REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON CONSULTATION UNDER ARTICLE XII:4(b) WITH ITALY

1. The Committee was instructed by its terms of reference to conduct a consultation under paragraph 4(b) of Article XII with Italy. For this purpose, the Committee had before it a "basic document" prepared by the secretariat as well as certain documentation supplied by the International Monetary Fund, including the results of the Fund's consultation with Italy concluded on 7 October 1959. The text of these results is attached to this report as Annex I.

2. In carrying out the related consultation under paragraph 2 of Article XV with the International Monetary Fund, the Committee took note of the documentation supplied by the Fund and heard a statement by its representative. The statement made by the Fund representative at the invitation of the Committee is as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its last consultation with Italy, which consultation was concluded on October 7, 1959.

"In connection with the consultation with Italy under Article XII:4(b) of the General Agreement, the Fund draws the attention of the CONTRACTING PARTIES to the results of its recent consultation with Italy under Article XIV of the Fund Agreement, and particularly to paragraph 5 which reads as follows:

"At the end of 1958 the Italian lira was declared externally convertible and corresponding simplifications were made in the exchange control system. In the first half of 1959, Italy further reduced restrictions and discrimination against imports from the dollar area. Only two bilateral payments agreements remain and measures to eliminate these are under active consideration. The Fund welcomes these developments but notes that discrimination against dollar imports is still substantial. In view of the improvement in Italy's balance of payments and reserve position, the Fund believes that there is no longer a justification for restrictions on imports for balance of payments reasons. Accordingly, the Fund considers that Italy is in a position to make rapid progress in eliminating such restrictions and in particular discrimination."

3. The representative of Italy made a statement in which he described for the information of the Committee recent changes in the Italian exchange and import control systems, the evolution of its balance-of-payments situation and certain internal social and economic problems faced by the country. The complete text of the statement is reproduced in Annex II.
4. In his statement, the Italian representative explained that the decision of the Executive Board of the International Monetary Fund concluding its consultations with Italy, had been adopted only a short while ago, i.e. on 7 October. Whilst the Executive Director for Italy had abstained in the voting, the Government of Italy nevertheless had taken note of that decision and expected to draw the conclusions that it imposed. The Italian delegation had been authorized to give the assurance that at the next session of the CONTRACTING PARTIES, the Italian Government would present a concrete programme of measures for the progressive reduction of discrimination and of restrictions in conformity with the obligations which it had undertaken in international organizations and in accordance with the procedures provided for in the General Agreement.

5. In the light of the circumstances, the Committee agreed that it was not appropriate for the Committee to hold a consultation under Article XII with the Government of Italy.
ANNEX I Results of Consultations between the International Monetary Fund and the Government of Italy concluded on 7 October 1959.

1. The Government of Italy has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. The Italian economy continued to expand in 1958, but not as rapidly as in the previous years because of some slowing down in the expansion of industrial production. Crops were exceptionally good, and there was a further expansion in the trade and services sectors. Private investment declined and, although the rise in employment was sufficient to absorb the increase in the labour force, there was no significant reduction in unemployment. In 1959 the Government is speeding up its public works programme in order to create a new phase of economic expansion and reduce unemployment. The expansion of production has accelerated.

3. In 1958 there was little change in prices, and wages rose only moderately. Owing mainly to a large inflow of foreign exchange, money supply increased more rapidly than in the preceding year. Bank credit to the private sector rose less than in previous years, and there was a considerable increase in liquidity and a reduction in interest rates. The Government's over-all cash deficit increased markedly and was financed by the issue of short-term treasury bills.

4. The balance of payments on goods and services and emigrants' remittances showed a striking improvement in 1958, shifting from approximate equilibrium to a sizeable surplus. There was a fall in the volume of imports, an expansion in the volume of exports, and an improvement in the terms of trade. Tourist receipts and emigrants' remittances also continued to rise markedly. The net inflow of capital remained substantial and the official reserves of gold and foreign exchange (net) which had increased by $300 million in 1957 rose by a further $850 million in 1958 to about $2,200 million at the end of that year. Despite some increase in the volume of imports in 1959, the balance of payments remains strong and reserves have continued to expand to about $2,700 million at the end of June.

