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ITALY'S INTERNATIONAL RESERVES AND THEIR DETERMINANTS IN THE SEVENTIES: AN ASSESSMENT OF THE COUNTRY RISK

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Introduction

The purpose of the present paper is to analyze policies for and developments in Italian international reserves in the seventies and to compare them with similar developments in industrial countries. Particular emphasis will be placed a) on the study of the possibilities of influencing the terms of trade in the short to medium run by an appropriate exchange rate policy coupled with the use of international reserves, and b) on the adequacy of Italian international reserves, particularly in the light of the position of the country as a borrower in international capital markets.

In the two decades from 1950 to 1970, the price of gold was fixed in terms of dollars; the currencies of the major countries were also tied to the dollar by fixed exchange rate agreements. Changes in the stock of countries international reserves were therefore almost exclusively due to deficits or surpluses in their balance of payments and to the increase in IMF quotas and allocations of Special Drawing Rights (henceforth SDRs). At the beginning of the last decade, the link of the dollar to gold was broken (1971), and exchange rates started to float more or less freely (March 1973). Capital gains and losses due to changes in the price of gold and of reserve currencies thus became an additional important

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reason — if not the principal one — for fluctuations in the stock of international reserves.

Central banks and governments of the major industrialized countries have adapted to the altered characteristic of the gold market by introducing into their legislation criteria for the revaluation of their gold stocks.[1] Since these criteria are not the same for all countries, it was not possible to use national sources to make a comparison between the development of Italian international reserves and those of the other industrialized countries. It was therefore decided to value the end-of-year gold stock of each country at the end-of-year London gold price.

The first section of this paper will describe the fluctuations in the stock of Italian international reserves and their components (gold, foreign exchange and SDRs and the reserve position of the International Monetary Fund). In the second section, the time path of Italian international reserves and their components will be compared with the time path of these magnitudes for industrial countries. In the third section, the changes which occurred in the decade under study in the foreign claims and liabilities of the Italian banking system will be analyzed, and, again, they will be compared with the same magnitudes for industrialized countries. Interesting insights into the degree of financial integration of Italy with the industrialized world emerge from this comparison. Claims on foreigners by the banking system in Italy can to some extent be considered as substitutes for claims on foreigners of the Bank of Italy and the Italian Foreign Exchange Office, since, given the power of the Bank of Italy to regulate the foreign position of commercial banks, the latter's claims can be mobilized in case of emergency.

In the remaining part of the paper, we focus on the major determinants of the Italian current account and of the exchange rate in the seventies, since both these variables have significantly influenced the changes in Italian international reserves in the period. Under perfectly flexible exchange rates, the balance of payments would, by definition, be zero, and there would be no addition or subtraction of reserve currencies to or from the stock of international reserves of a country. All the change in their value would then be caused by the revaluation of the

[1] In Italy, the new legislation introduced at the end of 1976 provided for the revaluation of the gold stock at 85 per cent of the market price of gold. As of February 28 1979, the gold is valued on the basis of the London price according to the European Monetary System (EMS) agreements.

pre-existing stock. Under a regime of managed floating, instead, the Central Bank continues to intervene in the foreign exchange market, and the change in the stock of reserves is due jointly to the inflow or outflow of reserve currencies and to the revaluation of the pre-existing stock. It follows that, under managed floating, it becomes important to analyze on the one hand the factors which determine the fluctuations of the current account — the most stable component of the balance of payments — and, on the other, the determinants of the exchange rate whose permitted degree of flexibility influences the gain or loss of reserves. The analysis of the factors which have guided the Italian monetary authorities in the management of the exchange rate, in a study on the evolution of international reserves, shows the importance which the fall of the exchange rate of the lira has had for the protection of the level of Italian international reserves in the course of the seventies.

The main conclusions to be drawn from this study are:

a) If we value the gold component of Italian international reserves at market prices, Italy has been able, in the course of the seventies, to protect its international reserves despite the two oil crises. In June 1980, Italian reserves were higher than at the end of 1970, both with respect to imports and with respect to reserves of industrialized countries. At the end of 1980, Italian international reserves, with gold valued at market prices, were greater than 17 per cent of GDP, while liabilities of the Bank of Italy and the Exchange Office were only about 0.75 per cent of GDP and the net foreign indebtedness of the private sector including banks was less than six per cent. Although the indebtedness has increased in 1981, there still seems to be room for an increase in the foreign indebtedness of Italian firms provided the funds are used efficiently.

b) It would be dangerous to deduce from the preceding observation that there is at present no hurry to adjust the current account deficit because the gold price has fallen recently and might continue to fall in the course of the eighties.

c) Most of the increase in the value of Italian international reserves was caused by "capital gains" i.e. revaluation of the pre-existing gold stock and of the stock of foreign currencies. This conclusion leaves open the very important question of whether it would have been more profitable to accumulate raw materials (e.g. oil) instead of gold or international reserves, as implicit in the proposal of stockpiling raw materials advanced by the Medium-Term Plan, recently presented to Parliament.

d) Italy remains a solvent country with a low country risk, both because of the high level of international reserves and because of the ability of its economy shown in at least two occasions (1974/75 and 1977/78), to adjust quickly to large current account imbalances or to oil shocks.

e) Without the flexibility of the exchange rate, it would not have been possible to safeguard the level of Italian official reserves unless a much more restrictive monetary and especially fiscal policy had been followed in the course of the seventies.

f) The use of reserves in dealing with large current account deficits has enabled the Italian monetary authorities to influence positively the terms of trade in the short to medium run by retarding the fall of the lira. It would have been self-defeating to try to influence the terms of trade in the long run by manipulating the exchange rate.

