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SYMBOLS AND CONVENTIONS

— the phenomenon in question does not occur;

.... the phenomenon occurs but its value is not known;

.. the value is known but less than the minimum considered significant.

Unless indicated otherwise, figures have been computed by the Bank of Italy.

Economic Developments and Policies

The international economy

The crisis that began a year ago in Asia has worsened and spread to new countries, changed in character, increased in scale and become global in impact. The repercussions on economic activity have been heavy. The International Monetary Fund has revised its estimate of global output growth in 1998 down to 2 per cent from the 4.3 per cent forecast a year ago. The new Government that took office in Japan at the end of July has appeared hesitant in dealing with the increasingly acute crisis of the banking system and the serious recession that the country has slipped into at the end of an unusually protracted period of stagnation. Among the consequences have been a pronounced fall in share prices and a sharp depreciation of the yen, triggering fears of devaluation of the Chinese yuan, the Hong Kong dollar and other regional currencies. In the most severely affected Asian countries the contraction of output, which is expected to average 9 per cent this year, will be much more pronounced than originally predicted. The fall in domestic demand and the depreciation of currencies have produced large payments surpluses in these countries, corresponding to a sharp increase in the US current account deficit. The decline in economic activity in Asia has also affected the commodities markets. The average dollar price of crude oil fell 30 per cent between the first half of 1997 and the first half of this year, thus returning in real terms to the lows recorded following the 1986 counter-shock and close to the level of the early seventies, before the first oil shock. The dollar prices of other raw materials dropped by 14 per cent.

In mid-August Russia suffered a grave financial crisis. A drastic deterioration in the terms of trade, persistent inability to collect taxes, and political crisis progressively undermined the credibility of the exchange rate target, and on 17 August the authorities were forced to announce a sharp *de facto* devaluation of the rouble and the suspension of public and private debt service payments.

This turmoil had devastating effects on the financial markets of the emerging countries, particularly in Latin America, as international investors switched funds into less risky assets, mainly the government bonds of the soundest countries. The main stock exchanges in Latin America, Central and Eastern Europe and Asia suffered heavy losses. In some countries currencies also came under pressure, which was countered by raises in short-term interest rates, in some cases very sharp, and by sales of foreign exchange reserves. Yield spreads between the government securities of many emerging countries and US Treasury paper widened dramatically, returning in just a few days to the levels registered during the Mexican crisis. In practice such differentials signal the impossibility of raising capital on international markets.

The financial markets of the industrial countries were also affected by the crisis. The sudden shift of funds out of shares and into government securities resulted in a sharp downward correction of share prices and a fall in government bond yields, in many cases to historic lows.

Exchange rates between the currencies of the three main industrial economies remained relatively stable until the end of August, when market participants became increasingly convinced that the global crisis would eventually determine a more expansionary US monetary policy stance. The outcome was a significant depreciation of the dollar.

The exchange rates among the countries that will adopt the euro on 1 January remained stable. The cohesion of the area's currencies confirmed that the markets are convinced that the bilateral parities announced in May are fully firmed up. It highlighted the advantages of an integrated monetary area in terms of stability and protection of its member countries from external disturbances.

In Japan, to cope with the worsening recession and deflation, the new Government has announced another substantial programme of expansionary fiscal measures equal to about 3 per cent of GDP, in addition to those approved in June. Monetary conditions were eased further in September, in part to provide abundant liquidity to the banking system, which continues to be in a very precarious condition. Following lengthy and difficult negotiations between Government and opposition, Parliament has finally approved a plan for far-reaching restructuring of the system.

Among the other industrial countries, growth remained rapid in the United States during the first half of the year and generally picked up in the main euro area countries, except Italy.

Excluding the United Kingdom, where prices accelerated, inflation continued to decline. Consumer price inflation fell to an average of 1.2 per cent in August for the leading industrial countries. Producer prices have declined in recent months. While the unemployment rate declined further in the United States and the United Kingdom, in continental Europe it has come down only marginally during the year and remains very high (11.1 per cent).

Aside from Japan, all the leading countries maintained restrictive fiscal policies. The United States recorded the first federal budget surplus in thirty years, while European budgets are constrained by the Stability and Growth Pact designed to bring them near balance in the medium term. The US Federal Reserve has recently reversed its restrictive monetary policy stance, cutting official interest rates at the end of September and again in October to prevent an excessively sharp slowdown in economic activity and meet the liquidity requirements of international markets. The financial markets are still expecting further substantial reductions in the near future. At the start of October the Bank of England slightly lowered its official rates. In the euro area the various national monetary authorities have eased monetary conditions, consistent with the convergence of interest rates towards the levels in Germany and France.

An international consensus has formed concerning the severity of the crisis and the urgency of finding an effective remedy. Several major economic policy actions have moved in this direction: the US monetary policy turnaround, the approval of the Japanese bank restructuring plan, and the agreement between the IMF and the Brazilian Government to a plan for financial support conditional upon the implementation of an economic adjustment programme.

Looking beyond the short term, the recent Washington meetings of the World Bank and the International Monetary Fund highlighted the more general themes of preventing and resolving financial crises and of the proper roles of international organizations, national governments and the private sector. The analytical effort and the proposals being developed are aimed at designing an international financial system that can remain open to the movement of goods and capital but be less vulnerable to instability and systemic contagion.

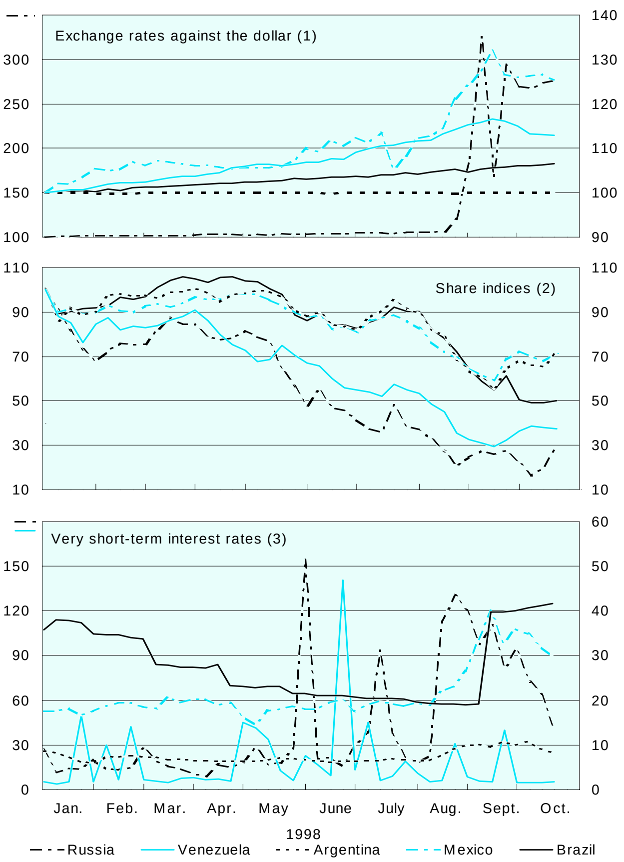
The worsening of the Asian crisis and its spread to the other emerging economies

The steepest declines in share prices have occurred in Latin America: the indices in Brazil, Mexico, Argentina, Chile and Venezuela have fallen by between 15 and 40 per cent from their mid-July peaks (Figure 1); prices have been very volatile, with daily fluctuations of up to 15 per cent. Among the Asian economies, the largest losses, ranging from 15 to 40 per cent, have been recorded in the Philippines and Indonesia (Figure 2). The effects of the collapse of the Moscow stock exchange, whose index has lost more than 30 per cent of its value since mid-July, have spread to the exchanges in Central and Eastern

Europe: in the Czech Republic, Poland and Hungary, equities have fallen by between 25 and 40 per cent.

Figure 1

Exchange rates, share indices and interest rates in selected emerging countries
(end-week data)

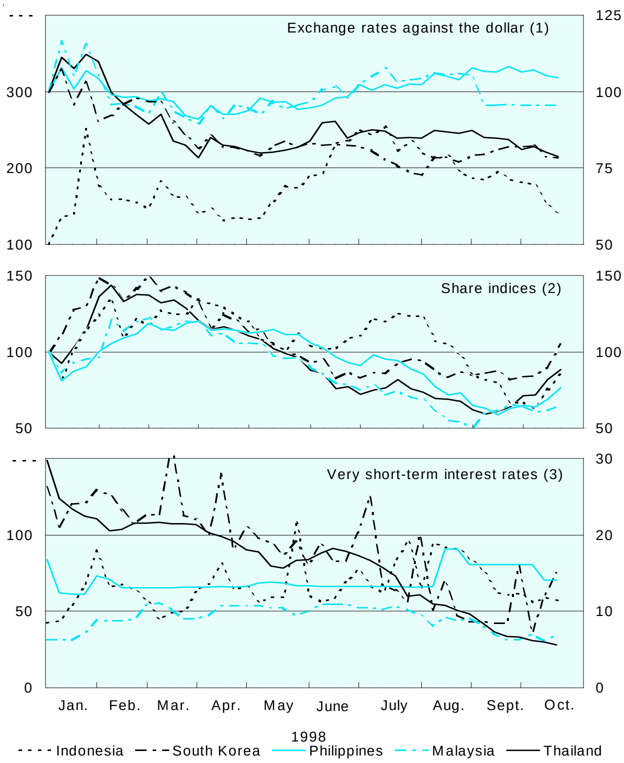


Sources: Datastream and Reuters.
(1) Currency units per dollar; indices, 2 January 1998=100. - (2) Indices, January 1998=100. - (3) Percentages.

The foreign exchange markets have also been rocked by turbulence. In Russia the rouble plunged to a low of 20 to the dollar following the announcement of its devaluation, compared with 6 to the dollar in the preceding days; it has regained some ground since the appointment of a new prime minister in mid-September. In Asia numerous currencies, including the Hong Kong dollar and the Chinese yuan, have come under renewed pressure. To contain the pressure the authorities of some of the countries in the area have raised interest rates and disinvested reserves while also resorting to hitherto unused measures, such as restrictions on capital movements (in Malaysia) and public purchases of shares (in Hong Kong).

Figure 2

Exchange rates, share indices and interest rates in selected Asian countries
(end-week data)



Source: Datastream.
(1) Currency units per dollar; indices, 2 January 1998=100. - (2) Indices, 2 January 1998=100. - (3) Percentages.

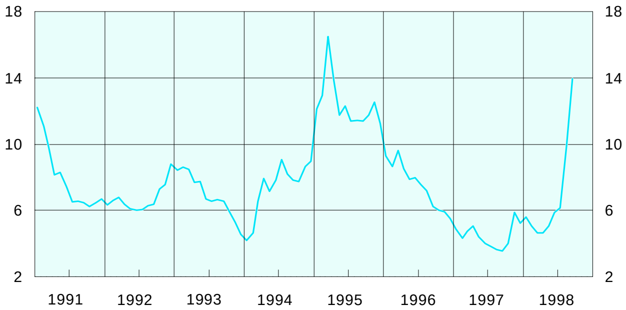
In Latin America pressure has increased since mid-August on the currencies of many commodity-exporting countries, most notably those of Brazil and Venezuela, which are afflicted by severe imbalances in their public finances and external accounts. Brazil appears vulnerable also in view of the fact that its gross foreign debt of more than $200 billion has a very short average maturity (around two-thirds of the amounts owed to foreign banks fall due within a year) and considering that more than 60 per cent of the public debt is indexed to the overnight interest rate.

The yields on the government bonds of the emerging economies have soared since the explosion of the financial crisis in Russia: between August and September the yield spread of a representative basket of these bonds over comparable US Treasuries rose from 6 to 14 percentage points, not far from the peaks reached in early 1995 during the Mexican crisis; on 23 October it was equal to 11 points. The experience of the past indicates that there is a strong inertia in these risk premiums: following the Mexican crisis credit spreads fell back significantly only after a year and returned to the previous low of four percentage points only after two years; accordingly, these economies are likely to face acute financing difficulties for a long period of time (Figure 3).

Figure 3

Yield differentials between dollar-denominated bonds issued by emerging countries and US Treasury bonds (1)

(average monthly data, percentage points)



Source: J.P. Morgan.

(1) Basket of bonds consisting of securities issued by Argentina (percentage weight: 18.8), Brazil (34.9), Bulgaria (3.2), Ecuador (3.5), Mexico (22.5), Panama (2.2), Peru (2.6), Poland (4.7), Russia (1.5) and Venezuela (6.3).

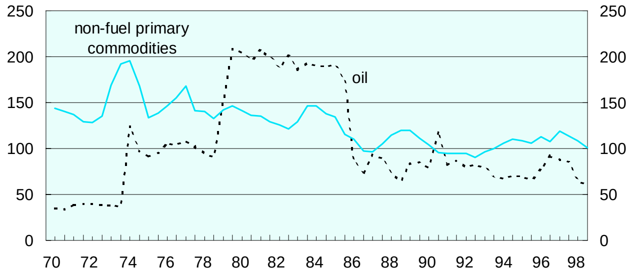
Economic activity in the emerging countries has been affected by the crisis as a result of the fall in oil prices, the contraction in trade among such countries and the restrictive stance that monetary policy has assumed in order to defend exchange rates (Figure 4).

The IMF has revised down its estimates of growth in 1998 considerably, owing in part to the recession in Japan. The overall GDP of Indonesia, the Philippines, Malaysia and Thailand is forecast to contract by more than 10 per cent (Table 1). Indonesia is expected to suffer the most pronounced decline (15 per cent). In South Korea, where the adjustment process was launched relatively early and vigorously, output is likely to fall by around 7 per cent. In China the annual rate of economic growth is expected to slow sharply to 5.5 per cent, compared with nearly 9 per cent in 1997.

Figure 4

Oil and non-fuel primary commodities prices in real terms (1)

(average half-yearly data; indices, 1990=100)



Sources: IMF and OECD.

(1) Ratio between the index of the average oil price and that of the prices of non-fuel primary commodities in dollars and the index of the average unit value in dollars of exports of manufactures by the OECD countries. Figures for the second half of 1998 are forecasts.

Although activity in the other non-industrial areas may not contract, it will decelerate markedly. In Central and Eastern Europe growth will be virtually nil, compared with 2 per cent in 1997. In Latin America it is expected to fall from 5.1 per cent in 1997 to 2.8 per cent this year; in particular, output is forecast to increase by only 1.5 per cent in Brazil and to decline by 2.5 per cent in Venezuela.

The external accounts of the Asian countries hit by the crisis have rapidly returned to surplus as a consequence of currency devaluations and, above all, the fall in domestic demand. In the first half of 1998 the economies of South Korea, Indonesia, the Philippines, Malaysia and Thailand recorded an overall trade surplus of more than $80 billion on an annual basis, as against a deficit of $40 billion in the same period in 1997. The decline in demand also pushed up Japan's current account surplus, which rose in the first half to nearly $100 billion on an annual basis.

The current account deficit of the United States for the first six months rose to more than $200 billion on an annual basis, compared with $140 billion in 1997. Buoyant domestic demand and the appreciation of the dollar were factors in producing this shortfall, which increased the net external debt of the United States from its end-1997 level of more than $1.3 trillion (equal to 16.3 per cent of GDP). The euro area did not contribute to offsetting the Asian surpluses: its current account surplus for the year is expected to remain unchanged with respect to 1997, at around $110 billion.

Table 1

Main economic indicators for selected emerging countries

	GDP (1)		Consumer prices (2)		Public sector balance (3)		Current account balance (3)		Exports (1)		Imports (1)	
	1997	1998 (4)	1997	1998 (4)	1997	1998 (4)	1997	1998 (4)	1997	1998 (4)	1997	1998 (4)
Latin America												
Argentina	8.6	5.0	0.8	1.3	–2.1	–1.7	–3.5	–4.4	12.3	8.9	29.7	11.8
Brazil	3.2	1.5	7.9	5.0	–6.1	–7.6	–4.2	–3.6	11.0	7.5	22.5	–8.3
Mexico	7.0	4.5	20.6	15.3	–1.0	–1.3	–1.9	–3.4	13.4	7.9	20.6	21.9
Venezuela	5.1	–2.5	50.0	37.0	1.9	. . . .	6.9	. . . .	10.4	. . . .	23.4	. . . .
Asia												
Indonesia (5) . .	4.6	–15.0	6.6	60.0	–0.9	–8.5	–1.8	2.5	16.2	4.2	–5.0	–13.1
Malaysia	7.8	–6.4	2.7	6.0	2.6	–4.5	–4.8	6.5	10.7	2.4	11.1	–14.8
Philippines	5.1	–0.6	6.0	10.0	–1.5	–3.0	–5.2	–1.4	23.1	18.1	16.4	0.1
South Korea . . .	5.5	–7.0	4.4	8.5	0.1	–5.1	–1.8	12.9	33.7	16.8	6.1	–22.4
Thailand	–0.4	–8.0	5.6	9.0	–2.1	–3.1	–2.0	10.7	9.2	8.8	–11.8	–21.7
Eastern Europe												
Russia	0.9	–6.0	14.7	48.0	–6.9	–4.4	–0.1	–1.3	0.4	0.2	3.0	–7.0

Sources: IMF, *World Economic Outlook,* October 1998, and internal estimates.
(1) Percentage changes at constant prices. – (2) Percentage changes. – (3) As a percentage of GDP. – (4) Estimates. – (5) For exports and imports, excluding oil products.

The impact of the crisis on financial and foreign exchange markets in the industrial countries

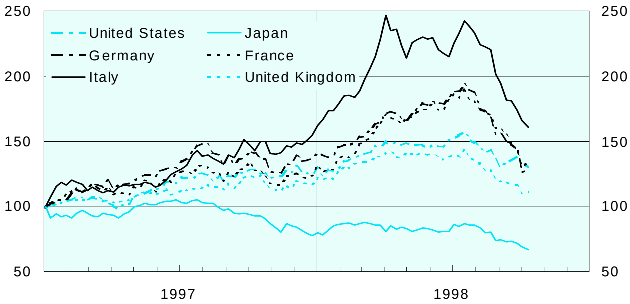
The stock markets of the six leading economies (the United States, Japan, Germany, France, Italy and the United Kingdom) registered declines of between 10 and 25 per cent from their levels in mid-July (Figure 5). Commodity-exporting industrial countries recorded even larger falls, with indexes in Canada, Norway and Sweden dropping by between 20 and 30 per cent.

Despite the steep declines in recent weeks, current share prices are still about 80 per cent higher than their level at the beginning of 1997 in Italy, 40 per cent higher in the United States, Germany and France and 20 per cent higher in the United Kingdom. An exception is Japan, where prices have fallen by about 25 per cent. Although the earnings/price ratio of equities has risen from the low point recorded in the spring, at the end of the first twenty days of October it was still between 4 and 6 per cent in the United States and the four leading European economies, below the average of the last ten years; in Japan the ratio was even lower, at 2.5 per cent, but still higher than the past average (see Figure 47).

Figure 5

Share prices in the main industrial countries

(end-week data; indices, 30 December 1996=100)



Source: Reuters.

