

## The Annual Report of the Bank of Italy for 1953 (\*)

In his address (1) to the Annual Meeting of Shareholders, Dr. Menichella, Governor of the Bank of Italy, gave his customary broad survey of international and domestic economic affairs. It contained this year a number of especially pertinent comments on the Italian situation, to some of which we wish to draw particular attention.

### Italy's Investment Needs.

One of the main themes about which much of the Governor's discourse turned was Italy's investment needs and their relation to general economic and financial policy.

He pointed first to the very satisfactory recent progress in terms of the level of output. The latest production figures, which were good over Western Europe as a whole, had been especially good for Italy. The index of industrial output in 1953 reached 156 (on the base 1938 = 100); and in agriculture the results of the 1952-53 crop year (due partly it is true to particularly favourable weather conditions following the poor ones of the previous year) brought the index of agricultural output to 117 (on the same base). Reduced to *per capita* dimensions the index for industry reached 142 and that for agriculture 106. He commented further that the economic history of Italy had never before known such rapid progress as that shown in the last three years, over which industrial production including building had risen by one third.

Both in agriculture and industry, he observed, the expansion was due more to improvements in methods of production, and the modernisation and expansion of equip-

ment, than to an increase in the numbers employed. Thus in agriculture the active population had actually fallen by 11 per cent from 1936 to 1953; and in industry it had increased over the same period by only 21 per cent (or somewhat more than a million workers) as against an increase in industrial production of some 76 per cent. He proceeded to describe the double, or triple source of Italy's present investment needs: the need for increasing the productivity of the existing plants, and the need for creating new plants to absorb both the additions to the working population and the existing body of unemployed. He foresaw that part of the present intense demand for investment would be relieved in the not too distant future as the necessity for modernisation of plants which had over a considerable period failed to keep pace with the advances in technical knowledge was satisfied, and as the expected decline in the rate of population growth made itself felt; that as the pressure from these two factors declined, the progress of the economy would begin to reflect itself more markedly than heretofore in the reduction of the hard core of persistent unemployment and underemployment which has afflicted Italy for so many years past. He drew attention, that is to say, to what he thought was the transitory nature of the present heavy capital needs. And he made a plea for patience on the part of those at home who might need to be satisfied temporarily with a rate of growth in their real income and consumption below the level which would be possible in the absence of the unemployment problem, and for the drawing of encouragement from the prospect of the limited duration of the difficulties by those abroad who might be willing to assist in providing part of the capital necessary to overcome them.

### The Technique of Credit Control by the Central Bank.

Referring to the financial aspects of the investment programme, which required public as well as private expenditures, the Governor took the occasion for going over in retrospect the four critical repercussions which the programme had had so far on the Italian economy: the effect which it had had in increasing the budget deficit, in expanding the volume of credit, in pressing on the internal price level, and in raising the deficit in the balance of payments. Of particular interest in this review was the attention — much more explicit than has been given in the previous Annual Reports of the Bank — which he gave to the mechanism of credit control. It is hardly necessary to recall, that, at least during the period 1947-1951, the credit control exercised by the Italian monetary authorities was widely regarded, both at home and abroad, as being one of the tightest. Drawing illustrations from the course of events in the last three years, however, the Governor is now inclined to emphasize the weakness of the authorities in regard to monetary policy. The basic facts underlying this argument were the following:

The period between the autumn of 1950 up to the middle of 1951 was one of gradually declining liquidity for the commercial banks. There followed a period of high liquidity ratios between the summer of 1951 and the autumn of 1952 which was also, roughly speaking, the period when the stability of Italy's price level was most acutely threatened from the domestic side, and the growing pressure on the balance of payments was most apparent. Only towards the end of 1952 and during 1953 was the banks' liquidity position again reduced to tight limits. Broadly speaking the period of declining liquidity was one of increasing commercial bank indebtedness to the Bank of Italy, and *vice versa*, reflecting the natural tendency for the banks to borrow more when their cash position is weak and to repay when it is strong. Thus the Governor remarks that the volume of credit that the banks were

capable of giving was largely outside the control of the Central Bank between the late summer of 1951 and the autumn of 1952, since the banks were over most of the time having less, rather than more recourse to the Central Bank for credit. It was outside the Central Bank's control that is to say, in so far as the Bank's sole weapon was discount policy, or — using this term in its broadest sense — the power to determine the volume of accommodation (whether rediscounts or advances) which it grants *directly* to the banking system. To complete the picture, however, we have to consider, as the Governor proceeded to do, the other, *indirect* sources of increased bank liquidity, and the extent to which the Central Bank, or at least the « monetary authorities » (in the sense of the Central Bank and the Treasury combined), had control over these.

Over most of the fifteen month period of dangerously high liquidity (*i.e.* the period from the summer of 1951 to the autumn of 1952) the Treasury was drawing fresh funds out of the Bank of Italy (2). And during part of that period the Foreign Exchange Office (*Ufficio Italiano Cambi*) was also a net drawer of funds from the Bank. The Governor was here giving us an instance of the familiar truth that tightness of the discount mechanism will not in itself be an effective instrument of control if the banks are at the same time being made liquid through increased accommodation granted by the Central Bank through other channels (3).

The Governor concludes from this instance, and more generally from the course of events during the last three or four years, that « the efficiency of the instruments available to the Central Bank is far from complete », and he leaves the impression that the fact that no very serious consequences

(2) The additional amounts drawn exceeded what was channeled to the Treasury out of the « compulsory reserves » of the banks.

