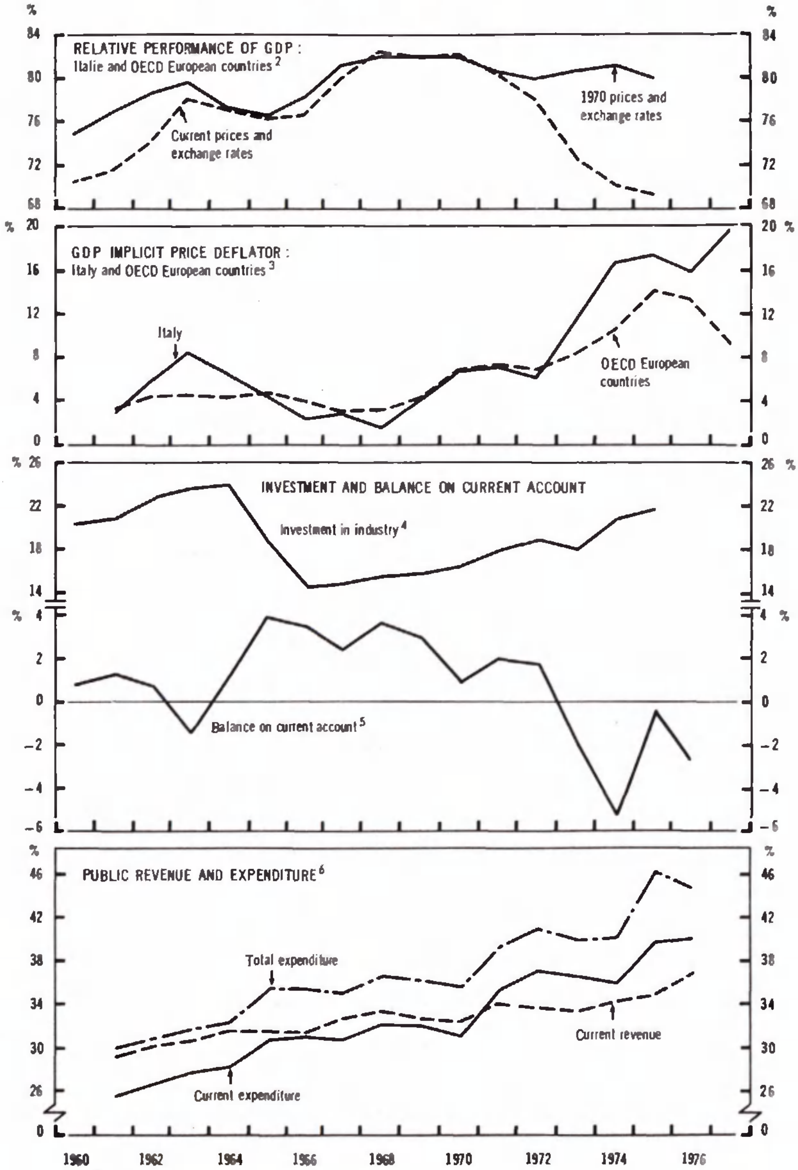
The increased vulnerability of the economy during the 1970s was partly the result of external developments. The sharp increases of world commodity prices from 1972 and of oil at the end of 1973 had a particularly big impact on an economy where post-war industrial development had largely been based on imports of comparatively cheap raw materials and fuel. And the effects of the 1974-1975 world recession on a country whose balance of payments had just received these massive shocks were particularly severe. But domestic sources of imbalance had also been maturing over a long period, contributing to the gradual deterioration of the country's relative economic situation. Some 10 to 15 years ago, Italy's performance in terms of export growth and inflation was relatively good and the current account of the balance of payments was in persistent surplus. And up to the late 1960s, trends of production, productivity and national income were probably better in Italy than in many other European countries. In recent years, however, the recurrent external deficits which interrupted growth have been accompanied by an inflation rate that has been among the worst in all Member countries, and in virtually all respects Italy's comparative performance has deteriorated.

The pattern of growth recorded during most of the 1960s was unsustainable in the long term and economic policy was not fully consistent with the economy's development needs, partly because of the lack of appropriate instruments. For a long time Italy was producing less than could be obtained with a reasonably full utilisation of resources and was using for domestic needs less than it produced[53]. Although the current external account was in surplus and the currency very strong, the economy was gradually weakening. Productive investment as a share of GDP was relatively low for a sustained period, and as time went on this weakened the structure of exports, which ceased to respond promptly enough to changes in the pattern of world demand. Employment creation in the more productive sectors of the economy was insufficient and the adjustment of the labour market largely took the form of an exceptionally sharp fall in participation rates and the development of other forms of disguised unemployment[54]. Fiscal policy failed to promote an adequate growth or pattern of production and domestic demand, or to provide the basic infrastructure and social services required by rapid urbanisation and other economic and social transformations. Monetary policy was often more restrictive than was called for by the state of demand pressure because it was constrained, as indeed it has been recently, by sizeable outflows of private capital which in part reflected non-economic factors. Serious strains like the massive strike movements of 1969 emerged well before the international upheavals of 1972 and subsequent years affected the economy.

During the long period of unbalanced growth, rigidities and distortions developed which now seriously impede effective management of the economy. And in the face of spreading distortions there was a progressive "fragmentation" of economic policy which often sought partial and ad hoc solutions to general economic problems. An important area of underlying imbalance is that of public finance. The large budget deficits of recent years have partly reflected cyclical factors. More serious problems lie in the composition of revenue and expenditure and insufficient control of public sector transactions, especially outside the central

53 Cf. the Government's *Forecasting and Programming Report* of October 1968.
54 Cf. the special Annex to the OECD Survey of 1972.

*Diagram 12* **Selected medium-term indicators**




1 The conceptual and statistical limitations of international comparisons of GDP levels and changes are well known. The first two curves in Diagram 12 give only a rough picture of probable developments. The "real" GDP series are significant in some respects even though the constant price and exchange rate estimates should be interpreted with caution, particularly as regards periods during which the terms of trade show considerable changes. Comparisons of GDP at current prices are also rather unsatisfactory but they do shed some light on certain important aspects of recent trends.

2 Per capita GDP of Italy in relation to OECD European countries.

3 Annual rates of growth.

4 As a percentage of value added in the sector at factor cost and current prices.

5 As a percentage of GDP.

6 As a percentage of GDP at current prices.

*Sources:* ISTAT, ISCO and OECD Secretariat.

government. A rising trend of expenditure by general government in relation to GDP is, of course, a feature general to most OECD countries. But a special problem in Italy has been the failure of tax revenue to show a corresponding rise, because the tax system was antiquated and evasion widespread. The important tax reforms introduced in the 1970s have already produced substantial results and explain, to a large extent, the sharp increase of government revenue in recent years. But tax collection and control need to be improved quickly if the potential benefits from the reforms are to be fully realised.

Expenditure by the public sector, however, has also increased rapidly as a percentage of GDP, and measures to correct this trend seem necessary both from a short and medium-term point of view. Moreover, the composition of public expenditure remains a matter for major concern. In the past, when the general government account was in current surplus, large amounts of public capital expenditure were authorised. But implementation was substantially delayed and unspent commitments piled up because of organisational difficulties in the public administration which seem still to persist. Today, a large and growing proportion of expenditure is devoted to current administration and to transfers and loans designed to cover the deficits of local government, social security institutions and State-owned enterprises. Thus, public expenditure has come preponderantly to serve welfare needs and to perpetuate loss-making production units, providing little direct or indirect contribution to raising the economy's productivity and to sustainable job creation. A related problem is the inadequacy of existing methods for the planning and control of expenditure. Legal procedures make it extremely difficult for Parliament to form a global view even of the central government budget. The recent decision of the Government to present forecasts of actual[55] revenue and expenditure, with periodic revisions in the course of the year, is an important step towards the clarification of the budget situation. But there are more intractable problems concerning the finances of local government and the complex network of social security institutions. Present plans to improve collection of information in this area and control of disbursements to these institutions need to be applied vigorously if the central government is to regain overall control of public finance.

The size of the public sector deficit makes it very difficult for the monetary authorities to keep domestic liquidity under control. On the other hand, there has been a mushroom growth of special arrangements and rules in the field of credit and financial intermediation in general. Credit on favourable conditions (including subsidised interest rates of around 7 per cent at a time when the commercial banks' prime rate is about 20 per cent) has been provided for an increasing number of special categories of borrowers—mainly by the special credit institutions which issue bonds that the commercial banks are obliged to purchase in amounts specified by the Bank of Italy. Moreover, special developments in the field of credit can reduce the effectiveness of certain quantitative policy targets, including the Treasury's borrowing requirement. For example, no good purpose is served—as has happened in the past—by reducing budget transfers to local authorities (and thus diminishing the "borrowing requirement") if their deficits persist and are simply financed by the banking system, with the Treasury and the Central Bank sooner or later stepping in to "consolidate" the accumulated debts. A solution can only come from basic reforms of local government finance. In a general sense, selective credit policies—as well as extensive budget subsidies—are common practice in most Member countries. But their prevalence in Italy may be creating excessive rigidities in the economic

55 I.e. on a cash basis, in addition to the legal presentation of "commitments" which can be submitted for approval piecemeal throughout the year and give no clear indication of the probable timing of the expenditures authorised.

system: special ad hoc treatment for too many sectors can stultify efforts to satisfy the longer-term development needs and priorities of the national economy.