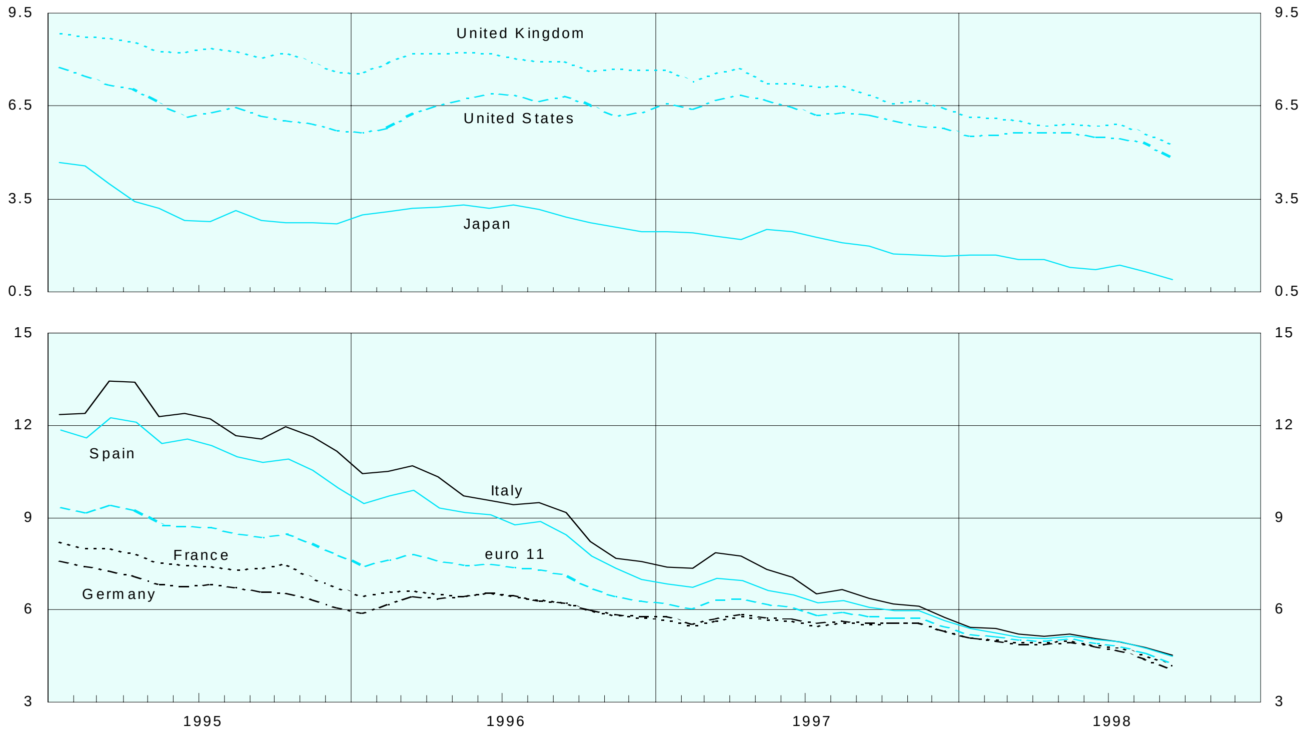
From the beginning of August onwards the decline in stock market indices was accompanied by a significant fall in yields on long-term government securities as funds were shifted from shares to bonds. Yields decreased by nearly 1 percentage point in the United States, between 0.5 and 0.6 points in Germany, France and the United Kingdom and 0.4 points in Japan and Italy, recording historic lows of 4.6 per cent in the United States, 4.2 per cent in Germany and 0.9 per cent in Japan. The yield on 10-year bonds dropped even more markedly, falling by about 1.6 points from its level in the summer of 1997 in the United States and Germany (Figure 6). Adjusted for actual consumer price inflation, however, average long-term rates in the leading countries only decreased from 3.3 to 3.0 per cent over the same period.

In the United States, the yield spread between corporate bonds and Treasury securities widened. The differential for bonds issued by the highest-rated companies rose from about 1 percentage point in June to nearly 2 points in the last ten days of October. In the United States and Germany, the differential between yields on 10-year interest rate swaps and government bonds of the same maturity widened, signaling a slight worsening of the creditworthiness of US and German financial institutions: in the United States, the spread is now equal to 0.8 percentage points, compared with 0.5 points one year ago, while in Germany it has risen from 0.2 to more than 0.4 points over the same period.

Between the end of August and the end of September, the dollar depreciated by about 6 per cent vis-à-vis the yen and the German mark (Figure 7). The yen subsequently recorded a further sharp increase, caused in part by the decision of many investors to liquidate their positions in emerging

Figure 6

Long-term interest rates (1)
(monthly averages)

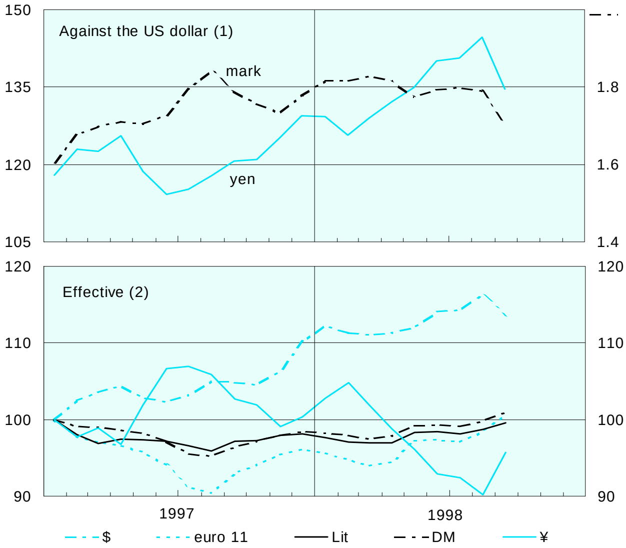


Source: National statistics.
(1) Yields on 10-year government bonds.

Figure 7

Nominal exchange rates of leading currencies

(monthly averages)



(1) Units of each currency per dollar; yen, left-hand scale; DM, right-hand scale. - (2) Vis-à-vis a trade-weighted average of the currencies of 24 trading partners, for the euro, vis-à-vis 14 non-euro countries. Indices, January 1997=100; a rise corresponds to an appreciation of the currency.

markets. Since these operations had been financed with low-cost yen, investors had to purchase the Japanese currency to extinguish their debts. The strengthening of the yen ameliorates the difficulties of the other Asian economies stricken by the crisis, increasing their competitiveness and fostering an easing of monetary conditions. In addition, since the appreciation reduces the balance-sheet value of the foreign currency loans of Japanese banks, it relaxes the constraint imposed by capital requirements. Nevertheless, if the yen should continue to strengthen, the recession and deflationary pressures in Japan could worsen.

Norway, one of the largest oil exporters in the world, was forced to abandon its exchange rate target based on a currency basket similar to the ECU. Since the beginning of the year the krone has depreciated by about 9 per cent against the German mark and 3-month interest rates have risen from 3.8 to 8 per cent. The krone also dragged down the Swedish and

Table 2

Gross bank lending to emerging countries

	United States	Japan	Germany	France	Italy	United Kingdom
	Billions of dollars, end-December 1997					
Asia	39.0	244.7	109.8	68.3	12.6	87.8
5 crisis countries (1)	22.0	86.7	32.0	25.7	1.6	17.4
China	2.5	19.6	7.9	8.2	1.4	8.2
Other	14.5	138.4	69.9	34.4	9.5	62.1
Eastern Europe and Turkey	14.1	6.3	56.7	14.3	6.2	4.2
of which: *Russia*	*7.1*	*1.0*	*30.5*	*7.0*	*4.3*	*1.0*
Latin America	63.4	14.7	36.6	25.0	12.2	21.5
Total	**116.5**	**265.7**	**203.1**	**107.6**	**30.9**	**113.4**
	As a percentage of own funds (2)					
Asia	10.4	132.7	67.8	52.5	8.9	124.3
5 crisis countries (1)	5.9	47.0	19.8	19.8	1.2	24.6
China	0.7	10.6	4.9	6.3	1.0	11.6
Other	3.9	75.1	43.1	26.4	6.7	88.1
Eastern Europe and Turkey	3.8	3.4	35.0	11.0	4.4	5.9
of which: *Russia*	*1.9*	*0.5*	*18.8*	*5.4*	*3.0*	*1.4*
Latin America	16.9	8.0	22.6	19.2	8.6	30.4
Total	**31.1**	**144.1**	**125.4**	**82.8**	**21.9**	**160.7**

Sources: BIS, *The Maturity, Sectoral and Nationality Distribution of International Bank Lending, Second half 1997*, June 1998, and OECD. *Bank Profitability: Financial Statements of Banks*, 1998.

(1) Indonesia, South Korea, Malaysia, Philippines and Thailand. – (2) Capital and reserves of commercial banks for the United States, Japan and the United Kingdom, of all banks for all other countries. Values in US dollars are calculated using nominal exchange rates at December 1997. In the absence of more recent data, capital and reserves refer to end-1996 and loans to end-1997; if capital and reserves have increased in the meantime, the figures in the table may be overstated.

Danish currencies, in the latter case forcing the Danish authorities to raise official interest rates to defend the currency, which is a participant in the European Exchange Rate Mechanism.

One of the possible effects of the crisis could be to undermine the capital bases of financial institutions in the industrial economies. The most recent figures available on bank lending to emerging economies in the United States, Japan and the leading European countries show differing levels of exposure. Overall, US banks are not greatly exposed to Latin America, Asia or Eastern Europe either in absolute terms or in relation to own funds: at the end of 1997 lending by US banks to these areas amounted to $63 billion, $39 billion and $14 billion respectively, equal to 17, 10 and 4 per cent of own funds (Table 2). Japanese banks have lent heavily to Asian countries ($245 billion, or more than 130 per cent of own funds), as have banks in the United Kingdom ($88 billion, equal to 124 per cent of own funds). The latter have the greatest exposure to emerging economies as a proportion of own funds. Of the three leading countries in the euro area, Germany and France had significant lending to Asia, equal to 68 and 52 per cent of own funds respectively, while Germany had made loans equal to 35 per cent of own funds to countries in Eastern Europe. Italy had negligible exposures in both absolute terms and in relation to own funds, partly owing to the limited internationalization of the country's banking system.

The risks associated with the exposure of financial intermediaries to the crisis-stricken countries - some highly-leveraged non-bank intermediaries have already recorded large losses - could be behind the pronounced fall in European banking shares, which have declined about 24 per cent from their peak in July, compared with a decrease of 16 per cent in the general index.

Economic activity and inflation in the leading industrial countries

The first six months of the year saw a deepening of the recession in Japan, with a marked decline in consumer and business confidence. Output contracted by 3.8 per cent on an annual basis compared with the preceding six months and domestic demand fell by 4.3 per cent (Table 3). Investment dropped by 10.7 per cent and private consumption declined by 1.3 per cent. The latest IMF forecasts, which indicate a fall of 2.5 per cent in GDP this year, assume that the fiscal stimulus measures approved in June will succeed in stabilizing economic activity in the second half of the year.

Table 3

GDP and domestic demand in the major industrial countries

(annualized percentage changes on preceding period, at constant prices)

	1997	1997 H2	1998 H1 (1)	1998 (2)
United States				
GDP	3.9	3.8	4.0	3.5
Domestic demand	4.2	4.2	5.8	5.0
Japan				
GDP	0.8	–1.6	–3.8	–2.5
Domestic demand	–0.5	–3.1	–4.3	–3.4
EU				
GDP	2.7	3.5	2.8	2.9
Domestic demand	2.3	2.8	3.9	3.4
of which:				
Euro 11				
GDP	*2.5*	*3.5*	*2.8*	*3.0*
Domestic demand	*1.9*	*2.7*	*3.8*	*3.3*
of which:				
Germany				
GDP	*2.2*	*2.5*	*3.3*	*2.6*
Domestic demand	*1.4*	*0.7*	*4.3*	*2.6*
France				
GDP	*2.3*	*3.8*	*2.9*	*3.1*
Domestic demand	*0.8*	*3.1*	*4.3*	*3.6*
United Kingdom				
GDP	*3.4*	*3.3*	*2.6*	*2.3*
Domestic demand	*3.7*	*4.1*	*4.5*	*3.6*

Sources: Eurostat, OECD and national statistics.

(1) For EU and euro 11, European Commission forecasts, Autumn 1998. – (2) IMF forecasts, *World Economic Outlook*, October 1998.

In the second quarter, the rate of unemployment in Japan rose to 4.2 per cent, a historically high level for the country, which contributed to depressing consumer confidence and household consumption.

The weakness of demand was reflected in consumer prices. As the effects of the increase in VAT in April 1997 faded, the twelve-month rate of inflation turned slightly negative from July (see Table a4) and wholesale prices declined markedly.

In the United States the pace of economic growth remained brisk in the first six months of 1998, sustained by all the components of domestic demand: GDP grew by 4.0 per cent on an annual basis and domestic demand by 5.8 per cent. The latter was driven by both investment (14.2 per cent) and private consumption (5.3 per cent), while the appreciation of the dollar and the slowdown in world trade increased the negative contribution of foreign demand. However, forecasts show growth slowing in the second half of the year, as also signaled by the slower pace of growth in the second quarter.

The rate of unemployment has fallen to historically low levels, standing at around 4.5 per cent in June. Conditions in the labour market have generated moderate pressure on wages and salaries, with hourly wages in manufacturing increasing by about 3 per cent in the first two quarters of the year compared with the corresponding period of 1997, but this has not affected prices, thanks to the damping effects of the fall in the prices of raw materials, the appreciation of the dollar and the rapid pace of productivity growth. In September the twelve-month rate of consumer price inflation was 1.5 per cent, compared with 1.7 per cent in December 1997.

According to preliminary estimates of the European Commission, output in the euro area as a whole increased at an annual rate of 2.8 per cent in the first six months of the year, while domestic demand rose by 3.8 per cent. Performance differed within the area: in some countries - France, Spain, the Netherlands and other smaller economies - growth was rapid in both quarters and for all components; in Germany the brisk increase in domestic demand was attributable mainly to a sharp increase in stocks. In Italy domestic demand grew more slowly than in the other countries in the euro area and was largely offset by the negative contribution of foreign demand.

Notwithstanding the recovery and the slight fall in unemployment, conditions in the European labour market are still grave: the unemployment rate for the euro area stood at 11.1 per cent in August, compared with 11.5 per cent in December 1997; according to national statistics, the unemployment rate was 11.8 per cent in France in August and 10.7 per cent in Germany in September. Authorities have reached broad consensus on the measures needed to tackle unemployment in Europe: greater efficiency and flexibility in the labour market, sharper competition in the goods market and a return to faster rates of economic growth.

The modest increase in costs has kept inflation low in the euro area: in August the harmonized index of consumer prices had risen by 1.2 per cent over twelve months; in Germany inflation declined significantly during the year despite the increase in VAT that came into effect in April and in September stood at 0.8 per cent, compared with 1.8 per cent in December 1997.

Economic policies in the leading industrialized countries

In Japan the plan to stimulate the economy submitted by the Government in April, which contains measures worth ¥16.6 trillion (equal to 3 per cent of GDP), was finally approved by Parliament in June. Preliminary estimates indicate that the general government deficit for the 1998 calendar year will amount to 5.7 per cent of GDP, compared with 3.1 per cent in 1997.

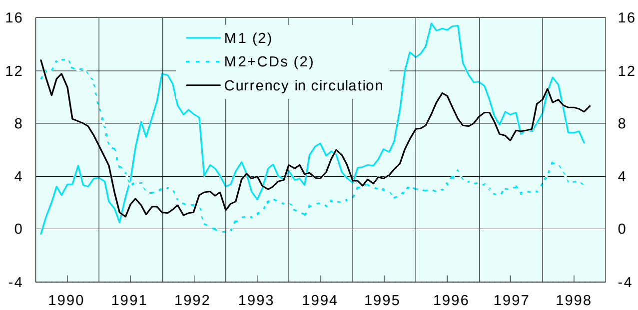
At the beginning of August the new Government submitted the guidelines for the budget for the next fiscal year, which will run for 15 months - from 1 January 1999 to 31 March 2000 - in order to increase the credibility of the fiscal measures and bring forward their implementation. The measures include a further reduction in taxes amounting to ¥6 trillion and extra spending of ¥10 trillion in addition to the measures approved in June. The tax measures include ¥2 trillion to reduce corporate income tax and ¥4 trillion to extend this year's reductions in personal income tax to next year. The previous medium-term plan for the public finances, which envisaged narrowing the deficit to 3 per cent of GDP by the end of 2003, has been shelved.

In the United States the federal budget for the financial year that ended in September recorded a surplus of $71 billion, or 0.8 per cent of GDP, thanks not only to the effects of the long economic expansion but also to the structural measures to correct the budget that have been enacted since 1993. The surplus is to be set aside in a special fund intended to guarantee the solvency of the Social Security system until a more radical overhaul is undertaken.

According to recent estimates by the European Commission, the average general government deficit for the euro economies as a whole should narrow slightly in 1998, to 2.3 per cent of GDP. In Germany and France the deficit is forecast to amount to 2.6 and 2.9 per cent respectively. The new Government that took office in Germany at the end of October will shortly submit next year's budget bill to Parliament, which must approve it by the end of the year. On the basis of the previous Government's commitments, the general government deficit, which is the measure for which the Stability and Growth Pact has established limits, should decline next year to 2.2 per cent of GDP. In France, the budget law for 1999 envisages a further reduction in the deficit to 2.3 per cent of GDP, mainly due to the favourable economic situation.

Figure 8

Currency in circulation and monetary aggregates in Japan
(twelve-month percentage changes) (1)



Source: Bank of Japan.

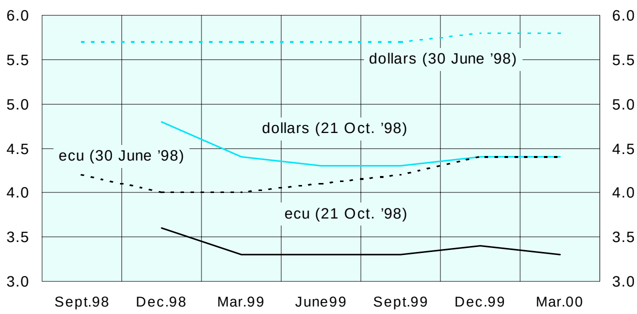
(1) Three-month moving averages ending in the month indicated. - (2) Seasonally adjusted.

In Japan, despite the continuation of a markedly expansionary monetary stance, both narrow and broad monetary aggregates have decelerated during the year: the 12-month growth rate of M1 declined from 12.7 per cent in January to 7.7 per cent in July, while that of M2 plus CDs slipped from 4.5 to 3.5 per cent (Figure 8). Bank credit to the private sector has increased by no more than 1 per cent on an annual basis since the beginning of the year.

The critical condition of the banking system is confirmed by the large risk premium Japanese banks are paying to raise funds in the international money markets: after falling from the peak of more than one percentage point at the end of 1997 to 0.2 per cent at the beginning of this year, it started to rise again in July and now stands at around 0.6 points. Since the beginning of the year banking shares on the Tokyo stock exchange have fallen by 20 per cent, twice as much as the decline in the general index (9 per cent).

Figure 9

Yield curve for futures contracts on 3-month Eurodollar and ecu deposits (1)
(percentages)



Source: Datastream.

(1) The horizontal axis shows the settlement dates for the futures contracts to which the yields refer.