I. The Development of Italian International Reserves and of their Composition

Italian international reserves measured in SDRs [2] increased from about 5.4 billion at the end of 1970 to 17.4 billion at the end of June 1981 (Table 1). But, if gold is measured at the market price instead of at 35 SDRs per ounce, the increase was from 5.5 to 39.8 billion (Table 2). Of the three broad components of international reserves — SDRs and the Reserve Position in the Fund, foreign currencies and gold — the most dynamic was gold, if the gold stock is measured at market prices,

[2] The Special Drawing Right as a unit of account was defined as a weighted average of 16 currencies, of which the lira had a weight of five per cent and the U.S. dollar a weight of 33 per cent. As of 1980, the SDR was redefined in terms of five currencies only: the U.S. dollar, the yen, the German mark, the British pound and the French franc.

and foreign currencies if gold is valued at 35 SDRs per ounce (Tables 1 and 2).

The fluctuations in the stock of Italian official reserves measured in SDRs depend on two factors:

a) the change in the price of gold measured in SDRs as far as the gold component is concerned and the change in the SDRs value of foreign currencies held, mainly dollars;

b) the inflow or outflow of international reserves connected with surpluses and deficits of the balance of payments.[3] An attempt was made to separate statistically the effects of the two factors on the value of Italian international reserves (Table 3), and it was found that, except for the period 1976-78 the changes in the stock of Italian reserves were dominated by factor a). In the year following the first oil crisis, the increase in the price of gold and the devaluation of the lira with respect to the SDRs were more than sufficient to outweight the large losses of international reserves. After the second oil crisis they only partially offset the outflow of reserves.

Tables 1 and 2 also contain the various components of Italian international reserves as a proportion of their total. In Table 1, gold is valued at 35 SDRs per ounce. The gold component valued at 35 SDRs per ounce decreased from 54 per cent of the total at the end of 1970 to about 13.5 per cent in June 1981. Foreign currencies, instead, increased from 40 per cent of the total to about 80 per cent, while SDRs and the Reserve Position in the Fund, which had reached 12 per cent of the total in 1972, fell to 7.5 per cent at the end of June 1981.

In Table 2, with gold valued at market prices, gold increased from 55.5 per cent of the total at the end of 1970 to 89 per cent at the end of 1975, and then fell to 62 per cent at the end of June 1981. The changes in the share of foreign currencies mirrored the change in the share of gold because of the still limited role of SDRs and of the Reserve Position in the Fund.

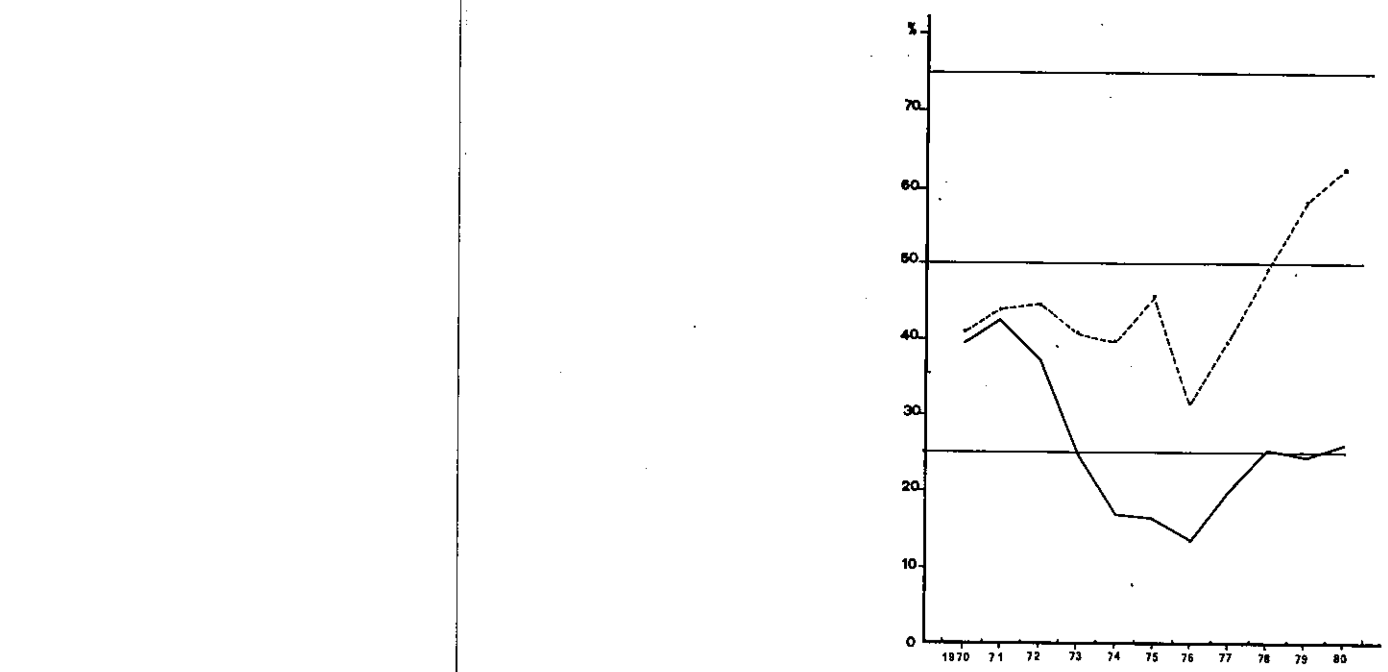
Chart 1 and Table 4 contain the ratios of international reserves to imports. If gold is valued at 35 SDRs per ounce, the proportion fell

