

MASTER FILES

ROOM C-120

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SM/85/119  
Correction 1

CONTAINS CONFIDENTIAL  
INFORMATION

May 23, 1985

To: Members of the Executive Board  
From: The Secretary  
Subject: Italy - Staff Report for the 1985 Article IV Consultation

The following corrections have been made in SM/85/119 (4/26/85):

Page 22, Table 2, column 1, line 13: for "18.0" read "18.9"  
column 2, line 13: for "18.2" read "18.1"  
column 4, line 13: for "3.9" read "3.8"

Page 23, Table 3, column 3, line 1: for "3.3" read "4.8"  
line 2: for "1.6" read "0.2"  
line 3: for "5.7" read "7.4"  
line 4: for "5.3" read "3.7"

Page 25, Section VII, line 4: for "June 14, 1984" read "June 14, 1982"

Corrected pages are attached.

Att: (3)

Other Distribution:  
Department Heads

Table 1. Italy: Selected Financial Indicators, 1981-85

	1981	1982	1983	1984 <u>1/</u>	1985 <u>2/</u>
	(As percent of GDP)				
Fiscal indicators					
State sector					
Revenues	30.0	35.1	35.4	35.9	34.8 <u>4/</u>
Expenditures	42.8	50.2	51.8	51.3	52.4 <u>4/</u>
Overall balance <u>3/</u>	-12.8	-15.1	-16.4	-15.4	-17.6 <u>4/</u>
Share of deficit financed through:					
Medium- and long-term bond	11.1	32.7	77.1	60.0	...
Short-term paper	58.5	45.0	18.4	22.8	...
Monetary base creation	30.4	22.3	4.5	17.2	...
General Government					
Tax revenue	37.2	39.9	42.9	42.8	...
Total revenue	39.8	42.5	45.4	45.4	...
Current expenditures	46.4	49.5	51.5	52.0	...
Of which:					
Interest payments	7.2	8.5	9.0	9.6	...
Total expenditures	51.7	55.1	57.8	58.9	...
Current balance	-6.8	-7.2	-6.4	-6.8	...
Financial balance <u>5/</u>	-11.8	-12.5	-12.4	-13.5	...
	(End of period; percentage change except as otherwise indicated)				
Monetary variables					
Monetary base	13.3	14.1	15.1	12.5	10.0
M2	9.9	16.9	13.3	12.1	10.0
M3	16.0	17.2	14.6	14.2	...
Total domestic credit	18.0	20.9	20.8	19.3 <u>6/</u>	16.2
Bank lending to nonstate sector	13.5	13.4	13.2	14.9 <u>6/</u>	12.0
Share of credit to the state sector in total domestic credit expansion	61.6	68.7	70.9	66.3 <u>6/</u>	68.8
Total financial assets <u>7/</u>	19.2	20.1	20.3	19.9	16.5
	(In percent; period averages unless otherwise indicates)				
Interest rates					
Discount rate (end of period)	19.0	18.0	17.0	16.5	15.5 <u>8/</u>
Three-month Treasury bills	19.6	19.4	17.8	15.3	13.9 <u>9/</u>
Prime rate	21.4	21.6	19.4	17.7	17.2 <u>9/</u>
Average deposit rate	12.6	13.4	12.5	11.8	11.4 <u>9/</u>

Sources: Data provided by the Italian authorities

1/ Provisional estimates.

2/ Official forecasts.

3/ Including net lending but excluding debt liquidations.

4/ Trend official forecasts. The Government's objective is to contain the overall deficit of the state sector to the equivalent of 14.7 percent of GDP.

5/ Excluding net lending

6/ Adjusted for distortions related to the removal of credit ceilings.

7/ Domestic component of financial assets, net of shares.

8/ As of end-March 1985.

9/ January 1985.

