

## Italy's Trade with the Sterling Area, 1945-1951 (\*)

by  
ENRICO MARASCO

I. — In the years following World War II Italy's balance of payments has been continuously unfavourable although since 1948 considerable progress has been made towards equi-

librium. As shown in Table I, the percentage of credit items to debit items was 55.6 in 1946 but fell to 48.7 in 1947, when exports were checked by the spurt of inflation in Italy, rose

ITALY'S BALANCE OF PAYMENTS AND AMOUNT OF STERLING CREDITS (a) TABLE I

	1946	1947	1948	1949	1950	1949	1950
	A) Balance of Payments with the World (c)					B) Balance of Payments in Sterling (c)	
<i>Goods (b)</i>							
Credits . . . . .	465.0	665.6	1,077.2	1,114.4	1,200.7	372.4	350.4
Debits . . . . .	729.2	1,326.9	1,415.4	1,420.6	1,358.4	271.4	308.0
Balances . . . . .	- 264.2	- 661.3	- 338.2	- 306.2	- 157.7	+ 101.0	+ 42.4
<i>Services</i>							
Credits . . . . .	44.6	92.5	200.3	258.7	326.5	87.6	100.4
Debits . . . . .	187.7	231.0	215.8	256.9	289.6	62.3	69.9
Balances . . . . .	- 143.1	- 138.5	- 15.5	+ 1.8	+ 36.9	+ 25.3	+ 30.5
<i>Goods and Services</i>							
Credits . . . . .	509.6	758.1	1,277.5	1,373.1	1,527.2	460.0	450.8
Debits . . . . .	916.9	1,557.9	1,631.2	1,677.5	1,648.0	333.7	377.9
Balances . . . . .	- 407.3	- 799.8	- 353.7	- 304.4	- 120.8	+ 126.3	+ 72.9
% of credits to debits . .	55.6	48.7	78.3	81.9	92.7	137.8	119.1
	C) Italy's Sterling Balances — End of period data (d)						
Credits, net . . . . .	28.90	28.10	20.10	73.80	73.78 (c)		

(a) Current items. See, below, explanatory note.

(b) Imports and exports f.o.b.

(c) Millions of dollars.

(d) Millions of sterling.

(e) 67.51 millions of sterling at the end of August 1951.

## (\*) Explanatory note.

For a correct appreciation of the data contained in this survey it should be borne in mind that:

(a) the expression « balance of payments », except where otherwise defined, relates to current items of the balance of payments (transactions in goods and services). Unilateral transfers (emigrants remittances, reparations payments, capital movements, etc.) are excluded;

(b) the data given above, in Table I, letter B, refer — both in the case of the trade balance and the balance of

payments — to *sterling transactions* regardless of whether the importing or exporting country belongs or not to the sterling area. Therefore transactions with countries of the sterling area but not settled in sterling are excluded, whereas transactions settled in sterling but made with countries foreign to the sterling area, are included;

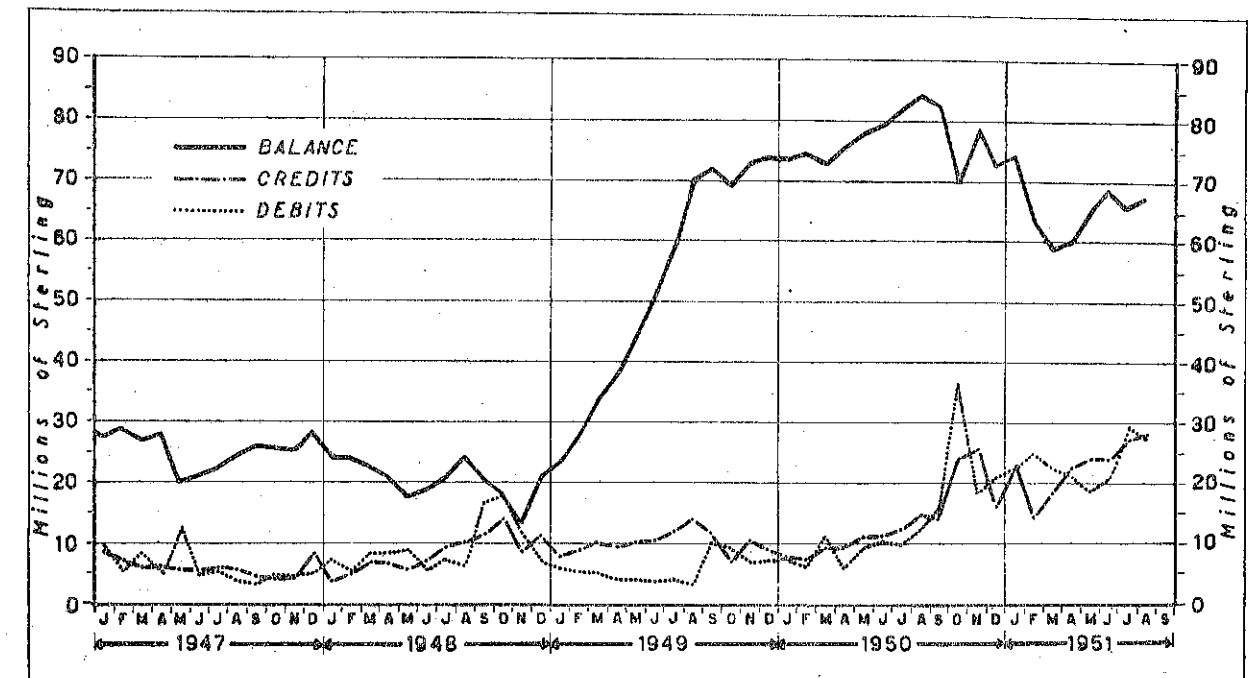
(c) the data given in Table III (p. 195) refer to (*commercial transactions with the sterling area*). Therefore they are inclusive of transactions made with the sterling area even if they are not settled in sterling, but they are exclusive of tran-

to 78.3 in 1948, to 81.9 in 1949 and reached 92.7 in 1950. The net movement, however, conceals uneven and, at times, opposite tendencies. As in all Western European countries, the most difficult sector was the dollar balance. The dollar deficit was \$ 476.8m. in 1948, 450.9m. in 1949 and 253.1m. in 1950 — a deficit exceeding the global one (I).

shrinkage in 1948 (£ 8.0m.). The trend was reversed in 1949, when our credits in London rose by as much as about £ 53m. After the establishment of the European Payments Union (1 July 1950), our sterling credits could be used to meet deficits with respect to all participating countries. Italy's account in the E.P.U. became overdrawn in the first months

ITALY'S STERLING BALANCES IN LONDON

Chart 1



The sterling balance presents a picture completely the reverse of the dollar balance. By the end of 1946, the commercial and financial transactions between Italy and the Sterling Area since the war had resulted in a credit in favour of Italy of £ 28.9m. This figure had remained practically the same at the end of 1947 (£ 28.1m.), but underwent a remarkable

of its existence and our sterling credits consequently tended to decline. They fell from £ 79.68 on June 30, 1950 to £ 73.78m. at the end of December 1950 and to £ 59.61 in March 1951. Italy then became a creditor nation in E.P.U. and at the end of August 1951 our sterling balances in London had increased again to £ 67.51m. (See Chart I).