[3] It is important to observe that, in the Italian balance of payments statistics, changes in the net foreign asset position of commercial banks are reported below the line as a "monetary" or "accommodating" movement. The balance of payments is, therefore, not equal to the inflow or outflow of international reserves, as in most other industrialized countries. In the text, however, we use the terms "balance of payments" and "reserve movements" as synonymous.

CHART 1
(TABLE 4)

ITALY: RATIO OF INTERNATIONAL RESERVES TO IMPORTS
(in per cent)

——— Total reserves with gold at 35 SDRs per ounce as % of imports
- - - - Total reserves with gold at market prices, as % of imports



from 39 per cent in 1970, equivalent to almost five months of imports, to about 26 per cent in 1980, equivalent to about three months of imports. But, with gold measured at market prices, the proportion increased from 40 per cent in 1970, equivalent to about five months of imports, to 63 per cent in 1980, equivalent to about seven and a half months.

Concluding the analysis of the development of the total of Italian international reserves in the seventies and of their composition, it seems that, despite the large balance of payments deficits of the seventies, Italy was able to protect total reserves from the oil price increases. The Italian monetary authorities were favoured by the large gold stock they possessed at the beginning of the period and by the positive correlation in the seventies between the increase in the price of gold and of the price of oil. One should be careful, however, not to consider the future

in too much optimistic a spirit, since the price of gold fell in 1981 and since there is no guarantee that the positive correlation between gold and oil prices will continue to protect Italian reserves. Other reasons for not taking too optimistic a view of the increase in the ratio of Italian official reserves to imports during the seventies will be discussed in Section III below.

II. Comparison of Italian International Reserves with those of other Industrial Countries

Table 5 contains the share of the component of Italian reserves in relation to those of industrial countries. At the end of 1970 Italy possessed 9 per cent of the gold stock of industrial countries.[4]

This share has remained relatively stable; it increased to 9.4 per cent at the end of 1978 and fell to 8.5 per cent at the end of June 1981. This decrease is an accounting phenomenon due to the gold handed over to the FECOM after the creation of the European Monetary System in march 1979. The share of foreign currencies has undergone much wider fluctuations because balance-of-payment conditions have a direct impact on the stock of foreign currencies held. It decreased from 7.1 per cent at the end of 1970 to 2.8 per cent at the end of 1973 (Table 5). It reached a minimum at the end of 1975 (1.6 per cent), but increased gradually thereafter to 10.3 per cent at the end of 1980.[5] In June 1981, the share had decreased to 8.3 per cent. Similar fluctuations are observed in the Italian share of SDR's and the reserve position in the Fund.

If gold is valued at market prices, the share of Italian international reserves with respect to the total of industrial countries increased in the second half of the decade from 5.9 per cent at the end of 1975 to 8.9 per cent at the end of 1980 (Tables 5 and 6). A similar conclusion is reached if gold is valued at 35 SDRs per ounce: while, in the first part of the decade, the Italian share declined from 7.6 per cent at the end of 1970 to 3.6 per cent at the end of 1975, it increased without interruption in the second half of the decade, and it reached 9.7 per cent at the end of

[4] The definition of industrial countries adopted here is that of the IMF.
[5] This figure includes the counterpart of gold handed over to FECOM in March 1979.

December 1980. If one compares the share of Italy in the total of international reserves of industrial countries with the Italian share in the area's GDP, one observes that Italy is relatively "well endowed" with international reserves (Table 6). However, the need for international reserves also depends on the degree of openness of a country and on the variability of its export earnings; in this regard, it is important to notice that Italy is much more open than the average of industrial countries and especially than the United States (Table 8), and that its banking system lost its relatively strong position in the world banking system.