The new legislation to restructure the banking system envisages a number of different measures to remedy crisis situations. For example, banks in difficulty can be temporarily nationalized, as was done with Long Term Credit Bank; alternatively, their assets can be sold off by a liquidator or transferred to a bridge bank financed with public funds. Responsibility for implementing the measures will be assigned to a specially created agency that is independent of the Ministry for Finance. The funds to be appropriated for recapitalizing the less shaky banks will be increased to ¥25 trillion, while a further

¥18 trillion are to be set aside for the provisional nationalization of those in crisis and the financing of the bridge banks. Bearing in mind the ¥17 trillion already appropriated last February, total public funding available to support the banking system amounts to ¥60 trillion, or 12 per cent of GDP.

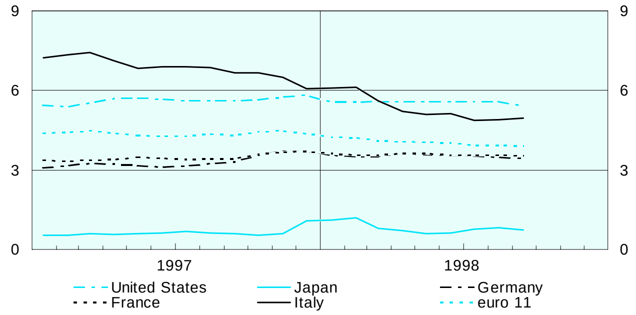
The severity of the international crisis, concern about the possible recessionary impact on the other major industrial economies and the risk of deflation have led to a global shift towards more expansionary monetary policies.

On 9 September the Bank of Japan lowered the overnight rate to 0.25 per cent, declaring its readiness to supply liquidity to guarantee the stability of the financial system. At the end of the month the Federal Reserve eased its monetary stance, which had remained unchanged since February 1997, lowering the discount rate by 0.25 percentage points and the federal funds rate by a total of 0.5 points in two stages. Market participants are still expecting further reductions to occur soon, as indicated by the negative slope of the yield curve and by the rates implicit in futures contracts on three-month Eurodollar deposits (Figure 9). At the beginning of October the Bank of England lowered its official rates by 0.25 percentage points in response to signs that growth was slowing down. Following the 1-point reductions in official rates in Italy and Ireland and the 0.5 point decrease in Spain and Portugal, short-term interest rates are now expected to converge towards a level close to those in Germany and France, which are currently around 3.5 per cent (Figure 10).

Figure 10

Short-term interest rates (1)

(monthly averages)



(1) Average monthly data. For sources and definitions, see Notes to Statistical Table a5; for euro 11, calculations based on national statistics.

The Italian economy and the balance of payments

In the first half of 1998 GDP at constant prices was only 0.2 per cent higher than in the second half of last year. It stagnated in the first quarter, falling by 0.1 per cent due to a decline in industrial output, and showed moderate growth of 0.4 per cent in the second. The period of slack activity was attributable to the smallness of the rise in consumption, the high proportion of demand met by imports and a pause in the growth in exports; in the second quarter the deterioration in actual and expected demand conditions also checked the growth in investment. In the first six months as a whole the increase in GDP in relation to the same period of 1997 was 1.8 per cent, significantly less than the growth recorded in the other European countries (Figure 11 and Table 4).

The deterioration in world economic conditions in the summer was reflected in export performance and adversely affected companies' expectations of demand. The latest indicators point to continued weakness in economic activity; industrial production is stagnating at a level below that recorded at the end of 1997.

Table 4

GDP and selected component items in the leading euro countries

(seasonally adjusted data at constant prices)

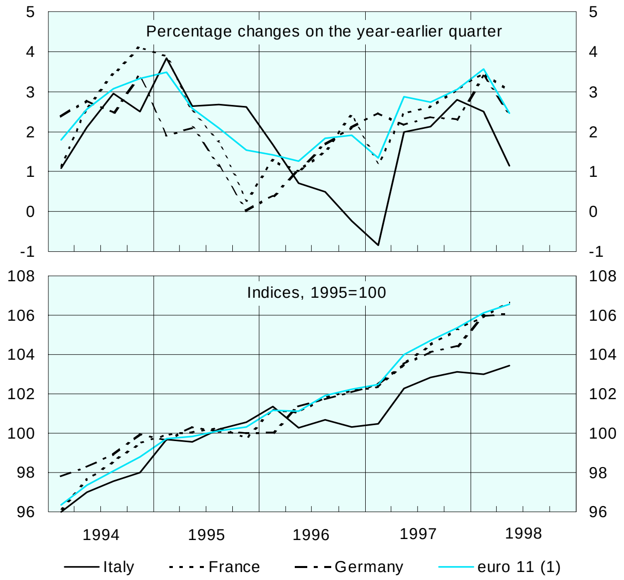
	Percentage changes on the year-earlier period						Percentage changes on the previous period				
	1997			1998			1997		1998		
	Q3	Q4	Year	Q1	Q2	H1	Q3	Q4	Q1	Q2	H1
	GDP										
Germany	2.4	2.3	2.3	3.4	2.5	2.9	0.6	0.3	1.4	0.1	1.7
France	2.6	3.0	2.3	3.5	3.0	3.2	0.9	0.8	0.6	0.7	1.3
Italy	2.1	2.8	1.5	2.5	1.1	1.8	0.5	0.3	–0.1	0.4	0.2
Spain	3.7	3.8	3.5	3.9	3.9	3.9	1.0	1.0	0.9	0.9	1.9
	Household consumption										
Germany	–0.3	1.0	0.6	1.9	0.2	1.1	–0.5	0.6	0.9	–0.7	0.8
France	1.0	2.6	0.9	3.1	4.2	3.7	1.4	1.0	0.7	1.0	1.7
Italy	2.8	2.1	2.4	1.1	0.8	0.9	0.3	. .	0.1	0.4	0.3
Spain	3.4	3.6	3.1	3.5	3.4	3.4	0.9	0.7	0.8	0.9	1.6
	Investment										
Germany	–1.0	–0.8	0.2	4.5	–0.5	2.0	0.8	0.1	3.2	–4.4	1.0
France	0.5	0.8	. .	3.9	3.7	3.8	0.6	0.2	1.9	0.9	2.4
Italy	1.3	2.9	0.6	3.5	2.4	3.0	0.8	1.0	0.5	0.2	1.0
Spain	5.8	7.4	5.0	8.9	9.0	8.9	2.2	2.3	2.8	1.5	4.7
	Exports										
Germany	14.2	11.1	11.2	8.9	8.0	8.4	5.4	–0.3	0.2	2.5	1.3
France	14.9	13.3	12.6	11.3	5.0	8.1	3.2	1.5	0.1	0.1	1.0
Italy	12.5	8.9	6.3	12.2	6.6	9.3	7.0	–1.4	–1.3	2.5	–0.8
Spain	15.1	14.3	14.8	12.3	10.4	11.3	3.7	2.4	1.6	2.3	4.0

Source: Based on national statistics.

Figure 11

GDP in Italy and selected EU countries

(seasonally adjusted quarterly data at constant prices)



Sources: Eurostat and national statistics.

(1) The value for the second quarter of 1998 is estimated on the basis of the data for the 4 main euro countries (Germany, France, Italy and Spain).

Consumption was affected by the modest increase in households' spending capacity and uncertainty about future trends. Expenditure on non-durable goods and services was particularly weak. The consumption of durable goods showed more sustained growth, although purchases of motor vehicles were affected by the expiry of incentives for the scrapping of old vehicles. Investment in machinery, equipment and transport equipment was stimulated in the early months of the year by the narrowness of the margins of idle capacity and the fall in interest rates, but slowed down later in the period. The brief recovery in investment in construction petered out. The slowdown in activity was accompanied by an accumulation of stocks.

The growth in exports was checked by the slowdown in world demand and the loss of competitiveness of Italian producers by comparison with those in South-East Asia, who benefited from the devaluation of their currencies. The strong growth in imports witnessed in 1997 continued in the first half of this year, powered not only by the erosion of competitiveness in relation to Asian producers but also by the stockpiling of raw materials in view of the decline in world market prices and by demand for capital goods, which to a large extent was met by foreign producers, as in similar phases of previous investment cycles.

On a seasonally adjusted basis, employment in the first half of the year showed a slight improvement of 0.4 per cent over the average for 1997, thanks mainly to the creation of jobs in the services sector. The increase occurred mainly in female employment and in the South and mostly involved part-time jobs. The employment situation remains a cause for concern: in July the unemployment rate was 11.9 per cent, 0.2 points higher than a year earlier owing to the increase in the labour force.

According to provisional data, in the first half of the year the surplus on the current account of the balance of payments was about a third less than in the corresponding period of 1997. The fall was due mainly to the increase in the deficit on invisibles.

Consumption and disposable income

Total household consumption rose by 0.3 per cent in real terms between the second half of 1997 and the first half of 1998 and by 0.9 per cent between the first half of 1997 and the corresponding period of this year (Table 5). The weakness of the growth in private consumption in Italy contrasts with the distinctly stronger expansion in the leading euro-area countries, especially France and Spain, which recorded increases of 1.7 and 1.6 per cent respectively in relation to the preceding period (Table 4).

At current prices household consumption rose by 3.4 per cent in relation to the first half of 1997. Total pre-tax earnings at current prices increased at the same rate over the year, while per capita earnings rose by 3.0 per cent. The growth in income from self-employment and investment income was smaller; the latter was affected mainly by the decrease in the net flow of households' interest income, only part of which was offset by the reduction in the erosion of the value of net financial assets due to the slowdown in inflation. The overall increase in disposable income at current prices is likely to have been marginally higher than that in the cost of living.

The impact of the smallness of the rise in incomes was reinforced by concern about the state of the labour market and uncertainty about economic prospects, which prompted households to spend cautiously. These factors were reflected in the volatility of the Isco index of the climate of confidence; the index rose to a historic peak in May, driven partly by optimism generated by Italy's immediate admission to the euro area, but it fell abruptly in subsequent months (Figure 12).

In the first half of the year an increase in purchases of semi-durable and durable goods at constant prices (by respectively 1.7 and 1.9 per cent in relation to the preceding period) was partly counterbalanced by a contraction in the consumption of non-durable goods and services(by 0.7 and 0.1 per cent). The rise in spending on durable goods was ascribable entirely to the strong growth of more than 6 per cent in purchases of items other than transport equipment due to the long-postponed decision to replace obsolete assets. Expenditure on transport equipment showed a sharp fall of around 6 per cent by comparison with the second half of 1997, when the uptake of the incentives for the scrapping of old vehicles had reached a peak, but it was still more than in the first half of last year. New vehicle registrations totalled around 1,900,000 in the first three quarters, 2.4 per cent higher than in the same period of 1997. If orders already received are also taken into consideration, the number of new motor vehicles sold during the year as a whole should exceed the forecasts made by manufacturers at the beginning of 1998, which had foreseen a fall of about 8 per cent by comparison with 1997. According to Isco's survey of households, spending intentions for durable goods as a whole increased further in the summer.

Table 5

Resources and uses of income

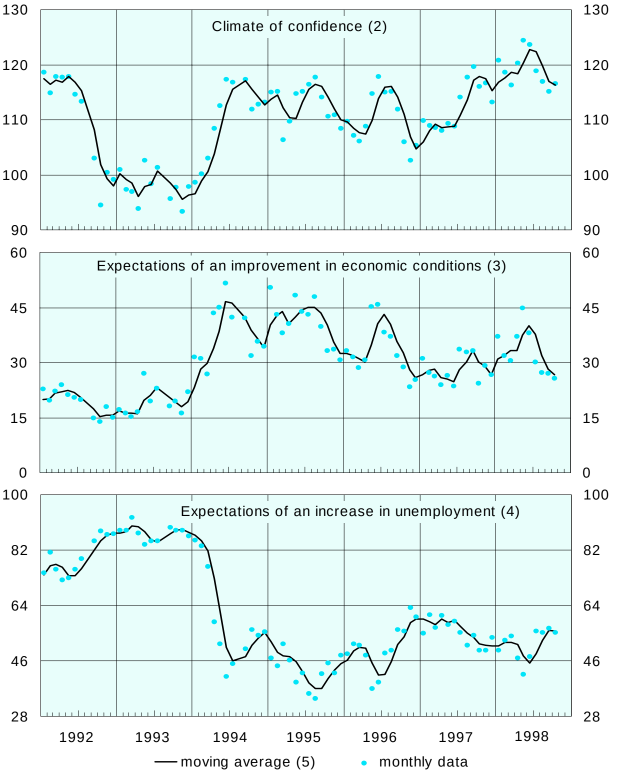
(seasonally adjusted data at constant prices; percentage changes on previous period except where otherwise indicated)

	Percentage of GDP in 1997	1997					1998			
		Year	Q1	Q2	Q3	Q4	Q1	Q2	H1	H1 (1)
Resources										
GDP	–	1.5	0.2	1.8	0.5	0.3	−0.1	0.4	0.2	1.8
Imports	22.9	11.8	−3.8	12.3	4.2	1.6	2.3	1.6	3.9	15.5
Goods	20.3	11.2	−3.4	12.0	3.7	2.4	1.5	1.6	3.5	14.8
Services	2.6	16.7	−6.2	15.0	8.7	−4.8	8.4	1.4	6.5	20.9
Total resources	–	3.3	−0.5	3.6	1.2	0.5	0.3	0.7	0.9	4.3
Uses										
Gross fixed investment	17.6	0.6	−0.1	1.2	0.8	1.0	0.5	0.2	1.0	3.0
Construction	8.3	−1.6	−2.0	1.1	. .	1.2	−1.4	−0.3	−1.0	0.1
Machinery, equipment and sundry products	7.3	1.2	1.7	0.7	0.6	0.1	1.4	0.8	1.9	2.9
Transport equipment	2.0	7.9	1.8	3.3	5.6	3.0	4.8	−0.2	6.2	15.7
Household consumption	61.6	2.4	1.1	0.7	0.3	. .	0.1	0.4	0.3	0.9
Non-durables	19.4	0.9	0.4	−0.1	−0.6	−0.7	−0.5	0.2	−0.7	−1.8
Semi-durables	11.8	2.9	1.0	0.7	0.2	0.8	0.9	0.9	1.7	2.6
Durables	7.1	8.6	4.7	1.7	2.2	0.1	1.5	0.7	1.9	5.0
Services	23.2	1.6	0.6	1.1	0.7	0.2	−0.3	0.1	−0.1	1.1
Other domestic uses	17.9	4.9	−1.5	10.8	−3.4	5.0	3.4	−0.3	5.8	10.1
Total domestic demand	97.1	2.5	0.4	2.5	−0.3	1.1	0.8	0.2	1.4	3.0
Exports	25.8	6.3	−4.2	7.8	7.0	−1.4	−1.3	2.5	−0.8	9.3
Goods	22.3	5.1	−5.6	8.7	5.5	−0.4	−1.7	2.6	−0.6	9.1
Services	3.5	14.7	5.8	1.7	17.4	−7.8	0.8	1.4	−2.6	10.8

Source: Based on Istat data.
(1) Percentage change on the corresponding period in 1997.

Figure 12

Climate of confidence among consumer households and their expectations regarding the economy and unemployment (1)



Source: Based on Isco data.

(1) Until 1994 no survey was conducted in August; the data for that month were calculated as simple averages of adjacent data. Since January 1995 interviews have been conducted by telephone and the interviewee is no longer necessarily the head of the household but any adult member who contributes to the income of the household. - (2) Index, 1980=100. - (3) Percentage of those interviewed who expected an improvement in the economic situation of the country in the subsequent 12 months. - (4) Percentage of those interviewed who expected an increase in unemployment in the subsequent 12 months. - (5) Moving average for the three months ending in the reference month.

Investment and stocks

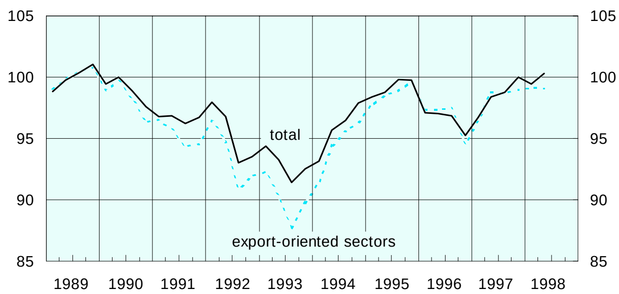
Investment, which has been rising since the spring of last year, grew more slowly in the first half of 1998, showing real increases of 1.0 per cent in relation to the preceding period and 3.0 per cent by comparison with the first half of 1997 (Table 5). Capital accumulation rose at a similar rate in Germany (1.0 per cent) but was more sustained in France (2.4 per cent).

In the early part of the year the growth in purchases of machinery, equipment and transport equipment in Italy was spurred by capacity utilization rates higher than the last cyclical peak (Figure 13), the decline in interest rates and the improvement in corporate profitability; as the first half proceeded, however, despite the continued fall in interest rates, the growth in investment was held back by the slowdown in demand and the progressive deterioration in demand prospects. The increase in purchases of machinery and equipment decelerated during the half-year. Investment in transport equipment showed exceptional growth in the first quarter, rising by 4.8 per cent over the preceding quarter and 17.7 per cent over the year-earlier period, due at least in part to the imminent expiry of the incentives for scrapping old vehicles; an abrupt reversal occurred in the second quarter, when spending was 0.2 per cent lower than in the first. In the first half-year as a whole purchases of transport equipment contributed 0.7 percentage points to the growth of 1.0 per cent in gross fixed investment in relation to the preceding period.

Figure 13

Composite indicator of capacity utilization in industry (1)

(indices, 1989 = 100)



Sources: Based on Istat and Isco data.

(1) Arithmetic mean of the Bank of Italy (Wharton) and Isco indicators.

Investment in construction began to fall again in the first half of this year, declining by 1.0 per cent in relation to the preceding six months; it remained unchanged by comparison with the first half of 1997. The construction of new residential premises continued to stagnate. Building renovation activity appears to have benefited only marginally from the tax relief introduced in the Finance Law; the measure has presumably had a greater impact in the second half of the year.

The slowdown in activity was also evident in the build-up of stocks. Data from the Isco survey confirm that, over the period as a whole, industrial firms added to their stocks of finished products, which at the beginning of the year had been slightly below the level considered normal; stocks of raw materials were also increased, encouraged by the fall in world market prices. The corresponding item in the national accounts, which also includes statistical discrepancies between the supply-side and demand-side estimates of GDP, accounted for 1.6 percentage points of the growth of 1.8 per cent in output in the first half of the year by comparison with the same period of 1997.

Exports and imports

Imports continued to grow rapidly in the first six months of the year; at constant prices they rose by 3.9 per cent in relation to the preceding six-month period and by 15.5 per cent over the year. Exports, by contrast, were 0.8 per cent lower than in the second half of 1997, although still 9.3 per cent higher over the year. The worsening of the crisis in South-East Asia and, above all, in Japan contributed to the fall in exports; the contraction in demand from that region compounded the loss of competitiveness of Italian products on world markets as a result of the devaluation of Asian currencies. The growth in the volume of imports was fuelled not only by the increased price competitiveness of the countries caught up in the crisis but also by the sharp decline in commodity prices, which encouraged firms to add to their stocks of raw materials, and by the expansion in demand for capital goods.