Growing rigidities and distortions in the pattern of employment and labour costs have, perhaps, been of fundamental importance. The mobility of the labour force between sectors and firms seems to have diminished for many reasons including the defensive attitudes of employees in the face of continued low job creation in the advanced sectors of the economy. These attitudes have also encouraged the spread of restrictive labour practices with unfavourable effects on productivity. At the same time, labour costs have tended to rise considerably and to become, to some extent, unpredictable. Apart from their overall trend—which has to a large extent been "offset" by inflation—there are important problems of relative movements in individual sectors and regions. Since the early 1970s, regional differentials between basic wage rates have been abolished in collective wage agreements. More recently, the rules governing cost-of-living indexation in many individual sectors have been unified upwards, so as to make them conform with the most generous prevailing standards. And within individual sectors of the economy there have been growing pressures to obtain in all firms the wages and benefits paid by those in the strongest financial situation. Such tendencies exist in many countries. But in Italy, with particularly great regional and sectoral discrepancies in productivity, their effects on employment and the viability of enterprises in the less advanced regions and sectors have probably been particularly nefarious. This, in turn, has encouraged the expansion of various forms of disguised unemployment—whether of the traditional type as in agriculture and small service establishments or of low-productivity jobs subsidised directly or indirectly by the budget. It may also have led to a significant increase in employment of workers outside factories at wages below the agreed norms and in breach of legal obligations for social security contributions and safety standards.

Turning now to the over-riding immediate problem of correcting the balance of payments disequilibrium and breaking the inflationary spiral, there is still an important gap in the otherwise impressive defence-works that Italy has recently erected. Last year's emergency measures to cope with the external deficit (the import deposit scheme and the tax on purchases of foreign currency) were no more than temporary stop-gaps, and are rightly being phased out as a more coherent and effective stabilisation programme starts to be applied. The programme comprises important measures of fiscal and monetary restraint and sets specific targets for the budget deficit, its monetary financing and the rate of domestic credit expansion in 1977. These measures probably imply an appreciable restraint on domestic demand in real terms, but this should be accompanied by an increase in the volume of net exports of goods and services. Implementation of so restrictive a policy will be a test of social cohesion, as its immediate effects may include a worsening of both the employment situation and the financial position of many firms. But postponement of unpalatable action would require even more drastic measures a little later on. The burden will, of course, be alleviated by the extent to which Member countries with better balances of payments and price performances ensure an adequate growth of world trade. But, as in the case of other countries in weak positions, of which there are several at the moment, primary responsability for adjustment must rest with Italy.

It is clear that the stabilisation programme cannot consist solely of demand management measures. In present circumstances, direct action to break the pernicious spiral of nominal incomes and prices must be considered to be of the essence. Discussions have taken place between the authorities and representatives of industry and labour to find a solution to the problem of rising labour costs.

The agreement of the social partners concluded in January provides for welcome changes of work rules in industry which will certainly increase productivity. It does not, however, change at all significantly the wage indexation system. And if the price-wage spiral continues it will sooner or later create new pressures on the exchange rate, even if real domestic demand is kept low. As the events of 1976 have demonstrated, a sharp depreciation of the currency exacerbates inflation. What has to be recognised is that average living standards cannot exceed available resources and that the average worker will not be better off if both wages and prices rise at the same very high rate. And rapid inflation will erode the real value of both his disposable income and his savings. There can be little doubt that the present widespread use of indexation in the economy greatly accelerates the propagation of inflationary impulses. And unless this process is effectively slowed down, the only way of achieving the necessary containment of domestic demand would be through extremely restrictive monetary and fiscal policies—with an unfortunate impact on investment and the level of future employment.

Some steps were taken very recently to limit the sharp rise of labour costs in industry and to dampen the automatic effect on wages of policy-induced price increases. The more important recent decision is a partial "budgetisation" of employers' social security contributions, to be financed mainly by increases in the value-added tax, which would normally tend to accelerate inflation still further. The authorities expect, however, this risk to be substantially reduced because of the choice of products to which the VAT increases apply and because of the decision that price rises resulting from the increased VAT rates will be excluded from the calculations of the sliding-scale for wages. The latter provision, subject to approval by Parliament within two months, constitutes an important innovation of principle but its short-term quantitative impact is uncertain. The intention is to review the effects of all these measures in the middle of 1977 and it would seem very desirable to prepare in the meantime more comprehensive and lasting solutions to the problem of the price-wage spiral.

Such comprehensive solutions will probably need to include more substantial amendments to the system of wage-indexation than those introduced so far. It is obvious that any important amendment or suspension of indexation clauses may result in some temporary decline in real hourly wages. But the same effect on the total real wage bill would almost certainly result, on a more discriminatory basis, from the present inflationary mechanism. In certain sectors —e.g. in public services—the indexation of salaries is less comprehensive than in industry; and many firms that cannot bear the soaring cost of labour would have to reduce employment. Moreover, if rapid inflation persists, fiscal drag will reduce the disposable income of wage and salary-earners more quickly than that of the self-employed, whose incomes are not fully assessed for tax purposes. Over the longer run, accelerating inflation and a depreciating currency will not spare any important social group.

Public discussion of Italy's economic prospects, both inside and outside the country, has recently tended to be excessively pessimistic. Some rather tough measures, in the short run, are necessary; and some important basic reforms are required if these tough measures are to be succeeded by longer-run success. But there is no valid reason for doubting that Italy's economic problems can be solved if the necessary internal consensus can be obtained. And international flanking support to adequate action by the Italian authorities to translate that consensus into effective action will certainly be forthcoming. It is not suggested that a protracted period of stagnation is incumbent upon the Italian economy, but only that the stabilisation programme, including probably more effective measures to arrest the inflationary spiral, should be applied with determination and espoused by the social partners. Given such a programme, the period of adjustment could be short and could soon enable economic growth to be resumed on a more enduring basis. When the economy is again growing at a reasonably fast rate and total employment in the productive sectors is increasing, it will naturally be easier to correct progressively the numerous existing distortions and to solve the country's medium-term structural problems. But action aimed at longer-term objectives can be initiated already; and this would probably help to obtain acceptance of the temporary austerity programme by broad sectors of society. Italy's medium-term problems make up a long list: the need to renovate large sectors of industry, expand productive investment and strengthen the pattern of exports; the backwardness of certain agricultural sectors; the large and persistent imbalances, especially between North and South; the problems of low-cost housing, urban planning and inadequate social infrastructures; basic reforms in public finance and in the functioning of the public administration; modernisation of company law and accounting rules and the improvement of the capital market, etc.

If effective measures are taken to bring inflation under control and progress in these areas begins, the balance-of-payments problem will be seen to be by no means insoluble. The fundamental requirement at present is to obtain social consensus for a coherent programme that includes the austerity temporarily inevitable but which also features action to support employment levels and promote investment, particularly in the worse-off regions and sectors. And in designing this programme, the fullest possible attention must be paid to the medium-term requirements of the Italian economy.

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*Annex*

# MAIN ECONOMIC POLICY MEASURES

## 1975

*2nd December*

Direct taxation is reduced to offset, in part, the effects of inflation, notably through adjustment of the tax scales and raising of the exemption limit for personal income tax. Firms are allowed henceforth to revalue their balance sheets: each asset can be revalued upwards by 40 per cent of the purchase value, or total assets revalued upwards by not more than 50 per cent of capital plus reserves.

*22nd December*

The time limits applying to deferred payments of exports and advance payment of imports are extended.

*24th December*

The minimum amount of fixed-income securities banks are required to hold is set at 30 per cent of the increase in their deposits during the period end-November to end-May 1976, securities being valued at their nominal worth.

## 1976

*21st January*

The official foreign exchange market is closed for and indefinite period.

*2nd February*

The discount rate and the rate on fixed-term and current account advances are raised from 6 to 7 per cent.

*4th February*

The banks' reserve ratio is raised from 15 to 15.75 per cent of the increase in their deposits since end-1975. In addition, banks are required to increase their cash reserves by an amount equal to 0.75 per cent of their total deposits at 31st December 1975. Payment is to be made in two stages (on 16th February and 15th March, 1976). The amount of cash frozen as a result is about 750 billion lire.

*4th February*

The time-limit for converting foreign currency from residents' foreign-currency accounts into lire is reduced from 60 to 15 days.

*25th February*

The discount rate is raised to 8 per cent.

*25th February*

The measures taken on 26th August, 1975 regarding refinancing by the Central Bank of short-term credits granted by banks to exporters are lifted.

*1st March*

The official foreign exchange market is re-opened.

*4th March*

Some infringements of the foreign exchange legislation are made criminal offences.

*4th March*

A system of self-taxation applicable to individuals when making their income tax returns is introduced. Taxpayers are required to pay income tax, calculated by themselves on 1975 income on which tax is not deducted at source, by 31st May 1976.

*15th March*

Under an agreement with the EEC, the increase in total domestic lending is limited to 29 500 billion lire in 1976, current expenditure of central government being limited to 39 700 billion lire, the Treasury's cash deficit to 13 800 billion and financing of the Treasury's deficit by the Bank of Italy to 5 700 billion lire in 1976.

*18th March*

The discount rate is raised to 12 per cent.

Tax measures:
- the rates of some taxes payable by producers (mineral oils, spirits, beer, etc.) and VAT (sugar and cocoa-based products, mineral waters, cars, etc.) are increased;
- stamp duty and some taxes on government concessions are raised;
- the deduction from interest on bank deposits is raised from 15 to 16 per cent, and banks are required to pay an instalment of one-third of the tax before 1st August each year.

Importers are once more required to finance advance payment of imports in foreign currency.

*7th April*

The reference interest rate for government subsidised credit is raised from 12.8 to 14.55 per cent.

*30th April*

The preferential export credit fund is increased by 600 billion lire.

*2nd May*

A law is passed providing for "exceptional intervention in respect of the Mezzogiorno during the period 1976-1980" by means of an allocation of 14 500 billion lire to the Cassa per il Mezzogiorno, of which 950 billion lire in 1976.

*5th-7th May*

A prior deposit requirement on foreign currency purchases is introduced: all purchasers are required to deposit 50 per cent of the value of the transactions for a period of 90 days in a non-interest-bearing account with the Bank of Italy. Very few exceptions are made. The deposit requirement was renewed in July 1976 until November and then, at decreasing rates, until April 1977.