Thus, in the post-war period, Italy has played the unusual rôle of financier of the Sterling Area, a development which has naturally given rise to discussion and controversy. The problem has recently (in the autumn of 1951) again come to the forefront and our growing E.P.U. credit balance, due largely to the surplus in our transactions with the United Kingdom, placed before the Italian Government the necessity of taking delicate re-equilibrating measures. It may, therefore, be of

sactions in sterling with countries foreign to the sterling area. In other words, the data of Table I have been compiled on an « exchange » basis; the data of Table III on a « geographical » one.

In Table III the sterling area is inclusive also of Egypt, Ethiopia, Siam, Anglo-Egyptian Sudan. For 1950 and 1951, also Afghanistan, Eritrea, Libya and Iran have been added;

(d) the data given in Table I are for imports and exports f.o.b. In Table III the data for imports are c.i.f.; those for exports f.o.b.

(I) Reliable data on dollar balance prior to 1948 are not available.

interest to review rapidly the principal phases of the trade between Italy and the Sterling Area in the post-war period.

*From the end of hostilities to the agreements of April 1947. Italy joins the Transferable Account countries.*

2. — At the end of hostilities, a combination of various factors brought about a rapid recovery in Italian exports to Great Britain (2) which offered a market ready to receive and capable of absorbing a relevant part of the output of some typical Italian commodities, particularly citrus and other fruits and vegetables, that had always contributed much to Italian exports and which had lost their main outlet, Germany. Scarcity of dollars and of shipping contributed to this expansion in imports from Italy. Detailed statistics for the period immediately following the war are not available but the pre-eminent position then held by the United Kingdom in our reopened export trade was stressed in the Report of the Bank of Italy for 1945 (p. 149). « Our exports appear to have reached approximately 900m. lire in 1944 and 1,700m. in 1945, consisting mainly of farm products, especially citrus, and semi-manufactured goods. The principal destination was the United Kingdom which took at least 70 percent of our exports ».

The Italian Government encouraged these exports to the United Kingdom, because they helped the revival of the agriculture of South Italy and enabled our financial authorities to obtain sterling at the favourable rate of 403 lire to the £ (the black market rate for sterling in 1945 fluctuated around 950).

(2) By the agreements made between Italy and the United Kingdom in September 1945, Italian Accounts were opened and the Trading with the Enemy Act, in its application to Italy, was repealed. These agreements, which marked the re-opening of commercial and financial relations between the two countries, provided that the proceeds from commercial and financial transactions owed by residents in Great Britain or in other parts of the Sterling Area to the Italian exporters could be deposited, subject to the permission of the British Exchange Control, in these Italian Accounts and that these Accounts could be drawn upon freely for payments to residents in the United Kingdom and other parts of the Sterling Area or for transfers to other accounts.

3. — Transactions with the United Kingdom and the Sterling Area were settled from the outset under a free currency system and at no time by clearing arrangements. Up to January 1946, the exchange rate was 403 lire to the £. The entire proceeds from exports were paid by the Italian exporters to the Italian Exchange Office. The lira/dollar rate being then 100, the official rate of \$ 4.03 to the £ was fully respected. The rate of 403, having regard to the relative price levels in the two countries, undoubtedly overvalued the lira, but the circumstances of the early post-war period — scarcity of goods, a sellers' market, price dispersion — enabled Italian exporters to obtain remunerative prices despite the deterrent exchange rate. The undervaluation of sterling, however, resulted in some illicit retention of the proceeds from exports (3), with a consequent building up of private sterling balances in London — a hedge *i.a.* against the inflationary danger then becoming evident in Italy.

Early in 1946 the Italian monetary authorities introduced two measures which resulted in a substantial devaluation of the lira. These measures were due not so much to the advance of inflation within the country, for prices held fairly firm in Italy throughout the first quarter of 1946 and black market exchange rates and stock exchange quotations showed some weakening, but rather to the re-emergence of international competition and the growing importance of the price factor in international trade.

The first measure, applied on 4 January, established a premium of 125 percent on the official exchange rate for foreign currency obtained from exports. The dollar consequently appreciated to 225 and sterling to 907 lire. The second measure, introduced in March, was much more important because it established the so-called « 50 percent free accounts » (See Table II and notes). The creation of a « free market » for part of the sterling receipts resulted in a sterling/dollar cross-rate that was different from the official parity. In fact the cross-rate on the « free market » at once moved

(3) Through the device of invoicing goods at prices below those actually received.

ITALIAN LIRA - POUND STERLING EXCHANGE RATES  
(Lire per Pound Sterling)

TABLE II

Annual or monthly averages	Official rate	U. I. C. buying rate	Free market rate	Average between 2 and 3 (export rate)	Black market rate	Cross-rate between U. S. Dollar and Pound Sterling		
						U. I. C. buying rate	Free market rate	Black market rate
	1	2	3	4	5	6	7	8
1938 . . . . .	92.97	—	—	—	88.76	—	—	—
1945 . . . . .	403 (a)	—	—	—	959	—	—	2.57
1946 - January . . . . .	403	906.76 (b)	—	—	1,119	4.03	—	2.95
March . . . . .	403	906.76	—	—	869	4.03	—	2.76
May . . . . .	403	906.76	1,446 (c)	1,176.38	920	4.03	3.97	2.63
December . . . . .	403	906.76	1,522	1,214.38	1,824	4.03	2.67	2.68
1947 - March . . . . .	403.25	907.31	1,947	1,427.15	1,818	4.03	3.26	2.82
June . . . . .	403.25	907.31	3,328	2,117.65	2,141	4.03	3.96	2.90
August . . . . .	1,411.38 (d)	—	2,479	1,935.19	1,804	4.03	3.40	2.78
September . . . . .	1,411.38	—	2,264	1,990.10	1,699	4.03	3.39	2.56
October . . . . .	1,411.38	—	2,127	1,802.69	1,608	4.03	3.55	2.49
November (28-30) . . . . .	1,961.30 (e)	—	1,984	1,972.65	1,453	3.04	3.29	2.49
December . . . . .	1,984	—	1,637	1,810.50	1,446	3.04	2.84	2.43
1948 - March . . . . .	1,838	—	1,839	1,838.50	1,535	3.20	3.20	2.31
June . . . . .	1,947	—	1,963	1,955	1,615	3.40	3.41	2.77
September . . . . .	1,937	—	1,944	1,940.5	1,678	3.37	3.38	2.72
December . . . . .	—	2,317.25 (f)	—	—	1,936	4.03	—	2.94
1949 - March . . . . .	—	2,317.25	—	—	2,068	4.03	—	3.07
June . . . . .	—	2,317.25	—	—	1,832	4.03	—	2.95
September (20-30) . . . . .	—	1,772.27 (g)	—	—	1,795	2.80	—	2.74
December . . . . .	—	1,748.05	—	—	1,551	2.80	—	2.35
1950 - March . . . . .	—	1,749.50	—	—	1,595	2.80	—	2.40
June . . . . .	—	1,749.41	—	—	1,584	2.80	—	2.52
September . . . . .	—	1,749.47	—	—	1,625	2.80	—	2.44
December . . . . .	—	1,749.52	—	—	1,739	2.80	—	2.47
1951 - March . . . . .	—	1,749.58	—	—	1,706	2.80	—	2.48
June . . . . .	—	1,749.67	—	—	1,640	2.80	—	2.54
September . . . . .	—	1,749.72	—	—	1,612	2.80	—	2.42
October . . . . .	—	1,749.73	—	—	1,595	2.80	—	2.32
November . . . . .	—	1,749.72	—	—	1,606	2.80	—	2.31