(3) As we remarked last year (this *Review*, No. 25, April-June 1953, pp. 100-101), the banks were also being made increasingly liquid by the cash accruals deriving from the falling ratio of currency to deposits held by the public, a factor which is not directly within the control of the monetary authorities. This factor was not, however, of dimensions anywhere near sufficient by itself to lead to too rapid an expansion in the volume of bank lending.

(\*) BANK OF ITALY, *Assemblea generale ordinaria dei partecipanti*, 1953 (Rome, 1954), pp. 412+A 88. An abridged version has, since last year, been made available in English.

(1) Published as Chapter III of the Report (pp. 369-412).

have ensued so far has been due to a series of favourable combinations of circumstances that were outside the direct control of the Bank — *i.e.* that the «rigid» factors affecting the net amount of additional accommodation given by the Bank happened just to be the right, or nearly right amount. Thus at one period (October 1950 to June 1951) the heavy demand for funds from the private sector, which caused the commercial banks to liquidate some of their holdings of government securities, to draw down their cash reserves, and to run into increased indebtedness towards the Central Bank, happened to coincide with a situation in which the Treasury was drawing no net new funds from the Bank over and above the amounts channeled to it out of the compulsory reserves of the banks (on the contrary it effected some repayment), so that on the whole the addition to the cash base, and to the total volume of bank lending, was kept within the limits that could be absorbed by the increase in production at an internal price level which rose no faster than the international price level. At another period (July 1951 to September 1952) the additional drawing of funds by the Treasury plus, over the earlier part of the period, the drawing of funds by the Foreign Exchange Office came near to exceeding the amount that could be absorbed by the system without causing inflationary pressure on the internal price level, but was prevented from so doing by another fortuitous factor in the shape of the relief provided by the fall in international prices. And at a third (October 1952 to the end of 1953) the repayment of indebtedness by the Foreign Exchange Office to the Bank happened to provide a sufficient offset to what would otherwise have been an excessive volume of new funds drawn from the Bank by the Treasury. The net effect was, the Governor remarks, that «the year (1953) closed with the reduction of liquidity to its normal limits and the recovery by the Central Bank of full control over the banking system».

The Governor evidently wishes to show that the amount of accommodation given by the Central Bank is subject — perhaps in-

creasingly subject — to social and political exigencies. And he wants to emphasize first of all that the size of the budget deficit itself — which it was generally understood previously had been partly determined (especially in so far as concerned the element in it which depended on the level of investment expenditures) with an eye to the requirements of monetary policy — was becoming more rigid (at least against downward adjustments) (4). He suggests that there is less flexibility here, and in fiscal policy generally, in Italy than exists in some other countries; and he remarks on the necessity for caution on the part of the Italian Government in obligating itself too heavily in respect of inflexible plans for future expenditures.

There was, however, one instrument of credit policy to which the monetary authorities did not have recourse during the «critical period», and to which the Governor does not directly refer. This is the possibility which the authorities would have had — in case of need — of placing a larger part of the new Treasury financing outside the Bank of Italy with the aid of *adjustments in the level of interest rates*. And the same principle would apply to the financing of the Foreign Exchange Office which might itself have been provided with Treasury bills or certificates for sale on the market.

It may be worth digressing for a moment to consider this point in a little more detail.

In systems of the «Continental» type where it is customary for the Treasury to cover part of its need for funds by borrowing directly from the Central Bank, the commercial banking system can be made more or less liquid according as the Treasury places a larger or smaller part of its total financing or refinancing with the Central Bank, and a correspondingly smaller or larger part with the market. In such a system the shifting of Treasury indebtedness from the Bank to the market, or *vice versa*, thus performs very much the same function as do corresponding amounts of open market sales or purchases, respectively, of government

(4) He also pointed to the pressure for additional accommodation from the Bank exerted by sudden heavy increases in the general wage level.

securities by the Central Bank in those systems where open market operations are a recognized instrument of credit control but where, on the other hand, it may not be customary for the Treasury to have direct access to the Bank for more than marginal amounts of accommodation. In the «Continental» systems, where open market operations are not used, the authorities have, so long as the Treasury is «in the Bank», a substitute weapon which, even though it may not be so perfect an instrument allowing of such fine adjustments, is capable of producing broadly the same effects. Thus, obviously, the switching of a certain amount of new Treasury financing from the Bank to the market (or *vice versa*) would cause the cash base of the system to increase that much less (or more), in the same manner as would a corresponding reduction (or expansion) in open market purchases by the Bank; and the switching of Treasury refinancing from the Bank to the market will reduce bank liquidity in the same manner as will open market sales by the Bank.

The point which should particularly claim our attention, however, is that the two procedures are the same also in another respect: The switching of Treasury financing from the Central Bank to the market may require (5), as a means of inducing the latter to take up the additional government paper (especially in face of heavy competing demands for credit from the private sector), the offer of more favourable interest rates on that paper, in just the same manner as open market sales by the Central Bank are likely to lead to a hardening of rates. It is clear, too, that if the Central Bank keeps its door

(5) The Italian authorities have theoretically the possibility, under their present system, of forcibly channeling more of the commercial banks' funds into Treasury uses by raising the compulsory reserve requirements. But since at the time of which we have been speaking the banks were already increasing their holdings of Treasury securities beyond the extent needed by the reserve regulations, it is open to doubt where a moderate rise in the requirements (*i.e.* one that did not seem unduly to penalise the banks) could by itself have done more than transform voluntary acquisition into compulsory acquisition. The situation might have looked different, of course, if the banks had been reducing their holdings of government securities at that time. The reserve requirements, it may be recalled, have not so far been changed since they were first instituted in 1947.

open to the Treasury for all amounts of financing which the latter is unable to place with the market at a given, «pegged» interest rate, the same process is at work as when the Bank undertakes open market purchases of securities in order to hold market interest rates stable — which was the method of support of the Treasury by the monetary authorities followed earlier in the United States, and elsewhere, before the policy of maintaining «cheap money», even at times when it was possible only at the cost of creating inflationary pressure, was abandoned.