III. Foreign Claims and Liabilities of Italian Commercial Banks and the Degree of Openness of the Italian Financial System.

From the point of view of a nation's "security" in case of an emergency, it does not make such a big difference if the claims on foreigners are concentrated in the hands of the central bank, of commercial banks or of the private non-bank sector, provided the claims of the latter two sectors can be mobilized by the authorites.

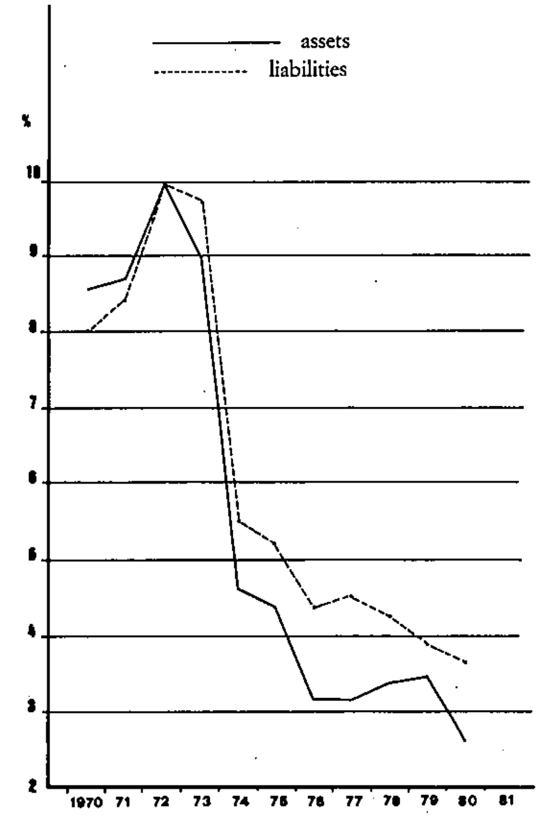
It is not easy to estimate the claims of the private sector on foreigners and its gold holdings, but, for the Italian banking system, reliable statistics exist. The increase in the share of Italian official reserves in the total of industrial countries in the second half of the decade, as described in the previous section, has to be reinterpreted in the light of the behaviour of the share of foreign claims and liabilities of the Italian banking system. Claims on foreigners of Italian banks increased rapidly from 11.5 billions U.S. dollars at the end of 1970 to 34.2 at the end of 1980, but foreign liabilities increased even more — from 11.6 billion to 49 billion. As a percentage of foreign claims of banks in industrial countries, foreign claims of Italian banks fell from 8.6 per cent to 2.6 per cent during the period under study, and foreign liabilities fell from 8 per cent to 3.7 per cent (Table 7). Chart 2 shows the time path of foreign claims and liabilities of Italian banks in relation to those of industrial countries. The increase of Italian official reserves during the decade, therefore, occurred at a time when the net foreign asset position of Italian commercial banks was worsening rapidly, especially towards the end of the decade, and when both foreign claims and foreign liabilities were falling rapidly as a proportion of those

of industrial countries. This sharp fall in the Italian shares can be seen as a sign of the reduced degree of openness of the Italian financial system.

The above-average inflation of Italy with respect to industrial countries, the instability of the exchange rate, and above all the numerous controls on foreign exchange operations and on the banking system imposed by the Italian monetary authorities have all contributed to this state of affairs. The Italian monetary authorities have all too often relied more on direct controls of various kinds in the conduct of monetary and credit policy than on market forces and the interest rate. The policy adopted has also led to distorsions in financial markets, in addition to contributing to the disintermediation of the Italian banking system.

CHART 2
(TABLE 7)

FOREIGN ASSETS AND LIABILITIES OF ITALIAN BANKING SYSTEM AS PER CENT OF INDUSTRIAL COUNTRIES ASSETS AND LIABILITIES



The sharp fall in the degree of openness of the Italian banking system with the rest of the world stands in sharp contrast with the increase in the degree of commercial integration of Italy (Table 8). The sum of Italian imports and exports as a proportion of GDP increased from about 28 per cent in 1970 to about 45 per cent in 1980. The increase was partly due to the increase in the price of oil. As can be seen from Table 8, the largest increases in the share occurred in 1974 and in 1979. For the total of industrial countries, the share increased from 21.3 per cent in 1970 to about 35 per cent in 1980. Particularly marked was the increase in the degree of commercial integration of the United States, where the figure increased from 8.7 per cent in 1970 to 18.5 in 1980.

IV. The Determinants of the Italian Current Account in the Seventies

The computations set out in Table 3 show that the fluctuations of Italian international reserves were dominated by changes in valuation due to the changes in the price of gold and of reserve currencies, with the exclusion of the period 1976-78, when the balance-of-payments surpluses played a large role. It is well known that the most stable component of the latter is the current account, whose major determinants will now be analyzed.