5. At the end of 1958 the Italian lira was declared externally convertible and corresponding simplifications were made in the exchange control system. In the first half of 1959, Italy further reduced restrictions and discrimination against imports from the dollar area. Only two
bilateral payments agreements remain and measures to eliminate these are under active consideration. The Fund welcomes these developments but notes that discrimination against dollar imports is still substantial. In view of the improvement in Italy's balance of payments and reserve position, the Fund believes that there is no longer a justification for restrictions on imports for balance of payments reasons. Accordingly, the Fund considers that Italy is in a position to make rapid progress in eliminating such restrictions and in particular discrimination.

6. In concluding the 1959 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Italy.
ANNEX II Statement by the Representative of Italy to the Committee on Balance-of-Payments Restrictions

The recommendation which the representative of the International Monetary Fund has just communicated to this Committee, was adopted on 7 October, barely three weeks ago. At the time the recommendation was approved, Italy abstained from voting. The reason was that Italy did not share the explicit statement that import restrictions for reasons of balance of payments are no longer justified.

The Italian Government, however, took note of the Fund's decision, and intends to draw the required conclusions. The Italian delegation is already authorized to give assurances that its Government, at the next session of the CONTRACTING PARTIES will present a programme for reduction of discrimination and restrictions in conformity with commitments undertaken in the realm of international organizations, and within the framework of procedures laid down in the General Agreement.

Let it be clear, the Italian delegation has no intention to re-open here a discussion on the balance of payments. It wishes simply, if the Committee agrees, to call attention to the numerous serious problems its country still faces.

We feel that we fulfil adequately this informational task by making a statement on the evolution of trade and exchange restrictions, the balance-of-payments situation, the employment situation, the current land reform and the development of Southern Italy.

The Trade and Exchange Restrictions

Since the last consultations in June 1957, between Italy and the CONTRACTING PARTIES to GATT, the action of the Italian Government has swiftly progressed towards the elimination of remaining trade and exchange restrictions. By the end of June 1957, in conformity with commitments undertaken at the consultations that took place within GATT, the list of goods freely allowed for importation from the dollar area (Table A, Import) was raised from 40 to 71 per cent of the aggregate private imports (base year: 1953).

In accepting, furthermore, the suggestion made during these consultations, the Ministry of Foreign Trade instructed, in January 1958, that licences applying to some goods should temporarily be granted without specific recourse to the consultative committees.

In accordance with Article X of GATT, the publication of trade regulations has also been intensified. To this effect, the circulars of the Italian Exchange Office have been co-ordinated and brought together in the form of booklets. The Institute for Foreign Trade (ICE) had added to its Bulletin the tri-monthly publication of Exchange movements, and the monthly publication of import and export requests received and granted by the Ministry of Trade.
Lastly, an important step towards the suppression of trade restrictions was taken last May. A decision of the Ministry for Foreign Trade (Ministerial Decree of 22 May 1959) brought about a substantial reduction of discrimination affecting product exchanges with the dollar area, by raising from 71 to 85 the percentage of liberalization of imports originating in that area. At the same time, the List A Import (applicable to the dollar area) was changed from positive to negative. That is to say that, whereas formerly positive, i.e. mentioning goods freely admitted for importation, it now became a negative list, i.e. mentioning goods not admitted for free importation. The same principle was thus adopted as for the List B Import, generally applied to countries of the former EPU. It is known that liberalization, as applied to these countries, reaches 99.7 per cent (base year: 1948). This level was reached as a result of the progressive economic and political integration among Western European countries.

In regard to exchange regulations Italy has made strenuous progress towards the objective of eliminating bilateral payment agreements upon termination. This type of settlement is now taking place at the request of the other party with Greece and Portugal. Global compensation agreements still exist only with Uruguay and East Germany. On the occasion of the suppression of bilateral agreements, the Ministry for Foreign Trade published on 25 July 1957 List C Import authorizing free importation of a wide variety of goods.

In December 1958, Italy like nearly all OEEC countries, enacted new exchange provisions. By suppressing limitations in regard to the area of lira spending by non-residents, and exchange requirements for residents, the external convertibility of the lira was achieved.

The Balance of Payments

The evolution of the Italian exchange and trade policy is related to the development of the Italian balance of payments and reserves. On the whole, the results achieved in foreign relations are one of the most satisfactory aspects of the Italian economy in recent years.