It is important to observe that the manoeuvring of credit policy in both directions (*i.e.* first to combat inflationary tendencies and then to ward off deflationary ones) which the Federal Reserve System carried out in 1953, and of which the Governor of the Bank of Italy expresses his admiration, is at bottom the acceptance of the flexibility *in both directions* of interest rates, both short and long term.

In Italy, while no attempt was made in the early postwar years to follow an ultra-cheap money policy of the type adopted in a number of other countries, there has, since 1949, been a consistent tendency towards a reduction of official interest rates representing, as another section of the Bank's Report (6) reminds us, part of the «movement towards a reduction of the interest charges which burden production». Since that time, then, the movement favoured by the authorities has been throughout a one-way movement. Official interest rate policy was not, during the critical period between 1951 and 1952, marked by any such temporary upward thrust as characterised official rediscount and Treasury bill rates in many other countries, during approximately the same period, in response to the necessity of checking the inflationary tendencies by which they also were for some time threatened (7).

(6) Cf. pp. 308-9.

(7) The yield on Treasury certificates (10 months) in Italy stood at 4.71 per cent from April, 1949 until May, 1952, when it was reduced to 4.17. The Bank of Italy's rediscount and advance rates have both been kept unchanged at 4 per cent since April, 1950. Italy is the only country of the ten shown

The Governor did not express any view as to whether he thought this instrument of a flexible interest rate policy could, or would, be used also in Italy in the future should the circumstances render the combination of rigid or fortuitous factors of the kind he described less favourable than it had been so far, and cause the other instruments of Central Bank control to be inadequate. In other words he does not tell us whether even if there is little or no elasticity left in fiscal policy in the narrower sense, there is not still some in public debt policy.

#### Views on Commercial Policy.

The weakening of Italy's competitive position in export markets, the increased domestic demand for imported goods, and the deterioration in the balance of payments position had been a very marked feature of developments in 1952; and, although there was some improvement in 1953, much emphasis continues to be laid, in current Italian discussion, on the problem of keeping the deficit in check. It was against this background that the Governor — and again he was much more explicit in giving us the benefit of his views than in previous years — took his stand in the matter of some of the suggested cures for Italy's balance of payments difficulties. He rejected the view that the remedy lay in export subsidies, in import duties higher than those now effectively applied, or in the reimposition of quantitative restrictions on imports; nor did he think that it was appropriate for Italy to deprive her own economy of capital (except in special cases) in order to grant large-scale credits to foreign buyers. The Governor instead lent his support to the view that the only satisfactory solution lay in the strengthening of Italy's productive structure, in encouraging competition rather than restraining it, and in avoiding measures which increased domestic costs and thus made Italian goods uncompetitive in world markets; and that there should be no retreat from the

in the Table on p. 28 of the Bank's Report which had a stable official rediscount rate throughout the period between June, 1950 and the present time (May, 1954).

liberalisation policy of which Italy had so far been one of the most consistent supporters.

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The remainder of this article gives a brief account of the main developments in the Italian economic situation in 1953, continuing for the most part the same statistical series as we selected last year.

#### Summary of the Year's Developments.

The Governor laid considerable stress, as we have noticed; on the return to stability in 1953 after the danger signs that had manifested themselves in the previous year. Most of the statistical indices which we used previously bear out this position. Price stability, much smaller increases in wages than occurred in the previous year (see Table I),

TABLE I  
MOVEMENTS IN PRICES AND MONEY WAGES  
(ISTAT indices, 1938=1)

	Wholesale prices	Cost of living	Money Wages (a)	
			Industrial workers	Agricultural workers
1950 June	46.7	48.2	58.1	69.5
Dec.	54.1	50.1	59.6	69.9
1951 Feb.	57.4	51.7	59.7	70.0
June	55.9	53.9	63.3	70.8
Dec.	54.5	54.2	66.8	72.2
1952 June	51.3	55.6	70.5	73.1
Dec.	52.9	56.1	74.3	80.0
1953 June	52.5	57.2	75.2	80.1
Dec.	52.6	56.8	75.7	81.4
1954 Mar.	53.4	56.9	75.9	85.8

(a) Including family allowances for married men with three children.

Source: Monthly Bulletins of the Central Institute of Statistics.

the avoidance of a further rise in the budget deficit, the slowing down in the rate of growth in the volume of money and bank credit, and finally the arresting of the increase, or even some reduction in the deficit

on current account in the balance of payments, were all signs of an improved situation.

