PUBLIC AS OF JANUARY 1, 2009

L.5.2 RFD 491

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

June 11, 1964

Recent Economic Developments in Italy,
January-May 1964

22 pages

Rodney H. Mills

This article was prepared primarily for internal circulation, and should not be cited or quoted. The views expressed do not necessarily represent the views of the Board of Governors of the Federal Reserve System.

June 11, 1964.

Rodney H. Mills.

Recent Economic Developments in Italy, January-May 1964

Summary

Nearly all sectors of the Italian economy have shown in recent months the effects of the Bank of Italy's restrictive monetary policy. With the forward momentum of economic activity slowing down, price increases have moderated and the balance of payments has improved somewhat. The price situation has also been helped by the first increase in two years in Italy's agricultural production. But the wage situation continues to be disturbing. Wage rates in industry rose 15 per cent last year, and through February there was no sign of any deceleration in the rise. In addition to their inflationary effects, wage increases in 1962-63 caused a profound shift in income distribution that was highly prejudicial to savings and capital formation. In fact, the big question mark for the Italian economy is the future course of wage rates, which in the present environment is as much a political as it is an economic problem.

Even though a speculative attack on the lira in March was generated by devaluation fears, balance of payments developments this year have been basically favorable. Monthly deficits in the first quarter remained under \$150 million. The steep upward trend of imports was broken prior to the late February measures to curtail consumption of automobiles and other consumer durables, and the seasonally adjusted trade balance (physical shipments) in December-February was better than in the immediately preceding months. The net private capital outflow, which contracted sharply late last year, has held at a low level and came to only \$23 million in the first quarter, in part, at least because of the liquidity squeeze. The attack on the lira in early March was quashed by the announcement of the availability of about

$1 billion of various forms of credit lines from the U. S. and from European central banks. In April a balance of payments surplus probably was registered thanks to seasonal factors, the reversal of the March speculative operations and increased foreign buying of Italian stocks.

Italy's official reserves have been bolstered by several special operations, including a $225 million IMF drawing in late March and the redemption in March and April of $200 million of U. S. Treasury lira-denominated bonds.

The Bank of Italy's continuing restrictive monetary policy allowed the money supply to rise less than 1 per cent in the three months ending February (contrasted with a 5 per cent rise a year earlier). The pace of bank credit expansion has been cut back sharply by the authorities' actions to limit commercial bank reserves and to allow the external deficit to have a deflationary impact on liquidity. In addition, after the turn of the year, Italian Treasury operations were no longer inflationary after extra budgetary outlays were cut back.

This limitation of demand pressures may have contributed to the more favorable price movements in 1964. The virtual stability of wholesale prices contrasts with a rise in the same period last year. But the major factor was apparently a highly welcome rise in agricultural production (after no increase for two years) which caused prices of agricultural commodities to drop.

The effects of the credit restraints were seen in physical output. Industrial production was practically unchanged from September to January, unemployment rose sharply in the three months ending January, and retail sales fell in the fourth quarter. The February measures to restrain purchases of automobiles and other consumer durables have caused cuts in working hours in the affected sectors, and a sharp drop in automobile production.

The capital markets have continued to weaken. Long-term bond yields in April were up 65 to 92 basis points over last August. Stock prices dropped 27 per cent from the end of 1963 to April 20, recovered 17 per cent in the last ten days of April (when foreign buying picked up), and declined again in May.

Italy's national accounts data for 1963 reveal the extent to which, in the years 1962-63, the rates of over-all growth and capital formation have declined while incomes have been redistributed in favor of wages and salaries. First, the yearly rise in real GNP, which fell from 8.6 per cent in 1961 to 6.7 per cent in 1962, dropped further to 4.8 per cent in 1963. Second, real gross investment expenditures, which had risen 11.3 per cent in 1961, increased 8.2 per cent in 1962 and last year rose only 4.1 per cent (as real consumption increased 9 per cent). Finally, the annual increase in wages and salaries (at current prices) accelerated from 10.1 per cent in 1961 to 17.7 per cent in 1962 and then to 21.6 per cent in 1963. The rates of gain of all other forms of income in 1961-63 were 9.4, 7.0, and 1.1 per cent, respectively. With the GNP price deflator up 5.6 per cent in 1962 and 8.2 per cent last year, the real value of these other forms of income (which include profits) increased very little in 1962 and fell sharply last year.