(a) When hostilities ceased the official exchange rate between the Italian lira and the sterling was fixed at 403 lire per sterling (and the lira-dollar exchange rate at 100 lire per dollar). All the sterling obtained from exports had to be surrendered at this rate to the Italian Foreign Exchange Office (*Ufficio Italiano dei Cambi* - U.I.C.). Therefore the official rate was equal to « U.I.C. buying rate ».

(b) A decree, effective 4/1/1946, established a premium of 125% on the official rate for foreign exchange obtained by exporters. Thus, the « U.I.C. buying rate » was fixed at 906.76 lire per pound sterling (and at 225 lire per U.S. dollar).

(c) For sterling, U.S. dollar, Swiss franc, Portuguese escudo, Egyptian pound, a decree, effective March 26 1946, limited the obligation to deliver export receipts to the U.I.C. to 50%, allowing the remaining 50% to be freely sold on the market and used for authorized imports. Therefore, at that time, 4 rates of exchange were in force in Italy: 1) the official rate (of almost no practical importance); 2) the « U.I.C. buying rate » of 225 lire per dollar (and 906.76 lire per pound sterling), used for most transactions with clearing agreement countries and for 50% of export proceeds from free currency areas; 3) the « free market rate » used for authorized imports from free currency areas and for the remaining 50% of export proceeds; 4) an average of the rates 2) and 3), which became the effective rate for exchange proceeds from free currency areas (« export rate »).

(d) By a decree, effective August 1, 1947, the lira was devalued and the official rate and the rate at which the U.I.C. purchased export foreign exchange were unified at the level of 350 lire per U.S. dollar and 1,411.38 lire per pound sterling.

(e) Since November 27, 1947, the « U.I.C. buying rate » was no more officially determined for U.S. dollar, pound sterling and Swiss Franc. It was made approximately equal to the free rate by providing that it would be determined each month on the basis of the average of the rates prevailing in the free markets of Rome and Milan during the preceding month, provided those rates did not fall below 350 or rise above 650 lire per U.S. dollar.

(f) Since November 26, 1948, all transactions in sterling have again been conducted on the basis of pound sterling-U.S. dollar official exchange rate (4.03). The free market quotations (the so-called « 50% foreign exchange accounts ») for sterling were abolished. Under this regulation fifty per cent of all sterling pounds is sold to the Foreign Exchange Office or authorized banks at a rate determined by multiplying the « U.I.C. buying rate » for the U.S. dollar by 4.03. The remaining 50% may be sold directly to these agencies at a rate based on the closing free market dollar rate of the preceding day multiplied by 4.03.

(g) After the sterling devaluation, the system mentioned under f) remained practically the same. Obviously, the multiplier has been reduced from 4.03 to 2.80.

below 4.03 (4). Naturally, the existence of a free rate was not viewed favourably by the British authorities since it brought to light a devaluation of sterling with respect to the dollar which London strove to the last to prevent. This British opposition to a free rate is a point to be borne in mind because, as indicated below, it exercised afterwards an appreciable influence on the course of trade between Italy and the Sterling Area.

4. — Reliable figures on trade with the Sterling Area as a whole are not available even for 1946 but it is known that trade with the United Kingdom showed a surplus in favour of Italy of nearly 6,000m. lire (5). In any case, at the end of 1946, Italy was a creditor of the United Kingdom, for all transactions with the Sterling Area, to the extent of about £ 32m. (6). Utilization of this credit was very difficult owing to the scarcity of needed goods on the British market while the allocation system left only the slightest possibility of purchasing in other countries in the Area (7). On the other hand, this problem was not to be relieved by the coming restoration of convertibility of sterling because convertibility was to apply only to sterling derived from current transactions.

Early in 1947 an Italian mission visited London to discuss the problem with the British authorities and to attempt to secure the un-

(4) Both the dollar and sterling rates on the « free market » moved considerably above the rates of the Italian Exchange Office, but the dollar rate rose relatively more than that of the pound and the cross-rate, after first touching 3.97, declined substantially more in the following months. Meanwhile, the sterling/dollar cross-rate on the black market was lower, keeping continuously below 3 (see Table II).

(5) According to British sources, British imports from Italy in 1946 amounted to £ 20.5m. (fruits and vegetables accounting for £ 11m.), while British exports to Italy were only £ 6.3m., with a deficit of £ 14.2m. Italian sources (Central Statistical Office) give Italian imports from U.K. at 2,487m. lire and exports from Italy to the U.K. at 8,446m. lire. At the rate of 403 lire to the £, these figures show only minor differences.

(6) The figure of £ 32m. includes some financial items not included in Chart 1.

(7) The Report of the Bank of Italy for 1946, after indicating Italy's total external resources (inclusive of foreign grants) in 1946 at \$ 1,097m., stated that part of this sum could not be utilized during the year « owing to difficulties of various kinds », including « the impossibility of utilizing sterling, of which our resources abroad largely consisted » within the Sterling Area owing to the scarcity of raw materials normally imported from those countries and, outside the Area, owing to the exchange control regulation maintained by the United Kingdom.

freezing (i.e., free convertibility to other currencies) of the greater part of our balances in London. An agreement was reached on the following lines:

Of the total credits of £ 32m. £ 14m. was made convertible, £ 8m. was to be paid to the United Kingdom in settlement of post-war items and £ 10m. was to remain on deposit with the Bank of England as an operating fund for future trade between the two countries. Further, Italy was to be included among the Transferable Account countries which were opened in February of the same year in anticipation of the restoration of sterling convertibility.

Clearly, the agreement rested on the expected restoration of sterling convertibility which would have removed all concern about Italian surpluses with the Sterling Area. That the Italian authorities followed a policy in harmony with the agreement and that they were loyal supporters of the British attempt to restore convertibility is demonstrated by the fact that from 14 April, when the agreement came into force, to 21 August, when sterling convertibility was suspended, there were no sales of sterling for dollars. In fact, during this period, \$ 7,853,000 (equivalent to £ 1,950,000) was bought but £ 2,067,000 (equivalent to \$ 8,287,000) was also purchased by the Italian monetary authorities.