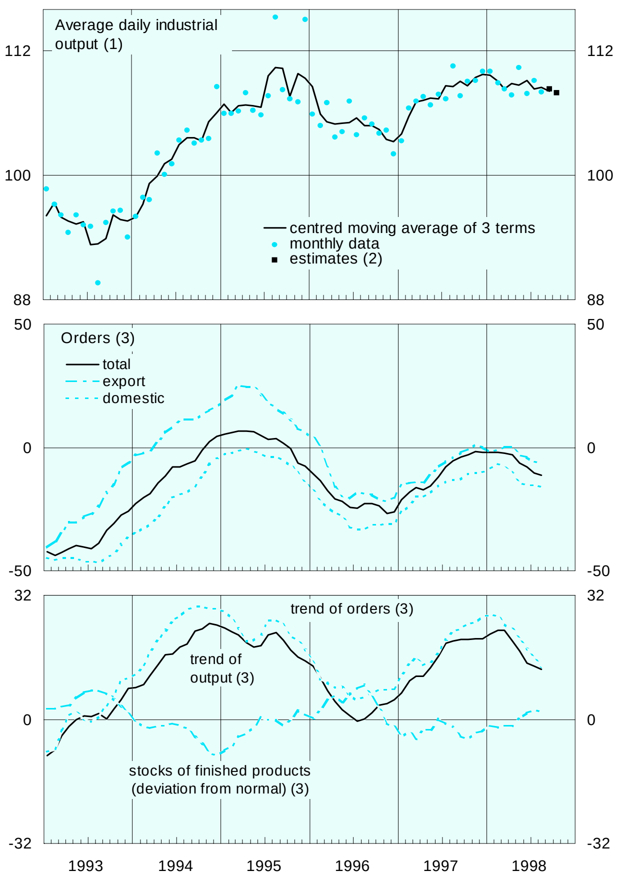
The growth in imports slowed down considerably during the half-year, however; in the second quarter the rate of increase in relation to the preceding quarter fell from 2.3 to 1.6 per cent. Exports, on the other hand, rose by 2.5 per cent in the same period, after having fallen in the last quarter of 1997 and the first of this year. In the first six months as a whole exports fell by 0.8 per cent in Italy but increased by 1.3 per cent in Germany and 1.0 per cent in France. The discrepancy is partly attributable to the specialization of Italian exporters in traditional sectors, which left them more exposed to growing competition from countries in South-East Asia.

Industrial production and value added according to economic sector

Industrial activity slowed down until April and then hovered at a level around 1 percentage point below the cyclical peak recorded at the end of last year (Figure 14). Valued added at constant prices in industry excluding construction declined in the first quarter and recovered in the second; in the first six months as a whole it was only 0.1 per cent higher than in the second half of 1997 and 3.2 per cent higher than in the first. The brief recovery in the construction industry came to a halt.

Figure 14

Industrial output, orders and stocks



Sources: Based on Istat and Isco-ME data.

(1) Index, 1990=100. Data adjusted for the different number of working days in the month and seasonally adjusted. - (2) Based on electricity consumption and Isco-ME indicators. - (3) Moving averages for the three months ending in the reference month of the percentage difference between positive replies ("high", "increasing") and negative replies ("low", "decreasing") to Isco-ME business opinion surveys. The trend figures refer to the responses for 3-4 months ahead. Seasonally adjusted except for stocks of finished products.

After adjustment for the number of working days and seasonal factors, industrial production was unchanged in the first eight months of the year, reflecting the stagnation of demand, especially in the domestic market, and the deterioration in forecasts of demand trends. Worst affected were sectors producing consumer and intermediate goods, whereas the output of capital goods showed rapid growth in the early summer. In industry as a whole the unadjusted index was nevertheless 2.6 per cent higher in the eight months ending in August than in the same period of last year, thanks to a steady rise during 1997. In the first half of the year capacity utilization rates remained close to the historically high levels reached in the final quarter of last year.

According to estimates based on electricity consumption in September and the first fortnight of October, signs of a recovery in production are still absent. Isco's cyclical indicators continued to show a deterioration in demand expectations until August; however, information derived from the Bank of Italy's recent survey of manufacturing enterprises indicates that firms expecting an increase in orders during the first quarter of next year outnumber those expecting a fall.

The value added of market services as a whole remained almost unchanged between the final quarter of last year and the first quarter of 1998, rising by 0.1 per cent; it increased by 1.3 per cent over the year. In the first seven months of this year retail sales at current prices were only 2.8 per cent higher than they had been a year earlier; the slow growth affected both food and non-food products. Sales by large stores continued to expand, rising at a rate of more than 5 per cent.

Data from Istat's sample surveys of hotel occupancy point to a slight increase in activity in the tourist industry; in the second week of June overnight stays were 1.2 per cent higher than in the same period of last year, and in the mid-August holiday week there was a rise of 4.4 per cent. Both Italian and foreign tourists contributed to the increase. In the transport sector freight traffic was affected by the stagnation in industrial activity. In air passenger transportation, where competition continues to intensify, traffic was 7.7 per cent higher in the first four months compared with the same period of last year.

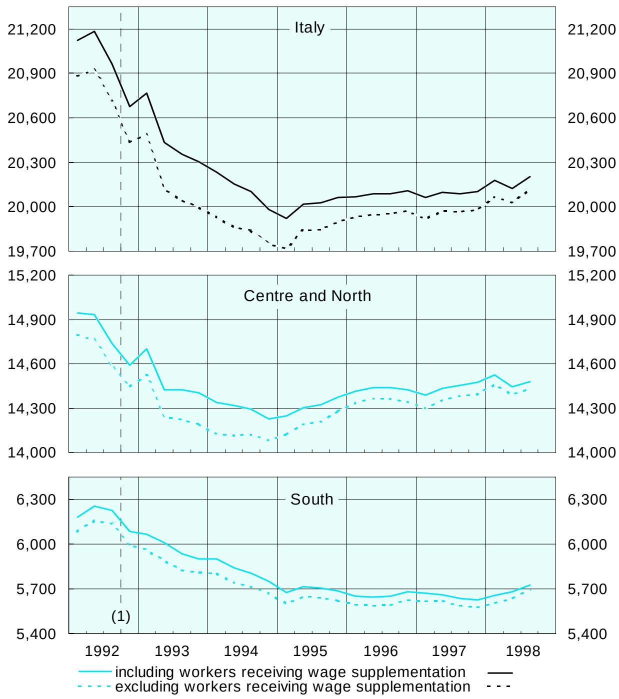
Employment

As measured by Istat's labour force survey, the number of persons employed rose slightly in the first half of 1998, with most of the gain occurring in the services sector and female employment (Table 6 and Figure 15). The increase was concentrated in part-time positions. In contrast with the pattern of the past three years, the growth of labour demand was weaker and less even in the Centre and North than in the South.

Figure 15

Employment

(seasonally adjusted; thousands of persons)



Source: Based on Istat data (labour force survey).
(1) Surveys are taken in January, April, July and October. Since October 1992 the survey has been conducted on the basis of a new questionnaire; data up to July 1992 have been adjusted to take account of the changes.

On a seasonally adjusted basis, average employment found by the January, April and July surveys was 80,000 higher than the average for 1997, a rise of 0.4 per cent. In the regions of the Centre and North the growth was only 0.3 per cent, or 45,000, as the slowdown in exports affected job creation, especially in manufacturing. This effect was much less pronounced in the South, where employment rose by 0.6 per cent, or 35,000.

Almost half of the overall increase occurred in industry excluding construction, where employment fluctuated with changes in activity; the strong employment growth of the second half of 1997 progressively diminished, so that by April 1998 the survey was showing a contraction, followed by resumed growth revealed by the July survey. This pattern in industrial labour demand is confirmed by the behaviour of ordinary wage supplementation, Isco's business surveys and Istat's survey of large industrial firms.

Employment in construction continued to contract rapidly in the first half of the year, with an average decline of 2.4 per cent (38,000) compared to 1997. More than half of the decrease (22,000) occurred in the South.

Table 6

Employment by branch of activity and geographical area in 1998 (1)

(percentage changes on year-earlier period)

	North-East		North-West		Total North		Centre		South and Islands		Total Italy			
	Avg. (2)	July	Avg. (2)	July	Avg. (2)	July	Avg. (2)	July	Avg. (2)	July	Avg. (2)	January	April	July
Agriculture	–0.2	–2.7	–1.7	–6.2	–0.9	–4.2	–0.7	–8.7	–0.1	1.0	–0.6	1.3	–0.7	–2.3
Industry excluding construction	1.5	–1.3	1.3	0.8	1.4	. .	0.2	3.8	1.3	0.6	1.2	1.8	0.9	0.8
Construction	. .	–1.2	–0.3	–6.7	–0.2	–4.5	–4.8	–4.1	–4.1	–3.0	–2.4	. .	–3.3	–3.9
Total service activities	–0.9	0.7	1.1	2.5	0.3	1.8	0.5	–0.9	1.2	2.5	0.6	0.1	0.3	1.4
distribution	*–1.4*	*–1.1*	*0.4*	*1.7*	*–0.4*	*0.5*	*0.3*	*0.6*	*–0.2*	*4.4*	*–0.2*	*–2.0*	*–0.2*	*1.7*
Total economy	**–0.1**	**–0.2**	**1.0**	**0.9**	**0.5**	**0.5**	**. .**	**–0.5**	**0.5**	**1.5**	**0.4**	**0.6**	**0.1**	**0.6**
Unemployment rate (3)	5.2	4.6	7.1	6.9	6.3	5.9	9.8	9.5	22.6	22.5	12.2	12.2	12.5	11.9

Source: Istat labour force survey.
(1) Not adjusted for workers receiving wage supplementation. – (2) Average of the surveys taken in January, April and July. – (3) Percentages.

Employment in services began to grow rapidly again after last year's pause. The January, April and July surveys showed an average of 92,000 more persons in work than the average for 1997, a rise of 0.8 per cent. Nearly half of the increase was in household and business services. Employment in the wholesale and retail trade, which remains the largest service component, accounting for more than a quarter of the sector's jobs, also turned upwards again in the first few months of 1998, reversing a contraction that had lasted since the end of 1995.

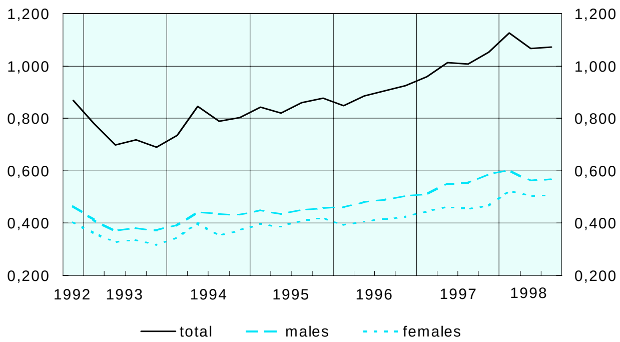
Female employment, which rose by 1.4 per cent, contributed 100,000 jobs to overall employment creation, while male employment declined by 0.2 per cent. The rise in female employment came mostly in the middle age-groups (25-54) and involved both the North (74,000 persons) and the South (17,000). In the South the employment of young women also increased (by 13,500), presumably reflecting regulatory reforms designed to facilitate young people's entry into the job market.

Structural changes in employment contracts are continuing. While overall employment grew by 0.4 per cent, the number of part-time positions increased by 5.9 per cent, or 80,000. The share of overall employment accounted for by part-time jobs, which is highest among women and in the services sector, rose from 6.8 to 7.2 per cent.

The first half of 1998 saw confirmation of the tendency for industrial firms to adjust employment to cyclical trends in output by having recourse to fixed-term contracts, especially ones for very short periods. The number of such contracts peaked at the same time as industrial production in January before declining slightly, according to the April and July surveys (Figure 16).

Figure 16

Fixed-term employment in the non-farm sector
(seasonally adjusted; thousands of persons)



Source: Based on Istat data (labour force survey).

Over the first three surveys of 1998, the labour force was on average 98,000 larger than in 1997, an increase of 0.4 per cent, and expanded by more than employment. The increase was accounted for entirely by women. The female participation rate thus rose from 34.8 to 35.1 per cent while the male rate remained unchanged at 61.0 per cent.

The growth of the labour force raised the unemployment rate to 11.9 per cent in July, or 0.2 points higher than a year earlier. The rise reflected developments in the South (the rate increasing from 21.9 to 22.5 per cent), where growing labour market participation swelled the number of job seekers by 5 per cent. The unemployment rate in the Centre and North was stable at 6.9 per cent.

The current account of the balance of payments

According to provisional data, the current account of the balance of payments showed a surplus of 18 trillion in the first six months of the year, 8.4 trillion less than in the first half of 1997 owing to the increase in the deficit on invisibles (Table 7). In the first quarter of 1998 Italy produced 9 per cent of the euro area's current account surplus of 35.4 trillion lire and 17 per cent of its trade surplus of 70.8 trillion.

Table 7

Balance of payments
(balances in billions of lire)

	1997			1998
	Year	H1	H2	H1
Current account	**62,541**	**26,394**	**36,147**	**18,010**
Goods	79,897	36,543	43,354	34,495
Invisibles	−17,356	−10,149	−7,207	−16,485
Services	3,419	1,249	2,170	−2,406
Foreign travel . . .	22,453	10,804	11,649	9,632
Transport	−15,022	−7,175	−7,847	−7,803
Other	−4,012	−2,380	−1,632	−4,235
Income	−19,006	−11,699	−7,307	−11,311
Employment income	247	162	85	202
Investment income	−19,253	−11,861	−7,392	−11,513
Transfers	−1,769	301	−2,070	−2,768
EU	*1,237*	*1,966*	*−729*	*−2,157*
Capital movements .	**−12,405**	**−12,873**	**468**	**−3,334**
Bank capital	11,679	−17,462	29,141	−3,346
Non-bank capital . . .	−24,084	4,589	−28,673	12
Errors and omissions	**−27,296**	**−15,732**	**−11,564**	**−29,471**
Change in official reserves (1)	**−22,840**	**2,211**	**−25,051**	**14,795**

(1) At constant exchange rates and gold prices. A minus sign indicates an increase in the reserves.

The first-half trade surplus contracted by 2 trillion lire from the previous year to 34.5 trillion on a *fob-fob* basis. The deterioration was due to a substantially larger rise in the value of imports than in that of exports, which was nonetheless considerable (13.2 and 9.7 per cent, respectively). The results in value terms reflected volume trends. Exports of manufactures benefited from the consolidation of the recovery in the main North American and European markets and grew at a rapid pace (8.3 per cent at constant prices in the first five months compared with the same period in 1997). The gains were especially large for machinery, motor vehicles and other transport equipment; textiles, clothing and leather and footwear recorded smaller increases, presumably owing to the greater competitiveness of Asian producers in the international markets. The growth in manufacturing imports was exceptionally large, amounting to 15.6 per cent at constant prices in the same period, and mainly involved intermediate and capital goods and motor vehicles (Table 8).

The contraction in the trade surplus in the period from January to July was entirely due to the deterioration in trade with Japan and the new industrial countries of Asia (Table 9). The surplus with the latter fell by 5.8 trillion lire on a *cif-fob* basis in view of a drop of 24.0 per cent in exports and a rise of 32.2 per cent in imports. By contrast, the surplus with the United States and the Eastern European countries grew. The deficit vis-à-vis the OPEC countries contracted substantially, by 1.5 trillion.

Table 8

Exports and imports of manufactures between January and May 1998, by sector

(at constant prices)

	Exports				Imports			
	Percentage of total in 1997 (1)	Percentage changes			Percentage of total in 1997 (5)	Percentage changes		
		Q1 (2)	Apr.-May (3)	Jan.-May (4)		Q1 (2)	Apr.-May (3)	Jan.-May (4)
Ferrous and non-ferrous ores	3.8	–1.6	1.3	8.5	9.1	8.6	–1.6	23.2
Non-metallic minerals	3.9	1.5	–3.6	8.4	1.7	–0.1	–0.9	11.5
Chemical products	8.5	–0.8	–1.1	3.0	14.1	–0.9	–4.3	11.8
Metal products	6.1	–1.5	–8.1	9.5	2.2	–8.1	–0.9	7.9
Agricultural and industrial machinery	18.1	3.4	–6.0	7.2	7.0	4.8	–6.1	18.4
Office machines	3.0	4.1	–3.5	7.9	5.0	5.8	6.2	20.2
Electrical equipment	9.4	–2.4	–6.6	14.8	10.3	5.3	–8.7	22.4
Motor vehicles	7.2	1.4	–7.9	14.2	10.6	0.4	–1.4	17.7
Other transport equipment	2.7	30.9	7.2	45.3	1.5	16.2	–26.1	31.6
Food, beverages and tobacco products	4.1	–3.1	0.0	2.7	7.0	3.2	–2.2	5.7
Textiles and clothing	11.3	–5.1	2.4	3.3	5.4	–0.6	–5.1	11.7
Leather and footwear	5.3	–6.8	–1.3	4.1	2.2	–3.5	–4.7	9.1
Wood and furniture	3.4	–4.2	–0.2	4.7	1.6	7.0	–1.4	14.5
Paper and printing	2.2	–8.3	8.3	–1.8	2.6	–3.5	–1.8	2.9
Rubber and plastic products	3.7	–0.7	2.6	13.2	2.2	1.3	2.1	15.9
Total	**95.8**	**–0.3**	**–2.8**	**8.3**	**84.3**	**2.7**	**–3.4**	**15.6**

Source: Based on Istat data.

(1) Percentage of total *fob* merchandise exports. – (2) Percentage change on previous period, seasonally adjusted. – (3) Percentage change on previous two-month period, seasonally adjusted. – (4) Percentage change on year-earlier period. – (5) Percentage of total *cif* merchandise imports.