#### Balance of Payments and Foreign Exchange Reserves.

In connection with Italy's foreign trade position, it is relevant to observe that there was in 1953 no further divergence of the movement in Italy's domestic price level away from that in the international price level; nor was there, however, any closing of the gap left by the divergence which had clearly manifested itself after the middle of 1952.

that there has been a heavy deterioration in her private foreign exchange position (due especially to increases in sums owed by Italians, or decreases in sums due to them, on account of lags between imports and the payments for them, and between exports and the receipts for them). The hole made in the official reserves is not yet by itself serious — at the end of 1953 the net position (837 million dollars), though considerably below the peak (993 million) reached in February, 1951, was only 40 million dollars below the level of June, 1950. There has also been a « qualitative » improvement since this last

BUDGET DEFICITS  
(Milliards of lire)

TABLE 2

	Treasury figures						Bank of Italy figures	
	Administrative budget			Cash budget			Administrative budget (adjusted) Total	Cash budget (adjusted) Total
	Ordinary account	Capital account	Total	Ordinary account	Capital account	Total		
1947-48	- 844	- 71	- 915	- 416	- 89	- 505	- 903	} n. a.
1948-49	- 496	- 57	- 553	- 370	- 50	- 420	- 530	
1949-50	- 295	+ 121	- 174	- 200	+ 116	- 84	- 349	- 229
1950-51	- 169	- 44	- 213	- 211	+ 52	- 159	- 339	- 307
1951-52	- 410	+ 37	- 373	- 320	- 15	- 335	- 494 (d)	- 424
1952-53 (a)	- 497	+ 173	- 324	- 374	+ 140	- 234	- 587	- 594
1953-54 (b)	- 371	- 50	- 421 (c)				- 413 (f)	
1954-55 (c)	- 297	- 65	- 362				- 354	

(a) Provisional results.

(b) Revised estimates.

(c) Initial estimates.

(d) Or 457 if we exclude payments connected with the agrarian reform which were made in the form of securities.

(e) Initial estimate 417.

(f) Initial estimate 409.

The figures of the deficit on current account calculated on the basis of foreign exchange receipts and payments, and before any allowance is made for any of the forms of American « aid », including off-shore purchases, moved as follows over the last three years (in millions of dollars): 1951 —124; 1952 —359; 1953 —303. Italy was helped in covering this deficit to the extent of 262 million dollars in 1952 and 241 in 1953 by the various forms of aid. During the last two years she has drawn on her official foreign exchange reserves to the extent of 150 million dollars (8). It is also estimated

(8) 93 million dollars in 1952 and 57 million in 1953.

date, in the sense that a larger part of the whole now consists in gold and convertible currencies. Nonetheless the continuation of the deficit on current account in the balance of payments at a high level, combined with the impossibility of relying with certainty on American aid as a source of relief, presented itself as an uncomfortable situation for a government which was committing itself to a long-term investment programme of sizeable and growing dimensions.

#### The Budget Deficit.

The figures for the budget deficit indicate that the peak was passed in 1952-53. This

can best be seen from the figures for the « administrative » budget (drawn up, that is to say, on an appropriations and accruals basis) as adjusted by the Bank of Italy to eliminate the public debt items which are included in the Treasury figures (see Table 2). Looking at the figures for the cash deficit (similarly adjusted), which measures the real pressure of the deficit in terms of the demand for funds, we see that, calculated by calendar years, this too rose to a peak in the year 1952 and began to fall off in 1953 (see Table 3).

TABLE 3

ADJUSTED CASH BUDGET: SUMMARY  
(Milliards of lire)

	Financial years			Calendar years		
	1950 1951	1951 1952	1952 1953	1951	1952	1953
1. Ordinary account:						
Expenditures (a) . . . . .	1,668	1,995	2,265	1,807	2,038	2,267
Revenues . . . . .	1,477	1,687	1,891	1,576	1,778	1,947
Deficit on ordinary account . . . . .	-191	-308	-374	-231	-260	-320
2. Capital account:						
Deficit . . . . .	-70	-65	-148	-51	-113	-116
3. Total deficit on ordinary and capital account . . . . .	-261	-373	-522	-282	-373	-436
4. Minor cash items relating to budget . . . . .	-46	-51	-72	+16	-84	-15
5. Total (3)+(4) . . . . .	-307	-424	-594	-266	-457	-451

(a) Includes allocations to the *Cassa per il Mezzogiorno* amounting to 75, 125 and 80 in the respective financial years, and to 100, 115 and 85 in the respective calendar years. Since, however, the *Cassa* itself deposited with the Treasury, or invested in Treasury certificates, sums amounting to 23, 96 and 7 in the respective financial years, and to 69 and 28 respectively in the first two calendar years, the net drawings of funds by the *Cassa* were 52, 29 and 73 respectively in the financial years, and 31, 87 and 85 in the calendar years.

The adjusted administrative budget figures show a sharp decrease in the initial estimate of the deficit of 1954-55 compared with that for the financial year just closing. This is due to an increase in estimated revenues rather than to a decrease in estimated expenditures. The estimated revenue increase is attributable partly to new tax provisions, but partly also to the natural increase in revenue due to the growth in the tax base, and especially to a change in the criteria

used in making up the initial estimates, more weight now being given to the natural growth factor which had been deliberately evaluated on the conservative side in previous years. This does not, however, alter the fact that the estimates for 1954-55 are indicative of a genuine reduction in the deficit, as judged by comparison with the figures for the actual results of previous years.

We notice also from the itemized account of the adjusted administrative budget (Table 4) that there are indications that the tendency registered in the last two financial years for investment outlays to be more than sufficient to account for the total deficit is continued in the 1954-55 estimates.

Monetary and Credit Developments.