*The convertibility crisis. Abandonment of the official sterling-dollar cross-rate (November 1947). Italy leaves the Transferable Account countries (January 1948).*

5. — The suspension of convertibility put back the problem of our sterling balances and our trade with the Sterling Area on a bilateral basis. It will be relevant however, before dealing with this development, to refer to the exchange structure in Italy.

The end of 1946 witnessed a violent surge in the inflationary tide which continued with increased momentum in the early months of 1947 until it was checked by the so-called Einaudi policy (8). The index of wholesale

(8) Among the many writings on this question, see LUIGI FEDERICI, *Six Months of Italian Economic Policy*, in this Review, No. 4, January 1948, p. 246 et seq.

prices, which in October 1946 still stood at 3,176 (1938=100), reached its highest point in September 1947, touching 6,202. The industrial share index rose from 858.4 in October 1946 to 3,116 in May 1947 (1938=100). From May the Stock Exchange underwent a setback, anticipating the general price recession which set in after September 1947. The foreign exchange market showed a similar trend to the Stock Exchange. On the « free market », sterling, after having touched 2,000 in September-October 1946 fell to 1,522 (9) in December 1946. Early in 1947 it began rising again, reaching its highest level in May (3,576). Black market rates rose almost uninterruptedly from May 1946 (930) to May 1947 (2,315) (See Chart 2).

After this inflationary spurt, the Italian Exchange Office buying rate (225 to the dollar and 907 to the pound) appeared completely unreal. Accordingly, on 1 August 1947, the official dollar rate was raised to 350 and the official pound rate correspondingly to 1,411 lire. The sterling/dollar cross-rate of 4.03 was thereby maintained.

Meanwhile, on the « free market » the anticipating of sterling convertibility had increased the value of sterling with respect to the dollar, bringing the cross-rate between the two currencies near the official one. In June it eased to 3.96 but in July doubts on the success of the British attempt caused a weakening to 3.77 (10). Naturally, with the suspension of convertibility, the spread widened. And any interest or justification on the part of Italy in supporting the sterling « free rate » had disappeared. Convertibility into dollars of both our balances and our current earnings having become impossible, we were confronted once more with the problem of applying appropriate

(9) Probably owing to the intervention of the Italian Exchange Office which, holding large amounts of sterling, could exercise a marked influence on the market.

(10) STERLING AND DOLLAR RATES  
ON THE « FREE MARKET »

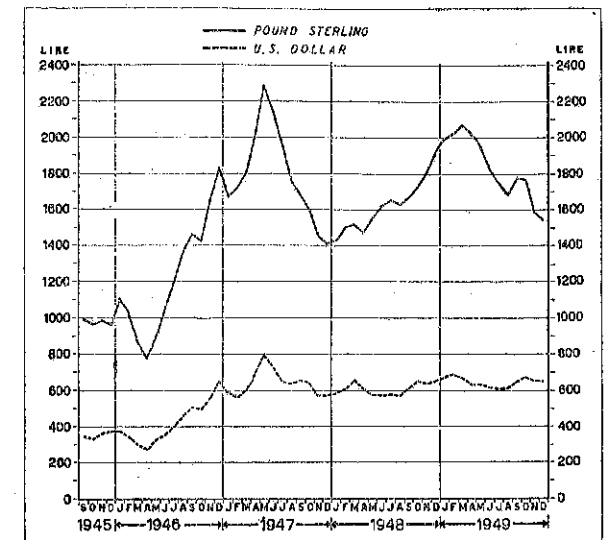
(Lire to the pound and to the dollar)

	Pound	Dollar	Pound/dollar cross-rate
1947 - May	3,576	906	3.95
June	3,328	841	3.96
July	2,919	775	3.77
August	2,479	721	3.40

BLACK MARKET RATES IN ITALY  
FOR POUND STERLING AND U.S. DOLLAR

(Lire per sterling or dollar)

Chart 2



measures to bring our trade and payments with the Sterling Area into balance. This problem was a delicate one because our imports consisted of essential commodities, while our exports, particularly those to the U.K., consisted to the extent of 50 percent of manufactured and semi-manufactured articles, and for the rest of fruits and vegetables, handicrafts, marble, etc., that is, of « non-essential » products.

6. — The exchange system introduced in Italy in November 1947, based on fluctuating exchange rates, was intended to further the recovery of equilibrium. Under the new system, the lira rate for the U.S. dollar, the British pound and the Swiss franc had to be completely determined by free market forces. Therefore, the official lira/sterling rate was no longer pegged to the lira/dollar parity. The cross-rate of 4.03, which had continued in force until then, at least for 50 percent of the sterling acquired by the Italian Exchange Office, was entirely abolished (See Table I, col. 6 and 7).

The introduction of a fluctuating exchange rate could not but arouse objections and reservations from the British authorities. In January 1948, when the sterling/dollar cross-rate on the Italian market fell to 2.84, the London financial authorities canvassed the necessity of

raising the sterling rate to its official parity in order that Italy might continue to be included among the Transferable Account countries. The British request was not accepted and Italy joined the group of « bilateral countries », which meant that the authority of the Bank of England would be required for practically every transaction with the sterling area countries. The Report of the Bank of Italy for 1947 commented on this subject as follows (11):

« ... it should be kept in mind that, while the sterling rates on the Italian market often diverged from the sterling/dollar parity, the cause is not the Italian currency system but the current disequilibrium between our exports to and our imports from the Sterling Area. When sterling became a currency spendable anywhere, following the agreements of 17 April 1947, the sterling rate on our market came into line immediately with the dollar, making the British Empire one single market with the dollar area. It weakened with the suspension of convertibility on 20 August and the sterling/dollar rate soon settled at about the level that prevailed at the beginning of the year (about 3.20).

To the question that so closely concerns England there is only one rational and economically acceptable solution — an increase in our imports from the Sterling Area. It would be necessary on our part to make our purchases to the fullest possible extent in the Sterling Area but it would be necessary above all that England should once again sell us substantial quantities of coal, which has always been in the past our natural import, and other commodities now needed for our reconstruction. To ask, however, as we are asked in some quarters, that the sterling rate should be brought up to the official dollar level before progress is made in this direction would benefit nobody, because a high cross-rate would ultimately aggravate the trade disequilibrium by encouraging Italian exports to the British Empire, whereas the resulting increase in sterling receipts could not be matched by a substantial increase in the outlay of sterling on imports ».

As the Report of the Bank of Italy stresses that coal had to be the balancing commodity in the trade between Italy and the Sterling Area, it may be useful to glance at the pre-war position. As Table III shows, in 1938 the Italian trade balance was unfavourable both with respect to the United Kingdom (140m. lire) and with respect to the Sterling Area as a whole (490m. lire). Since 1945, on the other

hand, the balance with the United Kingdom has always been favourable. From 1945 to 1948, coal was virtually absent from British exports to Italy whereas in 1938 coal imports were 2.2 million tons, valued at 355.1m. lire, or 50 percent of all our imports from the United Kingdom. Without the coal imports, it would have been possible in 1938 also to have a surplus in our trade balance with the United Kingdom, which would have largely offset our deficit with the Sterling Area as a whole. In the post-war period, however, the trade balance with the United Kingdom has been reversed while our trade with other countries of the Area has taken a very irregular course which has accentuated, rather than offset, our creditor position vis-à-vis the United Kingdom.