Table 9

Merchandise trade *cif-fob* by country and area at current prices
(January-July)

	Exports 1998		Imports 1998		Balance	
	Percentage change	Percentage of total	Percentage change	Percentage of total	Billions of lire 1997	Billions of lire 1998
EU countries (1)	**10.8**	**56.4**	**12.0**	**60.5**	**7,936**	**7,229**
Austria	5.5	2.3	17.0	2.3	947	481
Belgium-Luxembourg	10.3	2.8	13.1	4.8	–3,063	–3,639
Denmark	5.8	0.8	10.6	0.8	370	313
Finland	13.4	0.5	36.4	0.7	17	–254
France	13.5	12.9	9.2	13.1	1,947	3,386
Germany	5.7	16.3	13.8	18.4	2,864	96
Greece	13.8	2.0	–9.1	0.5	3,053	3,787
Ireland	13.6	0.4	10.3	1.0	–1,251	–1,351
Netherlands	8.9	2.9	12.1	6.0	–5,322	–6,180
Portugal	14.3	1.4	16.8	0.5	2,250	2,548
Spain	21.2	5.7	9.9	4.6	2,636	4,266
Sweden	14.1	1.1	17.2	1.4	–377	–516
United Kingdom	11.1	7.3	11.2	6.4	3,865	4,292
Non-EU countries	**5.5**	**43.6**	**10.8**	**39.5**	**25,464**	**22,578**
United States	16.1	8.4	16.0	5.3	8,095	9,415
Japan	–13.7	1.7	21.5	2.2	759	–807
EFTA (2)	6.3	4.0	13.2	4.5	718	146
Eastern European countries (3)	10.5	10.2	12.0	7.8	7,932	8,529
China	2.5	0.9	17.9	2.3	–2,155	–2,874
Asian NIEs (4)	–29.3	2.6	46.7	2.0	6,406	2,210
OPEC (5)	3.7	3.4	–9.1	5.2	–4,653	–3,157
Other countries	9.6	12.4	9.8	10.2	8,362	9,116
Total	**8.4**	**100.0**	**11.5**	**100.0**	**33,400**	**29,807**

(1) The figures on trade with EU countries refer only to firms with intra-Community purchases and sales in excess of 50 million lire in the two periods considered. They thus cover only a part of the total trade of Italian exporting and importing firms. – (2) Iceland, Norway and Switzerland. – (3) Albania, Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia, republics of the former USSR and the former Yugoslavia. – (4) Hong Kong, Singapore, South Korea and Taiwan. – (5) Algeria, Ecuador, Gabon, Indonesia, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

In the same period the trade surplus with the EU countries fell by 700 billion lire, reflecting the rapid growth in imports; the surplus with Germany fell from 2.9 trillion to 100 billion lire. On the other hand, the surplus vis-à-vis France and Spain rose. The overall trade balance with the ten other countries of the euro area swung from a surplus of 1 trillion to a deficit of 650 billion.

The increase of 6.3 trillion lire in the deficit on invisibles in the first half was due to all the components except income and private transfer payments. More than 60 per cent of the deterioration stemmed from the balance on transfers with the EU, and particularly from the reduction in contributions by the guarantee section of the European Agricultural Guidance and Guarantee Fund and from the increase in net VAT payments. The surplus on foreign travel diminished by 1.2 trillion lire, whereas that on other services increased by 1.9 trillion. The deficit on investment income declined by 350 billion lire.

Capital movements, errors and omissions and the net external position

In the first eight months of 1998 capital movements generated outflows totalling 7.7 trillion lire, less than half the amount recorded in the same period of last year (Table 10). The official reserves decreased by 20.7 trillion at the average exchange rates and prices for the period; 7 trillion of the decline was due to the unwinding of foreign currency swaps between the Bank of Italy and Italian banks and 1.2 trillion to subscription of the share capital of the European Central Bank.

In accounting terms, the outflow of reserves can be reconciled with the substantial current account surplus and the modest outflow of capital by recording a substantial outflow in respect of errors and omissions. In the first half of the year, for which complete balance-of-payments data are available, the current account surplus equalled 1.8 per cent of GDP, capital outflows 0.3 per cent and the outflow of reserves 1.4 per cent; consequently, an outflow equal to 2.9 per cent of GDP must be imputed to the residual errors and omissions item. This result comes on top of an almost continuous series of extremely large outflows for this item over the last five years and brings the cumulative total to 9.6 per cent of GDP (Table 11). It can be assumed that a large part of this amount is attributable to the non-recording of outflows of Italian capital, probably resulting from the investment of export proceeds abroad.

Table 10

Capital movements
(net flows in billions of lire)

	1997					1998 (1)			
	Q1	Q2	Q3	Q4	Year	Q1	Q2	July-Aug.	Jan.-Aug.
Non-bank capital flows	**–13,676**	**18,265**	**–7,251**	**–21,422**	**–24,084**	**–22,095**	**22,107**	**–9,721**	**–9,709**
Foreign	29,997	54,183	43,763	9,498	137,441	53,077	85,643	27,082	165,802
Investment	24,652	50,458	44,617	5,997	125,724	51,012	85,436	26,599	163,047
portfolio	*23,508*	*48,696*	*42,923*	*4,301*	*119,428*	*50,786*	*85,035*	*23,954*	*159,775*
Loans	–358	2,589	1,873	1,960	6,064	–527	–796	112	–1,211
Trade credit	5,703	1,136	–2,727	1,541	5,653	2,592	1,003	371	3,966
Italian	–43,673	–35,918	–51,014	–30,920	–161,525	–75,172	–63,536	–36,803	–175,511
Investment	–35,286	–23,929	–44,862	–26,534	–130,611	–74,365	–59,730	–32,818	–166,913
portfolio	*–32,916*	*–19,967*	*–37,362*	*–22,283*	*–112,528*	*–68,825*	*–48,675*	*–29,122*	*–146,622*
Loans	–5,954	–9,089	–9,051	–1,916	–26,010	1,288	–951	–3,289	–2,952
Trade credit	–2,433	–2,900	2,899	–2,470	–4,904	–2,095	–2,855	–696	–5,646
Bank capital flows	**24,627**	**–42,089**	**14,019**	**15,122**	**11,679**	**34,583**	**–37,929**	**5,317**	**1,971**
In lire	9,367	–24,769	14,137	21,840	20,575	7,766	–33,848	4,605	–21,477
In foreign currency	15,260	–17,320	–118	–6,718	–8,896	26,817	–4,081	712	23,448
Total	**10,951**	**–23,824**	**6,768**	**–6,300**	**–12,405**	**12,488**	**–15,822**	**–4,404**	**–7,738**

(1) Provisional. For trade credit, partly estimated.

Table 11

Reconciliation between the net external position (NEP) and the balance of payments on current account

(as a percentage of GDP)

	Change in NEP (1) (a)+(b)+(c)	Current account balance (a)	Balance of errors and omissions (b)	Valuation adjust-ments (c)
1989	**–2.8**	–1.4	–0.2	–1.2
1990	**–2.8**	–1.5	–1.3	–
1991	**–1.8**	–2.1	–0.6	0.9
1992	**–2.7**	–2.4	–0.5	0.2
1993	**1.2**	1.0	–1.8	2.0
1994	**1.7**	1.4	0.2	0.1
1995	**1.9**	2.5	–1.9	1.3
1996	**1.6**	3.4	–1.8	–
1997	**2.0**	3.2	–1.4	0.2
1998 (2)	**–1.7**	1.8	–2.9	–0.6

(1) At end-of-period prices and exchange rates. – (2) First six months.

The behaviour of the errors and omissions item in the Italian balance of payments has an impact on the calculation of the country's net external position (NEP). In accounting terms, the variation in the NEP during a given period equals the sum of the current account balance, errors and omissions and stock-flow adjustments (adjustments in the lira value of external assets and liabilities due to price changes and, in the case of those denominated in foreign currency, changes in exchange rates during the period). The NEP returned to balance in mid-1997 but a net debtor position re-emerged at the end of that year and has since increased further to stand at 2.5 per cent of GDP at the end of August. The steady improvement in the NEP by a cumulative 6.7 per cent of GDP from the end of 1992 onwards (Figure 17) would be much larger - and Italy would now have a substantial net creditor position - if the amounts recorded as errors and omissions were reallocated to capital movements. The Italian Foreign Exchange Office is currently revising the systems and methods for recording stocks of external portfolio assets and liabilities.

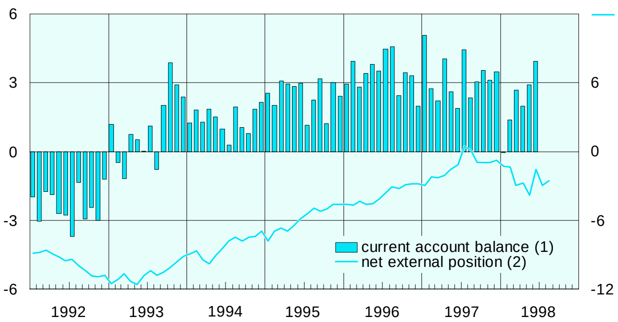
According to available data, the net external position increased from 15.1 trillion lire at the end of 1997 to 51.6 trillion at the end of August 1998. The increase was caused by substantial stock-flow adjustments as well as transaction flows during the period (Table 12). Adjustments due to exchange rate changes were negative and amounted to 9.4 trillion lire. Price adjustments, which were attributable to the better performance of the Italian stock market by comparison with other bourses during a period of high share price volatility, increased liabilities by 14.2 trillion more than assets. For non-banks, the adjustments (and especially those for price changes) outweighed the reduction in net debt due to transactions during the period.

The banks' net liabilities increased by 2 trillion lire, with all of the change occurring in those denominated in foreign currency (Table 13). If their domestic spot and forward position, domestic currency swaps and lira lending indexed to foreign currencies are also taken into consideration, the banks' overall foreign currency position remained broadly in balance.

Figure 17

Italy's balance of payments on current account and net external position

(as a percentage of GDP)



Source: For GDP, Istat; the 1998 figures are estimated.
(1) Seasonally adjusted; left-hand scale. - (2) Right-hand scale.

If transactions are reclassified according to the origin of the demand for foreign exchange, the banking system had a net external debtor position of 46.8 trillion lire last May and the non-bank sector had net liabilities of 142 trillion.

The narrowing of the differential between interest rates in Italy and elsewhere encouraged a further diversification of Italian investors' portfolios in the first eight months of the year; the flow of outward portfolio investment amounted to 146.6 trillion lire, almost twice the figure recorded a year earlier.

Table 12

Italy's net external position

(billions of lire)

	Stocks in December 1997 (1) (a)	January-August 1998			Stocks in August 1998 (1) (a)+(d)
		Flows (2) (b)	Stock-flow adjustments (3) (c)	Change in stocks (d)=(b)+(c)	
			Agents other than resident banks		
Assets	**921,857**	**175,511**	**27,851**	**203,362**	**1,125,219**
Direct investment	236,723	20,291	10,757	31,048	267,771
Portfolio investment	498,350	146,622	17,360	163,982	662,332
Loans and trade credit (4)	186,784	8,598	–266	8,332	195,116
Liabilities	**999,137**	**165,802**	**48,955**	**214,757**	**1,213,894**
Direct investment	146,290	3,272	16,420	19,692	165,982
Portfolio investment	677,971	159,775	31,894	191,669	869,640
Government securities	*515,913*	*145,977*	*2,463*	*148,440*	*664,353*
BOTs	*32,255*	*52,696*	*–21*	*52,675*	*84,930*
BTPs	*283,139*	*24,898*	*4,288*	*29,186*	*312,325*
CTEs	*30,550*	*–1,704*	*89*	*–1,615*	*28,935*
Other government securities	*78,683*	*68,075*	*12*	*68,087*	*146,770*
Republic of Italy issues	*91,286*	*2,012*	*–1,905*	*107*	*91,393*
Loans and trade credit (4)	174,876	2,755	641	3,396	178,272
Net position of non-banks	**–77,280**	**9,709**	**–21,104**	**–11,395**	**–88,675**
			Resident banks		
Assets	349,235	22,716	196	22,912	372,147
Liabilities	420,748	24,687	–927	23,760	444,508
Net position of banks	**–71,513**	**–1,971**	**1,123**	**–848**	**–72,361**
			Bank of Italy-UIC		
Net position (including gold)	**133,644**	**–20,650**	**–3,605**	**–24,255**	**109,389**
			Italy		
NET OVERALL POSITION	**–15,149**	**–12,912**	**–23,586**	**–36,498**	**–51,647**

(1) At end-of-period prices and exchange rates. – (2) Balance between net capital movements (bank and non-bank) and the change in official reserves, at the securities prices and exchange rates prevailing on the date of the transaction. A plus sign indicates an increase in the relevant assets or liabilities. – (3) Adjustments in the value of assets and liabilities due to exchange rate and price changes during the period, calculated on the basis of the composition according to currency and financial instrument.– (4) The data on trade credit are partly estimated.

Transactions of this kind are attributable mainly to financial enterprises and insurance companies, which almost trebled their portfolio investment abroad in the first six months of the year. During the same period households' direct portfolio investment, which does not involve specialized intermediaries, was 12 per cent higher than a year earlier. Among the various instruments used by Italian portfolio investors, equity investment showed substantial growth, with net purchases of shares increasing more than fourfold in the first six months of the year. As in the past, more than half of all Italian portfolio investment went to other EU countries. Flows towards euro-area countries, in particular, more than doubled.

Analysis of inward portfolio investment according to country of origin shows that the relationship with other EU countries is particularly close: investment worth 122.4 trillion lire, equal to

Table 13

Italian banks' external position,
domestic foreign currency position and total foreign currency position (1)
(billions of lire)

	1997	1998			
		Q1	Q2	July-Aug. (2)	Jan.-Aug. (2)
Stocks (3)					
External position	−71,513	−107,379	−67,196	−72,361	−72,361
In lire	31,655	23,889	57,737	53,132	53,132
In foreign currency	−103,168	−131,268	−124,933	−125,493	−125,493
Domestic position in foreign currency	46,260	54,447	50,708	51,688	51,688
Memorandum item:					
Overall position in foreign currency (4)	−2,158	−5,904	−5,696	−5,693	−5,693
Changes (5)					
External position	−11,679	−34,583	37,929	−5,317	−1,971
In lire	−20,575	−7,766	33,848	−4,605	21,477
In foreign currency	8,896	−26,817	4,081	−712	−23,448
Domestic position in foreign currency	−5,232	7,414	−3,599	960	4,775
Memorandum item:					
Overall position in foreign currency (6)	5,114	−2,502	424	129	−1,949

(1) Including the Italian branches of foreign banks. – (2) Provisional. – (3) At current exchange rates. End-of-period data. – (4) Spot and forward transactions, including domestic currency swaps, commitments to be settled within 2 days and loans indexed to foreign currencies. – (5) At monthly average exchange rates. A minus sign indicates an inflow of bank capital. – (6) Spot and forward transactions, including domestic currency swaps and commitments to be settled within 2 days.

more than 90 per cent of the total, came from this source in the first six months of 1998. Despite the decline in yields, foreign investors purchased a substantial volume of government securities, almost twice as much as a year earlier. Hedging of exchange rate risk by foreign investors remained at roughly the same level as last year; reverse repurchase agreements on Italian securities between banks and non-residents amounted to 34.5 trillion lire in the first eight months of this year, equal to 21 per cent of inward portfolio investment.

Direct outward investment amounted to 20.3 trillion lire in the first eight months of the year, compared with 13 trillion in the corresponding period of 1997; the increase of 56 per cent, which continued the trend that had begun several years ago, was due largely to transactions by financial enterprises. Direct inward investment, by contrast, decreased by about 25 per cent, falling from 4.4 to 3.3 trillion lire.

Net lending led to an outflow of 4.2 trillion lire in the first eight months of 1998, compared with one of 21.2 trillion a year earlier; the reduction was due mainly to a decrease in private sector lending to foreign counterparties. Net repayments of official loans continued, amounting to 5.4 trillion in the first six months.

The volume of trade credit granted by non-residents was small, totalling 3.6 trillion lire in the first six months of the year. That granted by residents came to 5 trillion, similar to the volume recorded in the same period of last year.

Prices

The factors behind the price tensions that arose during the summer of 1997 and the consequent increase in the inflation differential between Italy and the other principal economies in the euro area have now largely faded out.

The improvement in inflation expectations, induced by the prudence with which monetary conditions have been eased and by Italian participation in monetary union, has favoured a steady fall in collectively bargained wage increases, and hence a deceleration in unit labour costs. Rapidly declining raw materials prices, in connection with the worsening Asian crisis and its spreading effects, resulted in a decline in the prices of imports. The impact of the cyclical upturn on prices was gradually attenuated as the pace of economic activity slowed.

After peaking early in the year, the rate of increase in consumer prices has progressively diminished, following the trend in producer prices. There remains a gap with respect to Germany and France, however, which reflects differentials in the movements of domestic cost components; slower growth in demand and profit margins in Italy has helped to limit the extent of the gap. The continuation of the gradual convergence of Italian unit labour costs from the rapid increase of the last two years towards the more moderate pace found in those economies now opens up the possibility of a permanent elimination of the inflation differential.

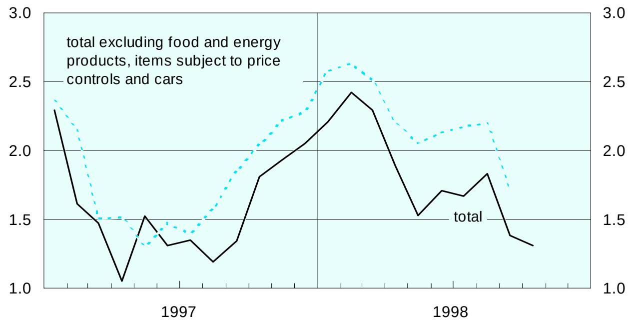
Market participants expect that this process, which must be confirmed by the outcome of the current round of labour contract renewals, will continue for the next two years.

Consumer prices

The annualized, seasonally adjusted three-month rise in consumer prices for worker and employee households peaked at 2.5 per cent in the first quarter of 1998 and gradually diminished thereafter, ranging between 1.5 and 2 per cent during the summer months and falling below 1.5 per cent in September (Figure 18).

Figure 18

Consumer price index for worker and employee households (1)
(annualized percentage changes on 3 months earlier; seasonally adjusted)



Source: Based on Istat data.

(1) The index, excluding tobacco products but including changes in indirect taxes, is rounded to two decimal places and is calculated from data on the component items rounded to one decimal place.

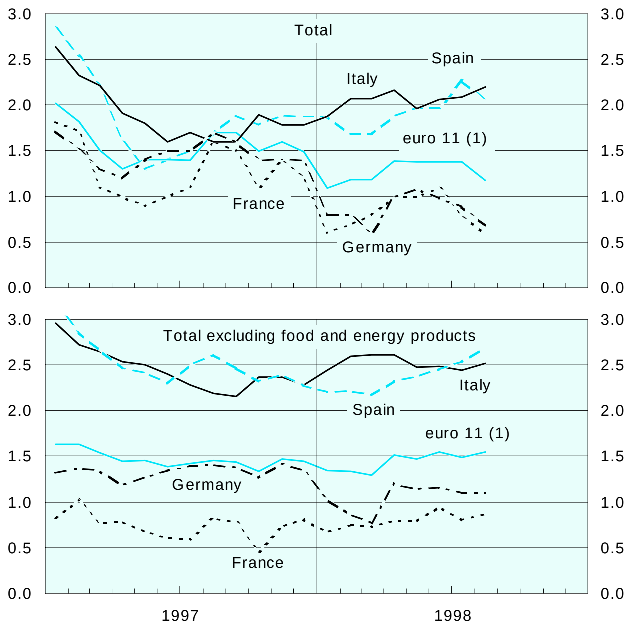
The slowdown was sharpest and greatest for the components most affected by the decline in raw materials prices, notably energy products. Prices were further curbed by the especially moderate trend in prices subject to public controls (Table a17).

The impact effects on inflation of the fall in petroleum product prices were less pronounced than in the other main European countries, however. On the basis of the harmonized indices, the prices of petroleum-based energy products declined by 6.4 per cent between September 1997 and August 1998 in France, and by 9.5 per cent in Germany, compared with 2.5 per cent in Italy. Almost half of this difference is accounted for by the greater incidence of taxes on the final price in Italy and the rest by the greater stickiness of the corresponding producer prices. The fall in petroleum product prices between September and August accounts for nearly all of the 0.5-point drop in the twelve-month rate of increase in the euro-area harmonized index, which slowed to 1.2 per cent; in Italy its contribution was smaller, only about 0.2 points (Figure 19).