Balance of payments deterioration halted

Over the first four months of this year, changes in the Italian balance of payments were on the whole relatively favorable. Deficits in the first quarter continued to run substantially below last October's peak as tight credit exerted its effects on both imports and capital movements. A speculative attack on the lira in early March was stopped in its tracks by the announcement of massive foreign assistance for Italy's currency, and a payments surplus may have been recorded in April thanks to both temporary and seasonal factors. Nevertheless, even if the deterioration in Italy's foreign payments has now been stopped, a return to equilibrium would in all probability be measured in years rather than months because of the size of the trade deficit that has now been built up.

Italy's over-all balance of payments deficits of $149 million in January and $140 million in February were slightly greater than in November and December but well under the $185 million registered last October. Monthly private capital flows, while moving erratically, have shown improvement since last fall. These movements (Table 1, columns 3 and 4) produced net outflows of $45 million in October and $43 million in November. They were followed by a $6 million net inflow in December (partly reflecting seasonal factors),1/ a renewed but smaller $35 million outflow in January, a $26 million inflow in February, and a small $4 million outflow in March. The tightening credit situation has helped to produce these results, perhaps aided also by the somewhat more stable political outlook than reigned before Mr. Moro's government came to power.

1/ Italian workers in Switzerland and other European countries reportedly bought large quantities of exported Italian banknotes in December before returning home for the Christmas holidays. Their purchases reduced the amount of Italian currency sent back to Italy for redemption by foreign banks.

Table 1. Italy, Balance of Payments, Selected Periods, 1962-64
(in millions of dollars)

Selected Months	Current Account (1) Trade Balance	(2) Invisibles	Private Capital (3) Banknotes Returned	(4) All Other (net)	(5) Public Capital	(6) Over-all Balance
1963						
January	- 162	122	- 115	70	- 7	- 82
February	- 156	63	- 150	132	- 7	- 118
March	- 191	114	- 259	← 268 →		- 68
April	- 221	139	- 246	← 187 →		- 140
October	- 215	143	- 144	99	--	- 185
November	- 243	125	- 96	54	22	- 138
December	- 261	127	- 37	43	--	- 129
1964						
January	- 218	100	- 97	62	6	- 149
February	- 215	50	- 74	90	9	- 140
March	- 245	98	- 91	87	--	- 147
April	N.A.	N.A.	N.A.	N.A.	N.A.	Surplus(?)
Yearly Totals						
1961	-1,086	1,446	- 330	499	47	577
1962	-1,424	1,673	- 766	576	- 9	50
1963	-2,495	1,606	-1,470	1,132	-16	-1,244

Source: Ufficio Italiano dei Cambi.

With regard to trade, the most meaningful data are those for seasonally adjusted shipments through customs rather than the payments data. The deficits on such shipments of $244 million in both January and February were below the levels of $260 and $256 million reached in October and November. (See Table 2.) The strong uptrend of imports has been arrested. Following a sharp drop in December, Italian imports rose again in January but fell in February, and the monthly average for January-February of $703 million was no higher than the October-November average. This levelling off occurred before the late-February measures to reduce consumption (including imports) of autos and other consumer goods, and can be attributable to the efforts to restrict over-all demand undertaken by the Bank of Italy. Exports, meanwhile, have continued to rise.

Table 2. Italy: Foreign Trade, Selected Periods, 1961-64
(in millions of dollars; monthly average or month)

Selected Months	Imports c.i.f.		Exports		Balance	
	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted
1963						
Jan.-Mar.	484	558	395	407	-173	-151
Apr.-June	490	627	413	425	-224	-202
July-Sept.	502	678	430	431	-220	-247
October	685	698	483	438	-192	-260
November	715	708	457	452	-257	-256
December	615	608	421	409	-194	-199
1964						
January	718	715	420	471	-298	-244
February	699	691	451	448	-247	-244
Years						
1961	438	---	351	---	- 87	---
1962	508	---	391	---	-117	---
1963	632	---	423	---	-209	---

Source: OECD.

The payments data on trade (Table 1) for January-February show a more favorable change in the trade position in 1964 than do the adjusted customs data. This is because unfavorable seasonal influences were far outweighed by favorable changes in commercial leads and lags. Because of unfavorable seasonal influences, the deficit on unadjusted movements through customs rose from $214 million a month in the fourth quarter to $244 million a month in January-February, a rise far in excess of the increase in the adjusted data (See Table 2.) But despite this increase, the deficit in payments on trade account dropped sharply from $240 million per month in the fourth quarter to $217 million per month in January-February.1/

On a payments basis, the trade deficit soared from $215 million in February to $245 million in March (see Table 1) because payments for imports increased sharply. This is thought to reflect an adverse change in leads and lags during the March run on the lira.