Exporters who were allowed terms of payment of up to 4 months are required to obtain financing in foreign currency from Italian Banks to the extent of 30 per cent of the amount of the credit granted.

*4th June*

The minimum amount of fixed-term securities the banks are required to hold is raised from 30 to 42 per cent of the increase in their deposits during the period end-May—end-November 1976. Securities are valued at their nominal worth. The reference interest rate for government interest subsidies is raised from 14.55 to 15.45 per cent.

*10th August*

Law No. 159-689 on capital held abroad: the time limit for declaring capital owned abroad by residents and assets held in Italy by non-residents is extended to 19th November 1976. A further extension to 3rd December, 1976 was decided on in November.

*18th September*

An exceptional surtax ("una tantum") on motor vehicles is introduced (yielding about 300 billion lire) and taxes on pools and lotteries are increased (yielding about 40 billion lire) to meet exceptional expenditure necessitated by the Friuli earthquake.

*28th September*

The obligation on importers to make a quarterly deposit in a non-interest-bearing account is further extended to 15th April, 1977. The rate of the prior deposit on foreign currency purchases is reduced from 50 to 45 per cent with effect from 15th October, 1976, to 40 per cent from 30th November, 1976, to 25 per cent from 15th January, 1977 and to 10 per cent from 28th February to 14th April, 1977.

Banks' compulsory reserves are increased by 0.50 per cent (about 500 billion lire) of deposits outstanding at 30th June, 1976. Payment is required by 15th October.

*30th September*

The compulsory financing in foreign currency of short-term export credits with deferred payment is increased from 30 to 50 per cent (measure introduced on 7th May 1976).

*1st October*

A 10 per cent tax on purchases of foreign currency is introduced for a two-week period (until 15th October).

Tobacco prices are raised (estimated yield 160 billion lire).

*4th October*

The discount rate is raised from 12 to 15 per cent (last increase 18th March, 1976).

*8th October*

The Council of Ministers adopts a series of austerity measures designed to hold down domestic demand providing, among other things, for:

— an increase in the price of high-octane petrol from 400 to 500 lire per litre and an increase in the price of methane (yield: approximately 1 200 billion lire);
— an increase in postal charges (yielding about 140 billion lire);
— an increase of about 10 per cent in railway rates from 1st December, 1976 (yield: about 70 billion lire);
— a forced loan subscription: wage increase due under indexation to be wholly blocked in respect of wage-earners with incomes higher than 8 million lire per annum, and partly blocked (50 per cent) for those with incomes of between 6 and 8 million lire per annum, the amounts involved being payable in the form of medium-term government securities not negotiable for a period of five years:
— the abolition of five public holidays on religious festivals, and the moving of two national holidays to Sunday, a single continuous holiday period being granted to compensate for the holidays thus made into working days.

*11th October*

The tax base with regard to income from real estate in 1976 revalued, yielding about 200 billion lire.

*15th October*

As part of the agreements made with the EEC concerning growth of domestic lending in 1976, ceilings are set on the growth of bank credit whereby the increase over the June 1976 level must not exceed 7 per cent at end-November 1976, 11 per cent at end-December 1976, 10 per cent at end-January 1977, 11 per cent at end-February 1977 and 11 per cent at end-March, 1977.

*22nd October*

A second set of measures to reduce growth of demand is announced:

— an increase of about 20 per cent in electricity charges (yield: about 850 billion lire);
— an increase of about 25 per cent in telephone charges (yield: about 400 billion lire of which about 100 billion lire for the central government);
— the reintroduction until 18th February, 1977 of a 7 per cent tax on all purchases of foreign currency with a subsequent progressive reduction in the rate.

*29th October*

Prices of some oil products other than petrol are increased (yielding about 600 billion lire, the greater part of which is passed on to the oil companies).

*15th November*

The banks are required to pay one-third of the deduction from interest paid on deposits before 1st December, and it is confirmed that they will be required to pay a further one-third before 1st August (decision of 18th March).

*18th November*

A third series of measures designed to reduce growth of demand:

- the due date from payment of tax on non-wage incomes is brought forward, so that the tax which would have been payable in 1978 on income received in 1977 will have to be paid, to the extent of 75 per cent, in September 1977, this being expected to increase tax revenue in 1977 by 1 500 billion lire (of which 800 billion lire from self-employed workers and 700 billion lire from corporate enterprises);
- stamp duty and the duty on government concessions is increased (yielding about 500 billion lire).

*16th December*

An agreement is reached between trade unions and Government on renewal of civil servants' contracts (involving about 900 billion lire in 1976-1977 and 1 200 billion lire in 1978).

*23rd December*

Foreign exchange market: the tax on foreign currency purchases, reintroduced on 22nd October, is lowered from 7 to 3.50 per cent with effect from 27th December; there are to be weekly reductions of 0.50 per cent beginning 3rd January, 1977, and the tax is to be abolished with effect from 13th February, 1977.

The rent freeze, already extended on 13th May until 31st December, 1976 is renewed until 31st March, 1977.

**1977**

*11th January*

A further increase of about 20 per cent is made in railway rates with effect from 1st March, 1977.

Previous increases: May 1975 (+30 per cent), July 1975 (+10 per cent), December 1976 (+10 per cent).

*STATISTICAL ANNEX*

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## Table A **National Accounts**

Expenditure and Output

*Billion lire*

| | Current prices | | | | | 1970 prices | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1971 | 1972 | 1973 | 1974 | 1975 | 1971 | 1972 | 1973 | 1974 | 1975 |
| **Expenditure:** | | | | | | | | | | |
| 1 Household consumption | 40 836 | 45 007 | 53 457 | 65 833 | 75 879 | 38 592 | 39 920 | 42 265 | 43 304 | 42 519 |
| 2 Public consumption | 9 088 | 10 267 | 11 754 | 14 012 | 15 542 | 7 916 | 8 315 | 8 525 | 8 707 | 8 776 |
| 3 Gross domestic fixed capital formation | 12 793 | 13 624 | 17 156 | 22 831 | 23 807 | 11 949 | 12 068 | 13 077 | 13 555 | 11 827 |
| *of which:* Construction | 7 622 | 8 051 | 9 668 | 12 745 | 13 877 | 7 217 | 7 231 | 7 413 | 7 506 | 6 832 |
| Machinery and equipment | 5 171 | 5 573 | 7 488 | 10 086 | 9 930 | 4 732 | 4 837 | 5 664 | 6 049 | 4 995 |
| 4 Change in stocks | 432 | 449 | 2 635 | 2 711 | −1 374 | 358 | 352 | 1 718 | 1 273 | −557 |
| 5 Exports of goods and services | 11 142 | 12 712 | 15 241 | 22 871 | 26 287 | 10 700 | 11 931 | 12 382 | 13 622 | 14 043 |
| 6 *less:* Imports of goods and services | 11 235 | 12 979 | 18 100 | 29 019 | 27 783 | 10 679 | 11 897 | 13 142 | 13 408 | 12 063 |
| 7 GDP at market prices | 63 056 | 69 080 | 82 143 | 99 239 | 112 358 | 58 836 | 60 689 | 64 825 | 67 053 | 64 545 |
| **Output:** | | | | | | | | | | |
| 1 Agriculture, forestry and fishing | 5 299 | 5 403 | 7 006 | 8 139 | 9 568 | 5 148 | 4 767 | 5 101 | 5 202 | 5 330 |
| 2 Manufacturing, mining and public utilities | 21 012 | 22 924 | 27 853 | 34 232 | 36 855 | 19 686 | 20 531 | 22 654 | 23 768 | 21 570 |
| 3 Construction | 5 025 | 5 342 | 6 254 | 8 169 | 9 223 | 4 676 | 4 718 | 4 861 | 4 954 | 4 546 |
| 4 Services, private sector[1] | 23 322 | 26 102 | 29 454 | 34 291 | 41 019 | 21 760 | 22 754 | 23 890 | 24 613 | 24 663 |
| 5 Public administration | 7 230 | 8 159 | 9 454 | 11 123 | 12 523 | 6 369 | 6 607 | 6 839 | 7 005 | 7 099 |
| 6 Import duties | 1 168 | 1 150 | 2 122 | 3 285 | 3 170 | 1 197 | 1 312 | 1 480 | 1 511 | 1 337 |
| 7 GDP at market prices | 63 056 | 69 080 | 82 143 | 99 239 | 112 358 | 58 836 | 60 689 | 64 825 | 67 053 | 64 545 |

1 Less imputed bank services.

*Source:* Relazione Generale 1975.

Table B **Quarterly National Accounts**

*Billion lire, 1970 prices*

| | 1974 | | | | | 1975 | | | | | 1976 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | I | II | III | IV | Year | I | II | III | IV | Year | I | II | III |
| 1 GDP at market prices[1] | 16 958 | 17 016 | 16 732 | 16 347 | 67 053 | 16 204 | 16 032 | 15 921 | 16 388 | 64 545 | 16 790 | 17 047 | 17 124 |
| *of which:* Agriculture | 1 317 | 1 282 | 1 273 | 1 330 | 5 202 | 1 345 | 1 325 | 1 288 | 1 372 | 5 330 | 1 372 | 1 330 | 1 330 |
| Industry (including energy sector) | 6 093 | 6 181 | 5 930 | 5 564 | 23 768 | 5 494 | 5 322 | 5 258 | 5 496 | 21 570 | 5 785 | 5 960 | 5 995 |
| Construction | 1 250 | 1 251 | 1 237 | 1 216 | 4 954 | 1 183 | 1 157 | 1 103 | 1 103 | 4 546 | 1 114 | 1 142 | 1 125 |
| Services | 6 693 | 6 701 | 6 659 | 6 594 | 26 647 | 6 640 | 6 661 | 6 679 | 6 768 | 26 748 | 6 876 | 6 972 | 7 042 |
| 2 Imports of goods and services | 3 401 | 3 286 | 3 390 | 3 331 | 13 408 | 2 768 | 2 842 | 2 959 | 3 494 | 12 063 | 3 450 | 3 430 | 3 262 |
| 3 Exports of goods and services | 3 259 | 3 282 | 3 490 | 3 591 | 13 622 | 3 271 | 3 424 | 3 450 | 3 898 | 14 043 | 3 670 | 3 834 | 4 031 |
| 4 Total domestic demand | 17 100 | 17 020 | 16 632 | 16 087 | 66 839 | 15 701 | 15 450 | 15 430 | 15 984 | 62 565 | 16 570 | 16 643 | 16 355 |
| *of which:* Investment in machinery and equipment | 1 552 | 1 573 | 1 519 | 1 405 | 6 049 | 1 290 | 1 231 | 1 216 | 1 258 | 4 995 | 1 270 | 1 270 | 1 280 |
| Investment in construction | 1 899 | 1 898 | 1 873 | 1 836 | 7 506 | 1 782 | 1 741 | 1 655 | 1 654 | 6 832 | 1 670 | 1 712 | 1 687 |
| Consumption plus stocks | 13 649 | 13 549 | 13 240 | 12 846 | 53 284 | 12 629 | 12 478 | 12 559 | 13 072 | 50 738 | 13 630 | 13 661 | 13 388 |

1 Including import duties.

*Sources:* Relazione Generale 1975 and ISCO.