Figure 19

Harmonized index of consumer prices

(percentage changes on 12 months earlier)



Source: Based on Eurostat and Istat data.

(1) Weighted average of the harmonized indices of the 11 countries that will adopt the euro. The weights are based on final consumption; Eurostat revises the weights every January.

Excluding not only food, energy and price-controlled items but also cars, whose prices were repeatedly affected by government incentives, the index for worker and employee households decelerated more slowly until the summer. The three-month growth in this modified index, which best captures the fundamental trend in inflation, has regularly been higher than that of the general index. It diminished slightly during the spring after peaking at 2.6 per cent in the first quarter. The downtrend stalled in the summer months with the rate at slightly over 2 per cent and resumed in September, when the rate fell below 2 per cent.

The twelve-month change in the EU harmonized index remained just above 2 per cent in the first eight months of the year. The differential with respect to the average for the euro area held at around 0.7 points, while that vis-à-vis Germany and France remained significant, at an average of 1.3 points (Figure 2). However, the seasonally adjusted monthly and three-month variations in the national indices suggest that the inflation gap with Germany is narrowing.

Unlike that of the other euro-area countries - Spain, Ireland and Portugal - whose harmonized indices show inflation at over 2 per cent, Italy's differential vis-à-vis the low-inflation countries can be ascribed not so much to services as to goods other than food and energy products (Table 14). For these goods, the gap reflects the difference in producer price trends and faster-rising unit labour costs in industry.

Table 14

Harmonized index of consumer prices

(percentage changes on year-earlier period in relation to the three months ending in August 1998)

	Non-food and non-energy prod-ucts	Ser-vices	Total exclud-ing food and energy prod-ucts	Food prod-ucts	Energy prod-ucts	Total
Ireland	−0.1	3.7	2.1	4.8	−0.2	2.7
Portugal . . .	0.4	3.7	1.9	4.5	0.6	2.6
Spain	1.5	3.7	2.6	2.6	−3.9	2.1
Italy	2.3	2.6	2.5	1.8	−1.2	2.1
Netherlands	1.6	2.4	2.0	2.3	−1.1	1.8
Euro 11 (1) .	**1.0**	**2.0**	**1.5**	**1.9**	**−2.6**	**1.3**
Finland	0.2	2.7	1.5	1.8	−2.0	1.2
Belgium	0.9	2.4	1.7	1.7	−3.5	1.1
Luxembourg	0.7	1.8	1.2	3.2	−4.5	1.1
Germany . . .	0.8	1.5	1.1	1.3	−2.9	0.9
Austria	0.2	1.8	1.1	1.5	−3.7	0.8
France	0.2	1.5	0.9	2.3	−2.9	0.8

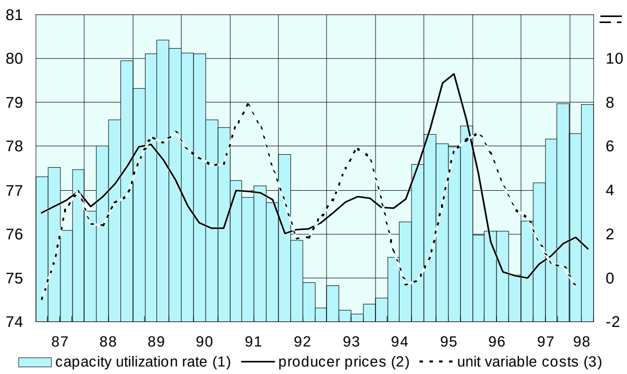
Source: Based on Eurostat data.
(1) See note (1) to Figure 19.

Producer prices and the import and export prices of manufactures

During the first part of 1998 the producer prices of manufactures for the domestic market continued the slowdown that had begun late in 1997. This was due to the sharp deceleration in costs, which more than offset the moderate increase in firm's profit margins, with capacity utilization remaining high (Figure 20).

Figure 20

Producer prices, costs and capacity utilization in manufacturing
(percentage changes on year-earlier quarter and percentages)



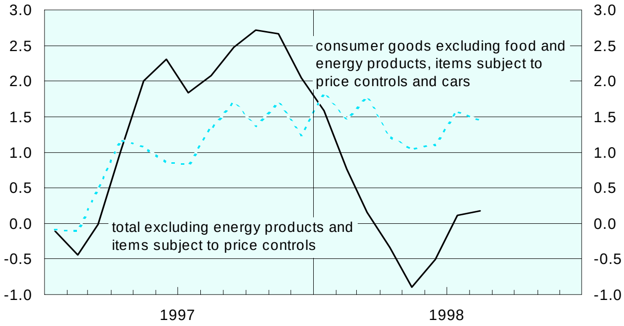
Source: Based on Istat and Isco data.

(1) Percentage of capacity utilized; seasonally adjusted. Left-hand scale. - (2) Index of the producer prices of manufactures for the domestic market, excluding energy products. Changes on year-earlier quarter. Right-hand scale. - (3) Unit variable costs net of intrasectoral transactions; energy products and transport equipment other than cars are excluded from the aggregate for industry. Changes on year-earlier quarter; moving averages of the reference quarter and the preceding quarter. Right-hand scale.

The general index, which includes energy products, went from a twelve-month rise of 1.5 per cent in December to a decrease of 0.3 per cent in August (Table a19). The slowdown was sharpest for the components whose costs are most directly affected by raw materials prices. The prices of energy products, which had begun to decline even before the end of 1997, were 6.1 per cent lower in August than a year earlier. Seasonally adjusted and excluding energy and goods subject to price controls, the index decelerated beginning in December and has been virtually flat since spring (Figure 21). The deceleration is primarily ascribable to the prices of non-petroleum intermediate goods and food products, which are more closely linked to raw materials prices.

Figure 21

Index of the producer prices of manufactures for the domestic market
(annualized percentage changes on 3 months earlier; seasonally adjusted)

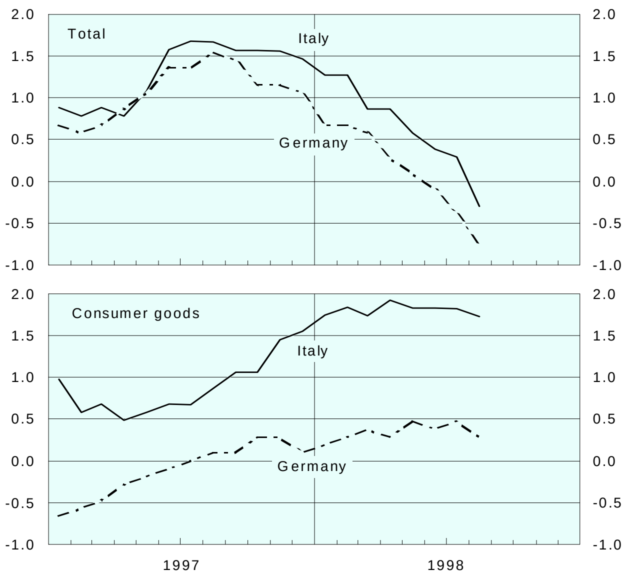


Source: Based on Istat data.

The producer prices of consumer goods other than food, energy and price-controlled products, which are more strongly affected by the behaviour of domestic cost components and demand, slowed down with a lag and to a much lesser degree. Excluding cars as well, the annualized seasonally adjusted three-month rate of increase in this index remained above 1.5 per cent until March; since then it has averaged less than 1.5 per cent.

Figure 22

Indices of the producer prices of manufactures for the domestic market
(percentage changes on 12 months earlier)



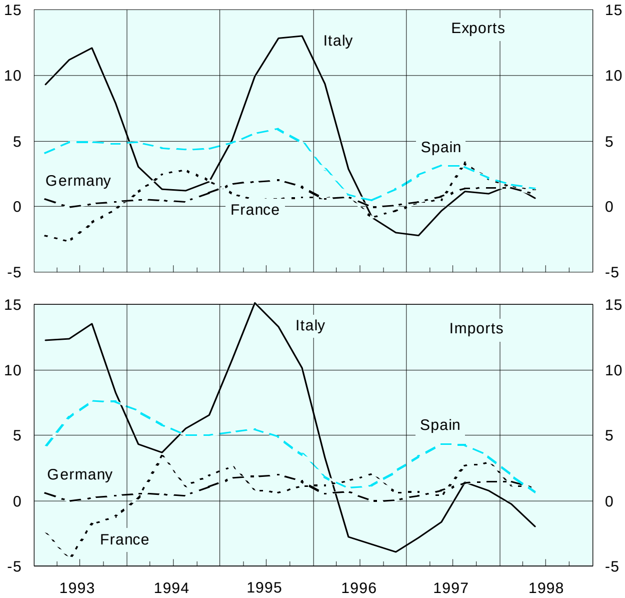
Source: Istat and national statistics.

Based on twelve-month changes in national indices, the producer inflation differential with respect to Germany was constantly positive, hovering around 0.5 percentage points (Figure 22). The differential stems chiefly from the substantial gap in the consumer goods component, which averaged 1.5 points.

Figure 23

Import and export deflators

(percentage changes on year-earlier quarter)



Source: Based on Istat and BIS data.

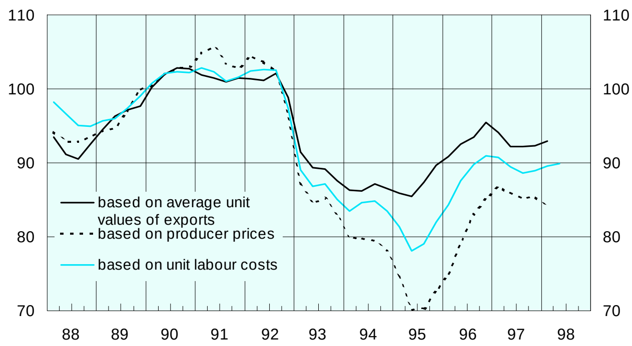
In foreign markets, Italian firms made price increases in local currencies in the first half of 1998 that were in line with those of the main competitor countries and, when valued in lire, smaller than those made in the domestic market. In the second quarter the Italian export deflator was 0.6 per cent higher than in the second quarter of 1997, an increment comparable to those recorded in Germany and France (Figure 23). The lira remained stable vis-à-vis the German mark during the quarter and depreciated by 0.5 per cent against the French franc. The index of Italy's competitiveness with respect to its main competitors, based on average unit values of exports, remained at the levels prevailing in the second half of 1997 (Figure 24).

Given the slowdown in domestic demand, Italian firms sought to maintain their export market shares. With a basically stable nominal effective exchange rate, they had to respond in this way to the competitive pressures from producers in the leading euro-area countries, who enjoyed significant domestic cost reductions, and from those in the countries affected by crisis, whose currencies depreciated sharply.

Figure 24

Indicators of Italian competitiveness (1)

(indices, 1992=100)



Source: based on Istat, OECD and IMF data and national bulletins.
(1) Effective exchange rate of the lira vis-à-vis 24 countries, deflated using the specified price or cost indicator. Moving averages of the reference quarter and the preceding quarter. An increase in the index indicates a loss of competitiveness.

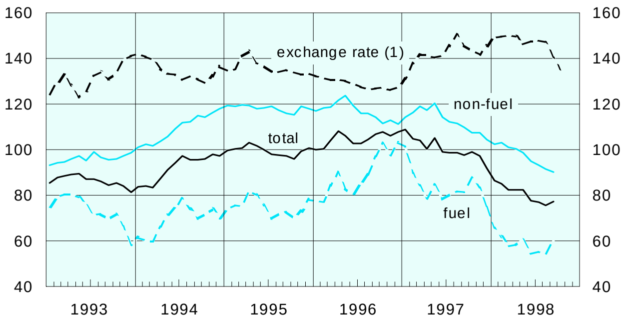
As a consequence of the Asian crisis the lira prices of imports fell sharply in the first few months of 1998, continuing the trend that began late last year. In the second quarter the import deflator was 2 per cent below its year-earlier level. The decline was sharper than in France and Germany, owing to the greater incidence of energy products in Italian imports. The reduction registered over the first six months was concentrated in industrial inputs and food products.

The lira prices of raw materials fell considerably following the worsening of the crisis in Asia, dropping by about 24 per cent between October 1997 and September of this year. Until August, as the exchange rate of the dollar remained virtually unchanged, the decline reflected the fall in dollar prices: that of oil decreased by 38 per cent, to its lowest level since 1988, while those of non-energy raw materials fell by 15 per cent (Figure 25). The subsequent decline in lira prices in September and October is mainly attributable to the sharp depreciation in the dollar.

The large contribution of the decline in the prices of imported raw materials and intermediate products to the reduction in inflation was not accompanied by a slowdown in the average unit values in lire of non-food and non-energy consumer goods (Table a21). For these products, foreign exporters to Italy followed their normal practice of adapting to the domestic pricing policies of Italian firms.

Figure 25

Dollar prices of primary commodities and the lira/dollar exchange rate
(indices, 1990=100)



Source: Based on IMF data.

(1) An increase indicates a depreciation of the lira against the dollar. Monthly average of daily data; the figure for October 1998 refers to the average for the first twenty days of the month.

Firms' costs and profit margins

In the first half of 1998, manufacturing industry's unit variable costs increased by an average of 0.2 per cent with respect to the year-earlier period, as against 0.5 per cent in the second half of 1997. Foreign inputs and unit labour costs both contributed to the slowdown (Table 15).

The cost of imported inputs fell by 0.4 per cent, compared with an increase of 0.6 per cent in the second half of 1997. Given the gradualness with which a decline in world commodity prices is passed through to imported intermediate goods, it is likely that the cost of foreign inputs will continue to fall in the coming months.

In the first six months the prices of domestic inputs rose by 0.4 per cent, as in the second half of 1997. Adjusted to take account of the estimated effects of the introduction of the regional tax on productive activities (Irap), unit labour costs declined by 0.2 per cent, compared with an increase of 0.4 per cent in the second half of 1997. The sharp deceleration in labour incomes more than offset the effects of the slowdown in productivity. Although nominal wages increased less than last year, there was nevertheless a modest increase in real wages.

Table 15

Unit variable costs and final prices in manufacturing (1)
(percentage changes on preceding period)

	Per-centage weights (2)	1996	1997			1998
		Year	H1	H2	Year	H1
Unit variable costs	**100.0**	**4.4**	**1.5**	**0.5**	**1.0**	**0.2**
Domestic input costs	**74.5**	**5.7**	**3.0**	**0.4**	**1.7**	**0.4**
Unit labour costs	49.6	6.0	4.4	0.4	2.4	–0.2
labour costs	–	5.5	5.9	4.6	5.3	2.5
of which: *wages* . .	–	*4.5*	*4.8*	*4.2*	*4.5*	*2.5*
productivity .	–	–0.5	1.5	4.2	2.8	2.7
Other costs . . .	24.9	5.3	0.9	0.5	0.7	1.2
Foreign input costs	**25.5**	**0.0**	**–3.3**	**0.6**	**–1.4**	**–0.4**
Output prices . . .	**100.0**	**2.0**	**–0.4**	**1.1**	**0.4**	**1.5**

Source: Based on Istat and ENI data.

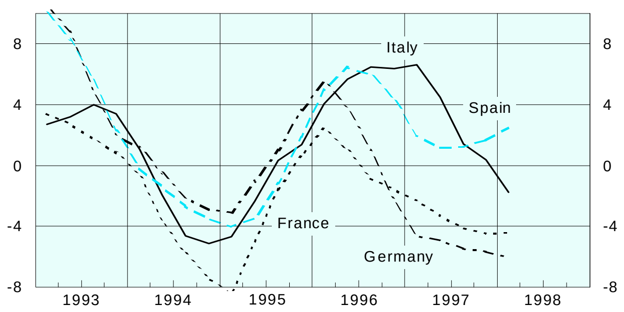
(1) Net of intrasectoral transactions; energy products and transport equipment other than cars are excluded from the aggregate for industry. – (2) Calculated on the basis of the input-output table for 1988 at 1980 prices.

In assessing the increase in labour incomes in the first half of 1998, one must allow for the fact that the introduction of Irap and the simultaneous abolition of firms' health service contributions have created a discontinuity in the national accounts data series. Total compensation of employees is obtained by summing wages and social security contributions, which until last year included health service contributions. The abolition of the latter therefore caused incomes to fall by 1.2 per cent in relation to the first half of 1997. However, if the portion of Irap revenues attributable to labour is added to wages to approximate the labour costs borne by firms, then such costs registered an estimated increase of 2.5 per cent on the year-earlier period, compared with one of 4.6 per cent in the second half of last year. The slowdown is attributable to the more moderate wage increases agreed in contracts signed in the second half of 1997.

Available information shows a gradual narrowing of the growth differential between Italian industry's unit labour costs and those of Germany and France (Figure 26). In the first quarter of 1998, the gap was 4.3 and 2.7 percentage points respectively, down from an average of 7.7 and 6.3 points in 1997. The significant remaining difference is mainly attributable to the large differential in productivity growth. Nevertheless, the rates should continue to converge in the near future as a result of the moderate rate of increase in unit labour costs in Italy and the easing of the decline in Germany and France, where the sharp reductions in recent quarters are unlikely to be repeated.

Figure 26

Unit labour costs in manufacturing (1)
(percentage changes on year-earlier period)



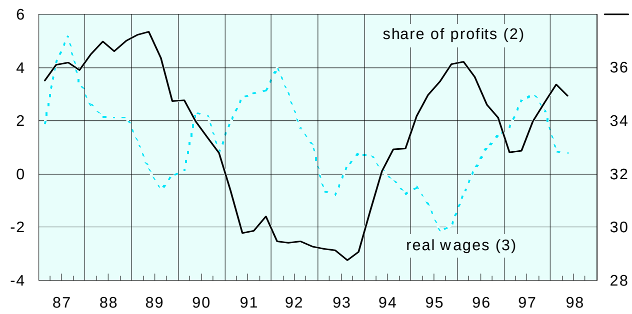
Source: Based on Istat and OECD data.
(1) Moving averages of the reference quarter and the preceding quarter.

The smaller rise in wages in Italy is the consequence of low inflation expectations and high unemployment. In 1998 the most important contract renewal was that covering the chemical industry; the agreement provides for increases slightly higher than the average for manufacturing industry this year, which is in line with the inflation target for 1999. In manufacturing as a whole, wage growth remains moderate. If the outcome of the upcoming bargaining round confirms current trends, as the initial indications of the metal and engineering workers' contract platform suggest, the rate of increase in wages in Italy should continue to converge towards the level prevailing in the main EU countries. There have been no significant changes in working hours in the manufacturing sector. The bill on working hours presented last spring leaves the matter to collective bargaining. The solution adopted in the chemical industry suggests that any reductions in contractual hours could be accompanied by greater discretion for firms in determining the effective length of the work week.

The moderate expansion in economic activity under way has created scope for a continuation of the gradual widening of profit margins in manufacturing, as firms have raised output prices by more than the increase in costs. The share of profits in value added in the manufacturing sector, which peaked at the start of 1996 and declined until the middle of last year, has begun to increase again (Figure 27).