We have already referred to the tighter credit conditions which prevailed in 1953 after the previous period of high liquidity. The main movements in the volume of money and of credit are summarized in Tables 5, 6 and 7. According to the rough division made in Table 5, the outstanding volume of lending by the banking system to, or for account of the Treasury increased by 11 per cent in 1953, the increment thus being substantially lower than that (18 per cent) of the previous year; and the increase in the outstanding volume of lending to the private sector of the economy was also smaller (*i.e.* 20 as compared with 26 per cent). The total volume of new funds drawn by the private sector from the banks and savings banks, and from the securities market and other sources (exclusive of self-finance) in the last three years is estimated by the Bank of Italy as follows:

	1951	1952	1953
	(Milliards of lire)		
Banks and savings banks (a) . . . . .	270	463	494
Other sources (b) . . . . .	386	496	538
Total . . . . .	656	959	1,032

(a) These figures do not exactly coincide with those resulting from Table 5, owing to the fact that they are based on a slightly different grouping of bank assets.

(b) *i.e.* the « special credit institutions », certain minor credit institutions, the *istituti di categoria* (central organisations of the savings banks and « people's banks »), the *Istituto per la Ricostruzione Industriale*, the *Cassa Depositi e Prestiti*, and the securities market.

ADJUSTED ADMINISTRATIVE BUDGET, ITEMIZED  
(Milliards of lire)

TABLE 4

	Financial years					Financial years			
	1951 1952	1952 1953 (a)	1953 1954 (b)	1954 1955 (c)		1951 1952	1952 1953 (a)	1953 1954 (b)	1954 1955 (c)
A. Ordinary account:					B. Capital account:				
<i>Expenditures</i>					<i>Expenditures</i>				
1. Current goods and services (d) . . . . .	1,090	1,168	1,153	1,199	1. Investments:				
of which:					Extraordinary public works (g) . . . . .	168	236	174	175
civil . . . . .	(683)	(685)	(717)	(770)	<i>Cassa per il Mezzogiorno</i> . . . . .	118	80	90	90
military . . . . .	(407)	(483)	(428)	(421)	Agriculture, land improvement and fishing . . . . .	55	68	67	68
2. Public debt service . . . . .	115	152	158	174	Industry and mining . . . . .	87	60	24	8
3. Relief and welfare . . . . .	108	143	142	142	Workers' training, and reforestation projects . . . . .	48	28	10	10
4. Subsidies . . . . .	91	83	93	88	Others . . . . .	44	59	50	54
of which:					<i>Total</i> . . . . .	520	531	415	405
« political prices » of cereals . . . . .	(—)	(—)	(25)	(31)	2. Other items . . . . .	80	70	42	50
operating losses of <i>amministrazioni autonome</i> (e) . . . . .	(91)	(83)	(68)	(57)	<i>Total (1)+(2)</i> . . . . .	600	601	457	455
5. Other transfer payments (war pensions and indemnities) . . . . .	103	111	115	160	<i>Revenues</i>				
6. Grants to provincial and local authorities . . . . .	127	128	131	149	1. Transfers (sales of goods, loan repayments etc.) . . . . .	51	30	27	8
<i>Total</i> . . . . .	1,634	1,785	1,792	1,912	2. Foreign government grants . . . . .	118	52	50	34
<i>Revenues:</i>					<i>Total</i> . . . . .	169	82	77	42
1. Direct taxes . . . . .	484	519	570	574	C. Total ordinary and capital accounts:				
of which:					<i>Expenditures</i> . . . . .	2,234	2,386	2,249	2,367
income and surtaxes . . . . .	(228)	(200)	(254)	(261)	<i>Revenues</i> . . . . .	1,740	1,799	1,836	2,013
2. Indirect taxes on business turnover and on consumption . . . . .	736	815	830	1,001	<i>Deficit</i> . . . . .	494	587	413	354
3. State monopolies . . . . .	254	277	281	309	(h)				
4. Total (1)+(2)+(3) . . . . .	1,474	1,611	1,681	1,884					
5. Less refunds and reimbursements . . . . .	26	27	23	42					
6. Total (4)-(5) . . . . .	1,448	1,584	1,658	1,842					
7. Others (f) . . . . .	123	133	101	129					
<i>Total</i> . . . . .	1,571	1,717	1,759	1,971					

(a) Provisional results.

(b) Revised estimates.

(c) Initial estimates.

(d) Includes, in each of the years 1953-54 and 1954-55, 8 of which the division between civil and military was not ascertainable.

(e) For a description of these bodies, see G. Cosmo, *State Participation in Business Concerns in Italy*, Vol. IV, No. 19 of the « Quarterly Review » (October-December, 1951).

(f) Including lotteries and net income from public services and *amministrazioni autonome*.

(g) These were particularly high in 1951-52 and 1952-53 because of works undertaken as a result of the floods of the winter of 1951-52.

(h) Cfr. note (d) to Table 2.

It is likely, in view of the higher level of company profits (9), that some expansion also took place in 1953 in the increment of new investment funds drawn from self-finance.

TABLE 5

LENDING TO GOVERNMENT (a) AND TO PRIVATE SECTOR BY BANKING SYSTEM  
(Milliards of lire)

Bank of Italy (b)		Banks and Savings Banks		(4) Total lending to government (1)+(2)
(1) Net advances to Treasury, and investments in government securities (c)	(2) Investments in government securities (d)	(3) Lending to private sector (e)	(4) Total lending to government (1)+(2)	
End of				
Dec. 1951	870 (152)	605 (203)	1,899	1,475
» 1952	1,072 (218)	678 (272)	2,390	1,750
» 1953	1,181 (253)	765 (343)	2,886	1,946

(a) The figures are drawn up on a different basis from that used last year, partly owing to the possibility now given us of dividing up the U.I.C. (Foreign Exchange Office) account in the manner described in the notes to Table 7 below.