Foreign assistance halts attack on lira

Heavy selling of lire in early March was generated by devaluation rumors, in turn apparently attributable to a reference to a possible need for devaluation in a speech by a Cabinet Minister. Press reports state that the Italian authorities had to support the lira with about $200 million of official dollar sales in the first two weeks of the month. On March 14, announcement was made of the availability of an "assistance package" to Italy of roughly $1 billion, composed of three-year credits from the Commodity Credit Corporation, a standby credit from the Export-Import Bank, swap facilities with the U. S. Treasury, already existing swap facilities with the Federal Reserve System, and credit facilities from European central banks.

This news had a very favorable effect on the exchange markets, and in the second half of March the authorities apparently had to use only about $20 million in support of the lira, a sum far smaller than the average rate of deficit in recent months. But because of the events of the first half of the month, the over-all balance of payments deficit rose from $140 million

---

1/ The large drop in import arrivals in December was not followed by a decline in payments until February. On the export side, there was a bunching of receipts in January.

in February to $147 million in March. This increase is larger than it appears because, for seasonal reasons, the balance of payments usually improves in March. The official support operations totaling about $220 million substantially exceeded the over-all payments deficit because Italian commercial banks further reduced their net foreign indebtedness by an estimated $73 million in March.

In April, Italy's official reserves declined only $10 million. This figure suggests the possibility of an over-all payments surplus in April, since the official reserves presumably reflect another reduction in the net foreign liabilities of Italian commercial banks. (The banks have reduced these liabilities in six of the seven months from September 1963, to March 1964.) In some degree, the surprisingly favorable April results stem from seasonally higher tourist receipts. Additionally, they probably reflect a reversal of the early March speculative operations against the lira after confidence in the lira had been restored. Finally, foreign buying of Italian stocks increased in April.

Special financing bolsters official reserves

Special operations have cushioned the decline in Italian official reserves in recent months, and they permitted reserves to rise in March despite both the payments deficit and the continuing decline in Italian banks' net foreign liabilities. The financing of Italy's deficits in 1963-64 is shown in Table 3.

Table 3. Italy: Financing of Balance of Payments Deficit, 1963-64
(In millions of dollars)

	1963		1964		
	Jan.-Sept.	Oct.-Dec.	Jan.-Feb.	March	April
Over-all B/P Deficit	-792	-452	-289	-147	n.a.
Financing	792	452	289	147	n.a.
1. Official reserves of gold and foreign exchange	8	426	321	-88	10(p)
2. Other official assets and liabilities:					
a. U.S. Treas. lira bond redemptions	--	--	--	50	150
b. IMF position	-15	-8	--	225	n.a.
c. Swaps with Fed. Reserve					n.a.
U.S. repayment	50	--	--		n.a.
Italian drawings	--	50	50	33	n.a.
d. Other (net)	10	74	48		n.a. 1/
3. Commercial banks' net foreign position	739	-90	-130	-73	n.a.

1/ This entry will reflect in April a $150 million equivalent reduction in U.S.-owned lira deposits with the Bank of Italy, reflecting the redemption on April 1 of Treasury lira bonds held by the Italian authorities.

Source: Bank of Italy.

In February the Bank of Italy drew a second $50 million under its swap arrangement with the Federal Reserve System. The dollars drawn were (as with the earlier drawing last October) credited to Italy's official reserves, whereas Italy's repayment liability is included among the "other official foreign assets and liabilities" of the Italian monetary authorities. (See Table 3.)

On March 31, Italy drew $225 million equivalent from the International Monetary Fund. No U. S. dollars or sterling were drawn; the drawing was made in Deutsche Mark, French francs, Belgian francs, Dutch guilders, Canadian dollars, Spanish pesetos, Austrian schillings and Swedish kronor. The currencies drawn were added to official reserves, and the change in Italy's IMF position is shown among the "other official foreign assets and liabilities."

Finally, the U. S. Treasury reimbursed its lira-denominated bonds issued previously to the Italian authorities; $50 million equivalent were repaid at maturity in March and the remaining $150 million in advance on April 1. The Treasury's purchases of lire over recent months in order to effect the repayments have added to Italy's official dollar holdings, while the accumulating U. S.-owned lira deposits with the Bank of Italy have been reflected in Italy's "other official foreign assets and liabilities." However, it is important to note the fact that the $150 million bond repayment on April 1 did not affect the change in Italy's official reserves in the month of April, since the necessary lire had, of course, been acquired by the eve of the redemption date. 1/

1/ The April 1 bond repayment was reflected in an equivalent decline in Italy's foreign lira liabilities as the Treasury used its accumulated lire to pay off the bonds.