Table 2. Italy: Main Economic Variables, 1981-85

(Percent changes)

	1981	1982	1983	1984	1985 <sup>1/</sup>
Real demand and output					
Private consumption	0.5	0.5	-0.3	1.8	3.0
Public consumption	3.3	2.6	2.4	2.7	1.5
Fixed investment	0.6	-5.2	-3.8	4.1	4.0
Stockbuilding <sup>2/</sup>	<u>-3.1</u>	<u>--</u>	<u>-0.7</u>	<u>0.6</u>	<u>0.5</u>
Total domestic demand	-2.2	-0.3	-1.2	2.9	3.4
Exports of goods and services	5.2	0.4	3.3	7.0	4.0
Imports of goods and services	<u>-5.3</u>	<u>1.5</u>	<u>0.1</u>	<u>9.6</u>	<u>7.0</u>
Foreign balance <sup>2/</sup>	2.3	-0.2	0.8	-0.3	-0.5
GDP	0.2	-0.5	-0.4	2.6	2.8
Industrial production	-1.6	-3.0	-3.2	3.1	3.0
Wages, costs and prices					
Wage rates in manufacturing	19.2	17.9	15.0	12.3	11.6
Productivity in manufacturing	1.0	-0.2	0.8	8.1	4.4
Unit labor costs in manufacturing	18.9	18.1	13.9	3.8	6.9
Cost of living index	18.7	16.3	15.1	10.7	9.0
GDP deflator	18.4	17.9	15.1	10.7	9.0
Unemployment rate (levels)	8.3	9.6	9.8	10.4	10.7
Disposable income of households	20.9	17.7	12.1	15.2	10.8

Sources: Ministry of the Budget and Ministry of the Treasury, Relazione Generale sulla Situazione Economica del Paese; and data provided by Italian authorities.

<sup>1/</sup> Staff projections

<sup>2/</sup> Changes in stockbuilding and the foreign balance are expressed as percentage of GDP in the previous year.

Table 3. Italy: External Developments, 1981-85

	1981	1982	1983	1984 <u>1/</u>	1985 <u>1/</u>
Trade developments (percent changes)					
Imports, c.i.f., customs basis					
Unit value	36.6	8.6	4.8	11.3	11.0
Volume	-11.3	3.2	0.2	9.1	7.0
Exports, f.o.b., customs basis					
Unit value	23.2	15.0	7.4	9.6	11.0
Volume	4.7	0.3	3.7	6.6	4.1
Balance of payments summary					
(in billions of lire)					
Trade balance, f.o.b.-f.o.b.	-12,032	-10,739	-4,676	-10,784	-17,000
Services	1,945	2,159	4,072	3,365	4,000
Private transfers	1,639	1,987	2,131	2,261	2,500
Official transfers	-777	-819	-369	-362	-500
Current balance	-9,225	-7,412	1,158	-5,520	-11,000
(As percent of GDP)	-2.3	-1.6	0.2	-0.9	-1.6
Nonmonetary capital	11,386	5,185	2,022	...	...
Errors and omissions	-628	-294	613	...	...
Overall balance	1,533	-2,521	3,793	498	...
Gross official reserves					
(excluding gold) <u>2/</u>	20,134	14,090	20,105	20,774	19,460 <u>3/</u>
Net foreign position of					
commercial banks <u>2/</u>	-13,391	-10,631	-12,870	-15,028	...
External debt outstanding <u>2/4/</u>	47,600	50,400	54,900	57,100	...
(As percent of GDP)	14.2	14.7	16.9	18.0	...
Memorandum items:					
Average exchange rates					
Italian lire per U.S. dollar	1,136.8	1,352.5	1,518.8	1,757.0	2,022.8 <u>5/</u>
Percent change in lira/US\$ rate <u>6/</u>	32.7	19.0	12.3	15.7	15.1 <u>7/</u>
Effective exchange rate (MERM					
weights, 1980 = 100)	86.7	80.2	76.1	71.1	68.3 <u>5/</u>

Sources: Bank of Italy, Annual Report; IMF, International Financial Statistics; data provided by the Italian authorities; and staff estimates and projections.

1/ Provisional estimates for 1984, staff projections for 1985.

2/ End of period, in millions of U.S. dollars.

3/ End-February 1985.

4/ Includes the net external liabilities of commercial banks.

5/ Average of first quarter of 1985.

6/ Positive sign indicates a depreciation.

7/ Average of first quarter of 1985, compared with average of 1984.

Fund Relations with Italy

(As of March 31, 1985)

I. Membership status

- (a) Italy became a member of the Fund on March 27, 1947.
- (b) Italy is an Article VIII member.