Figure 27

Share of profits in value added and real wages in manufacturing (1)
(percentage points and percentage changes)



Source: Based on Istat data.
(1) Moving averages of the reference quarter and the preceding quarter. - (2) Share of gross operating profits in value added, calculated by attributing the same unit incomes to the self-employed as those earned by employees. Right-hand scale. - (3) Percentage changes on year-earlier quarter in gross earnings per employee deflated using the general consumer price index for the population as a whole. Left-hand scale.

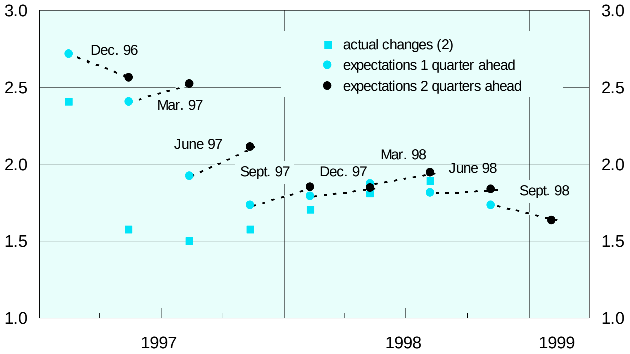
In the market services sector, according to the information available for the first half of 1998, the rate of increase in labour income was about 1 percentage point higher than in manufacturing, while the increase in unit labour costs was about 2 points higher, owing in part to the slow pace of productivity gains. Nevertheless, a number of factors could produce greater wage moderation in the next bargaining round, such as the extension without wage increments of current contracts in sectors undergoing restructuring (especially banking and insurance) and the increasing proportion of workers on atypical contracts in services in general. Slower wage growth can already been seen in sectors where competition is strongest.

Inflation expectations

The Forum-Mondo Economico and Consensus Forecasts surveys show that improvement in inflation expectations came to a temporary halt in the first few months of the year, when pressure on consumer prices was stronger (Figures 28 and 29). Expected inflation subsequently began to fall again with the spread of the disinflationary impact of the Asian crisis, the continued caution of monetary policy and Italy's qualification for participation in monetary union from the outset. Expectations then stabilized below 2 per cent across all time horizons, adjusting more rapidly than in the past to improvements in actual inflation.

Figure 28

Forum-ME survey of expectations of consumer price inflation in the subsequent two quarters (1)
(percentage changes on year-earlier quarter)

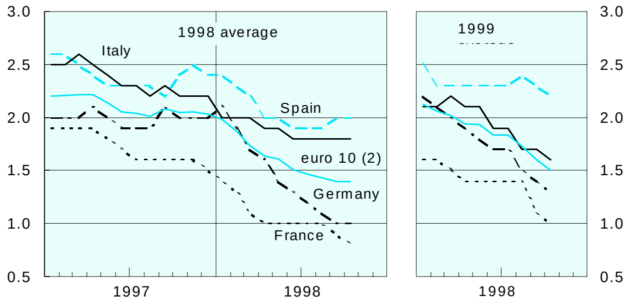


Source: Based on Istat and Forum-ME data.
(1) The dates in the figure indicate the survey period. The expectations recorded are those of a panel of businessmen and experts. - (2) Consumer price index for worker and employee households, excluding tobacco products.

The October survey conducted by Consensus Forecasts showed expectations for average inflation of 1.8 per cent in 1998 and 1.6 per cent in 1999, down from 2 and 2.1 per cent respectively in the January survey. However, expectations for inflation in France and Germany have fallen more sharply, so that the differential in expected average inflation in 1998 widened to 0.8 percentage points and 1 point respectively, compared with -0.1 and 0.6 points at the beginning of the year; while that for 1999 rose to 0.3 and 0.6 points from -0.1 and 0.5 points. As is shown by the quarterly profile of experts' expectations for inflation in the September survey covering the subsequent eight quarters, the inflation differentials between Italy and the other main countries that will adopt the euro should virtually disappear over the next two years (Figure 30).

Figure 29

***Consensus Forecasts* expectations concerning average consumer price inflation in 1998 and 1999** (1)
(percentage changes on previous year)



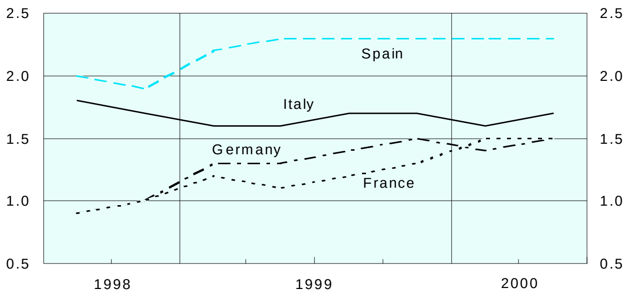
Source: *Consensus Forecasts.*
(1) Average annual rate of consumer price inflation. The horizontal axis shows the months in which the survey is conducted. - (2) Weighted arithmetic mean of the forecasts for the national consumer price indices (for Italy, the consumer price index for worker and employee households) of the countries that will adopt the euro, excluding Luxembourg. The weights are based on final consumption in 1996; Eurostat revises the weights every January.

According to the Consensus Forecasts experts, average inflation in the euro area will be 1.4 per cent in 1998 and rise slightly to 1.5 per cent in 1999. Overall, the outlook for the participating countries appears favourable, with very moderate inflation expectations but no sign of any imminent risk of deflation.

The indications provided by the financial markets, in particular the behaviour of one-year forward rates nine years ahead implicit in interest rate swaps on European currencies, confirm this outlook for more distant time periods as well.

Figure 30

***Consensus Forecasts* expectations concerning average consumer price inflation in the subsequent 8 months**
(percentage changes on year-earlier quarter; September 1998 survey)



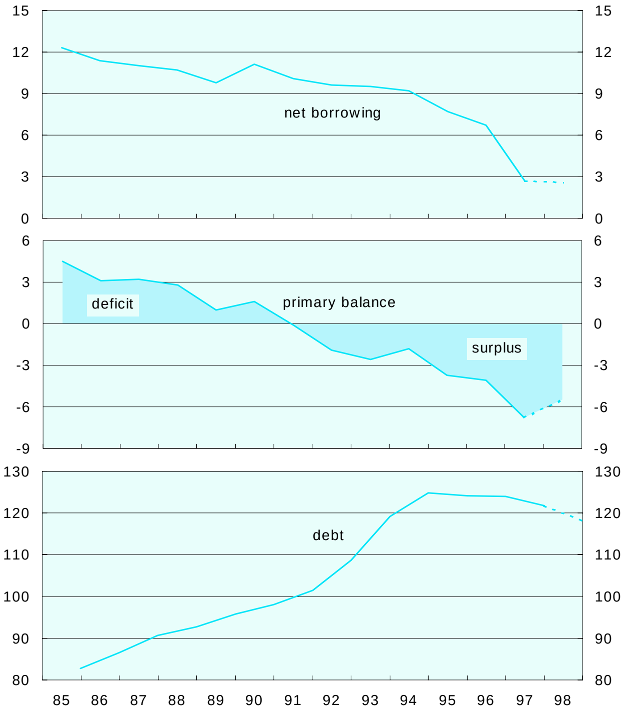
Source: *Consensus Forecasts.*

The public finances

The performance of the public finances in the first nine months of the year appears to have been basically in line with the annual objective set in April in the Economic and Financial Planning Document of a slight reduction in the ratio of general government net borrowing to GDP, from 2.7 per cent in 1997 to 2.6 per cent (Figure 31). The reduction in revenue, expenditure and the debt in relation to GDP could nonetheless be less than forecast in the Document since the growth in GDP may be smaller than predicted.

Figure 31

General government net borrowing, primary balance and debt
(*as a percentage of GDP*)



Sources: Based on Istat data and, for the debt, Bank of Italy data. The figures for 1998 are the forecasts published in *Documento di programmazione economico-finanziaria (1999-2001).*

The contribution of temporary measures to deficit reduction is likely to be around 0.6 per cent of GDP, as against over 1 per cent in 1997. The deficit adjusted for deviations in economic activity from the medium-term trend (cyclically adjusted net borrowing) is expected to be much the same as in 1997 in relation to GDP.

In the first nine months of the year the state sector borrowing requirement was larger than in the corresponding period in 1997, primarily owing to the postponement of some tax receipts to the last part of the year as a result of the introduction of the regional tax on productive activities and the possibility of paying self-assessed taxes in instalments.

Further progress has been made in lengthening the average maturity of the public debt: net issues of medium and long-term securities have far exceeded the borrowing requirement and covered the net redemptions recorded by other forms of government financing, especially Treasury bills.

According to the estimates of the European Commission, the OECD and the IMF, the ratio of general government net borrowing to GDP should decline in 1998 by 0.2 percentage points for the euro area and by 0.5 points for the European Union (from 2.5 to 2.3 per cent and from 2.3 to 1.8 per cent, respectively, according to the Commission). These reductions are slightly smaller than those indicated in the convergence programmes submitted by the individual member states. The Commission and the IMF foresee reductions in the net borrowing ratio in 1999 in line with the planned value of around 0.5 per cent of GDP, while the OECD is less optimistic. The Italian deficit is seen as remaining slightly above the European average in both years.

The OECD and the IMF expect the cyclically adjusted balance of the euro area to worsen slightly in 1998-99 compared with 1997, signaling a slowdown in the action to achieve the objectives established in the Stability and Growth Pact.

Budgetary policy

The Forecasting and Planning Report for 1998 set the objective for general government net borrowing at 2.8 per cent of GDP and that for the primary surplus at 5.6 per cent of GDP. The budgetary measures designed to achieve these objectives were officially estimated to amount to 25 trillion lire, or 1.2 per cent of GDP (see the box "The implementing provisions of the 1998 budget" in *Economic Bulletin*, no. 26, February 1998). The objective for general government net borrowing was made more stringent in the Quarterly Report on the Borrowing Requirement in March, when it was set at 2.6 per cent of GDP, a figure that was confirmed in the Economic and Financial Planning Document in April. The more ambitious objective did not reflect measures to increase the primary surplus, which in fact was expected to amount to 5.5 per cent of GDP instead of 5.6 per cent, but rather a downward revision of the forecast for interest payments, to take account of the decline in market interest rates.

The ratio of the primary surplus to GDP was set to decline by 1.3 percentage points compared with 1997, with the revenue ratio falling by 1.1 points, from 48.8 to 47.7 per cent of GDP, and the primary expenditure ratio rising rise by 0.2 points, from 42 to 42.2 per cent of GDP. The stability of net borrowing was due to the reduction of 1.5 percentage points in the ratio of interest payments, from 9.5 to 8 per cent of GDP.

The results in the first three quarters appear to be in line with the main objectives set in the Economic and Financial Planning Document. In contrast with the past, no supplementary budgetary measures have been introduced during the year. Cyclically adjusted net borrowing is expected to be around 2 per cent of GDP, basically the same as in 1997.

Preliminary estimates show that general government total expenditure, revenue and debt should be basically in line with the Government's forecasts, notwithstanding the downward revision of the expected growth in real GDP, although this may result in the reductions in the GDP ratios of these aggregates being smaller than predicted. Interest payments are not likely to diverge materially from the Government's forecasts: the Economic and Financial Planning Document assumed that the rates on twelve-month Treasury bills would remain almost unchanged; although sizable, the decline in yields that began in July will not significantly affect interest expenditure in 1998.

In the first six months of the year state sector expenditure was much the same as in the corresponding period in 1997. The fall of 13.8 per cent in interest payments offset the increases of 2.8 per cent in primary current expenditure, 9 per cent in capital expenditure and 51.6 per cent in outlays of a financial nature. In the same period tax revenue fell by 15.4 per cent, primarily owing to the postponement of payments of self-assessed taxes and the possibility of paying them in instalments. At the end of September the shortfall had narrowed to 3.1 per cent (see the box on "State sector revenue and expenditure").

Taken together, the effects of the budget and the decline in interest payments should offset the tendency of the government deficit to expand, fueled by some expenditure programmes and the reduction in the effects of temporary measures. The latter's contribution is expected to drop from more than 1 per cent of GDP in 1997 to around 0.6 per cent, most of which is attributable to the switch from two-monthly to monthly payments of INPS pensions (around 6 trillion lire) and the levy on firms' severance pay provisions first introduced in 1997 (more than 4 trillion lire).

The borrowing requirement and the public debt

Net of settlements of past debts and privatization receipts, the state sector borrowing requirement was equal to around 59.1 trillion lire through September, compared with 51.5 trillion in the same period in 1997 (Table 16 and Figure 32). The difference at the end of June had been larger, since the borrowing requirement for the first six months rose from 25.3 trillion in 1997 to 48.2 trillion.

Table 16

State sector and general government borrowing requirement
(billions of lire)

	1995	1996	1997	1998 (1)
	Net state sector borrowing requirement (2)			
First six months . . .	57,399	52,038	25,265	48,216
January-September	101,267	96,442	51,523	59,052
	Gross state sector borrowing requirement			
First six months . . .	60,496	55,515	33,898	53,374
January-September	103,671	103,187	48,728	52,943
	Net general government borrowing requirement (2)			
First six months . . .	59,300	56,800	26,900	48,300

(1) Provisional. – (2) Excluding settlements of past debts and privatization receipts.

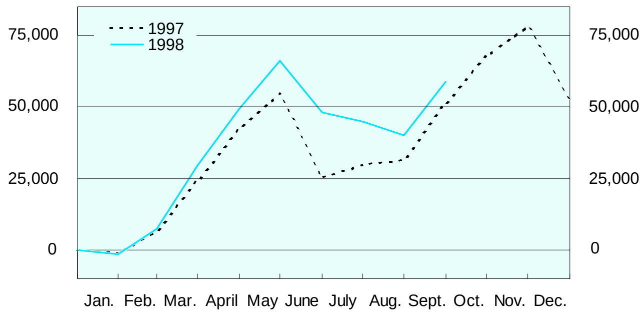
The development of the borrowing requirement during the year was influenced by two main factors: first, the introduction of the regional tax on productive activities and the simultaneous abolition of some taxes and social security contributions (see the article "The recent reform of the tax system" in *Economic Bulletin*, no. 26, February 1998); and second, the extension of the time limits for the payment of self-assessed taxes and the possibility of paying them in instalments. These measures reduced revenue in the first half of the year and increased that receivable in the second six months, especially December.

In the first nine months of 1998 privatization receipts exceeded settlements of past debts by 6.1 trillion lire, as against 2.8 trillion in the corresponding period in 1997, thus reducing the need for the Treasury to raise funds in the market by the same amount. The improvement on 1997 may nonetheless not be maintained for the year as a whole, since in the fourth quarter of last year the high level of privatization receipts produced a surplus of nearly 19 trillion lire.

Net privatization receipts rose from 4.7 to 8.2 trillion lire owing to the increase in gross receipts from around 13 trillion in the first nine months of 1997, produced largely by the sale of Telecom Italia shares, to over 16 trillion in the corresponding period in 1998, primarily as the result of the sale of a tranche of ENI shares. Payments for Treasury purchases of STET shares from IRI amounted to over 8 trillion lire in both years.

Figure 32

State sector borrowing requirement (1)
(*cumulative balances; billions of lire*)



(1) Excluding settlements of past debts and privatization receipts.

Settlements of past debts resulted in net expenditure of more than 2 trillion lire. The repayment of around 3.7 trillion of debts of local health units, INPS and the Italian Space Agency and the settlement of 3.3 trillion of tax credits in securities were partly offset by the second instalment of 5 trillion lire of IRI's early repayment of a loan contracted with the Deposits and Loans Fund (the first instalment of 5 trillion had been paid in December 1997). In the first nine months of 1997 there had only been outlays totaling some 1.9 trillion.

Net issues of medium and long-term securities in the first nine months of 1998 substantially exceeded the borrowing requirement and offset the net redemptions of other forms of financing and the increase in the balance on the Treasury's accounts with the Bank of Italy. Deducting the commissions paid for placing the paper, net issues of medium and long-term securities acquired by investors outside the state sector amounted to 93.8 trillion lire. Net issues of BTPs rose sharply, from 60.2 to 125.6 trillion,

State sector revenue and expenditure

Revenue in the first nine months of the year

In the first nine months of the year the volume of taxes collected by the state sector fell by 3.1 per cent to around 364.3 trillion lire, compared with 375.9 trillion in the corresponding period of 1997 (Table 1). The decrease reflected the abolition of local income tax (Ilor) and the tax on companies' net worth in connection with the introduction of Irap, which is a regional tax and therefore not included among state sector tax revenue. According to official estimates, the annual yield of the new tax should be around 53 trillion lire; however, figures for the first payment suggest that it will be significantly less than expected.

Table 1

State sector tax revenue (1)
(billions of lire)

	January-September		
	1997	1998 (2)	Percentage change
Direct taxes			
Personal income tax	130,315	141,435	8.5
of which: *withholding tax on public employees*	*23,145*	*24,323*	*5.1*
withholding tax on pensions and private sector wages and salaries	*77,012*	*82,800*	*7.5*
self-assessed balances	*8,372*	*8,486*	*1.4*
self-assessed payments on account	*9,345*	*10,006*	*7.1*
Corporate income tax	24,287	20,401	–16.0
of which: *self-assessed balances*	*11,103*	*8,080*	*–27.2*
self-assessed payments on account	*12,886*	*11,688*	*–9.3*
Local income tax	13,375	5,421	–59.5
of which: *self-assessed personal income tax*	*1,854*	*772*	*–58.4*
self-assessed corporate income tax	*11,150*	*4,142*	*–62.9*
Withholding tax on interest income	24,933	13,269	–46.8
Tax on companies' net worth	4,652	4,207	–9.6
Withholding tax on dividends	2,941	3,217	9.4
Other (3)	9,505	8,108	–14.7
Total	**210,008**	**196,058**	**–6.6**
Indirect taxes			
VAT (4)	82,414	91,810	11.4
Other business taxes	30,600	24,944	–18.5
Excise duties on oil products	28,353	28,377	0.1
Other excise duties and sales taxes	11,531	9,435	–18.2
Monopolies	7,894	8,830	11.9
Lotteries	5,085	4,888	–3.9
Total	**165,877**	**168,284**	**1.5**
TOTAL TAX REVENUES	**375,885**	**364,342**	**–3.1**

Sources: Based on Bank of Italy, Treasury Ministry and Finance Ministry data.
(1) Net of accounting transactions with the Sicily and Sardinia regions. – (2) Provisional. – (3) Includes receipts of inheritance taxes, which are recorded under "Business taxes and duties" in the state budget. The item also includes receipts of the special Europe surtax on personal incomes (2,764 billion in January-September 1997) and the levy on companies' severance pay provisions (3,349 and 2,283 billion in January-September 1997 and 1998 respectively). – (4) Includes the VAT accruing to the EU and refunds effected via tax accounts.

cont.

The decline in revenue was also due partly to the modest pace of economic growth, the migration of some receipts to the end of the year in connection with the tax reform and a decline in the yield of the special Europe levies, which had boosted revenue in 1997.

Preliminary estimates for the year as a whole suggest that, net of accounting transactions with the Sicily and Sardinia regions, the ratio of state sector tax revenue to GDP should be about one percentage point lower than in 1997, when it had stood at 28.5 per cent.