In Chart 3, the yearly current account of Italy as proportion of GDP is given, together with the Italian terms of trade (defined as the ratio of unit export values to unit import values) and the difference between the rate of growth of final domestic demand [6] of OECD countries (excluding Italy) and Italian final demand. The latter two variables seem to provide a relatively good explanation of the behaviour of the Italian current account in the seventies. These have oscillated from an absolute minimum of −4.7 per cent of GDP in 1974 (as opposed to −1.8 per cent in 1973) and a maximum of 2.5 per cent in 1978. In 1980, the current account deficit was −2.5 per cent of GDP, and in 1981 it is currently estimated to be −2.2 per cent.

In the years 1974 and 1980, when the largest deficits occurred, the worsening of the terms of trade due to the oil price increases operated

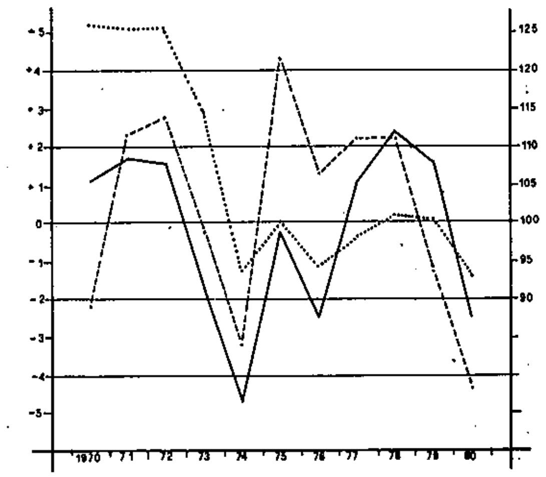
[6] Defined as the sum of private consumption and investment and government expenditure.

concurrently with the high rate of growth of Italian final domestic demand in relation to that of other OECD countries. Given the observed behaviour of Italian demand relative to foreign demand, it therefore seems that Italy was particularly "unlucky" in the sense that the country was hit by the oil price increase at the peak of the business cycle relative to the foreign business cycle. This tended to make the successive adjustment more painful than would have otherwise been the case. But, in judging whether Italy was indeed "unlucky" or not, one

CHART 3
(TABLE 9)

DETERMINANTS OF ITALIAN CURRENT ACCOUNT

——— Italian current account as per cent of GDP (left scale)
············ Italian terms of Trade (right scale)
------------ Difference between percentage change of final demand of OECD countries and Italian final demand (left scale)



ought not to forget that the final domestic demand of each country is strongly influenced by the monetary and fiscal politicies it pursues. It follows that a more complete analysis would be required of the determinants of final domestic demand in Italy and abroad for those years.

The theoretical background of the positive link between the terms of trade and current account is given by the so-called elasticity approach, coupled with the hypothesis that, during the year, the sum of the price elasticities in foreign trade is smaller than unity, while the positive link between the rates of growth of final demand of the rest of the world relative to Italian demand and the current account is explained by the absorption approach.[7]

V. The Importance of the Exchange Rate Regime and the Terms of Trade

If Italy had decided in 1973 to keep the exchange rate pegged to the U.S. dollar, inflation in Italy would probably have been much smaller, but at a high cost in terms of the external equilibrium and of economic growth and unemployment, unless a much more restrictive fiscal policy had been followed. In the absence of a more restrictive fiscal and monetary policy a fixed lira/dollar rate would have entailed a large loss of competitiveness of the Italian export sector, large capital outflows and a substantial loss of officially held international reserves. The flexibility of the exchange rate has therefore allowed Italian monetary authorities to protect the stock of international reserves, assuming unchanged demand management policies.

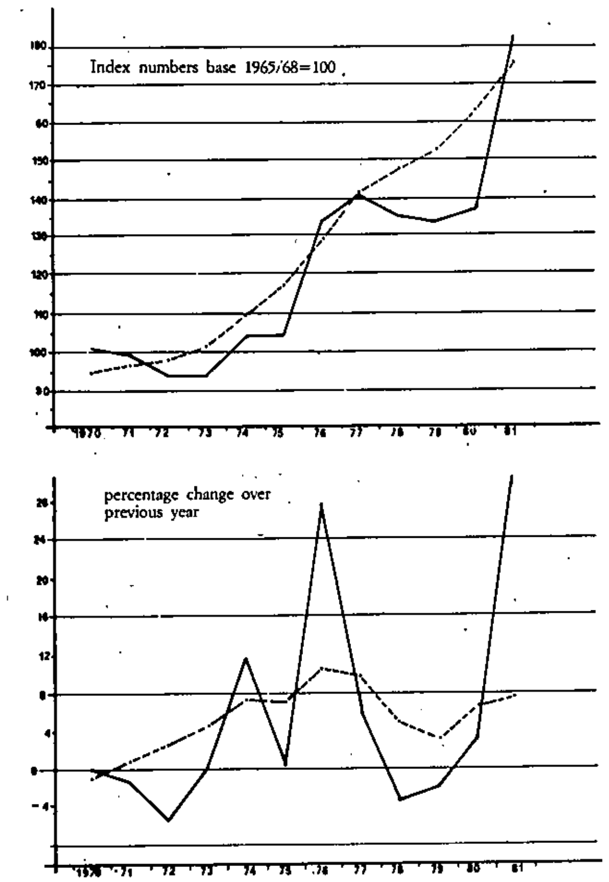
The index of the exchange rate of the lira with the dollar (1965-68 = 100) which is depicted in Chart 4 shows an upward trend, which is broadly in line with the behaviour of relative consumer prices between Italy and the United States. One observes, however, two periods of about two years during which there were large deviations in the exchange rate from relative purchasing power parity. In the periods 1972-75 and 1978-80, the lira registered an appreciation in real terms with respect to the US dollar. The real appreciation in the period 1972-75 is not easy to explain. The factors which might have contributed to the relative appreciation of the lira in 1972-75 are the high level of oil imports by the United States, the delay in the start of a serious energy