## Table C **Price Indices**

*1970 = 100*

| | 1973 | 1974 | 1975 | 1975 | | | | 1976 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | I | II | III | IV | I | II | III |
| **Wholesale prices**[1]: | | | | | | | | | | |
| Agricultural products | 143.4 | 168.2 | 186.3 | 178.2 | 184.4 | 187.5 | 195.0 | 212.6 | 228.5 | 232.8 |
| Non-agricultural products | 122.9 | 178.8 | 193.4 | 192.3 | 191.4 | 192.9 | 197.1 | 209.3 | 235.1 | 245.5 |
| Investment goods | 127.2 | 177.9 | 191.4 | 190.3 | 191.5 | 191.6 | 192.2 | 204.9 | 228.6 | 238.9 |
| Consumer goods | 125.8 | 159.1 | 174.7 | 171.1 | 172.1 | 175.0 | 180.4 | 192.4 | 211.4 | 221.7 |
| Intermediate goods | 123.7 | 274.0 | 290.4 | 293.2 | 286.5 | 285.6 | 296.4 | 314.9 | 369.9 | 373.4 |
| *General index* | 125.9 | 177.2 | 192.4 | 190.2 | 190.4 | 192.1 | 196.8 | 209.8 | 234.1 | 243.6 |
| **Consumer prices**: | | | | | | | | | | |
| Food products | 123.9 | 145.9 | 172.2 | 165.6 | 170.4 | 173.9 | 178.7 | 186.8 | 198.7 | 203.7 |
| Non-food products | 122.5 | 156.1 | 178.9 | 174.9 | 176.2 | 179.4 | 184.9 | 191.0 | 206.0 | 212.5 |
| Services | 121.3 | 136.0 | 160.5 | 152.2 | 159.8 | 162.7 | 167.4 | 175.3 | 182.8 | 187.9 |
| *General index* | 122.8 | 146.3 | 171.1 | 164.9 | 169.4 | 172.6 | 177.6 | 185.0 | 196.7 | 202.2 |
| **Consumer prices for working class families**[2]: | | | | | | | | | | |
| Food | 123.2 | 145.7 | 172.5 | 165.9 | 170.5 | 174.3 | 179.3 | 186.6 | 198.7 | 203.3 |
| Clothing | 127.5 | 150.4 | 173.4 | 167.6 | 171.6 | 173.1 | 181.3 | 186.2 | 196.2 | 203.4 |
| Housing | 111.9 | 116.2 | 131.3 | 127.0 | 130.5 | 132.7 | 134.9 | 137.0 | 143.3 | 148.3 |
| *General index* | 122.4 | 146.2 | 171.3 | 164.9 | 169.3 | 172.9 | 178.1 | 184.8 | 196.5 | 201.7 |

1 New series from January 1973, not comparable with the preceding series because of the different incidence of fiscal factors.
2 Previously "cost-of-living index".

*Source:* ISTAT.

## Table D Employment[1]

*Thousands*

| | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1975 | | | | 1976 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Jan. | April | July | Oct. | Jan. | April | July | Oct. |
| A LABOUR FORCE, TOTAL | 19 266 | 19 302 | 19 254 | 19 028 | 19 168 | 19 458 | 19 650 | 19 549 | 19 436 | 19 797 | 19 817 | 19 342 | 19 615 | 20 379 | 20 097 |
| Total in % of population | 36.8 | 36.6 | 36.2 | 35.5 | 35.5 | 35.7 | 35.7 | 35.6 | 35.4 | 36.0 | 35.9 | 35.0 | 35.5 | 36.8 | 36.3 |
| 1 Employment | | | | | | | | | | | | | | | |
| Dependent employment | 12 591 | 12 830 | 12 981 | 12 988 | 13 239 | 13 620 | 13 802 | 13 812 | 13 618 | 13 862 | 13 914 | 13 621 | 13 845 | 14 241 | 14 112 |
| Independent employment | 6 020 | 5 863 | 5 664 | 5 343 | 5 261 | 5 278 | 5 194 | 5 134 | 5 151 | 5 287 | 5 204 | 5 040 | 5 077 | 5 362 | 5 208 |
| Total employment | 18 611 | 18 693 | 18 645 | 18 331 | 18 500 | 18 898 | 18 996 | 18 946 | 18 769 | 19 149 | 19 118 | 18 661 | 18 922 | 19 603 | 19 320 |
| *of which:* Underemployed | 275 | 250 | 311 | 278 | 283 | 303 | 446 | 569 | 502 | 349 | 367 | 476 | 343 | 334 | 364 |
| 2 Unemployment | | | | | | | | | | | | | | | |
| Unemployed (excluding school leavers) | 304 | 269 | 279 | 262 | 248 | 194 | 246 | 248 | 251 | 234 | 253 | 248 | 256 | 260 | 257 |
| School leavers | 351 | 340 | 330 | 435 | 420 | 366 | 408 | 355 | 416 | 414 | 446 | 433 | 437 | 516 | 520 |
| Total unemployment | 655 | 609 | 609 | 697 | 668 | 560 | 654 | 603 | 667 | 648 | 699 | 681 | 693 | 776 | 777 |
| Total in % of labour force | 3.4 | 3.2 | 3.2 | 3.7 | 3.5 | 2.9 | 3.3 | 3.1 | 3.4 | 3.3 | 3.5 | 3.5 | 3.5 | 3.8 | 3.9 |
| B OTHER POPULATION | 33 110 | 33 469 | 33 870 | 34 520 | 34 813 | 35 083 | 35 317 | 35 312 | 35 481 | 35 159 | 35 317 | 35 901 | 35 659 | 34 973 | 35 336 |
| C TOTAL PRESENT POPULATION | 52 376 | 52 771 | 53 124 | 53 548 | 53 981 | 54 541 | 54 967 | 54 861 | 54 917 | 54 956 | 55 134 | 55 243 | 55 274 | 55 352 | 55 433 |

1 Estimates of national aggregates extrapolated from quarterly sample surveys.
*Sources:* ISTAT and Relazione Generale 1975.

## Table E **Wages and Salaries**[1]

| | 1973 | 1974 | 1975 | 1974 III | 1974 IV | 1975 I | 1975 II | 1975 III | 1975 IV | 1976 I | 1976 II | 1976 III |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Excluding family allowances* | | | | | | | | | | | |
| I INDICES OF WAGES AND SALARIES | | | | | | | | | | | | |
| A *Minimum contractual wage rates:* | | | | | | | | | | | | |
| 1 Agriculture | 248.8 | 328.0 | 435.4 | 344.7 | 375.1 | 406.8 | 427.8 | 444.3 | 462.6 | 111.7 | 117.9 | 127.8 |
| 2 Industry | 212.3 | 255.0 | 326.4 | 262.3 | 277.4 | 308.1 | 324.9 | 333.5 | 339.0 | 106.3 | 116.4 | 127.0 |
| *of which:* Manufacturing | 222.0 | 271.8 | 344.3 | 279.0 | 291.4 | 324.4 | 342.8 | 351.9 | 358.2 | 106.6 | 115.7 | 128.0 |
| Construction | 197.5 | 229.4 | 300.6 | 237.2 | 257.6 | 284.7 | 299.0 | 307.1 | 311.3 | 105.4 | 118.1 | 125.1 |
| 3 Transport | 173.1 | 219.6 | 255.3 | 221.7 | 226.4 | 240.9 | 251.7 | 262.4 | 266.2 | 109.9 | 116.8 | 125.2 |
| 4 Commerce | 197.7 | 245.3 | 320.6 | 256.9 | 267.6 | 300.4 | 316.6 | 329.9 | 335.4 | 111.6 | 115.7 | 121.8 |
| B *Minimum contractual salaries:* | | | | | | | | | | | | |
| 1 Industry | 185.9 | 216.0 | 266.4 | 220.6 | 231.0 | 252.7 | 265.1 | 271.6 | 276.3 | 106.8 | 114.4 | 121.2 |
| 2 Commerce | 188.6 | 230.2 | 294.0 | 240.7 | 250.5 | 277.1 | 290.6 | 301.6 | 306.6 | 108.3 | 111.9 | 117.5 |
| 3 Public administration | 151.8 | 157.1 | 168.0 | 157.1 | 157.1 | 164.4 | 164.4 | 171.5 | 171.5 | | | |

| | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 |
|---|---|---|---|---|---|---|---|
| | *Including family allowances* | | | | | | |
| II HOURLY WAGE EARNINGS (in lire) | | | | | | | |
| Industry[2] | 675 | 819 | 957 | 1 082 | 1 324 | 1 687 | 2 166 |
| *of which:* Construction | 678 | 807 | 905 | 986 | 1 184 | 1 492 | 1 893 |

1 Indices: 1966=100 up to 1975; 1975=100 from 1976.
2 Firms covered by the Ministry of Labour survey.
*Sources:* ISTAT and Relazione Generale 1975.