(b) Lending by the Bank of Italy to private customers amounted at the successive dates to 18, 17 and 16 milliards respectively.

(c) The figure in brackets indicates that part of the total which the Bank of Italy financed out of the compulsory reserves of the banks deposited with it in the form of cash.

(d) Includes small amounts of government-guaranteed securities. The figure in brackets indicates that part of the total which represented compulsory reserves of the banks invested directly by them in government and government-guaranteed securities.

(e) These figures include bills rediscounted by the banks and savings banks at the Bank of Italy and amounting at the successive dates to 84, 96 and 122 milliards respectively. They do not include investments by the banks and savings banks in private securities. These amounted at the successive dates to 124, 188 and 248 milliards respectively (exclusive of the small amounts of government-guaranteed securities already included under Column 2). Also excluded are funds lent abroad.

The rate of expansion in the volume of currency in circulation (see Table 6) slowed down (from 8 per cent in 1952 to 6 per cent in 1953) and was lower than it had been for some years past; the growth in the volume of money, defined in the customary manner as currency in circulation plus current accounts at the banks, also proceeded at a slower pace than in 1952 (with a rate of 11 as against 16 per cent). Total bank deposits likewise increased less than in 1952 (i.e.

(9) The Bank of Italy's sample of company accounts shows the following movement in net profits (in milliards of lire): 1951 60.6; 1952 59.8; 1953 69.9.

by 17 as against 24 per cent); and the increase in current accounts (15 per cent) was this time considerably less than that in savings deposits (21 per cent). The fact that the growth of both classes of deposits was again much larger than the growth in currency in circulation (see Table 6) reflected a further increase of the proportion of « deposit money » to currency held by the public (10), a further recovery in the real consistency of savings held in the form of bank deposits (so that when measured by reference to the wholesale price level « savings deposits » are nearly back to the 1938 level), and a further accrual of cash to the banks (and increase in their lending power) « from the side of the public ». This movement continued last year's resumption of the steady upward trend in the ratio of deposits to currency after the temporary slowing down which had occurred in 1950 and 1951, and on which we commented in our article of last year. It should also be remarked that the high rates of interest already paid unofficially in recent years, and now officially recognised in the new cartel agreement (on which we shall comment below), on the larger deposits held on current account, and withdrawable on demand, probably make the distinction according to which the current accounts are identified in the statistics with « deposit money », and the time deposits with « savings », still rougher than it was previously. Thus it may well be that the growth in the savings elements in deposits over the last few years is greater than the figures indicate.

*Central Bank Accommodation and Commercial Bank Liquidity.*

The note circulation of the Bank of Italy increased considerably less in 1953 than in either of the two previous years. An analysis of the balance sheet items which led to the increment (of Lire 68 milliards) in 1953 (see

(10) As we remarked last year, the figures in Columns (6) and (7) of Table 6 above slightly understate the public's ratio of deposits to cash, and may slightly over- or under-state the change in the ratio from year to year owing to the fact that the currency figures include cash in hand of the banks and other credit institutions.

Table 7) shows that the release of funds by the Bank to the system due to additional lending to, or for account of the Treasury was in large part offset by the sum of two items leading to the absorption of funds by the Bank from the system: namely the diminution in Bank accommodation outstanding in respect of the item « gold and foreign

reserves to a figure below the levels of previous years. Both the free cash reserve ratio and the « primary reserve » ratio (based on the Bank of Italy's rough definition of primary reserves as comprising free cash reserves plus unutilized lines of credit at the Bank of Italy and Treasury certificates in portfolio) which stood at 3.2 and 8.2 per cent

TABLE 6

MOVEMENT OF CURRENCY IN CIRCULATION, AND OF DEPOSITS AT BANKS AND SAVINGS BANKS  
(Milliards of lire)

End of:	(1) Currency in circulation (a)	(2) Current accounts (b)	(3) Savings deposits (c)	(4) Total deposits (2)+(3)	(5) Total volume of money (1)+(2)	(6) Ratio (2)÷(1)	(7) Ratio (4)÷(1)
Dec. 1938	24.5	21.3	34.2	55.5	45.8	0.87	2.27
Dec. 1947	928	599	415	1,014	1,527	0.65	1.09
June 1948	944	743	518	1,261	1,687	0.79	1.34
Dec. 1948	1,122	869	651	1,520	1,991	0.77	1.35
June 1949	1,030	965	707	1,672	1,995	0.94	1.62
Dec. 1949	1,194	1,107	842	1,949	2,301	0.93	1.63
June 1950	1,112	1,115	890	2,005	2,226	1.00	1.80
Dec. 1950	1,326	1,246	988	2,235	2,571	0.94	1.69
June 1951	1,226	1,269	1,009	2,278	2,495	1.04	1.86
Dec. 1951	1,459	1,527	1,161	2,688	2,987	1.05	1.84
June 1952	1,358	1,643	1,247	2,890	3,001	1.21	2.13
Dec. 1952	1,573	1,883	1,452	3,335	3,456	1.20	2.12
June 1953	1,427	1,936	1,548	3,484	3,363	1.36	2.44
Dec. 1953	1,665	2,159	1,755	3,914, (d)	3,824	1.30	2.35

(a) Includes note circulation of Bank of Italy, Treasury notes and coin (net of amounts held by Bank of Italy), and circular cheques of Bank of Italy and of the commercial banks.

