1959 CONSULTATION UNDER ARTICLE XII WITH ITALY

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 pro-
gramme 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 con-
siderable 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' remit-
tances 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 con-
tinued 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 convert-
ible 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.