Table F **Public Sector Accounts**
(*a*) Central Government[1]
*Billion lire, current prices*

| | | 1971 | 1972 | 1973 | 1974 | 1975 |
|---|---|---|---|---|---|---|
| 1 | Tax revenue | 9 791 | 10 565 | 12 684 | 16 458 | 18 273 |
| 2 | Other current receipts | 2 021 | 2 184 | 2 529 | 3 203 | 5 442 |
| 3 | Total current receipts | 11 812 | 12 749 | 15 213 | 19 661 | 23 715 |
| 4 | Current expenditure on goods and services | 6 204 | 6 810 | 7 827 | 9 534 | 10 562 |
| 5 | Subsidies, current transfers and depreciations | 6 512 | 7 385 | 10 320 | 11 410 | 15 751 |
| 6 | Total current expenditure | 12 716 | 14 195 | 18 147 | 20 944 | 26 313 |
| 7 | Net current saving | −904 | −1 446 | −2 934 | −1 283 | −2 598 |
| 8 | Depreciation allowances and capital account receipts | 420 | 455 | 427 | 780 | 520 |
| 9 | Gross investment | 1 053 | 1 170 | 1 229 | 1 715 | 2 092 |
| 10 | Capital transfers | 879 | 857 | 1 047 | 1 696 | 3 963 |
| 11 | Financing needs: overall surplus = (—) | 2 416 | 3 018 | 4 783 | 3 914 | 8 133 |

1 Excluding central autonomous institutions.
*Source:* Relazione Generale 1975.

(*b*) Local Authorities
*Billion lire, current prices*

| | | 1971 | 1972 | 1973 | 1974 | 1975 |
|---|---|---|---|---|---|---|
| 1 | Tax revenue | 1 626 | 1 870 | 1 528 | 1 064 | 1 122 |
| 2 | Other current receipts | 1 537 | 2 019 | 3 144 | 4 481 | 7 077 |
| 3 | Total current receipts | 3 163 | 3 889 | 4 672 | 5 545 | 8 199 |
| 4 | Current expenditure on goods and services | 2 135 | 2 610 | 2 979 | 3 365 | 3 728 |
| 5 | Subsidies, current transfers and depreciations | 1 503 | 1 789 | 2 140 | 2 657 | 5 363 |
| 6 | Total current expenditure | 3 638 | 4 399 | 5 119 | 6 022 | 9 091 |
| 7 | Net current saving | −475 | −510 | −447 | −477 | −892 |
| 8 | Depreciation allowances and capital account receipts | 426 | 375 | 549 | 1 062 | 908 |
| 9 | Gross investment | 753 | 811 | 958 | 1 374 | 1 401 |
| 10 | Capital transfers | 118 | 121 | 122 | 264 | 336 |
| 11 | Financing needs: overall surplus = (—) | 920 | 1 067 | 978 | 1 053 | 1 721 |

*Source:* Relazione Generale 1975.

## Table G Money and Credit

(*a*) The monetary base, 1966-1975

*Changes in billion lire*

| | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 |
|---|---|---|---|---|---|---|---|---|---|---|
| A *Origin of liquid assets:* | | | | | | | | | | |
| 1 Net impact of the foreign sector | 235 | 243 | 123 | −648 | 319 | 478 | −415 | −205 | −3 115 | −1 699 |
| 2 Net impact of the public sector | 481 | 405 | 922 | 1 500 | 2 991 | 2 611 | 4 171 | 7 243 | 7 671 | 7 779 |
| 3 Banks | 562 | 627 | 221 | 469 | −1 276 | 90 | 935 | 277 | 1 362 | −389 |
| 4 Other sectors | −58 | −126 | −74 | −134 | −102 | 174 | −1 091 | −2 229 | −1 812 | 1 191 |
| 5 Total net impact | 1 220 | 1 148 | 1 191 | 1 187 | 1 932 | 3 353 | 3 599 | 5 086 | 4 106 | 6 882 |
| B *Use of liquid assets:* | | | | | | | | | | |
| 6 Liquidity in the hands of the public | 813 | 950 | 527 | 1 094 | 763 | 1 824 | 2 408 | 3 313 | 2 043 | 4 123 |
| 7 Compulsory bank reserves | 314 | 250 | 403 | 416 | 782 | 1 162 | 1 237 | 1 661 | 1 494 | 1 634 |
| 8 Bank liquidity | 93 | −51 | 261 | −323 | 387 | 367 | −46 | 112 | 568 | 1 125 |
| 9 Total | 1 220 | 1 148 | 1 191 | 1 187 | 1 932 | 3 353 | 3 599 | 5 086 | 4 106 | 6 882 |

*Source:* Bank of Italy.

Table G **Money and Credit**
(*b*) Selected indicators
*Billion lire, end of period*

| | 1972 | 1973 | 1974 | 1975 | | | | 1976 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | I | II | III | IV | I | II | III |
| I MONEY | | | | | | | | | | |
| 1 Currency in circulation[1] | 8 801[2] | 9 610 | 10 767 | 10 397 | 10 952 | 11 111 | 12 538 | 12 112 | 13 039 | 12 736 |
| 2 Sight deposits | 34 748[2] | 44 451 | 49 043 | 46 693 | 46 726 | 49 387 | 54 614 | 56 987 | 57 828 | 59 904 |
| 3 Saving deposits | 21 033 | 25 781 | 33 205 | 37 966 | 41 339 | 43 689 | 47 914 | 49 769 | 51 370 | 53 795 |
| 4 Post office saving deposits | 8 423 | 10 176 | 11 005 | 11 226 | 11 680 | 12 108 | 13 314 | 14 207 | 14 337 | 14 662 |
| 5 Money supply broadly defined (1 + 2 + 3 + 4) | 73 005 | 90 018 | 104 020 | 106 282 | 110 697 | 116 295 | 128 380 | 133 075 | 136 574 | 141 097 |
| II CENTRAL BANK | | | | | | | | | | |
| 1 Credit to Treasury | 9 333 | 14 426 | 20 674 | 21 656 | 23 624 | 25 049 | 29 507 | 32 827 | 36 084 | 37 233 |
| 2 Credit to banking sector | 2 505 | 2 304 | 3 413 | 2 667 | 3 007 | 3 540 | 2 727 | 1 677 | 2 882 | 2 540 |
| III OTHER BANK | | | | | | | | | | |
| 1 Total deposits | 57 670 | 69 273 | 80 926 | 83 453 | 86 786 | 91 729 | 101 168 | 105 148 | 106 833 | 110 484 |
| 2 Credit | 36 368 | 43 340 | 52 046 | 50 383 | 52 666 | 54 334 | 59 397 | 62 165 | 64 228 | 68 271 |
| 3 Government securities, shares and debentures | 16 021 | 22 100 | 27 502 | 31 912 | 34 782 | 38 296 | 39 269 | 39 153 | 38 975 | 41 701 |
| IV SPECIAL CREDIT INSTITUTIONS | | | | | | | | | | |
| Credit to the economy | 22 136 | 27 848 | 31 040 | 32 386 | 33 715 | 35 355 | 37 039 | 38 673 | 39 124 | 40 148 |

1 In the hands of the non-bank public.
2 Adjusted for random movements at end 1972.
*Sources:* Bank of Italy, Rassegna congiunturale and IMF.

## Table G **Money and Credit**

(*c*) Annual capital market net issues

*Billion lire*

| | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| A *By issuer and type of security* | | | | | | | | | | | |
| 1 Government bonds | 664 | 1 555 | 1 002 | 1 297 | 1 550 | 1 090 | 2 234 | 2 605 | 3 121 | 1 232 | 4 805 |
| in % of total bonds issues | (33.5) | (55.1) | (41.3) | (41.6) | (46.3) | (41.8) | (44.4) | (43.6) | (29.9) | (35.5) | (40.4) |
| 2 Special credit institutions | 646 | 861 | 987 | 1 189 | 1 284 | 1 483 | 2 229 | 2 446 | 6 438 | 2 153 | 5 410 |
| 3 ENEL, ENI, IRI | 557 | 314 | 246 | 403 | 466 | 94 | 454 | 696 | 625 | 243 | 1 264 |
| 4 Business companies | 90 | 3 | 156 | 113 | 37 | −50 | 55 | 62 | 172 | −147 | 111 |
| 5 Foreign bonds[1] | 14 | 72 | 15 | 44 | 12 | −2 | 36 | 106 | 38 | −2 | 21 |
| 6 Total bonds[2] | 1 983 | 2 823 | 2 425 | 3 116 | 3 351 | 2 610 | 5 034 | 5 969 | 10 453 | 3 473 | 11 907 |
| 7 Shares | 394 | 473 | 385 | 449 | 673 | 997 | 977 | 1 241 | 1 983 | 771 | 1 357 |
| 8 Total capital market issues | 2 377 | 2 296 | 2 809 | 3 565 | 4 024 | 3 607 | 6 011 | 7 210 | 12 436 | 4 244 | 13 264 |
| B *By subscriber and type of security* | | | | | | | | | | | |
| 1 Non banks | | | | | | | | | | | |
| bonds | 766 | 1 262 | 1 220 | 1 233 | 954 | 645 | 1 663 | 1 784 | 1 469 | −1 945 | 2 286 |
| (in % of total bonds) | (38.6) | (44.7) | (50.3) | (39.6) | (28.5) | (24.7) | (33.0) | (29.9) | (14.0) | (−56.0) | (19.2) |
| shares | 373 | 449 | 342 | 441 | 653 | 978 | 968 | 1 217 | 1 944 | 730 | 1 407 |
| 2 Banks and other financial institutions | | | | | | | | | | | |
| bonds | 1 181 | 1 360 | 1 049 | 1 665 | 1 182 | 877 | 2 450 | 3 006 | 6 445 | 3 801 | 7 199 |
| (in % of total bonds) | (59.6) | (48.2) | (43.3) | (53.4) | (35.3) | (33.6) | (48.7) | (50.4) | (61.7) | (109.4) | (60.5) |
| shares | 34 | 15 | 38 | 6 | 18 | 17 | 6 | 3 | 40 | 33 | −57 |
| 3 Bank of Italy | | | | | | | | | | | |
| bonds | 36 | 201 | 156 | 219 | 1 215 | 1 089 | 922 | 1 180 | 2 539 | 1 617 | 2 421 |
| (in % of total bonds) | (1.8) | (7.1) | (6.4) | (7.0) | (36.2) | (41.7) | (18.3) | (19.8) | (24.3) | (46.6) | (20.3) |
| shares | −1 | 6 | 5 | 2 | 2 | 1 | 3 | 21 | −1 | 8 | 7 |

1 International institutions issues.
2 Total including local authority bonds but excluding special certificates and other foreign bonds.