(b) *Conti correnti di corrispondenza con clienti plus depositi fiduciari in conto corrente.*

(c) *Depositi fiduciari liberi a risparmio plus depositi fiduciari vincolati.*

(d) In addition there were deposits with the Postal Administration of Lire 1,423 milliards at this date (compared with Lire 1,169 milliards a year earlier).

Note: The sources of the figures used to construct this table are the tables given in the Annual Report of the Bank of Italy, supplemented where necessary by the Bank's Monthly Bulletins of Statistics.

exchange, and U.I.C. account » (representing in part the drawing by Italy on her foreign exchange reserves), and the funds which were deposited with the Bank by the commercial banks as compulsory reserves. Another item leading to a release of funds, i.e. the increase in discounts of « crop collection bills », came, however, near to being sufficient by itself to account for the net expansion in the circulation.

The accommodation given by the Bank to the banks and savings banks by way of ordinary discounts (i.e. excluding discounts of « crop collection bills ») and advances, declined over the year; and the banks and savings banks drew down their free cash

respectively at the end of 1953 (see Table 8), were on levels comparable with the low points (2.9 and 9.1 respectively) reached in June 1951, and were very much below the levels prevailing over the rest of the period between the beginning of 1949 and the autumn of 1952.

*Interest Rates.*

At the close of 1953 market yields on long-term securities showed on the whole a slight increase compared with the rates prevailing a year earlier (see Table 9). No changes were made during the year in the official rediscount and advance rates of the

Bank of Italy or in the Treasury certificate rate.

The most noteworthy recent changes in the interest rate structure concerned the maximum rates to be allowed by banks and savings banks on customers' deposits, as established by the new cartel agreement of February, 1954. In part these changes were

vides, together with the gradation of rates under the new agreement, presents a multiple rate structure of considerable intricateness. The rate paid to the depositor now varies according to three principal factors:

(a) the type of customer (public bodies, for example, having certain advantages over private customers);

BANK OF ITALY: BALANCE SHEET ANALYSIS OF FACTORS AFFECTING THE VOLUME OF CURRENCY IN CIRCULATION (a) TABLE 7  
(Milliards of lire)

	End of:			Variations: sources of increase (+) or decrease (—) in circulation	
	1951	1952	1953	1951-52	1952-53
<b>I. Sources of release of funds by Bank of Italy:</b>					
1. Net lending to Government (including investment of compulsory reserves) (b) . . . . .	870	1,072	1,181	+ 202	+ 109
2. Gold, foreign exchange and U.I.C. account (c) . . . . .	565	471	422	— 94	— 49
3. Accommodation to banks, savings banks and special credit institutions . . . . . (of which « crop collection » bills) . . . . .	258 (152)	317 (181)	364 (238)	+ 59 (+ 29)	+ 47 (+ 57)
<b>II. Sources of withdrawal of funds by Bank of Italy:</b>					
1. Deposits held by banks in respect of compulsory reserves . . . . .	— 285	— 352	— 388	— 67	— 36
2. Other deposits . . . . . (of which banks and savings banks) . . . . .	— 80 (— 60)	— 68 (— 47)	— 54 (— 40)	+ 12 (+ 13)	+ 14 (+ 7)
III. Other items (release+, withdrawal—) . . . . .	— 36	— 59	— 76	— 23	— 17
<b>Total sources of release minus sources of withdrawal = currency in circulation . . . . .</b>	<b>1,292</b>	<b>1,381</b>	<b>1,449</b>	<b>+ 89</b>	<b>+ 68</b>

(a) The arrangement is slightly different from that used last year.

(b) Net of what is due to the government in respect of the counterpart funds of American aid, but including the part of the U.I.C. (Foreign Exchange Office) account which represents lira credits granted by the U.I.C. for financing government stock-piling, for I.M.I. (Istituto Mobiliare Italiano) equipment financing, etc.

(c) Excluding that part of the U.I.C. account referred to under note (b) above.

an official recognition of a *de facto* situation which had already existed earlier. The Bank of Italy reports, however, that the rates on current accounts (subject to withdrawal on demand) are lower than those effectively paid previously by most banks on the larger accounts, and that the consequent change in the rate structure has already led to some shifting of funds from current to savings (time) deposits.

The number of different types of account (11) for which the Italian system pro-

(11) In Table 9 only two main categories are shown.

(b) the term, or period of notice, in the case of savings (time) deposits;

(c) the average annual size of the balance held, in the case of current accounts payable on demand (the rate being the higher the larger is the balance).

Thus a time deposit with the fixed term of three months yields 2.50 per cent, and one with a fixed term of twelve months 4 per cent (12); a private current account (payable on demand) with an annual average

(12) Some time accounts earn 0.50 per cent above these rates if they amount to 100 million lire or more.

balance of less than 5 million lire earns 0.50 per cent, while one with an annual average balance of 100 million lire or more earns 3 per cent; and current accounts of certain public bodies with an annual average balance of 500 million or more earn as much as 4 per cent.