[7] SIDNEY S. ALEXANDER, "Effects of a Devaluation on the Trade Balance", *International Monetary Fund Staff Papers*, 2, vol. 2 (April 1952).

CHART 4
(TABLE 10)

EXCHANGE RATE AND RELATIVE CONSUMER PRICES ITALY - USA

——— Lira/dollar exchange rate
-------- Relative consumer prices Italy/USA



policy and the political and military crisis of the country after the end of Vietnam war. Finally, the policy of benign neglect of the United States government vis-à-vis the real depreciation of the dollar which was probably desired to speed up the adjustment of the current account. The exchange rate policy of the Italian monetary authorities consisted instead in trying to resist the nominal depreciation of the lira in order to reduce the negative impact of the oil price increase on the terms of trade. The use of Italian international reserves for this purpose has been sensible, given the low short to medium run price elasticity of demand for oil and the slow adjustment of the real economy to the large relative price changes which had occurred. A similar argument holds for the period 1978-80, during which the second oil shock occurred.[8] As far as the latter period is concerned also, the different cyclical position of Italy and the United States (the former experiencing a large current account surplus at least in 1978 and 1979 and the latter a large deficit) must have played an important role in causing the real appreciation of the lira.

The possibility and the advisability of influencing the terms of trade by manipulating the exchange rate (and by accepting losses of international reserves) is, however, probably limited to the short to medium run. A prolonged pegging of the exchange rate extended beyond a two or three year period would have grave consequences for Italian export competitiveness and, which is even more important, would retard the final adjustment of the productive sector to the changed relative prices.

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[8] For an economic analysis of the major factors causing deviation of nominal exchange rates from purchasing power parity in the seventies see GIORGIO SZEGÖ and GIUSEPPE TULLIO: "Major causes of deviations of nominal exchange rates from purchasing power parity: a survey of the literature and empirical evidence for seven industrialized countries", forthcoming.

TABLE 1

ITALIAN INTERNATIONAL RESERVES AND MAJOR COMPONENTS
(gold valued at 35 SDR per ounce)

(end-of-period data)

	Absolute values in millions of SDRs				Percentage of total		
	SDRs and Position in the Fund	Foreign exchange	Gold at 35 SDRs per ounce	Total	SDRs and Position in the Fund	Foreign exchange	Gold at 35 SDRs per ounce
1970	353	2,113	2,887	5,353	6.6	39.5	53.9
1971	577	2,821	2,884	6,282	9.2	44.9	45.9
1972	671	2,049	2,883	5,603	12.0	36.6	51.4
1973	640	1,808	2,887	5,335	12.0	33.9	54.1
1974	181	2,601	2,887	5,669	3.2	45.9	50.9
1975	83	1,108	2,887	4,078	2.0	27.2	70.8
1976	78	2,762	2,887	5,727	1.4	48.2	50.4
1977	119	6,553	2,902	9,574	1.2	68.5	30.3
1978	469	8,059	2,909	11,437	4.1	70.5	25.4
1979	686	13,128 (1)	2,335 (2)	16,149 (1)	4.2	81.3	14.5
1980	1,167	16,977 (1)	2,333 (2)	20,477 (1)	5.7	82.9	11.4
1981 (3)	1,312	13,793 (1)	2,333 (2)	17,438 (1)	7.5	79.1	13.4

(1) Including the ECUs obtained in exchange for gold deposited with FECOM and valued at market prices.
(2) Excluding gold (20% of total) deposited with FECOM in exchange for ECUs.
(3) End of June.
Source: International Financial Statistics Yearbook, 1980 and September 1981, IMF.