*Source:* Bank of Italy.

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

| | Outstanding at the end of 1974 | 1973 | | 1974 | | 1975 | | 1965-1974 average |
|---|---|---|---|---|---|---|---|---|
| | | Total | Foreign sources | Total | Foreign sources | Total | Foreign sources | Total |
| Short-term credit | 36 769 | 4 608 | — | 6 509 | — | 4 831 | — | 2 644 |
| Medium and long-term credit | 31 180 | 5 172 | 768 | 4 424 | 480 | 5 952 | 554 | 2 463 |
| *of which:* Special credit institutions | 21 413 | 3 782 | — | 2 788 | — | 4 619 | — | 1 715 |
| Bonds | 7 697 | 797 | — | 96 | — | 1 376 | −34 | 458 |
| Shares and participations | 19 541 | 1 708 | 349 | 743 | 385 | 1 350 | 378 | 746 |
| Total | 95 187 | 12 285 | 1 117 | 11 772 | 865 | 13 509 | 898 | 6 311 |
| in % of GDP | | 15.0 | | 11.9 | | 12.0 | | 10.7 |

*Source:* Bank of Italy Annual Report.

## Table H Balance of Payments, OECD Basis

*Millions of dollars*

| | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 |
|---|---|---|---|---|---|---|---|---|
| Exports, fob | 10 098 | 11 642 | 13 117 | 14 839 | 18 480 | 22 117 | 30 067 | 34 400 |
| Imports, fob | 9 050 | 11 100 | 13 498 | 14 724 | 18 425 | 26 093 | 38 559 | 35 556 |
| Trade balance | 1 048 | 542 | −381 | 114 | 55 | −3 976 | −8 492 | −1 156 |
| Services, net | 1 239 | 1 386 | 1 312 | 1 522 | 1 540 | 1 114 | 510 | 337 |
| Balance on goods and services | 2 287 | 1 928 | 931 | 1 636 | 1 595 | −2 862 | −7 982 | −818 |
| Private transfers, net | 488 | 508 | 522 | 573 | 639 | 586 | 572 | 590 |
| Official transfers, net | −148 | −96 | −320 | −306 | −191 | −386 | −607 | −325 |
| Current balance | 2 627 | 2 340 | 1 133 | 1 902 | 2 043 | −2 662 | −8 017 | −554 |
| Long-term capital (excl. spec. trans.) | −1 329 | −3 194 | −21 | −390 | −1 125 | 2 897 | 1 978 | −464 |
| (*a*) Private[1] | −1 264 | −3 199 | −756 | −492 | −956 | 1 957 | 1 739 | −843 |
| (*b*) Official[2] | −65 | 5 | 735 | 102 | −169 | 940 | 239 | 379 |
| Basic balance | 1 298 | −854 | 1 112 | 1 512 | 918 | 235 | −6 039 | −1 018 |
| Non-monetary short-term private capital[3] | −362 | −393 | −571 | −490 | −1 573 | −145 | 420 | −390 |
| Errors and omissions | −275 | −82 | −138 | −278 | −672 | −571 | 281 | −797 |
| Balance on non-monetary transactions | 661 | −1 329 | 403 | 744 | −1 327 | −481 | −5 338 | −2 205 |
| Private monetary institutions' short-term capital | −722 | 661 | −11 | 214 | 507 | 177 | 731 | −546 |
| (*a*) Assets | −1 583 | −2 080 | −2 878 | −3 148 | −6 573 | −5 326 | 9 700 | −2 675 |
| (*b*) Liabilities | 861 | 2 741 | 2 867 | 3 362 | 7 080 | 5 503 | −8 967 | 2 129 |
| Balance on official settlements | −61 | −668 | 392 | 958 | −820 | −304 | −4 607 | −2 750 |
| Use of IMF credit | — | — | — | — | — | — | 1 660 | 1 304 |
| Special transactions[4] | −75 | 154 | — | — | — | — | — | — |
| Miscellaneous official accounts | −79 | 374 | −210 | 73 | −3 | 254 | 3 851 | −528 |
| Allocation of SDR's | — | — | 105 | 107 | 115 | — | — | — |
| Change in reserves (+= increase) | −215 | −140 | 287 | 1 137 | −708 | −50 | 904 | −1 974 |
| (*a*) Gold | 523 | 33 | −69 | −3 | −1 | 4 | — | — |
| (*b*) Currency assets[5] | −790 | −141 | 865 | 917 | −810 | −20 | 1 125 | −1 856 |
| (*c*) Reserve position in IMF | 52 | −32 | −586 | 73 | −20 | −35 | −27 | — |
| (*d*) Special Drawing Rights | — | — | 77 | 151 | 123 | 2 | −194 | −118 |

Exchange rates: 1 US \$=625 lire (up to 1971); 1 US \$=582 lire (1972 and 1973); 1 US \$=650 lire (1974); 1 US \$=652.8452 lire (1975)

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

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

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

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

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

6 EEC and Bundesbank credit.

*Source:* OECD Secretariat.

Table I **Foreign Trade and Reserves**
*Million dollars*

| | 1971 | 1972 | 1973 | 1974 | 1975 | 1975 | | | | 1976 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | I | II | III | IV | I | II | III |
| FOREIGN TRADE (customs basis), monthly averages | | | | | | | | | | | | |
| 1 Imports, total (cif) | 1 332 | 1 606 | 2 318 | 3 414 | 3 197 | 3 005 | 3 116 | 3 060 | 3 606 | 3 257 | 3 609 | 3 444 |
| non-food | 1 043 | 1 241 | 1 797 | 2 803 | 2 614 | 2 539 | 2 562 | 2 568 | 2 788 | 2 828 | 2 869 | 3 036 |
| 2 Exports, total (fob) | 1 260 | 1 545 | 1 853 | 2 524 | 2 902 | 2 690 | 2 874 | 2 906 | 3 140 | 2 670 | 2 952 | 3 150 |
| non-food | 1 148 | 1 404 | 1 698 | 2 313 | 2 664 | 2 568 | 2 705 | 2 673 | 2 712 | 2 632 | 2 693 | 2 959 |
| 3 Trade balance | −71 | −61 | −465 | −890 | −294 | −315 | −243 | −154 | −466 | −588 | −658 | −294 |
| *Seasonally adjusted* | | | | | | | | | | | | |
| 1 Imports | — | — | — | — | — | 3 091 | 3 013 | 3 133 | 3 534 | 3 266 | 3 538 | 3 539 |
| 2 Exports | — | — | — | — | — | 2 904 | 2 818 | 2 893 | 3 005 | 2 822 | 2 940 | 3 122 |
| 3 Trade balance | — | — | — | — | — | −187 | −195 | −240 | −528 | −445 | −598 | −416 |
| FOREIGN RESERVES, end of period | | | | | | | | | | | | |
| 1 Official reserves: | | | | | | | | | | | | |
| Gold | 3 131 | 3 131 | 3 483 | 3 535 | 3 380 | 3 601 | 3 570 | 3 361 | 3 380 | 3 338 | 3 309 | 3 341 |
| Convertible currencies | 3 063 | 2 225 | 2 181 | 3 185 | 1 297 | 2 993 | 2 953 | 2 309 | 1 297 | 1 515 | 1 840 | 1 651 |
| IMF position | 378 | 359 | 359 | — | — | — | — | — | — | — | — | — |
| Special Drawing Rights | 247 | 371 | 414 | 221 | 97 | 203 | 172 | 132 | 97 | 52 | 86 | 88 |
| Total | 6 820 | 6 085 | 6 436 | 6 941 | 4 774 | 6 797 | 6 695 | 5 802 | 4 774 | 4 905 | 5 235 | 5 080 |

*Sources:* OECD Foreign Trade Statistics, Serie A, ISCO and IMF.

