

GENERAL AGREEMENT ON TARIFFS AND TRADE

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ITALY - IMPORT DEPOSIT

Statement by the Representative of Italy at the Meeting of the Working Party on 7 June 1974

Delegations attending this meeting are undoubtedly acquainted with the basic elements of the situation that has brought about the measures adopted by the Italian Government on 2 May. Some cardinal points of information were given at the meeting of the Council of Representatives which set up this Working Party. We consider, none the less, that a thorough study of the Italian measures has to be based on a detailed analysis of the manner in which the situation of Italy's external accounts has developed recently.

I. Evolution of the balance of payments

In accordance with the provisions of Article XII of the General Agreement, the essential parameter remains - where this matter is concerned - the balance of payments, which has to be analysed by reference to its basic component items as well as to its direct impact on the level of reserves. As is well known, even in 1973, the balance on current account showed a heavy deficit for Italy. Compared with a credit balance of Lit 1,168,000 million in 1972, last year ended with a deficit of Lit 1,405,000 million. The worsening of the situation was markedly accelerated in the second half of 1973. This persisted in the ensuing months, and the first quarter of 1974 closed with an aggregate balance-of-payments deficit of Lit 2,800,000 million - excluding any offsetting loans - or a figure already higher than the deficit for the whole of 1973. Should this trend be maintained, the estimates which forecast the current deficit for 1974 at about Lit 4,100,000 million would be exceeded, since a projection of the first quarter of the year on an annual basis produces an adverse balance almost twice as large.

It is clear that, in the face of this situation, which the international monetary authorities consider an extremely difficult one, the Italian Government was forced, even before the close of 1973, to take action on a vast scale in order to obtain the capital sums necessary for financing the deficit on the aggregate balance. Recourse

to external loans was intensified during the second half of 1973 and the first months of 1974; this enabled the Italian authorities to obtain credits amounting in 1973 to Lit 2,570,000 million, and, for the first quarter of 1974, further credits to an amount of Lit 1,131,000 million. In total, the loans secured during the last two years amount to Lit 6,720,000 million at the current dollar exchange rate.

Unfortunately, progressive recourse to international credit has not been rapid enough, seeing that it has failed to halt a very substantial drop in the Italian reserves: between the close of 1973 and the end of February 1974 they fell from Lit 3,344,000 million to Lit 2,765,000 million.

It should further be emphasized that if one takes account solely of foreign exchange reserves (excluding gold and special Drawing Rights), the sum available at the end of February 1974 amounted to no more than Lit 746,000 million, a figure lower than the debit balance on a single month of foreign trade.

The reasons for this rapid deterioration in our balance of payments are clearly reflected in the evolution of the main component items. An examination of the variations occurring between 1972 and 1973 in items in the balance of payments that are traditionally favourable shows a reduction, moderate, it is true, yet significant, in the surplus on tourism and remittances from Italian workers in foreign countries, while the favourable balance on services is reduced from Lit 881,000 million to Lit 722,000 million.

II. Evolution of the trade balance

But, beyond question, the most disquieting element - and one that has a direct bearing on this adverse development - is the balance on the movement of goods (f.o.b.-c.i.f. data, based on settlements): the deficit of Lit 1,826,000 million in 1972 rose by the end of 1973 to Lit 3,366,000 million - easily a record figure for the Italian trade balance. Here again, there is no improvement in the first months of 1974: quite the contrary - the debit balance having already reached Lit 1,964,000 million by the end of the first quarter; furthermore it is thought, on the basis of preliminary estimates, that it may have exceeded by the end of April the level of Lit 2,700,000 million - if, that is, it is confirmed that the trade deficit recorded in that month was Lit 830,000 million.

It becomes easier, in the light of the disturbing data that I have cited, to understand why the Italian authorities found it necessary, at the end of April, to adopt measures affecting the external accounts, and why the choice fell on imports, to serve as basis for a new measure designed to restore financial well-being.