7. — The fluctuating exchange rate introduced in November 1947 did help materially in paving the way to a more balanced position in the trade relations between Italy and the Sterling Area. It achieved this in spite of the advent of a factor with a completely opposite influence, though of tremendous benefit to our economy, namely, the beginning of Marshall Aid, which naturally limited our purchases in the Sterling Area.

It is roughly estimated that Italy's trade balance with the Sterling Area in 1947 closed with a deficit of 10,000m. lire, made up of a surplus of 9,800m. lire with the United Kingdom and a deficit of 19,800m. with the other countries in the Area. At first sight, these figures might suggest that Italy had to face a deficit problem rather than a surplus problem, but this would be incorrect for two reasons. First, it will be remembered that 1947 was a « black year » for Italian exports owing to the growth of inflation in a period of partially pegged exchange rates. By comparing the deficit in the sterling trade balance with the more serious general trade deficit it was easy to argue that a return to a more stable business situation in Italy would have brought about a surplus in our favour in trade with the Sterling Area (12). Secondly, in 1947 total sterling payments were very different from the

(12) In 1947, the percentage of the credit items to the debit items in the Italian trade balance was 36.5 for the general trade balance and about 83.5 for the sterling balance.

TRADE BALANCE BETWEEN ITALY AND STERLING AREA: 1938-1951 (a)  
(milliards of lire)

TABLE III

Countries	1938			1947			1948		
	Imp. (b)	Exp. (b)	Balance	Imp. (b)	Exp. (b)	Balance	Imp. (b)	Exp. (b)	Balance
<i>Sterling Area</i> . . . .	1.84	1.35	- 0.49	...	...	...	123.7	141.2	+ 17.5
<i>United Kingdom</i> . . . .	0.73	0.59	- 0.14	...	...	...	27.5	45.5	+ 18.0
<i>Sterling Area less United Kingdom</i> . . . .	1.11	0.76	- 0.35	...	...	...	96.2	95.7	- 0.5
<i>Egypt</i> . . . . .	0.18	0.26	+ 0.08	...	...	...	27.5	28.2	+ 0.7
<i>India</i> } . . . . .	0.26	0.16	- 0.10	...	...	...	17.7	32.3	+ 4.6
<i>Pakistan</i> }									
<i>British Malaya</i> . . . .	0.21	0.20	- 0.01	...	...	...	5.7	2.9	- 2.8
<i>Australia</i> . . . . .	0.22	0.06	- 0.16	...	...	...	33.1	4.2	- 28.9
<i>South Africa</i> . . . . .	0.10	0.09	- 0.01	...	...	...	8.2	6.6	- 1.6
<i>World</i> . . . . .	11.06 (c)	8.05 (c)	- 3.01	930.6	339.3	- 591.3	822.8	570.6	- 252.2

Countries	1949			1950			1951 (d) (e)		
	Imp. (b)	Exp. (b)	Balance	Imp. (b)	Exp. (b)	Balance	Imp. (b)	Exp. (b)	Balance
<i>Sterling Area</i> . . . .	152.3	195.7	+ 43.4	205.3	217.2	+ 11.9	257.5	253.9	- 3.6
<i>United Kingdom</i> . . . .	34.3	67.0	+ 32.7	50.4	85.7	+ 35.3	35.3	100.8	+ 65.5
<i>Sterling Area less United Kingdom</i> . . . .	118.0	128.7	+ 10.7	154.9	131.5	- 23.4	222.2	153.1	- 69.1
<i>Egypt</i> . . . . .	34.3	28.7	- 5.6	20.4	25.7	+ 5.3	26.1	19.3	- 6.8
<i>India</i> } . . . . .	15.1	42.1	+ 27.0	18.5	26.5	+ 8.0	...	30.3	...
<i>Pakistan</i> }									
<i>British Malaya</i> . . . .	8.2	7.6	- 0.6	15.3	9.5	- 5.8	28.1	...	...
<i>Australia</i> . . . . .	48.1	8.9	- 39.2	37.7	18.5	- 19.2	58.4	24.8	- 33.6
<i>South Africa</i> . . . . .	12.2	3.4	- 8.8	10.8	14.9	+ 4.1	21.4	...	...
<i>World</i> . . . . .	857.0	634.6	- 222.4	897.6	746.4	- 151.2	994.7	739.9	- 254.8

(a) Sterling Area and « assimilated countries ». See explanatory note (c), p. 188.

(b) Imports c.i.f.; exports f.o.b.

(c) Italian colonies excluded.

(d) As mentioned in the explanatory note (c), p. 188, data recorded in this Table for 1950 and 1951 include also trade transactions with Afghanistan, Eritrea, Libya and Iran, on the basis that a large part of these transactions were settled in sterling. Where these countries excluded — as they are in Chart 2 of Dr. Carli's article published in this issue, p. 184 — the results would be considerably modified. For 1950 the surplus in Italy's favour would rise from 11.9 to 42.5 milliard lire. For the period 1st January-30th September 1951, the deficit of 3.6 milliards lire would be turned into a substantial surplus (26.5 million dollars according to Dr. Carli's computations). In fact, the trade balance with Iran closed — as generally it does — with a heavy deficit for Italy as a result of our imports of petroleum.

(e) January-September. Provisional.

Source: *Statistica del Commercio con l'Estero*.

(11) Pp. 68-69.

trade balance. The former closed with a surplus in favour of Italy of £ 16m. but, since an almost equal sum was disbursed in payments of an exceptional character, our credits in London at the end of the year were practically the same as the total at the end of 1946 (13).

In 1948, as was to be expected, there was a material improvement in our trade balance with all monetary areas. The percentage of exports to imports rose to 69. In absolute figures, the net improvement was 339,100m. lire. The sterling trade balance showed a surplus in 1948 of 17,600m. lire; the net improvement over 1947 was thus 27,600m. lire. Our credits in London, on the other hand, showed a decline to be attributed to a great extent to a substantial repatriation of capital. This return of capital to Italy was a result of the stabilization policy, which succeeded in arresting inflation in September 1947, and was greatly encouraged by the facilities then granted for « franco valuta » imports (14).

Towards the end of 1948, however, the re-establishment of the official sterling/dollar cross-rate slowed down our imports from the Sterling Area and gave a new impetus to our exports.

*The return of sterling to the official cross-rate with the dollar. Italy again a Transferable Account country (November 28, 1948). The devaluation of sterling (September 1949).*

8. — As is known, on 16 October 1948 the 16 participating countries signed in Paris the first agreement on inter-European pay-

(13) In 1947, i.e. £ 8m. was paid for war surplus stores, as provided for in the agreements of April 1947, £ 5.2m. was paid in settlement of the deficit in our compensation account with Belgium, and £ 1.9m. was paid to countries in the dollar area (see Report of the Bank of Italy for 1947, p. 69).