The drain on Italy's official reserves and other official foreign assets and liabilities was accentuated by the decrease in the commercial banks' net foreign liabilities in the amount of $203 million in the three months January-March. While Bank of Italy directives in early January instructed the banks not to increase their net foreign borrowings, they did not require the banks to reduce them. One reason cited for the decline is the fact that, since last autumn, Italian banks have had to pay higher rates for Euro-dollars than banks in other countries; the differential was initially 1/2 of 1 per cent, and in recent weeks has been about 1/3 of 1 per cent.

New measures taken to help trade balance

The steps taken in February to restrain purchases of automobiles and other consumer durables were aimed at total consumption of these goods, but they will affect imports as well as domestic production. In April, several measures were instituted that were directly designed to curb imports and aid exports. On the import side, a decree published April 22, reduced from 360 to 30 days after arrival the allowed delay in payments of imports of many consumer durables, including motor vehicles, household electrical appliances, and photographic, radio, and television equipment. To aid exports, various measures were adopted, or proposed to Parliament, on April 24. They include a speeding up of rebate of the turnover tax on exports, an extension from 30 to 360 days of the maximum allowed period for prefinancing of exports by foreign exchange loans, and a 50 per cent reduction in premiums for export credit insurance.

Bank of Italy continues tight monetary policy

Monetary policy has continued to be very restrictive in 1964. Its effects are best illustrated by the continued slowing down in the rate of rise of the money supply. During the three months ending February (latest data available) the rise was 0.9 per cent compared with 5.0 per cent in the same period a year earlier.

The heavy deflationary impact of external transactions in the three months December-February is seen from the 336 billion lire decline in Italy's official net foreign assets (as against only a 2 billion lire decrease a year earlier). (See Table 4.) This drop reflected mainly the balance of payments deficit, but the further reduction of the Italian commercial banks' net foreign assets was an important ancillary factor.

Bank credit to the "economy" (all borrowers but the Treasury) has been advancing much more slowly because Bank of Italy policy has been allowing little increase in bank reserves. In the three months December to February, the commercial banks' portfolio of lira loans and non-Treasury securities rose 450 billion lire compared with 772 billion lire a year earlier. The monetary authorities allowed bank reserves to rise only 33 billion lire in the fourth quarter of 1963, and 47 billion lire in the first quarter of 1964 (as against 280 billion in January-March 1963).

Table 4. Italy: Factors Affecting the Money Supply, 1962-64
(changes in billions of lire)

	Three months ending: Feb. 28, 1963	Nov. 30, 1963	Feb. 29, 1964
I. Official Net Foreign Assets	- 2	-321	-336
II. Credit to "Economy"	798	555	439
A. Bank of Italy	26	10	- 11
B. Commercial banks	772	545	450
1. Loans (in lire)	645	433	411
2. Securities	127	112	39
III. Credit to Treasury	242	296	112
A. Bank of Italy	348	287	90
1. Overdraft	439	393	26
2. Other	- 91	-106	64
B. Commercial banks	-106	9	22
1. Bills	- 79	4	19
2. Bonds	- 27	5	3
IV. Savings Deposits with Banks (- = increase)	-486	-117	-441
V. All other (net)	- 77	-158	-326
VI. Total = Change in Money Supply	475	255	100

Source: Compiled from Bank of Italy statistics.

As Table 5 shows, the Bank of Italy has in fact had to make funds available to the banking system because of the strong liquidity-reducing effects of the declines in official net foreign assets. A part of the effect of this restrictive action has been offset by banks' drawing on their free reserves. But this cannot long continue, since free reserves at the end of March were down to only 29 billion lire (from 96 billion lire a year earlier).

Table 5. Italy: Factors Affecting Bank Reserves, 1963-64
(in billions of lire)

	1963		1964
	Qt. I	Qt. IV	Qt. I
Official net foreign assets	-70	-346	-396
Currency circulation (- = increase)	+185	-388	+396
Treasury overdraft with Bank of Italy	+310	+459	-29
Other Bank of Italy credit to Treasury	-98	+19	-35
All other (net)	+21	-52	-33
Subtotal	+348	-308	-97
Bank of Italy credit to commercial banks	-68	+341	+144
Total = change in banks' reserves with Bank of Italy	+280	+33	+47
Of which:			
Required	+269	+41	+60
Free	+11	-8	-13
Free reserves outstanding, end of period	96	42	29

Source: Compiled from Bank of Italy data.