On certain « mixed » types of account, carrying the right to draw limited amounts at demand or short notice (14), and mainly designed to suit the needs of people of small means, the cartel rates were not raised: the only adjustment made with respect to these was the raising of the amount that could be

COMPULSORY RESERVES OF BANKS (a); AND PRIMARY (FREE) RESERVES, AND INDEBTEDNESS TO BANK OF ITALY, OF BANKS AND SAVINGS BANKS TABLE 8  
(End-of-year data)

	1950	1951	1952	1953
<b>1. Compulsory reserves (milliards of lire):</b>				
Cash . . . . .	238.0	285.4	352.1	387.8
of which: invested in securities by Bank of Italy	(160.0)	(152.0)	(218.0)	(253.0)
Securities . . . . .	171.8	207.4	272.9	343.5
<b>Total . . . . .</b>	<b>409.8</b>	<b>492.8</b>	<b>625.0</b>	<b>731.3</b>
<b>Ratio to deposits of banks (per cent) . . . . .</b>	<b>23.3</b>	<b>23.0</b>	<b>23.3</b>	<b>23.3</b>
<b>2. Primary (free) reserves (milliards of lire):</b>				
Cash in hand . . . . .	52.6	65.8	66.8	66.6
Deposits at Bank of Italy (b) . . . . .	33.5	60.5	46.9	40.0
Deposits at other institutions (c) . . . . .	18.2	29.8	36.8	20.4
<b>Total cash reserves . . . . .</b>	<b>104.3</b>	<b>156.1</b>	<b>150.5</b>	<b>127.0</b>
Unutilized lines of credit at Bank of Italy (d) . . . . .	105.9	135.3	128.6	149.2
Treasury certificates (e) in portfolio . . . . .	48.7	72.0	48.9	45.5
<b>Total primary reserves . . . . .</b>	<b>258.9</b>	<b>364.4</b>	<b>328.0</b>	<b>321.7</b>
<b>Ratio of cash reserves to deposits of banks and saving banks (per cent) . . . . .</b>	<b>4.7</b>	<b>5.8</b>	<b>4.5</b>	<b>3.2</b>
<b>Ratio of primary reserves to deposits of banks and savings banks (per cent) . . . . .</b>	<b>11.6</b>	<b>13.6</b>	<b>9.8</b>	<b>8.2</b>
<b>3. Indebtedness to Bank of Italy (milliards of lire) (f) .</b>				
of which: rediscounts . . . . .	(23.8)	(11.3)	(10.4)	(8.0)
advances (g) . . . . .	(70.9)	(71.6)	(100.7)	(91.7)

(a) The compulsory reserve requirements do not apply to savings banks.

(b) Excluding compulsory reserves.

(c) Treasury, *Cassa Depositi e Prestiti*, Postal Administration.

(d) Equals difference between amount of credit opened (against deposits of government securities) and amount utilized.

(e) *Buoni del Tesoro ordinari*, of which maturities do not exceed 12 months.

(f) Excluding rediscounts of crop collection bills.

(g) The remainder of the total consists of advances for covering adverse balances in the clearings (*prorogati pagamenti*).

The Bank of Italy in its Report (13) justifies the higher rates paid on the larger accounts by « the smaller cost of running the larger accounts and their greater sensitivity to the higher yields offered by alternative investments ».

drawn without notice. Thus, in general, the agreement was more favourable to the larger accounts; and the small saver failed to share in the upward movement of rates. The ex-

(14) The rates (not shown in Table 9) remain at 0.50 and 1.50 per cent, respectively, for two different types of account, and at 3.00 per cent for accounts held (at savings banks) by certain special categories of customers.

(13) *Ibid.*, p. 308.

INTEREST RATES  
(End-of-year figures)

TABLE 9

	1951	1952	1953
	(Per cent)		
Rediscount and advance rate of Bank of Italy . . . . .	4.00	4.00	4.00
Rate paid by Bank of Italy on compulsory reserves of banks deposited in cash . . . . .	4.75	4.25	4.25
Treasury certificates (10 mths.) . . . . .	4.71	4.17	4.17
Medium- and long-term government securities (av. yield) . . . . .	6.23	6.03	6.31
Industrial bonds (av. yield) . . . . .	7.28	6.81	6.77
Shares (av. yield) . . . . .	6.59	5.54	6.21
	1951-53		From Feb. 1954
Banks and Savings Banks (cartel rates):			
Current accounts (demand)	0.50		0.50-3.00 (a)
Savings (time) deposits (3-12 months) . . . . .	1.50-2.00		2.50-4.00
Unsecured credits . . . . .	6.00-7.50		6.00-7.50
Secured loans . . . . .	4.75-7.00		4.75-7.00
Discounts . . . . .	5.25-6.75		5.25-6.75

(a) The minimum rate refers to accounts with an annual average balance of less than lire 5 million, and the maximum to accounts with an average annual balance of lire 100 million or more. Certain public bodies may earn higher rates than these.

hortations to thrift on the part of the masses of the population which the Governor of the Bank has often voiced in recent years did not find here any translation into terms of more concrete encouragement.

One other adjustment made during the year (November, 1953) was the reduction in the rates paid on postal savings certificates so as to bring them into line with the rates paid by banks and savings banks on similar accounts. Thus the rate payable on certificates withdrawn in the first five years was reduced from 4.50 to 3.75 per cent and the rate on those held for 16-20 years from 5.25 to 5.00 per cent. The 3.75 per cent rate is now somewhat below the rate (4.00 per cent) paid by banks and savings banks on deposits and certificates drawable after 12 months. This change removes a source of grievance that had repeatedly been advanced in recent years particularly by the savings banks.

The minimum rates chargeable by banks to customers for discounts and advances remained in the new agreement at the same levels as under the old. The Bank remarks only that the rates effectively charged have moved closer to the minimum rates.

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