TABLE 2

ITALIAN INTERNATIONAL RESERVES AND MAJOR COMPONENTS
(gold valued at market prices)

(end-of-period)

	Absolute values in million of SDRs				Percentage of total		
	SDRs and Position in the Fund	Foreign exchange	Gold at market prices	Total	SDRs and Position in the Fund	Foreign exchange	Gold at market prices
1970	353	2,113	3,082	5,548	6.4	38.1	55.5
1971	577	2,821	3,312	6,710	8.6	42.0	49.4
1972	671	2,049	4,924	7,644	8.8	26.8	64.4
1973	640	1,808	7,675	10,123	6.3	17.9	75.8
1974	181	2,601	12,564	15,346	1.2	16.9	81.9
1975	83	1,108	9,881	11,072	0.8	10.0	89.2
1976	78	2,762	9,566	12,406	0.6	22.3	77.1
1977	119	6,553	11,258	17,930	0.7	36.5	62.8
1978	469	8,059	14,419	22,947	2.0	35.1	62.9
1979	686	13,128 (1)	25,928 (2)	39,742 (1)	1.7	33.0	65.3
1980	1,167	16,977 (1)	30,815 (2)	48,959 (1)	2.4	34.7	62.9
1981 (3)	1,312	13,793 (1)	24,684 (2)	39,789 (1)	3.3	34.7	62.0

(1) See note (1) of Table 1.
(2) See note (2) of Table 1.
(3) See note (3) of Table 1.
Source: International Financial Statistics Yearbook, 1980 and September 1981, IMF.

TABLE 3

ESTIMATE OF EFFECT OF CAPITAL GAINS AND LOSSES ON VALUE OF ITALIAN INTERNATIONAL RESERVES

(with gold valued at market prices)

(billions of lire)

	Balance of payments (official definition)	Change in net foreign asset position of commercial banks (1)	Balance of payments (a) – (b)	Change in value of international reserves (2)	$100 \frac{(d) - (c)}{(d)}$ % (3)
	(a)	(b)	(c)	(d)	
1970					
1971	+ 481	– 294	+ 775	+ 719	– 7.8
1972	– 724	– 721	– 3	+ 455	100.7
1973	–2,857	–1,676	–1,181	+ 2,545	146.4
1974	–5,058	– 844	–4,214	+ 5,104	182.6
1975	– 829	+1,035	–1,864	– 3,265	42.9
1976	–1,283	–3,028	+1,745	+ 3,739	53,3
1977	+2,273	–2,052	+4,325	+ 6,324	31.6
1978	+7,698	+1,669	+6,029	+ 5,442	– 10.8
1979	+3,888	+1,801	+2,087	+17,067	87.8
1980	–6,039	–9,580	+3,541	+15,353	76.9

(1) The dollar values of Table 7 have been transformed into lire at the end-of-year exchange rate.
(2) The SDRs values of Table 2 have been transformed into lire at the end-of-year exchange rate.
(3) A value of 100 indicates that all the changes in international reserves are due to capital gains or losses.
Sources: *Annual Reports*, BANK OF ITALY; *IFS Yearbook*, 1980 and September 1981.

TABLE 4

RATIO OF ITALIAN RESERVES TO IMPORTS

(fob)

(in percent)

	Reserves with gold valued at 35 SRDs per ounce (2)	Reserves with gold valued at market prices (2)
1970	39.0	39.8
1971	41.5	43.7
1972	37.1	44.8
1973	25.0	40.6
1974	16.8	38.9
1975	16.7	45.4
1976	13.1	31.4
1977	20.0	39.7
1978	25.2 (1)	49.1 (1)
1979	24.6 (1)	55.8 (1)
1980	25.9 (1)	62.7 (1)

(1) See note (1) of Table 1.
(2) Imports (fob) in billions of lire have been translated into SDRs at the mid-year exchange obtained by linear interpolation of the end-of-year exchange rates. The end-of-year international reserves have also been interpolated linearly to obtain an estimate at mid-year.
Source: *IFS Yearbook*, 1980 and September 1981, IMF.

TABLE 5

ITALIAN SHARE IN INTERNATIONAL RESERVES OF INDUSTRIAL COUNTRIES

(in percent)

	SDRs and position in the Fund	Foreign exchange	Gold (in ounces)	Total	
				with gold at 35 SDRs per ounce	with gold at market prices
1970	3.8	7.1	9.0	7.6	7.6
1971	5.6	5.1	9.3	6.5	6.6
1972	5.4	3.0	9.4	5.1	5.8
1973	5.3	2.8	9.4	4.9	6.4
1974	1.4	4.0	9.4	5.2	7.3
1975	0.6	1.6	9.5	3.6	5.9
1976	0.4	3.7	9.5	4.6	6.4
1977	0.6	6.6	9.4	6.4	7.5
1978	2.9	6.3	9.4	6.6	7.7
1979	4.0	9.7 (1)	8.5 (2)	8.9 (1)	8.6 (1)
1980	6.0	10.3 (1)	8.5 (2)	9.7 (1)	8.9 (1)
1981 (3)	5.4	8.3 (1)	8.5 (2)	8.0 (1)	8.3 (1)

(1) (2) See notes (1) and (2) of Table 1. The other EMS participants and the UK have been treated in the same fashion.
(3) See note (3), Table 1.
Sources: *IFS Yearbook*, 1980 and September 1981, IMF.