Treasury position improves

Since the beginning of this year, Treasury operations have supplemented monetary policy, in contrast to last year when large increases in central bank credit to the Treasury added to bank reserves and money supply. Bank of Italy credit to the Treasury fell 64 billion lire in the first quarter, in contrast to increases of 212 billion lire in January-March 1963 and 478 billion lire in October-December. (See Table 5.) Because the Treasury was still drawing on its overdraft with the Bank of Italy in December, total bank credit to the Treasury rose 112 billion lire in the three months ending February 1964. (See Table 4.) But this was less than half of the increase in the year-ago period.

The improvement in the Treasury's position after the turn of the year is apparently the result of a sharp drop in extrabudgetary outlays by the Cassa Depositi e Prestiti, which finances local governments and purchases securities issued by State enterprises. The Cassa's prime source of funds is postal savings, but in 1963 its expenditures far exceeded receipts from this source. (See Table 6.) The cash budget deficit in January-February (latest data available) was higher than a year earlier and scarcely below that for the three months of the fourth quarter, as Table 6 shows. Yet in January-February total financing of the budget and the Cassa (the two cannot be separated) exclusive of increases in postal savings (for which data are lacking) came to only 29 billion lire compared with 156 billion lire in January-February 1963 and 321 billion lire in last year's final quarter, indicating a sharp fall-off in Cassa outlays.

Table 6. Italy: Treasury Cash Operations, 1963-64
(in billions of lire)

	1963 Jan.-Feb.	1963 Oct.-Dec.	1964 Jan.-Feb.
Budget Receipts	827	1,354	940
Budget Expenditures	-908	-1,466	-1,047
Budget Balance	-81	-112	-107
Extra-budgetary Expenditures	-133	-379	n.a.
Total Balance	-214	-491	n.a.
Financing:			
Net long-term borrowing	-77	-10	37
Treasury bills	-43	-100	48
Bank of Italy--special advances	-45	--	-30
Bank of Italy--overdraft	309	459	-29
Miscellaneous	12	-28	3
Subtotal	156	321	29
Postal savings	58	170	n.a.
Total financing	214	491	n.a.

Sources: Conto Riassuntivo del Tesoro and Bank of Italy.

Increased food supplies reduce price pressures

The rise in Italian prices slackened perceptibly in the first quarter of 1964. Wholesale prices rose only slightly in January and then levelled off, so that the total increase from December to March was under 1/2 of 1 per cent in contrast to the 1.6 per cent rise over the same period a year earlier. (See Table 7.) The year-to-year increase thus dropped from 5.5 per cent in December to 4.2 per cent in March. As regards consumer prices, the increase from December to March of 1.2 per cent compared favorably with the year-earlier increase of 2.8 per cent, and the year-to-year increase dropped from 6.9 per cent to 5.2 per cent in the course of these three months.

Table 7. Italy: Price and Wage Indexes, 1962-64

	1962	1963				1964		
	Dec.	Jan.	Feb.	Mar.	Dec.	Jan.	Feb.	Mar.
Wholesale Prices (1953=100)								
General index	104.5	105.5	106.4	106.2	110.2	110.7	110.6	110.7
Agricultural prod.	117.8	119.5	121.9	119.9	122.1	121.1	119.6	n.a.
Non-agr. prod.	101.0	101.8	102.2	102.4	107.1	107.6	108.2	n.a.
Consumer Prices (1953=100)								
General index	127.4	128.8	130.6	131.0	136.2	137.2	137.4	137.8
Food	123.8	125.0	127.5	127.8	132.2	132.5	n.a.	n.a.
Non-food prod.	111.7	112.1	112.8	113.2	118.1	119.3	n.a.	n.a.
Services	156.7	160.0	160.0	161.5	169.7	172.0	n.a.	n.a.
Cost of Living (1961=100)								
General index	n.a.	108.5	110.5	111.1	115.6	116.8	117.1	n.a.
Wage Rates in Manufacturing (1953=100)	162	162	172	172	184	184	190	n.a.
Wage Rates in Industry (married workers)(1938=1)	112.5	112.5	117.7	117.7	126.8	130.2	133.2	n.a.

Source: Istituto Centrale di Statistica.