It is indeed the abnormal increase in import payments that must be deemed the main cause of the deterioration of Italy's external accounts.

After reaching 44 per cent at the end of 1973, the increase proceeded apace to 95 per cent for the first quarter of 1974: the growing tempo is illustrated by the fact that purchases in March 1974 exceeded those for March 1972 by 154 per cent, i.e. they were 2 1/2 times higher.

Although petroleum plays an important part, the "non-oil" component is an even weightier element in the development of the situation. For reasons that are linked both with financial speculation and with psychology, we have witnessed in recent months a veritable invasion of the Italian market - an invasion nourished by an internal demand swollen by a very high inflation rate, and which seeks to convert available liquid assets into foreign goods.

The import flow is spread fairly widely over most sectors, since - apart from fuel, with a 254 per cent rise in value in the first quarter of 1974 - the following increases have been recorded: agricultural products and foodstuffs, 67 per cent; machinery and related products, 60 per cent; metallurgical products, 107 per cent; textiles, 72 per cent; chemical products, 64 per cent; other products, 86 per cent.

Given that the expansion of imports is not adequately counter-balanced by increased exports (despite a rise of 66 per cent by comparison with the first quarter of 1973), the aggregate balance shows a progressively graver deterioration, in particular because of a fairly extensive weakening of exchange rates. In the circumstances it is not possible to hope that an export drive may effectively offset the imbalance caused by the abrupt rise in imports.

III. General framework for measures towards recovery

The statistical information that I have offered throws light on the reasons that impelled the Italian Government to take action in regard to imports. At the same time, it should be stressed that even at the beginning of 1973 the Italian authorities had applied a series of measures aimed at controlling the monetary situation and the balance of payments.

Thus, in February 1973, the decision to allow the lira to float and the introduction of the two-tier exchange market were designed to isolate speculative pressures; the same purpose underlay the reduction of the terms prescribed for advance payments for imports which, in a situation of extremely fluid exchange rates, facilitated the flight of capital to foreign countries.

In June 1973 extensive machinery for freezing prices was set up, coupled with the entry into force of an initial measure for controlling the liquidity of banks, through the obligation to invest at least 6 per cent of their deposits in public or private securities.

As the situation deteriorated still further during last winter, the Italian Government was led to intervene again in March 1974, with measures that were especially restrictive in respect of the size of bank credits; the rate of expansion being limited to 8 per cent for the period March-September 1974. Concurrently, the bank rate was raised from 6.5 to 9 per cent, while very severe restrictions were imposed on the export of foreign currency, even by tourists (maximum \$770 per annum), together with a 30 per cent tax deduction on stock and share dividends.

The series of measures just cited is by no means complete, for the gravity of the situation calls for further steps aimed at reducing internal liquidity. Thus, after raising rail transport rates by some 30 per cent, the Government is at present considering analogous increases for other public services (in particular, electricity, water and gas), while far-reaching fiscal measures are expected to follow the introduction of advance collection of certain income taxes. It is aimed, more particularly, to raise tax rates generally, including the value-added tax and the property sales tax.

The stated end-purpose - in the monetary sense - of all these measures is to withdraw from the market a sum of Lit 3,000,000 million, so as to effect a corresponding relaxation of pressure on the general liquidity of the market.

IV. Import deposit

It is within the framework of the measures just described that we must view the decision announced on 30 April 1974 and implemented on 7 May, to impose a prior deposit on a portion of imports, in accordance with a Ministerial Decree of 2 May 1974, published on 4 May in the Official Gazette; the full text was reproduced in GATT document L/4029 of 17 May.

There is a manifest link between the latter measure and those cited earlier, since the aim is identical in every case: rapidly to reduce the liquidity inherent in the Italian monetary system.

The stated purpose enables us to reject any interpretation that might tend to place the measure in a context of trade protectionism, or, worse still, of autarky.

The high degree of Italy's dependence on foreign supplies and foreign outlets suffices in itself to belie the possibility that we are pursuing such objectives, which, within a short interval, would, in any event, bring destruction to Italy's economic system.