It is very probable that the stability in our sterling credits, notwithstanding the deficit in the trade balance and these exceptional payments, is to be attributed to a substantial flight of Italian capital from the threat of inflation.

(14) « Franco valuta » imports were allowed in specific cases when the importers undertake not to ask for an allocation of foreign currency and not to open credits in Italy to the foreign suppliers. These imports usually represented utilisation of credit balances held abroad. See BRUNO BROVEDANI, *Exchange Rate Structure and Price Level in Italy: 1947-48*, in this Review, No. 6, July 1948, p. 369 ff.

ments which, for the purpose of facilitating reciprocal trade, established the so-called « drawing rights ». In the discussions which took place at that time regarding the distribution of Marshall Aid, it appeared that Italy insisted that the United Kingdom should concede drawing rights up to \$ 25m. This request was based on the expectation that transactions between Italy and Sterling Area would shortly return to their traditional pre-war situation, that is, a deficit for Italy (15). The figure of \$ 25m. represented the expected deficit for the period of the agreement (16 October 1948-30 June 1949). For their part, the British requested that the lira/sterling rate should be brought into line with the official sterling/dollar parity; this would have permitted Italy to rejoin the Transferable Account countries and therefore to use sterling freely within the scheduled territories. Probably, in support of the British request there were motives of a political character which permitted no alternative.

Eventually, an agreement was signed in Rome on 26 Novembre providing as follows:

The Italian Exchange Office was to quote the pound on the basis of the dollar quotation ruling on the Italian market and of the dollar rates fixed in London by the Bank of England (16). Therefore, the pound was to be removed from the « 50 percent free accounts ». Italy was again to be included in the Transferable Account countries. The United Kingdom was to facilitate Italian purchases in the Sterling Area to the fullest possible extent.

The concession of drawing rights and the revaluation of sterling, unfortunately, proved to be contradictory measures. The revaluation of sterling in terms of lire removed all possibility of making use of the \$ 25m. for which drawing rights were granted. It soon became evident that the granting of drawing rights by Italy to the United Kingdom would have been more appropriate since, had this been the case, the increase in our credits in London — an

(15) The United Kingdom entered the agreement as the Sterling Area.

(16) Since the dollar rate in Italy up to September 1949 was about 575, the rate for the pound rose to about 2,317.

inevitable result with sterling at 2,317 lire — would have had at least the counterpart of dollar aid in our favour (17).

9. — The news that Italy would establish an exchange rate for the pound based on the official sterling/dollar parity naturally leaked out long before the agreement was signed and caused a rush to import, especially raw materials. Purchases in sterling rose from £ 6.94m. in August 1948 to £ 16.93m. in September, to £ 17.23m. in October and declined to £ 12.22 in November. In December there was a sudden fall to £ 7.23 and the contraction continued in the subsequent months.

Exports, on the other hand, underwent a striking increase after the agreement. In 1949, Italian exports to the Sterling Area exceeded imports from the Area by 43,400m. lire, of which 32,700m. was attributable to the United Kingdom and the remainder to the other countries of the Area.

But the rate of 2,317 lire to the pound set in motion other forces making for an increase in our balances in London. In 1948 the pound was quoted officially on the Italian market at a rate lower than those ruling on the official markets of most of the other countries which were more or less tied to the official sterling/dollar parity. In turn, our low official rate tended to depress the black market rate (see Table II). There was consequently a considerable demand in Italy during 1948 for sterling from operators in third countries which resulted in a reduction in our balances in London. The situation was reversed in 1949. With sterling at 2,317 lire, Italian importers now bought sterling on the international markets of Zurich and New York where it could be obtained at 1,900 lire or even less.

Owing to these factors, our London balances, which had fallen to \$ 12m. on 16 November 1948, rose to £ 20m. at the end of the

(17) In the first agreement on European payments, Italy gave drawing rights for \$ 47.3m., of which \$ 38.3m. were utilized. Italy received drawing rights for \$ 27m. (\$ 25 by the U.K. and \$ 2 by Austria) which were not utilized as the commercial balance with both these countries closed in our favour. In the second agreement for European payments (1 July 1949-30 June 1950), Italy conceded drawing rights for \$ 24.5m. but received none. These figures illustrate the tendency of the Italian trade balance towards a surplus not only with the United Kingdom but also with the other participating countries as a whole. This trend became more evident in the autumn of 1951.

year and reached £ 78.5m. on 17 September 1949.

The undervaluation of the lira had another unfavourable effect for Italy; it made more difficult the task of reducing our dollar deficit. With the aim of eliminating or at least reducing this deficit, the participating countries diverted their purchases as much as possible from the dollar area to other monetary areas. But for Italy the check which the rate of 2,317 placed on purchases in the Sterling Area naturally resulted in greater purchasing in the dollar area (18).

This explains the criticism made of the agreement entered into in May 1949 between Italy and Great Britain in the framework of the second agreement for European payments (1949-1950). The demand for measures that would correct the marked disequilibrium in our commercial exchanges with the Sterling Area became more and more insistent whereas the agreement of May 1949 provided none. The expectation of a volume of trade between Italy and the Sterling Area of £ 150m. sterling (£ 76m. of imports and £ 74m. of exports) seemed very unrealistic.

10. — In September 1949 the devaluation of sterling was interjected in this state of affairs. The lira-pound rate fell at first to 1,772 from 2,317 and subsequently, following the dollar rate, to 1,748-1,749 (19). Thus, the devaluation of the pound with respect to the lira, after the initial period of adjustment, was about 24 percent.

For Italy, the devaluation of the pound was very damaging owing to the size of the existing sterling balances in London. To this was added the preoccupation whether the devaluation itself and the adjustment chosen for the Italian lira would cause a serious reduction in

(18) See the Report of the Bank of Italy, 1948, p. 66.

(19) Except for changes of a technical character, the lira-pound exchange system was not revised after the September devaluation. There was, however, a change of some importance in the lira-dollar exchange. The rate for the 50 percent which was to be surrendered to the Italian Exchange Office was no longer fixed according to the average rate recorded on the free market during the preceding month but according to the average of the previous day. Between 20 and 30 September, the dollar increased from 575 to 631 lire and subsequently fell to about 625. Hence, the immediate devaluation of the lira was 9.8 percent, becoming after these fluctuations 8.7 percent on the average.

our exports — particularly to the Sterling Area and create a new obstacle to trade with the dollar area.

These preoccupations were not groundless. Trade with the Sterling Area, which, as we have seen, showed a surplus in our favour in 1949 of 43,400m. lire, resulting from imports of 152,300m. lire and exports of 195,700m., still showed a surplus in 1950 but of much smaller proportions, viz., 11,900m. lire, resulting from imports of 205,300m. and exports of 217,200m. But the maintenance of this small favourable surplus was made possible only by the compensating effect of the process of trade liberalization which helped materially our exports to Great Britain. It is significant in this respect that in 1950 the Italian surplus with the United Kingdom had increased over 1949 (35,300m. lire against 32,700m.) while the surplus with the Sterling Area was changed into a deficit (from +10,7000m. to -23,400m.) (20).