TABLE 6

SHARE OF ITALIAN INTERNATIONAL RESERVES AND OF GDP IN TOTAL OF INDUSTRIAL COUNTRIES

	International reserves (with gold valued at market prices)	Gross Domestic Product
1970	7.60	4.78
1971	6.61	4.76
1972	5.79	4.77
1973	6.37	4.71
1974	7.26	4.69
1975	5.88	4.72
1976	6.40	4.27
1977	7.52	4.34
1978	7.74	4.40
1979	8.65 (1)	4.75
1980	8.93 (1)	5.24

(1) See note (1) of Table 1.
Source: *IFS Yearbook*, 1980 and September 1981, IMF.
OECD - *National Accounts 1950-75* and *Main Economic Indicators*, August 1981.

TABLE 7

FOREIGN ASSETS AND LIABILITIES OF ITALIAN BANKING SYSTEM
(billions of U.S. dollars)

	Assets		Liabilities		Net foreign asset position (in billions of U.S. $)
	Absolute values	In percent of industrial countries	Absolute values	In percent of industrial countries	
1970	11.5	8.6	11.6	8.0	− 0.1
1971	14.8	8.7	15.4	8.4	− 0.6
1972	21.3	10.0	23.2	10.0	− 1.8
1973	26.9	9.0	31.5	9.7	− 4.5
1974	17.1	4.6	22.6	5.5	− 5.5
1975	19.5	4.4	23.2	5.2	− 3.8
1976	16.9	3.2	23.3	4.4	− 6.4
1977	20.8	3.2	29.6	4.6	− 8.8
1978	29.6	3.4	36.8	4.3	− 7.2
1979	38.3	3.5	43.5	3.9	− 5.2
1980	34.2	2.6	49.0	3.7	−14.8

Source: International Financial Statistic Yearbook, 1980 and September 1981, IMF

TABLE 8

DEGREE OF OPENNESS OF ITALIAN ECONOMY AND INDUSTRIAL COUNTRIES
(Sum of merchandise imports and exports as a proportion of GDP)
(in percent)

	Italy	Industrial countries	U.S.A.
1970	28.1	21.3	8.7
1971	28.1	21.5	8.7
1972	29.4	22.0	9.3
1973	32.5	24.9	11.1
1974	42.0	30.9	14.7
1975	38.1	28.4	13.8
1976	42.9	29.8	14.5
1977	43.4	29.9	14.8
1978	43.0	29.4	15.5
1979	46.4	32.3	17.1
1980	45.1	34.9	18.5

Sources: IFS Yearbook, 1980 and September 1981, IMF, and OECD, *National Accounts*.

TABLE 9

ITALY: CURRENT ACCOUNT, TERMS OF TRADE AND AGGREGATE DEMAND

	Current account to GDP (in per cent)	Terms of trade (1975 = 100)	Percentage change of final demand of OECD countries (excluding Italy) minus percentage change of Italian final demand (¹)
1970	+1.1	125.6	−2.2
1971	+1.7	125.2	+2.3
1972	+1.6	125.5	+2.8
1973	−1.8	114.5	−0.3
1974	−4.7	93.6	−3.2
1975	−0.3	100.0	+4.3
1976	−1.5	96.2	+1.3
1977	+1.1	98.6	+2.2
1978	+2.4	100.9	+2.2
1979	+1.6	100.2	−1.3
1980	−2.5	93.2	−4.2

(¹) Final demand has been defined as the sum of private consumption and investment and government expenditure.
Sources: ISTAT - *Conti economici nazionali*; *IFS Yearbook*, 1980 and September 1981, IMF; OECD - *National Accounts*.

TABLE 10

EXCHANGE RATE AND RELATIVE CONSUMER PRICES:
ITALY AND U.S.A. (1965-68 = 100)

	Lira/dollar exchange rate		Relative consumer prices Italy/U.S.A.	
	Index number	Percentage change on previous year	Index number	Percentage change on previous year
1970	100.5	—	94.8	− 1.0
1971	99.1	− 1.4	95.4	+ 0.6
1972	93.4	− 5.7	97.6	+ 2.3
1973	93.4	—	101.8	+ 4.3
1974	104.2	+11.6	109.2	+ 7.3
1975	104.6	+ 0.4	117.1	+ 7.2
1976	133.3	+27.5	129.3	+10.4
1977	141.4	+ 6.1	141.9	+ 9.7
1978	136.0	− 3.8	148.1	+ 4.4
1979	133.1	− 2.1	152.7	+ 3.1
1980	137.2	+ 3.1	163.1	+ 6.8
1981	182.1 (¹)	+32.7 (¹)	175.3 (²)	+ 7.6 (²)

(¹) Forecast based on an average exchange rate in the fourth quarter of 1.180 lire per dollar.
(²) Forecast obtained by extrapolating inflation of first semester 1981 on second semester 1980.
Source: IFS Yearbook, 1980 and September 1981, IMF.