Although these price movements are gratifying, it is doubtful if they yet reflect a lessening of demand or wage pressures. At the wholesale level, the stabilization of the general index is attributable solely to a decline in the prices of agricultural commodities after December. According to recent reports, Italy's agricultural production, which had failed to show any rise in either 1962 or 1963 because of unfavorable weather conditions, has finally been blessed with better luck and has risen substantially in recent months. Wholesale prices of nonagricultural commodities continued moving up through February at about the same rate as has generally prevailed in the past two years.

New wage push occurs in early 1964

The most disturbing aspect of the Italian economy is the continuing rapid ascent of wage rates. There was some indication in late 1963 that the pace of wage increases was slackening off slightly, but a renewed burst occurred in January and February of this year. Minimum contractual wages for married workers in industry rose 2.7 per cent in January and another 2.2 per cent in February, bringing the year-to-year increase in February to 13.1 per cent (compared with 12.7 per cent in December). (See Table 7.) The January rise was caused by new contracts in the construction industry which raised wage rates 12.9 per cent over the preceding levels (and 36 per cent over a year earlier). In February, hourly wages in manufacturing went up 3.3 per cent over the unchanged levels prevailing in November-January. Over the four months November-February, wages in manufacturing averaged 12.8 per cent higher than a year earlier.

Rise in economic activity slows down

In the closing months of 1964, the pace of over-all economic activity slowed perceptibly, and apparently did not pick up again in January-February. Seasonally adjusted unemployment rose sharply between October and January, and a Cabinet Minister has said that the construction industry is now undergoing a recession. More recently, the new taxes on auto purchases and the tightening of consumer credit terms have led to declines in sales and in hours worked in the automobile and other sectors.

Over-all industrial production, seasonally adjusted, rose a total of 0.4 per cent in the four months October to January inclusive--gains of 0.4 per cent in both October and November were followed by a 1.2 per cent drop in December and an 0.8 per cent rise in January (latest data available). Output of "immediate use goods" (petroleum products, electricity, and chemicals) rose 3.6 per cent from September to December. But in this period production of investment goods dipped slightly. Output in these industries has been basically stagnant for many months, and in December was a bit less than during the second quarter. Surprisingly, production of consumer goods, which had been rising rapidly through the first three quarters of 1963, turned down sharply after October, and in December was 3.3 per cent under September and 4.5 per cent below October.

Seasonally adjusted retail sales lost their upward momentum in the fourth quarter (latest data available) and for the three months October-December averaged 4.1 per cent below the third quarter. In the labor market, the Labor Ministry's quarterly survey shows a seasonally adjusted rise in unemployment of 89,000 (20 per cent) between October and January (latest data available). This was not the first time in recent years that unemployment rose over a three-month period, but the increase was the largest in a long while.

After the application of the late-February measures to restrain consumer spending, especially on cars, the Fiat Company cut its work week from 48 to 44 hours in mid-March, and Lancia in mid-May cut the work week from 48 to 32 hours for two-thirds of its employees. Fiat reported in late April that its sales had dropped 30 per cent from late February. In other sectors, in mid-March Olivetti slashed its work week to 26 hours, and about 20 additional firms, mainly in the durable consumer goods field, cut 3 to 8 hours from the work week of some 40,000 employees. However, in most cases, the work week has remained at least 40 hours. The Italian Parliament has softened the terms of the originally proposed bill on consumer credit terms, and has passed a bill setting the initial down payment at 25 (instead of 30) per cent and providing 24 (instead of 12) months as the maximum payment period. The three other bills (auto tax, gasoline tax, and dividend withholding tax) were passed virtually as initially proposed.

Capital markets weaken further

During 1964, Italian stock and bond prices have both undergone heavy declines, although a sharp recovery in stock prices in late April has pared the net loss in values over the first five months.

Stock prices moved downward, with only the briefest of interruptions of the trend, from last December to the third week of April. The *24 Ore* index dropped 27 per cent from December 31, to April 20, a decline double the 13 per cent loss that occurred over the entire year 1963. The squeeze on liquidity caused by the severe credit restrictions was a dominant factor

The bond market has sagged further this year. Yields on long-term governments, after dipping slightly in January and holding steady in February, rose to 5.85 and 5.86 per cent in March and April, respectively, up from 5.62 per cent in December. Yields on other bonds (corporates and special credit institutions) went up from 6.42 per cent in December to 6.97 per cent in April. Comparing April with last August, just before credit began to be seriously curtailed, yields on governments have gone up 65 basis points, and the rise in yields on other bonds has amounted to 92 basis points.