The favourable evolution of our balance of payments during the last two years, was determined by numerous factors, accidental and cyclical by nature and by some structural modifications. As was the case with the other Western European countries, Italy's terms of trade benefited from the decline in prices for raw materials. In view of the tendency of prices for raw materials to decline, purchases were postponed, and inventories declined chiefly in the case of cotton, wool, copper and other non-ferrous metals.

Furthermore, the level of imports was influenced by such internal cyclical factors in the Italian economy as a marked slackening of industrial production (2.7 per cent), a reduction of capital spending in industry (-3.8 per cent), and exceptionally favourable crops. Considering that the increase in export of goods and services was small, this means that the notable surplus in the 1958 current items must be attributed to a decline in import values, due to an exceptional accumulation of the temporary factors just referred to.
During the first half of this year, no substantial modification has yet taken place in Italy's foreign relations. Whereas the price index declined further, the volume index picked up somewhat.

On the other hand, a decrease in net entries was noted as regards services and unilateral transfers, with the result that the ordinary current balance surplus suffered a slight decline from $128 million for the first half of 1958 to $68 million for the corresponding period of 1959.

Notwithstanding these less favourable developments in the case of current items, official immediate availabilities abroad increased, during the first half of 1959. This increase was due to an important inflow of foreign assets, mostly on a short-term basis, in the form of banking operations and foreign portfolio investments. This increase was more than the one registered during the corresponding period of 1958. Two factors contributed to this increase in Italian immediate availabilities abroad. On the one hand, cyclical and therefore temporary factors caused a reduction in quantities imported, and a favourable evolution of the terms of trade. On the other hand, there existed considerable short-term foreign debts which were also of an exceptional nature.

The influx of short-term liquid assets was favoured by the convertibility measures taken last December and was particularly important in view of the difference between the monetary and financial rates in Italy and other countries. This gap has now been reduced; consequently it is to be expected that the inflow will taper off progressively.

Foreign capital, especially middle and long-term, contributed substantially to the economic recovery of post-war Italy. Yet the policy of industrialization and of employment development in Italy has up to now been limited by the savings supply, and by the necessity to limit the deficit of international payments. At present, however, this deficit has disappeared more because of cyclical and accidental factors than because of structural reasons. What remains, however, is the problem of unemployment. There is, therefore, left within the general framework of Italian economy, a structural disequilibrium.

The Problems of Unemployment, Agriculture and Southern Italy.

In 1958 unemployment fluctuated around an average figure of 1,700,000. Whereas in 1957 a decrease of about 180,000 had been noted on the lists of jobless people looking for employment, in 1958, on the contrary, the situation remained stationary.

In the early post-war years, the percentage of unemployed in relation to the active population had already reached an exceptionally high level. Later on, although reconstruction had been completed and production had recovered to a considerable extent, this percentage declined and has now been stationary for several years at the substantial level of 10 per cent.

If it is true that unemployment in Italy is, in fact, lower than official returns indicate, if it is also true that it consists to a great extent of unskilled workers, it is equally true that, in agriculture and the small handicrafts there remains a high degree of under-employment, which tends to develop into unemployment.
In the sphere of production, the most important contribution to GNP comes from industry (43 per cent), followed by services (37 per cent), and agriculture (20 per cent). As far as employment is concerned, on the contrary, agriculture comes first (39 per cent), followed by services (32 per cent), with industry last (29 per cent).

This relatively under-developed situation in agriculture has attracted the special attention of the competent Italian authorities. They plan a course of action which is intended to secure equilibrium between agriculture and employed manpower. This is, however, long-range reform that can only be achieved gradually so as to avoid any further deterioration of the domestic employment problem.

Restrictions adopted in the field of agriculture were applied in various circumstances with some flexibility which allowed the lifting of restrictive barriers in order to slow down pressures on domestic prices and their impact on the cost-of-living index. Other restrictions are being adopted in order to facilitate the administration of domestic health regulations, or in order to avoid adulteration of food products (dates and carob-beans).

Finally some restrictions also tend to offset systems of protection adopted by some important foreign countries. These countries, inside their territory, apply considerable price support programmes in the field of agriculture and sometimes grant export subsidies.