We must emphasize that the import deposit is only one among numerous measures that have been adopted with the object of mopping up part of the internal liquidity by bringing pressure to bear upon a sharply rising commercial trend that is not devoid of speculative elements.

The details concerning the working of the prior deposit system emerge from the text of the cited Decree. Fifty per cent of the c.i.f. value of the goods imported has to be paid to the Bank of Italy, as a non-interest-bearing deposit for a period of six months. The measure applies solely to definitive imports, temporary imports and those of a non-commercial nature being exempted. On the other hand, reasons of urgency precluded the exemption of goods in course of transport or already bonded on the date when the system came into force. It should, however, be stressed that the interval of eight days between announcement and application of the measure made it possible to settle most of such cases, as the abnormal number of customs clearances on the eve of applying the deposit system bears witness.

On the administrative plane, no difficulty has arisen in applying the system, since the deposit involves no more than a receipt from the Bank, for presentation to customs with the banking documents ordinarily required for importation.

A special problem concerns the possibility of the deposit's being financed by the exporter of the goods. Although in previous cases where a similar system has been applied by other contracting parties, this possibility has been barred, the Italian authorities did not consider it expedient formally to exclude such a solution. It is none the less clear that the objective - to mop up internal liquidity - is jeopardized if the deposit is financed in that manner, even when the effect on the balance of payments is, in the very short term, favourable.

A difficult problem has been to select the goods to be subjected to the new system. Announcement of the measure was accompanied by a statement that it was aimed at agricultural products, foodstuffs and consumer goods, to the exclusion of raw materials and capital goods. This definition remains basically accurate, even though it proved necessary to extend the measure to certain categories of capital goods, so as to achieve the desired monetary end, namely, to withdraw from internal liquidity a sum of about Lit 3,000,000 million. It may be noted that this fact in itself constitutes a deferred guarantee of the provisional character of the measure, since protracted maintenance in its present form would be detrimental to Italy's system of production.

According to calculations based on 1973 imports, the deposit affects 40.7 per cent of the total of Italian purchases, or Lit 6,439,000 million on a total value of Lit 16,224,000 million of imports. Agricultural products and foodstuffs are the items mainly affected by the deposit, which is applied to 65.2 per cent of their aggregate value, whereas it touches only 32.6 per cent of the value of industrial products.

It has not so far proved possible to calculate the incidence by geographical and economic zones, seeing that most of the relevant tariff headings are broken down into numerous sub-divisions.

We are especially concerned over the possible impact of the measure on the exports of the least developed countries, and we are accordingly relieved to note that only a very slight percentage - well below the average - of their sales appears to be affected; this is due to the fact that the export of raw materials (exempt from the deposit) plays an important rôle in their economies.

Obviously it is not possible, on the basis of only thirty days' application, to attempt even tentative conclusions regarding the measure and its effects. Following the first days of uncertainty, commercial transactions appear to reflect a neutral reaction - in the sense that the tempo at which the deposit is being paid does not suggest any appreciable decrease of imports.

It should be possible in coming weeks to establish whether a slowing-down of imports is discernible as a consequence of the deposit - and, if so, to what extent. In any case, the deposit is of very limited scope: even at today's high bank rates, its financing for six months does not exceed 3.5 per cent of the value of the merchandise - a proportion that is far from constituting a real barrier to imports.

In any event, the deposit is without doubt an emergency conjunctural instrument essentially of a provisional character; it is certainly less likely to disrupt trade flows throughout the world than other alternative measures, such as devaluation of the lira at the high level that the present state of our payments would warrant.

It goes without saying that the Italian authorities are the first to hope that the decision they have taken, which is, in our view, justified by the existing situation, will likewise prove adequate, in the context of the measures already adopted or to be adopted on the internal plane. Our objective is to redress the situation rapidly, so that the normal system of importation may be fully restored, vis-à-vis the other contracting parties, at the earliest possible moment.