A. Financial Relations

II. General department (General Resources Account)

- (a) Quota: SDR 2,909 million.
- (b) Total Fund holdings of Italian lire: SDR 1,814 million  
(62.4 percent of quota)
- (c) Reserve tranche position: SDR 1,095 million.
- (d) Current operational budget: maximum net use of Italian lire equivalent to SDR 25.6 million--involving purchases in the amount of SDR 63.6 million and repurchases in the amount of SDR 38.0 million--is planned under the current budget.
- (e) Lending to the Fund: under the GAB Italy has undertaken to lend the equivalent of SDR 1,105 million; nothing has been called to date.

III. Stand-by or extended arrangement and special facilities

None.

IV. SDR department

- (a) Net cumulative allocation: SDR 702.4 million.
- (b) Holdings: SDR 734 million or 104.5 percent of net cumulative allocation.
- (c) Current designation plan: Italy is included in the current plan for a maximum amount of SDR 36.3 million.

V. Administered accounts

Not applicable.

VI. Overdue obligations to the Fund

None

B. Nonfinancial Relations

VII. Exchange rate arrangements

Since March 13, 1979 Italy has participated in the exchange rate mechanism of the European Monetary System with a 6 percent margin. The central rate of the lira was reduced by 3.25 percent in relation to the other EMS currencies on June 14, 1982 and again by 2.5 percent on March 21, 1983. From the end of March 1979 to end-December 1984, the lira depreciated by 32 percent in effective terms and by 57 percent with respect to the U.S. dollar in nominal terms. The exchange rate of the lira on December 31, 1984 was US\$1 = Lit 1,935.9 while the MERM index stood at an average December level of 69.4 (1980 = 100).

VIII. The last Article IV consultation was concluded on November 8, 1983 and the staff report (SM/83/269, 12/30/85) was considered by the Executive Board on January 27, 1984.

The mission will propose that the next Article IV consultation be held on a 12-month cycle.

Basic Data

Area (thousand square kilometers)	301.3
Population (mid-1984)	57.00 million
Labor force (1984 average)	23.03 million
GDP per capita (1984)	Lit 10,738,807

<u>Use and supply of resources (1984)</u>	<u>In billions of lire</u>	<u>In percent</u>		
Private consumption	388,869	63.5		
Public consumption	122,239	20.0		
Gross fixed investment	109,714	17.9		
Change in stocks	4,268	0.7		
Gross domestic expenditure	625,090	102.1		
Exports of goods and services	149,225	24.4		
Imports of goods and services	-162,203	-26.5		
Gross domestic product	612,112	100.0		
<u>Selected economic indicators (annual percentage change)</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
GDP (at constant prices)	0.2	-0.5	-0.4	2.6
Private consumption (at constant prices)	0.5	0.5	-0.3	1.8
Gross fixed investment (at constant prices)	0.6	-5.2	-3.8	4.1
Industrial production	-1.6	-3.0	-3.2	3.1
Exports of goods (in lire)	29.0	15.3	11.4	16.7
Imports of goods (in lire)	21.2	12.1	5.0	21.5
Unit labor costs in manufacturing	18.0	18.2	13.9	3.9
Cost of living	18.7	16.3	15.1	10.7
GDP deflator	18.4	17.5	15.1	10.7
Money and quasi-money (M3; end-year)	16.0	17.2	14.6	14.2
State sector overall deficit (as per cent of GDP)	12.8	15.1	16.4	15.4
<u>Balance of payments (in millions of SDRs)</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Exports of goods, f.o.b.	63,419	65,611	67,388	70,968
Imports of goods, f.o.b.	-72,395	-72,803	-70,268	76,956
Net services and transfers	2,094	2,228	3,593	2,923
Balance of goods, services, and transfers	-6,882	-4,964	713	-3,080
Net capital movements	8,026	3,276	1,623	3,357
Overall balance	1,144	-1,688	2,336	277
Gross official reserves (excluding gold, end-year)	17,298	12,773	19,203	21,193

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- 1/ Official forecasts.  
 2/ As of first half of 1983.  
 3/ As of end-June 1983.  
 4/ As of end-September 1983.