#### The post-Korean situation. Transactions between Italy and the Sterling Area under E.P.U.

II. — In the second half of 1950 two new factors came into play, modifying the structure and trend of transactions between Italy and the Sterling Area. These were the setting up of E.P.U. and the Korean outbreak.

Table IV shows the course of the Italian and British monthly balances in E.P.U. for the period July 1950 to November 1951, and the positions of both countries with respect to other members of the Union (21).

(20) In 1950, with the aim of increasing imports from the Sterling Area, Law No. 258 was passed (dated 18 April) authorising the Treasury to obtain from the Italian Exchange Office up to £ 50m. for the financing of purchases of machinery, equipment and implements in the Sterling Area by Italian industrial and agricultural firms.

(21) Italy was assigned a quota in E.P.U. of \$ 205m. (equivalent to 128,200m. lire) composed of \$ 113m. (76,900m. lire) in credits and \$ 82m. (51,300m. lire) in gold or dollars. As is known, the British quota is \$ 1,060m.

The maximum financing margin granted by Italy to the several participating countries before the setting up of the E.P.U. was equal to 32,000m. lire, excluding countries in the Sterling Area, with respect to which reciprocal credits were formally unlimited. On 30 June 1950 our credits in sterling amounted to £ 79.68m. This sum included the balance of the Italian Exchange Office at the Bank of England, agreed within E.P.U. at £ 59.6m. (\$ 166.9 millions) and the accounts held by the

ITALY AND UNITED KINGDOM: POSITION IN THE E.P.U.  
(millions of dollars) TABLE IV

End of period data	Cumulative net position with the E. P. U.		Cumulative bilateral position Italy-U.K. (h)
	U. K.	Italy	
Initial position	- 150	0	
1950 - July	...	+ 3.7	...
August	...	+ 12.7	...
September	- 70.3	+ 2.4	...
October	+ 140.6	- 17.1	- 40.99
November	+ 237.3	- 17.1	- 47.24
December	+ 282.9	- 30.9	- 68.97
1951 - January	+ 315.4	- 34.1 (a)	- 84.45
February	+ 389.3	- 41.0 (b)	- 112.25
March	+ 398.8	- 41.0 (c)	- 126.12
April	+ 450.8	- 34.8	- 128.39
May	+ 423.6	- 16.2	- 113.89
June	+ 371.9	+ 12.1	- 92.64
July	+ 251.1	+ 66.2 (d)	- 57.33
August	+ 62.9	+ 117.8 (e)	- 16.08
September	- 141.9	+ 142.0 (f)	- 4.04
October	- 391.5	+ 205.0 (g)	+ 42.24
November	...	+ 226.5	+ 63.60

(a) Use of 16.8 millions dollars of existing resources; (b) Use of 20.3 millions dollars of existing resources; (c) Use of 5.4 millions dollars of existing resources; (d) Gold disbursements by the E.P.U. in Italy's favour: 12.6 million dollars; (e) Gold disbursements: 38.4; (f) Gold disbursements: 50.5; (g) Gold disbursements: 82.0; (h) The sign + indicates a surplus in Italy's favour.

(i) As can be seen, in the autumn of 1950 Italy was in deficit with the United Kingdom within E.P.U. (22). In December the deficit stood at \$ 68.97m. The trade balance with the Sterling Area at the same date, however, closed with a surplus in Italy's favour, though a small one (11,900m. lire). This difference is explained, at least in part, by the fact that the balance of 11,900m. relates to the whole year and the E.P.U. figure relates only to the second half of 1950, while our exports to the U.K. — essentially of a seasonal character — reach their maximum level during the spring and summer months.

(ii) The trend of the bilateral Italy-United Kingdom accounting position in the E.P.U. and the trend of trade balance with the Sterling Area present a different aspect when we

Italian Exchange Office and Italian banks with British banks as working balances.

(22) The United Kingdom participated in E.P.U. as the Sterling Area and consequently movements in sterling balances arising from multilateral clearings correspond with the fluctuations resulting from the debit and credit positions to which the Area is subject.

consider the twelve months 1 July 1950-30 June 1951. From 1 July 1950 to 30 April 1951 the E.P.U. monthly clearing showed a continuous deficit for Italy, reaching a total of \$ 128.3m. equivalent to 80,110m. lire, and falling on 30 June 1951 to \$ 92.64m., equivalent to 57,800m. lire (23). The commercial balance between Italy and the Sterling Area also displayed a variable, but, on the whole, a deficit course between 1 July 1950-30 April 1951, reaching 12,700m. lire, but by 30 June 1951 the deficit had risen further to 24,700m. lire.

The two balances thus show parallel courses, but the fluctuations in the E.P.U. balance are considerable wider than those in the trade balance and exceed the normal swings of the balance of payments between the two countries. The inflation in the E.P.U. movements is due to a number of factors which, though difficult to measure, are decisive in their effect. The most notable are: (a) transactions settled in sterling with countries not belonging to the Sterling Area, whose deficit towards Italy at that time may be estimated at about 15,000m. lire; (b) different conditions of payment for imports and exports; (c) advance payments, such as those financed by the I.M.I. (*Istituto Mobiliare Italiano*) for the transactions mentioned in footnote (20), amounting to about 23,000m. lire, whereas deliveries by the suppliers were not made except to the extent of 40 to 50 percent; (d) allotment of funds for the purchase of Australian wheat not yet delivered, for which the funds (10,500m. lire) had already been entered in E.P.U. payments; (e) advance payments for current imports from the Sterling Area amounting on 31 January, for those for which credits had been opened or collateral deposited, to £ 16.5m. and falling by the following May to £ 9.0m.

Moreover, in late 1950 there were rumours of a revaluation of sterling and our importers were then paying for imports not merely on

(23) In the months January-March 1951, Italy drew on part of its existing resources in London (to the extent of \$ 42.5m., equivalent to £ 15.19m.) to meet its E.P.U. deficit with the United Kingdom. Our London balances consequently fell from £ 59.6 to £ 44.4m. Subsequently, when we reached a creditor position, it was no longer possible to draw on our sterling balances.

delivery of documents but even in advance. Exporters, on the other hand, waited months for the receipt of their foreign currency proceeds.

(iii) While these reasons tended to swell the deficit in the E.P.U. balance up to the end of April 1951 beyond the measure represented by the trade balance and by the normal financial operations, other factors, frequently not precisely identifiable, served to accelerate an opposite phenomenon which became evident in the E.P.U. balance between May and November 1951.