As a result of the gap between levels of productivity in agriculture and industry, the income in regions with no or hardly any industrial development presents substantial differences compared with industrialized regions. These conditions of agricultural overpopulation throughout the entire country are attributable to the lack of adequate industrial development and have not been modified by emigration. The Northern overpopulated areas are limited in size and the neighbouring industrialized regions offer gradual readjustment possibilities. On the other hand the entire Southern part of the country is really overpopulated. This is therefore an under-developed area where the process of development is large insufficient to absorb the ever increasing available manpower. The serious regional disequilibrium which affects today's Italian economy can be summarized in one fact: 40 per cent of Italy's population lives in the South of the Peninsula, but produces only 22 per cent of the national product. Furthermore, whereas the South contributes 65 per cent to the natural increase of Italy's population, it receives hardly 25 per cent of the national productive investments.

The characteristics of a lopsided economic development, though more acute in the South, are also evident in the nation's industrialized areas. Here co-exist industrial firms that are in the forefront of technical progress, together with relatively backward enterprises. The former are to be credited to a large extent with the merit of achieving equilibrium in the Italian trade balance. The latter are a burden on the economy from the point of view of productivity and are the most sensitive to foreign competition. Their reduction or transformation can only be a gradual process because these enterprises on account of their small equipment ratio use more manpower, a production factor which in Italy is in over-supply.
The development policy of the Italian Government provides \textit{inter alia} for an investment drive, including an important current programme of public investment financed by the recent floating of a 300 thousand million lira public loan. This should, in turn, provide an incentive for private investments. Thus one may foresee in the relatively near future an increase in total demand that will also be reflected on a country's marginal propensity to import.

All in all the above data and comments emphasize the magnitude and the seriousness of the problem of Italy's economic development. The problem is not new. It has been with us in fact since the creation of the Italian State. What is new is Italy's endeavour, since the end of the war to resolve it. Private initiative and the free-play of a market economy are factors on which our economic policy mainly relies. It cannot however, but fulfil its responsibility in controlling these factors, which must be orientated so as to correct the present disequilibrium. In order adequately to carry out this responsibility it is still necessary to maintain some measures of control which are characteristic features of countries in the process of development.

\textbf{Conclusions concerning the Problem of Quantitative Restrictions imposed by Italy}

The purpose of the above considerations is to depict as objectively as possible, the economic problems which confront Italy.

It should be noted that the elimination of all differences between the lists of goods liberalized in regard to the members of the former EPU, and the lists valid for other areas, implies two alternatives.

1. An extension of liberalization measures to all countries at the level of 99.7 per cent, which is precisely the level reached in regard to the European countries. In other words, in order to eliminate all discrimination Italy will have to give up restrictions. This amounts to taking a decision which does not conform to the structural situation of the country's economy and to the current development programme.

2. A reduction of liberalization measures to members of the former EPU, so as to bring it to the level of liberalization in regard to other areas. Such a measure, which would not satisfy some contracting parties, would from the domestic point of view, yield results opposite to the proposed effect because by reducing the percentage of liberalization applied to the OEEC, one would give up the principle of irreversibility on which, up to now, Italy's liberalization process has been based. It is true that, according to the subscribed agreements, restrictions may be conceived as a flexible instrument used when needed, and discarded when its need is not felt anymore.

It is, however, equally true that, in the particular atmosphere prevalent in Italy, the irreversibility of the liberalization process greatly contributed to its practical efficacy. It is precisely for that reason that, when balance-of-trade difficulties arose, Italy, in order to overcome the crisis, did not wish to rescind the liberalization measures already granted.
It follows from the above that the solution to the problem of quantitative restrictions in Italy's case takes a definitely particular form.

Evidently, this does not mean that Italy intends to maintain the restrictions still in force for an indefinite period. Not does it mean that Italy is ready to eliminate them only when all the fundamental problems of its economy have been solved. On the contrary, Italy as we have stated, is ready to carry out the commitments undertaken in various international organizations and to follow the procedures laid down by GATT.

The Italian Government has adopted a position aiming always at the greatest possible expansion of international trade. The Italian Government trusts that the CONTRACTING PARTIES will recognize that this attitude affords a safer guarantee that all problems will find their solution in the spirit of good-will which is at the basis of international co-operation.