## Table J Commodity Breakdown of Foreign Trade

*Billion lire*

| | | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | *Imports, cif* | | | | |
| 1 | Food, drink and tobacco | 1 285 | 1 486 | 1 692 | 2 054 | 2 302 | 3 470 | 4 254 | 4 589 |
| 2 | Crude oil | 894 | 972 | 1 120 | 1 416 | 1 431 | 1 984 | 6 274 | 5 355 |
| 3 | Metals, ores and scrap | 824 | 1 074 | 1 468 | 1 181 | 1 268 | 1 875 | 3 591 | 2 602 |
| 4 | Textile materials and products | 477 | 595 | 666 | 582 | 725 | 1 209 | 1 334 | 1 288 |
| 5 | Wood and products | 240 | 291 | 320 | 304 | 336 | 609 | 831 | 616 |
| 6 | Automobiles and spares | 214 | 306 | 456 | 501 | 638 | 845 | 888 | 1 219 |
| 7 | Other engineering products | 1 082 | 1 353 | 1 670 | 1 804 | 1 944 | 2 683 | 3 667 | 3 783 |
| 8 | Chemical products | 605 | 739 | 887 | 927 | 1 129 | 1 588 | 2 704 | 2 690 |
| 9 | Paper and cardboard | 144 | 179 | 212 | 186 | 221 | 308 | 555 | 417 |
| 10 | Other imports | 664 | 797 | 865 | 946 | 1 271 | 1 772 | 2 617 | 2 528 |
| 11 | TOTAL IMPORTS | 6 429 | 7 792 | 9 356 | 9 901 | 11 265 | 16 343 | 26 715 | 25 087 |
| | | | | | *Exports, fob* | | | | |
| 1 | Food, drink and tobacco | 552 | 653 | 716 | 836 | 988 | 1 095 | 1 545 | 1 906 |
| 2 | Metals, ores and scrap | 390 | 421 | 451 | 575 | 668 | 814 | 1 572 | 2 118 |
| 3 | Textile materials and products | 793 | 929 | 956 | 1 099 | 1 286 | 1 466 | 1 885 | 2 051 |
| 4 | Clothing and shoes | 443 | 567 | 638 | 711 | 839 | 918 | 1 292 | 1 569 |
| 5 | Automobiles and spares | 553 | 634 | 761 | 856 | 951 | 1 185 | 1 595 | 2 259 |
| 6 | Other means of transport | 220 | 265 | 244 | 274 | 412 | 455 | 599 | 687 |
| 7 | Other engineering products | 1 720 | 1 994 | 2 415 | 2 605 | 2 932 | 3 350 | 4 885 | 5 919 |
| 8 | Chemical products | 885 | 902 | 1 002 | 1 183 | 1 223 | 1 730 | 3 656 | 3 117 |
| 9 | Other exports | 810 | 965 | 1 071 | 1 223 | 1 550 | 1 976 | 2 797 | 3 132 |
| 10 | TOTAL EXPORTS | 6 366 | 7 330 | 8 254 | 9 362 | 10 849 | 12 989 | 19 826 | 22 758 |

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

*INTERNATIONAL COMPARISONS*

# BASIC STATISTICS: INTERNATIONAL COMPARISONS

| | Reference period | Units | Australia | Austria | Belgium | Canada | Denmark | Finland | France | Germany |
|---|---|---|---|---|---|---|---|---|---|---|
| **POPULATION** | Mid-1975 | Thousands | 13 507 | 7 533 | 9 801 | 22 831 | 5 060 | 4 707 | 52 743 | 61 832 |
| Inhabitants per sq. km | » | Number | 2 | 90 | 321 | 2 | 117 | 14 | 96 | 249 |
| Net average annual increase | Mid-1965 to Mid-1975 | % | 1.8 | 0.4 | 0.4 | 1.5 | 0.6 | 0.3 | 0.8 | 0.5 |
| **EMPLOYMENT** Total civilian | 1974 | Thousands | 5 736 | 3 010 | 3 801 | 9 137 | 2 355 | 2 220 | 21 096 | 25 689 |
| *of which:* Agriculture, forestry, fishing | » | % of total | 6.9 | 13.0 | 3.7 | 6.3 | 9.6 | 16.3 | 11.6 | 7.3 |
| Industry[1] | » | » | 35.1 | 41.0 | 41.2 | 31.1 | 32.3 | 36.1 | 39.2 | 47.6 |
| Other | » | » | 58.0 | 46.0 | 55.1 | 62.6 | 58.1 | 47.6 | 49.2 | 45.1 |
| **GROSS DOMESTIC PRODUCT** at market prices | 1974 | US $ billion | 78.39 | 33.00 | 53.42 | 145.30 | 30.40 | 22.03 | 266.10 | 384.53 |
| Average annual volume growth[5] | 1969 to 1974 | % | 4.2 | 5.9 | 5.3 | 4.8 | 2.9 | 5.6 | 5.3 | 3.6 |
| Per capita | 1974 | US $ | 5 877 | 4 372 | 5 466 | 6 464 | 6 026 | 4 712 | 5 061 | 6 195 |
| **GROSS FIXED CAPITAL FORMATION** | 1974 | % of GDP | 24.0[6] | 28.0 | 22.3 | 23.2 | 21.9 | 29.0 | 25.1 | 22.5 |
| *of which:* Machinery and equipment | » | » | 9.9[6] | 11.2 | 8.2 | 8.2 | 9.1 | 10.7 | 12.1 | 9.8 |
| Residential construction | » | » | 4.6[6] | 16.8[9] | 6.2 | 5.4 | 5.5 | 7.6 | 7.3 | 5.3 |
| Average annual volume growth[5] | 1969 to 1974 | % | 1.5[6] | 8.1 | 4.9 | 6.0 | 2.0 | 6.4 | 5.7 | 2·0 |
| **NATIONAL SAVINGS RATIO**[11] | 1974 | % of GNP | 25.5 | 30.8 | 26.2 | 24.0 | 20.0 | 33.0 | 25.5 | 26.6 |
| **GENERAL GOVERNMENT** Current expenditure on goods and services | 1974 | % of GDP | 15.4[6] | 15.3 | 15.1 | 19.2 | 23.2 | 17.1 | 13.0 | 19.7 |
| Current transfer payments | » | » | 9.1[6] | 14.7 | 17.8 | 11.7 | 15.8 | 12.6 | 20.8 | 16.6 |
| Current revenue | » | » | 28.9[6] | 38.4 | 37.9 | 38.6 | 47.4 | 38.7 | 38.9 | 41.4 |
| **NET OFFICIAL DEVELOPMENT ASSISTANCE** | 1974 | % of GNP | 0.6 | 0.2 | 0.5 | 0.5 | 0.6 | 0.2 | 0.6 | 0.4 |
| **INDICATORS OF LIVING STANDARDS** Private consumption per capita | 1974 | US $ | 3 429 | 2 357 | 3 256 | 3 590 | 3 382 | 2 317 | 3 119 | 3 312 |
| Passenger cars, per 1 000 inhabitants | 1973 | Number | 340 | 204 | 245 | 353 | 249 | 191 | 268[13] | 267 |
| Telephones, per 1 000 inhabitants | » | » | 355 | 246 | 257 | 528 | 400 | 329 | 217 | 287 |
| Television sets, per 1 000 inhabitants | » | » | 227[13] | 237 | 244 | 348 | 304 | 263 | 237[13] | 298 |
| Doctors, per 1 000 inhabitants | 1972 | » | 1.3[14] | 1.9 | 1.6 | 1.6 | 1.6 | 1.2 | 1.4 | 1.8 |
| Access to higher education[15a] | 1973 | % of relevant age group | 30.5 | 15.7 | (28.5)[15] | 49.8[13] | 35.0 | (23.3) | 26.4 | 15.8[13] |
| Infant mortality[16] | 1974 | Number | 16.1 | 23.5 | 16.2 | 16.8[12] | 12.0[13] | 10.2 | 12.0 | 21.1 |
| **WAGES AND PRICES** Hourly earnings in industry[18] | Average annual increase 1970 to 1975 | % | 15.9 | 13.3 | 15.8 | 10.9 | 17.4 | 17.8 | 14.0 | 9.9 |
| Consumer prices | | % | 10.2 | 7.3 | 8.4 | 7.3 | 9.3 | 11.7 | 8.8 | 6.1 |
| **FOREIGN TRADE** Exports of goods, fob | 1975 | US $ million | 11 902 | 7 519 | 28 809[20] | 32 301 | 8 710 | 5 503 | 52 211 | 90 021 |
| as percentage of GDP | » | % | 14.1 | 20.0 | 44.7[20] | 20.8 | 24.5 | 20.7 | 16.0 | 21.3 |
| average annual volume increase | 1970 to 1975 | % | 3.9 | 7.7 | 5.9[20] | 2.8 | 4.4 | –0.4 | 7.6 | 6.0 |
| Imports of goods, cif | 1975 | US $ million | 9 988 | 9 393 | 30 707[20] | 33 955 | 10 329 | 7 618 | 54 241 | 74 208 |
| as percentage of GDP | » | % | 11.9 | 25.0 | 47.7[20] | 21.8 | 29.1 | 28.6 | 16.6 | 17.5 |
| average annual volume increase | 1970 to 1975 | % | 2.8 | 6.8 | 5.9[20] | 7.7 | 1.2 | 4.6 | 5.7 | 5.5 |
| **TOTAL OFFICIAL RESERVES** | End-1975 | US $ million | 3 256 | 4 439 | 5 797[20] | 5 326 | 877 | 470 | 12 593 | 31 034 |
| as percentage of imports of goods | In 1975 | % | 32.6 | 47.3 | 18.9[20] | 15.7 | 8.5 | 6.2 | 23.2 | 41.8 |