From July to October 1950 our trade balance with the Sterling Area had shown a surplus of about 11,000m. lire; from November 1950 to March 1951 there was a deficit of 13,400m. lire; in the period March-June 1951 the deficit rose to as much as 22,300m. lire. The bilateral Italy-United Kingdom position in E.P.U., on the other hand, turned in Italy's favour in April-May, just when the opposite trend was becoming accentuated in the commercial balance between Italy and the Sterling Area.

To understand this new contrast, the following factors must be kept in mind: (a) the incidence of invisible items, including tourism, freights, emigrants' remittances, etc., estimated for the first year of E.P.U. at around 38,500m. lire (24); (b) the commercial credits obtained by Italy in the form of credit lines, acceptances of Italian banks, discounting of bills and guarantees, totalling on 31 March 1951 £ 26.8m.; (c) advance payments for Italian exports amounting to about £ 6m.

In summer 1951 there was also the upsetting of the forecasts regarding the future of the pound. Hopes of a revaluation were followed by fears of a further devaluation and our exports came to be cashed immediately, while the payment of our imports was delayed (25).

(24) In accordance with the recommendations of OEEC, the participating countries introduced in the autumn of 1950, in varying degrees, a liberalization in the allotment of funds for tourist travel abroad.

(25) Among imports from the Sterling Area, appreciable increases occurred in 1950 in coal (from 1,009 metric tons in 1949 to 1,776 metric tons) and cotton (from 32,000 to 47,000 metric tons, with a value of 27,100m. lire against 19,600m. in 1949).

In the first nine months of 1951, there were substantial increases in our imports from the Sterling Area of wool,

TABLE V  
PERCENT PARTICIPATION OF THE STERLING AREA  
AND UNITED KINGDOM  
TO ITALY'S GLOBAL FOREIGN TRADE

Period	Imports from :		Exports to :	
	Sterling Area	United Kingdom	Sterling Area	United Kingdom
1938	16.6	6.6	16.8	7.3
1947	14.5 (a)	2.0 (a)	24.5 (a)	9.0 (a)
1948	15.0	4.3	24.7	8.0
1949	17.8	3.6	30.8	10.7
1950	22.8	5.8	29.1	12.1
1951 (b)	25.9	3.6	34.3	13.6

(a) The percentages for 1947 are to be considered merely as rough estimates.

(b) January-September.

(iv) In June 1951, the rush to buy strategic materials in the Sterling Area ended, although in the case of Italy, this purchasing affected values rather than quantities, the price rises occurring in the early months of 1951. In the same period, there was the usual seasonal recovery in our exports. According to preliminary figures, for the first 11 months of 1951, there was a surplus in our trade balance with the Sterling Area of 11,100m. lire, resulting from exports of 319,900m. and imports of 307,800m. In the same period (January-November 1951), E.P.U. transactions between the two countries closed with a much heavier surplus in Italy's favour. The bilateral cumulative position, which showed a debit of 68.97 million for Italy at the end of 1950, presented a credit balance of 63.60m. at the end of November 1951. In these circumstances, our London resources represent practically a frozen credit since their use in transactions outside E.P.U. countries is extremely difficult (26).

cotton, grains, copper, hemp, etc. On the other hand, there were increases in our exports of textiles, artificial fibres, machinery and equipment, chemical goods, etc. The share of the Sterling Area in total Italian foreign trade reached 25.9 percent for imports and 34 percent for export (see Table V).

Exports of fruits and vegetables increased only very slowly in 1949 and 1950. In 1951 (even before the British authorities placed restrictions on imports) there was some decline. This trend was due to a considerable extent to the re-emergence and gradual increase of the German demand on the Italian market.

(26) In addition to the E.P.U. credit and the previous Sterling Area credit of \$ 129m., Italy had at June 30, 1951 a surplus with Eastern Europe and South America of \$ 191m., reduced to \$ 144m. on 1 September; that is a strong credit position in all areas except the dollar area.

12. — To sum up, by October 1951, Italy had already recovered a creditor position vis-à-vis the Sterling Area in E.P.U. transactions. This position was still more marked in the following November. Italy was also a creditor in E.P.U. transactions vis-à-vis the other countries in the Union (27).

The factors indicated have undoubtedly contributed to the building up of our creditor position in E.P.U. But two other causes also tended to check our imports from the E.P.U. countries — the price movement in various countries of the Union and the restrictive regulations applied to certain exports by the supplying countries.

In Italy between January and November 1951, the general wholesale price index increased by only one percent, whereas there were appreciable increases in most E.P.U. countries. In France, for example, the wholesale price index rose in the same period by about 22 percent and, next to the United Kingdom, France is our principal debtor in E.P.U. Now, a greater increase in prices in other countries with unchanged exchange rates could not but restrict our imports. The situation was the reverse, if on a reduced scale, of the 1947 phenomenon when inflation held down our exports.

The other factor was the difficulty of obtaining raw materials and other goods of importance to our economy through the thick hedge of international regulations. It is significant that in 1951 we were compelled to turn to the dollar area for basic commodities. Thus, while in 1950 coal imports were not included in the E.C.A. programme, it was impossible

(27) The trend of transactions between Italy and E.P.U. as a whole was similar to that of the transactions between Italy and the United Kingdom. As the E.P.U. balance with the United Kingdom turned in our favour, our credit balance with the other countries of the Union also increased. This is due to the fact that sterling transactions predominate, and consequently are decisive, in our transaction with the E.P.U. countries as a whole.

At the end of October 1951 our cumulative accounting position had reached a credit balance of \$ 205m. Italy had thus completely exhausted its quota and the proposal was made to allow a supplementary quota of \$ 100m. The position of United Kingdom, after reaching a surplus of \$ 450.8m. (April 1951) worsened. At the end of September it had a deficit of 141.9m. dollars and at the end of October one of 391.5m.

in 1951 to cover our requirements by imports from Germany, Poland and the United Kingdom and we were obliged to import once again from the United States.

The analysis of the problems which this situation presents to the Italian government and the governments of other interested countries lies beyond the limits of this survey, as do the possible developments of the present situation, which, in any case, are difficult to forecast owing to rapid changes from a creditor to a debtor position and *vice versa* (28). For their part, the Italian authorities have taken a

(28) On the question of the surplus in our exchanges with E.P.U. countries the newspaper *24 Ore* has recently published a series of articles by various contributors. For a list of these, see the issue of December 2, 1951.

number of steps to increase imports (29), while, on the other hand, measures that might discourage exports have been avoided since these might have a serious impact on the internal economic situation, characterised by idle industrial capacity and mass unemployment.

(29) The principal steps are:

(a) tariff reductions; customs duties have been reduced by 10 percent and consequently the average *ad valorem* protective duty has declined from 18 to 16 percent;

(b) credit facilities for importers; the Italian Exchange Office will grant credits to a total of \$ 20m., with interest at 2.5 percent, to those wishing to purchase on foreign markets. These credits are for a period of six months;

(c) State purchasing; appropriations for government purchases of foodstuffs and raw materials have been increased from 100,000m. to 150,000m. lire;

(d) liberalization for invisible debit items (tourist allowances of foreign exchange, transfers, etc.).