| | Greece | Iceland | Ireland | Italy | Japan | Luxembourg | Netherlands | New Zealand | Norway | Portugal | Spain | Sweden | Switzerland | Turkey | United Kingdom | United States | Yugoslavia[1] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **POPULATION** | 9 046 | 218 | 3 127 | 55 812[2] | 110 950 | 359 | 13 654 | 3 104 | 4 007 | 9 448 | 35 219 | 8 196 | 6 403 | 40 063 | 56 042 | 213 631 | 21 352 |
| Inhabitants per sq. km | 69 | 2 | 44 | 185 | 298 | 138 | 404 | 12 | 12 | 106 | 70 | 18 | 155 | 51 | 230 | 23 | 83 |
| Net average annual increase | 0.6 | 1.3 | 0.8 | 0.7 | 1.2 | 0.8 | 1.1 | 1.7 | 0.7 | 0.5 | 0.9 | 0.6 | 0.7 | 2.5 | 0.3 | 1.0 | (0.9) |
| **EMPLOYMENT** Total civilian | (3 170) | 93 | 1 047 | 18 715 | 52 010 | 151 | 4 579 | 1 180 | 1 659 | 3 081 | 12 860 | 3 962 | 2 943 | 14 868 | 24 767 | 85 936 | 8 023[3] |
| *of which:* Agriculture, forestry, fishing | (36.2) | 16.9 | 24.3 | 16.6 | 12.9 | 6.4 | 6.6 | 12.0 | 10.5 | 28.2 | 23.1 | 6.7 | 7.6 | 64.1 | 2.8 | 4.1 | 47.6 |
| Industry[1] | (27.8) | 37.2 | 31.1 | 44.1 | 37.0 | 49.2 | 35.5 | 34.7 | 34.2 | 33.6 | 37.2 | 37.0 | 47.0 | 14.8 | 42.3 | (31.0) | 21.9 |
| Other | (36.0) | 45.9 | 44.6 | 39.3 | 50.1 | 44.4 | 57.9 | 53.3 | 55.3 | 38.2 | 39.7 | 56.3 | 45.4 | 21.1 | 54.9 | (64.9) | 30.5 |
| **GROSS DOMESTIC PRODUCT** at market prices | 19.17 | 1.39 | 6.73 | 149.81 | 455.30 | 2.13 | 69.18 | 13.36 | 23.30 | 13.32 | 85.50 | 56.10 | 47.29 | 29.43 | 188.99 | 1 411.33 | 27.81 |
| Average annual volume growth[5] | 5.4 | 6.2 | 3.3 | 3.9 | 7.1 | 4.1 | 4.5 | 3.8 | 4.2 | 6.4 | 6.4 | 3.2 | 3.6 | 6.8 | 2.7 | 2.7 | 6.6 |
| Per capita | 2 139 | 6 465 | 2 180 | 2 706 | 4 152 | 5 987 | 5 109 | 4 388 | 5 847 | 1 517 | 2 446 | 6 878 | 7 340 | 748 | 3 371 | 6 660 | 1 315 |
| **GROSS FIXED CAPITAL FORMATION** | 21.7[7] | 32.5 | 24.9 | 23.4 | 34.3 | 25.5 | 22.2 | 26.3[8] | 32.1 | 19.3 | 25.0 | 22.0 | 26.1 | 20.7 | 20.1 | 17.5 | 24.8 |
| *of which:* Machinery and equipment | 8.7 | 9.6 | 10.5 | 10.5 | 12.5 | 8.6 | 9.4 | .. | 12.0 | 7.7 | 9.2 | 9.2 | 9.3 | 6.4 | 8.8 | 6.8 | 9.6 |
| Residential construction | 4.4 | 7.3 | 6.3 | 7.1 | 8.0 | 6.3 | 5.7 | .. | 5.3 | 4.0 | 6.8 | 4.5 | .. | 4.8 | 3.9 | 3.9 | 6.6 |
| Average annual volume growth[5] | 0.7 | 15.3 | 3.7 | 2.4 | 6.9 | 5.9 | 2.1 | .. | 8.9[10] | 10.3 | 7.7[10] | 2.3 | 3.4 | 8.3 | 1.2 | 1.6 | 7.6 |
| **NATIONAL SAVINGS RATIO**[11] | 18.0 | 23.5 | 12.8 | 18.9 | 37.3 | 34.5 | 27.3 | 22.2 | 30.4 | 13.5[12] | 22.5 | 23.3 | 32.0 | 19.0 | 17.0 | 17.7 | .. |
| **GENERAL GOVERNMENT** Current expenditure on goods and services | 13.6 | 10.4 | 17.6 | 14.0 | 9.9 | 12.1 | 17.2 | 16.7[8] | 16.5 | 14.5 | 9.5 | 23.6 | 12.0 | 14.1 | 20.5 | 18.8 | 15.7 |
| Current transfer payments | 9.8 | 14.7 | 17.6 | 19.6 | 5.7 | 19.9 | 26.6 | .. | 22.4 | 7.6 | 12.0 | 18.7 | 13.9 | .. | 14.8 | 9.9 | .. |
| Current revenue | 24.2 | .. | 35.1[12] | 32.6 | 24.7 | 44.3 | 51.4 | .. | 48.5 | 23.0 | 23.1 | 49.4 | 35.8 | 27.5[13] | 40.0 | 30.2[12] | 31.5 |
| **NET OFFICIAL DEVELOPMENT ASSISTANCE** | .. | .. | .. | 0.2 | 0.3 | .. | 0.6 | 0.3 | 0.6 | .. | .. | 0.7 | 0.1 | .. | 0.4 | 0.3 | .. |
| **INDICATORS OF LIVING STANDARDS** Private consumption per capita | 1 517 | 4 079 | 1 542 | 1 782 | 2 185 | 3 199 | 2 860 | 2 633 | 3 056 | 1 089 | 1 444 | 3 647 | 4 299 | 568 | 2 142 | 4 148 | 679 |
| Passenger cars, per 1 000 inhabitants | 39 | 239[13] | 157 | 243 | 133 | 339 | 239 | 350 | 230 | 90 | 109 | 307 | 260 | 6 | 244 | 478 | 54 |
| Telephones, per 1 000 inhabitants | 187 | 381 | 120 | 229 | 357 | 382 | 320 | 475 | 329 | 109 | 181 | 594 | 560 | 21 | 340 | 657 | 48 |
| Television sets, per 1 000 inhabitants | 58[13] | 220[13] | 176 | 208 | 229 | 227[14] | 258 | 304 | 249 | 66 | 164 | 339 | 253 | 7 | 309 | 523 | 121 |
| Doctors, per 1 000 inhabitants | 1.7 | 1.4[14] | 1.2 | 1.9 | 1.2 | 1.1 | 1.4 | 1.2 | 1.5 | 1.0 | 1.4 | 1.5 | 1.7 | 0.5 | 1.3 | 1.7 | 1.1 |
| Access to higher education[15a] | .. | .. | .. | 27.9 | 23.8[13] | .. | 20.5[14] | .. | 39.2 | (9.8) | 27.1[13] | (31.1)[13] | .. | .. | 21.5[13] | 43.9 | 16.1[14] |
| Infant mortality[16] | 23.9 | 9.6[12] | 17.8[12] | 22.6 | 10.8 | 13.5[13] | 11.2 | 15.5 | 10.4 | 44.8[12] | 13.6 | 9.6 | 12.8[12] | 153.0[17] | 16.7 | 17.6[12] | 45.0 |
| **WAGES AND PRICES** Hourly earnings in industry[18] | 16.8 | 34.0[19] | 19.7 | 17.5 | 18.6 | .. | 13.8[10] | 13.7 | 13.7 | 16.3 | 20.4 | 11.3 | 9.5 | 18.2 | 15.9 | 7.4 | .. |
| Consumer prices | 12.4 | 24.7 | 13.3 | 11.3 | 11.5 | 7.2 | 8.6 | 10.2 | 8.2 | 15.1 | 12.1 | 8.0 | 7.7 | .. | 13.0 | 6.3 | 20.4 |
| **FOREIGN TRADE** Exports of goods, fob | 2 293 | 308 | 3 211 | 34 830 | 55 753 | — | 34 440 | 2 148 | 7 196 | 1 935 | 7 683 | 17 406 | 12 957 | 1 401 | 43 756 | 107 652 | 4 072 |
| as percentage of GDP | 10.9 | 25.7 | 41.2 | 20.2 | 11.4 | — | 42.4 | 16.9 | 25.4 | 13.2 | 7.6 | 25.2 | 24.1 | 4.0 | 19.2 | 7.2 | 12.3 |
| average annual volume increase | 14.6 | .. | 7.1 | 6.2 | 9.9 | — | 7.0 | –1.3 | 5.5 | .. | 9.2 | 3.2 | 3.0 | –0.4 | 5.4 | 7.3 | 4.8 |
| Imports of goods, cif | 5 317 | 487 | 3 807 | 38 364 | 57 863 | — | 35 145 | 2 912 | 9 675 | 3 827 | 16 261 | 18 049 | 13 303 | 4 641 | 53 252 | 96 940 | 7 697 |
| as percentage of GDP | 25.3 | 40.6 | 48.8 | 22.3 | 11.8 | — | 43.3 | 22.9 | 34.2 | 26.1 | 16.1 | 26.1 | 24.7 | 13.1 | 23.4 | 6.4 | 23.3 |
| average annual volume increase | 6.7 | .. | 2.7 | 0.8 | 4.1 | — | 3.9 | 9.1 | 4.4 | .. | 7.7 | 3.4 | –0.4 | 15.6 | 4.4 | 2.3 | 6.0 |
| **TOTAL OFFICIAL RESERVES** | 931 | 47 | 1 532 | 4 774 | 12 815 | — | 7 109 | 428 | 2 237 | 1 534 | 6 090 | 3 077 | 10 428 | 1 064 | 5 459 | 15 883 | 871 |
| as percentage of imports of goods | 17.5 | 9.7 | 40.2 | 12.4 | 22.1 | — | 20.2 | 14.7 | 23.1 | 40.1 | 37.5 | 17.0 | 78.4 | 22.9 | 10.3 | 16.4 | 11.3 |

1 Partly from national sources.
2 Total resident population.
3 Private and socialised sector.
4 According to the definition used in OECD: Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
5 At constant (1970) prices.
6 Fiscal year beginning July 1st.
7 Excluding ships operating overseas.
8 Fiscal year beginning April 1st.
9 Total construction.
10 1970 to 1974.
11 $\frac{\text{GNP} - (\text{Priv. cons.} + \text{Pub. cons.})}{\text{GNP}} \cdot 100.$
12 1973.
13 1972.
14 1971.
15 1970.
15a Figures are not strictly comparable due to differences in coverage. For more details see "Educational Statistics Yearbook - Volumes 1 and 2, 1974 and 1975 - OECD, Paris."
16 Deaths in first year per 1 000 live births.
17 1967.
18 Figures are not strictly comparable due to differences in coverage.
19 1971 to 1975.
20 Including Luxembourg.

NOTE Figures within brackets are estimates by the OECD Secretariat.

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

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