Direct taxes *decreased by 6.6 per cent, owing primarily to the abolition of local income tax and the tax on companies' net worth in connection with the introduction of Irap and to increasing scope for self-assessed taxes to be paid in instalments.*

The increase of 8.5 per cent in receipts of personal income tax was attributable partly to the effects of the tax changes connected with the introduction of Irap (around 5.2 trillion on an annual basis) and partly to the increase in receipts of withholding tax on income from self-employment as a result of the measures introduced in the 1998 budget.

Receipts of corporate income tax decreased by 16 per cent, mainly because the increase in the size of payments on account decided in conjunction with the abolition of the withholding tax on companies' income from bonds was smaller than that decided in 1997. Another factor was a sharp reduction in the payment from the Bank of Italy, which had been substantial in 1997 owing to the high level of profits.

Withholding tax on interest income yielded 46.8 per cent less than a year earlier as a result of the fall in interest rates and changes in regulations. Tax revenue on bond income was affected by the abolition of the withholding tax previously levied on corporate entities, which led to an increase in the proportion of revenue generated by self-assessed taxes. The reduction in the yield from withholding tax on interest income from bank deposits reflects the offsetting of liabilities against tax credits resulting from the increase in the size of the payment on account made in 1997.

Finally, direct taxes were affected by the absence of revenue from the special Europe surtax on personal incomes, which had yielded 2.8 trillion lire in the first nine months of 1997, and by the reduction in the yield from that on companies based on the size of their staff severance pay funds, which generated 2.3 trillion, compared with more than 3.3 trillion in the corresponding period of last year. The latter effect was due partly to the exemption of companies with fewer than fifteen employees and partly to the reduction in the tax rate from 5.89 to 3.89 per cent.

Indirect taxes *rose by 1.5 per cent; the large increase in revenue from VAT and state monopolies more than offset the fall in the yield of other business taxes and excise duties.*

Despite the modest growth in consumption foreseen for 1998, VAT receipts rose by 11.4 per cent. A number of factors were involved, the chief being the change in VAT rates last year, a shift in consumption towards purchases of durable goods (which generally attract higher rates of tax), some of the provisions of the 1998 budget (in particular the granting of relief for the restructuring of buildings, which appears to have brought hitherto concealed tax base into the open) and the revision of the mechanisms for making deductions from tax liabilities.

The decline of 18.5 per cent in the yield of other business taxes was due to deductions made by tax collection concessionaries to compensate for the sums they had paid in December 1997 when they took over responsibility for the collection of such taxes. Excise duties and sales taxes fell by 18.2 per cent owing to changes in the method of paying duties on oil products, methane gas and electricity introduced in the 1997 budget, which had led to a temporary increase in collections last year.

Revenue from state monopolies rose by 11.9 per cent, benefiting from the increase in tobacco prices contained in the budget.

Expenditure in the first half of the year

State sector expenditure totaled 329.5 trillion lire in the first six months of the year, more or less the same as a year earlier (Table 2). The decrease in interest payments offset increases in primary current expenditure, capital spending and financial items.

Spending on state sector wages and salaries rose by 12.5 per cent; the increase probably reflected mainly the recording of contributions for previous years. The planned increase in such expenditure for the year as a whole is less than 3 per cent.

Current transfer payments decreased by 2.5 per cent overall. A large reduction of almost 10 trillion lire in transfers to local authorities and former autonomous government agencies was partly offset by an increase in transfers to social security institutions and recipients abroad, primarily the EU; disbursements to households and enterprises and other recipients remained broadly unchanged.

cont.

Table 2

Main expenditure items of the state sector
(billions of lire)

	1997 H1	1998 H1	Percentage change
Current expenditure (1)	**305,544**	**298,884**	**–2.2**
Wages and salaries	49,053	55,171	12.5
Goods and services	6,032	9,065	50.3
Current transfers	140,062	136,501	–2.5
to: *social security institutions*	*40,119*	*44,817*	*11.7*
regions	*54,984*	*43,208*	*–21.4*
municipalities and provinces	*8,824*	*12,925*	*46.5*
households	*13,511*	*12,989*	*–3.9*
enterprises	*6,298*	*6,490*	*3.0*
former autonomous government agencies	*4,628*	*2,656*	*–42.6*
recipients abroad	*4,605*	*7,146*	*55.2*
other	*7,093*	*6,270*	*–11.6*
Interest payments	91,639	79,031	–13.8
Tax rebates	12,160	11,254	–7.5
Other	6,598	7,862	19.2
Capital expenditure	**15,679**	**17,091**	**9.0**
of which: *investment*	*1,485*	*2,405*	*62.0*
capital transfers	*14,194*	*14,678*	*3.4*
Financial expenditure	**8,916**	**13,520**	**51.6**
of which: *equity investment*	*2,189*	*6,053*	*176.5*
loans and advances	*6,440*	*5,252*	*–18.4*
TOTAL EXPENDITURE	**330,139**	**329,495**	**–0.2**

Source: *Relazione sulla stima del fabbisogno di cassa*, presented by the Treasury Minister on 8 October 1998.
(1) Net of tax collection commissions and accounting transactions with the Sicily and Sardinia regions.

The revenue generated by the introduction of Irap lessened the need to provide finance to the regions. Adjusted for this factor, state transfers increased by about 2.4 trillion lire. Transfers to municipalities and provinces rose by around 4.1 trillion; in 1997 they had been held down by introducing a requirement for municipalities with fewer than 5,000 inhabitants to use their bank balances before receiving fresh allocations of state funds. The reduction in transfers to former autonomous government agencies related mainly to the railways.

Transfers to social security institutions increased by some 4.7 trillion lire on account of the reduction in their own revenues, which was due among other things to the payment of premiums to INAIL in instalments under Law 449 of 27 December 1997, which was appended to the 1998 Finance Bill. Transfers to the railway staff pension fund also rose. These effects were only partly offset by an increase in contributions to the State Sector Employees' Social Security Institute.

Capital payments increased by 9 per cent, mainly as a result of a rise in fixed capital spending from 1.5 to 2.4 trillion lire.

Financial expenditure rose from 8.9 to 13.5 trillion lire; this pronounced increase of 51.6 per cent reflected primarily an increase of almost 4.3 trillion in capital contributions to the railways, which was larger than the decrease in current transfers to that agency. It should be recalled that capital contributions, unlike current transfers, do not count towards general government net borrowing. Lending by the Deposits and Loans Fund to municipalities and provinces decreased slightly.

Table 17

General government net borrowing, revenue, expenditure and debt in the euro area and the EU (1)
(*as a percentage of GDP*)

	1997		1998		1999	
	Euro 11	EU	Euro 11	EU	Euro 11	EU
Net borrowing						
– Objectives	2.8	2.6	2.5	1.9	1.9	1.4
– 1997 outturn and forecasts:						
EU Commission	2.5	2.3	2.3	1.8	1.9	1.4
OECD (2)	2.5	2.4	2.3	1.9	2.2	1.8
IMF (2)	2.6	2.4	2.4	1.9	1.8	1.4
Cyclically adjusted net borrowing						
OECD (2)	1.7	1.6	1.7	1.5	1.8	1.5
IMF (2)	1.0	1.0	1.2	0.9	1.1	0.8
Revenue and expenditure						
– Objectives (3)						
Total expenditure	50.0	48.8	49.1	47.8	48.2	47.0
Interest payments	*5.2*	*5.1*	*4.9*	*4.7*	*4.6*	*4.5*
Revenue	47.2	46.3	46.6	45.9	46.2	45.6
– 1997 outturn and EU Commission forecasts:						
Total expenditure	49.7	48.9	49.0	48.1	48.5	47.7
Interest payments	*5.1*	*5.1*	*4.7*	*4.7*	*4.4*	*4.5*
Revenue	47.3	46.6	46.7	46.3	46.5	46.3
Debt						
– Objectives	75.9	72.6	75.0	71.3	74.1	70.3
– 1997 outturn and EU Commission forecasts	75.0	71.9	73.8	70.3	72.5	69.0

Sources: EMI, *Convergence Report*, March 1998; EU Commission, *Autumn Forecast*, October 1998; OECD, *Economic Outlook*, June 1998; IMF, *World Economic Outlook*, August 1998.
(1) Weighted means based on nominal GDP expressed in ecus. – (2) The OECD and IMF forecasts are based on preliminary figures for 1997. – (3) Partly estimated.

while those of CTZs fell from 45.5 to 29 trillion, calculating both issues and redemptions at issue prices and net of commissions. Net redemptions of CCTs and other securities amounted to around 23.2 and 37.5 trillion, respectively. As part of the policy aimed at further lengthening the average maturity of the public debt, the Treasury made net redemptions of BOTs amounting to around 24 trillion. Some 8.6 trillion of foreign loans were redeemed, compared with more than 6.7 trillion of net fund-raising via this channel in 1997. The balance on the Treasury's accounts with the Bank of Italy rose by 6.3 trillion, while other minor forms of financing gave rise to nearly 2.2 trillion of net redemptions.

According to the Economic and Financial Planning Document, the ratio of general government debt to GDP should fall by 3.4 percentage points in 1998, to 118.2 per cent. The foreseeable slower growth in GDP compared with that assumed in the Document will tend to make the reduction smaller; the exchange rate and the balance of privatization receipts and debt settlements may have the opposite effect. The latest available data show that the appreciation of the lira, especially against the dollar, has reduced the value of Italy's foreign currency debt by around 3.5 trillion lire, whereas the Economic and Financial Planning Document assumed that the effect of the exchange rate would be neutral over the year. As mentioned earlier, in the first nine months of 1998 privatization receipts exceeded debt settlements by 6.1 trillion lire, whereas the Economic and Financial Planning Document had forecast a surplus for the year of only 3 trillion.

EU objectives and forecasts

As part of the excessive deficit procedure introduced by the Maastricht Treaty, in recent years the EU member states have submitted convergence programmes setting out guidelines for budgetary action and objectives for the parameters relevant to the process of monetary unification.

The programmes presented by the euro-area countries before the European Council meeting of 3 May 1998 provided for an average reduction in general government net borrowing of 0.3 per cent of GDP in 1998 and 0.6 per cent in 1999 (Table 17). They also envisaged a reduction in the size of budgets in relation to GDP, with the revenue ratio expected to decline by about 1 percentage point over the two years and the expenditure ratio by about 1.8 points. About one third of the cutback was to come from lower interest payments. The ratio of debt to GDP was set to decline moderately, by 1.8 points over the two years. The reduction in net borrowing planned for the European Union as a whole was larger, as the ratio to GDP was expected to fall by 0.7 points in 1998 and 0.5 points in 1999. The ratio of debt to GDP was to fall more rapidly, by 2.9 points over the two years.

According to the most recent estimates by the European Commission, the OECD and the IMF, the fall in net borrowing in 1998 will be slightly less than planned for both the euro area and the European Union as a whole. The Commission estimates that the reduction in revenue and expenditure in relation to GDP will be marginally less than planned, while the fall in the debt ratio will be larger than that indicated in the programmes.

The Commission and the IMF both estimate that net borrowing in 1999 will again be broadly in line with the objectives set in the programmes. On the other hand, the OECD forecasts an overshoot of the ratio of 0.3 percentage points for the euro area and 0.4 points for the European Union. According to the Commission, the decline in both the revenue and the expenditure ratios will fall short of the objectives in 1999, as in 1998, while that in the debt ratio will again be larger than planned.

The OECD and IMF forecasts for cyclically adjusted budgets in 1998 show an improvement only for the European Union; the balance for the euro area is seen as remaining unchanged or worsening slightly. In 1999 the cyclically adjusted budgetary position is expected to remain broadly unchanged for both areas. These forecasts signal a slowdown in member states' action to respect "the medium-term budgetary objective of a position close to balance or in surplus" set out in the Stability and Growth Pact.

Monetary policy, banking and the financial markets

The easing of monetary conditions has continued in 1998. Against a background of rapid growth in the monetary aggregates and higher rates of increase in prices and labour costs than in the other leading European countries, the gradualness with which the monetary policy stance has been relaxed was designed to consolidate expectations and behaviour consistent with price stability and to ensure an orderly start to the European single currency. It helped to bring inflation and inflation expectations into line with the levels prevailing in the euro area and to protect the exchange rate of the lira and long-term interest rates from the bouts of turbulence of international and domestic origin.

In April the discount rate and the rate on fixed-term advances were reduced by half a percentage point, to 5 and 6.5 per cent, respectively. At the beginning of June and in the middle of July the compulsory reserve ratio was reduced, first to 9 per cent and then to 6 per cent. The consequent release of 48.4 trillion lire of compulsory reserves boosted the resources available to the banking system. The convergence of Italian banks' compulsory reserves towards the level given by applying the criteria the ECB Governing Council established on 13 October will be completed in the last maintenance period of 1998.

From the middle of August onwards the turbulence in international markets impinged on the spot DM/lira exchange rate and the corresponding 1 January 1999 forward rate. The pressure on the lira subsequently eased and the forward rate's small divergence from the central parity has virtually disappeared.

The M2 money supply grew very rapidly until June. The factors contributing to this growth included the fall in interest rates and the increasingly intense adjustment of financial portfolios. In the third quarter M2 contracted and through September its annualized growth rate, calculated on the basis of three-month averages, declined to 8.3 per cent, which was close to the target rate set last year.

The easing of the pressure on the exchange rate and the slowdown in the growth of the monetary aggregates were accompanied by the good performances of the public finances and inflation, which made further monetary easing possible. On 26 October official rates were cut by one percentage point, the discount rate to 4 per cent and the rate on fixed-term advances to 5.5 per cent.

The 3-month Eurolira interest rate fell from 6 per cent at the beginning of the year to 4.2 per cent on 27 October; the differential with the corresponding DM rate narrowed from 2.3 to 0.7 percentage points.

The short-term interest rates expected in the leading industrial countries in the early months of 1999 have fallen: between the end of April and the second ten-day period in October the rates implied by 3-month futures contracts came down from 5.9 to 4.4 per cent in the United States and from 4.3 to 3.3 per cent in the euro area, reflecting the increasingly widespread view that, in the absence of inflationary pressures, the deterioration in the outlook for growth was likely to lead to more accommodative monetary policies.

The decline in Italian long-term interest rates has been substantial, reflecting the improvement in the economic fundamentals and Italy's inclusion in the first wave of countries participating in the single currency. On 20 October the yield on 10-year BTPs was 4.5 per cent, down by 1.1 percentage points from the end of 1997. The interest rate differential with Bunds of the same maturity narrowed and remained around 0.3 percentage points from April onwards; it widened temporarily from mid-August to the early part of September, when, as for the government securities of other leading European countries, interest rates rose in response to the tensions that emerged in international markets.

Bank lending rates have continued to decline. Between January and September the average cost of short-term credit in lire fell by 1.4 percentage points to 7.6 per cent. The differential with comparable DM loans granted in Germany has all but closed.

The total financing granted to the non-state sector increased on a seasonally adjusted annual basis by 5.2 per cent in the first eight months of the year, basically in line with the forecasts made in 1997. The decline in bank lending rates has encouraged the expansion in credit.

The financial assets of the non-state sector grew by 7.3 per cent through August. Households' and enterprises' substantial sales of government securities were offset by their larger net purchases of foreign securities and above all by the exceptional growth in their assets under management. Investment funds' and foreign investors' demand for government securities remained buoyant.

After rising to a high level in the first half of the year in relation to listed companies' prospective earnings, Italian share prices fell by 25 per cent between the end of July and 23 October. Compared with the end of 1997, they nonetheless still showed a gain of 15.6 per cent.

Faced with a modest rise in their domestic fund-raising, banks financed the growth in their lending with increased borrowing abroad in foreign currency; the total amount of securities held by the banking system remained unchanged. Net interest income declined slightly, the combined effect of the contraction in the spread between lending and deposit rates and the increase in the loan portfolio. The growth in income from securities trading and asset management, coupled with the first results of the action taken to curb operating costs, led to a significant rise in banks' profits. In order to lock in this improvement in profitability, banks need to consolidate the flow of new revenues and rapidly negotiate wage agreements that will close the gap between the costs of the Italian banking system and those of its European competitors.

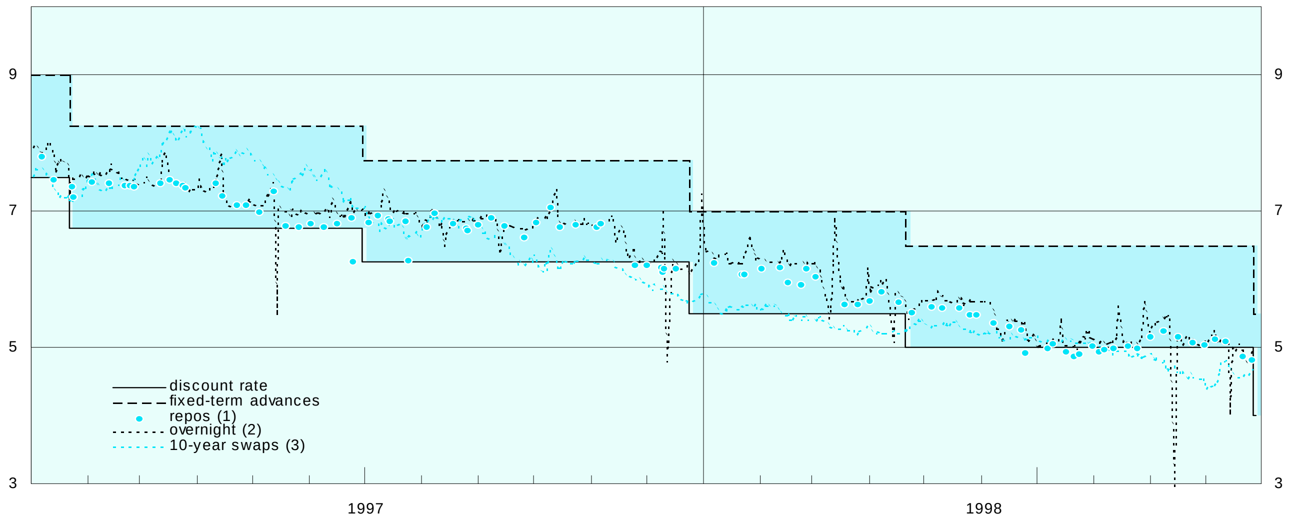
Monetary policy and the exchange rate of the lira

Monetary conditions have been gradually relaxed in 1998. The steady decline in the interest rates on repo operations, amounting to 1.4 percentage points since the beginning of the year, was accompanied by cuts in official rates of half a percentage point in April and one point on 26 October (Figure 33). Actual and expected short-term interest rates have fallen towards the lower levels prevailing in the euro area.

Figure 33

Official interest rates and money and financial market rates

(percentages)



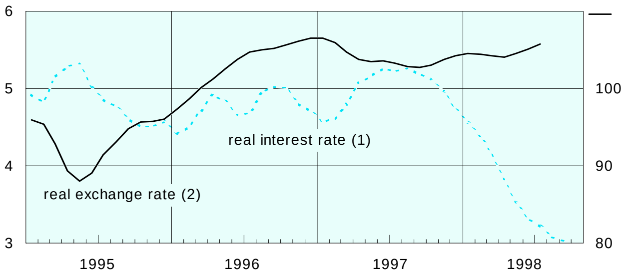
(1) Marginal allotment rate. - (2) Actual rate in the interbank deposit market. - (3) Rate on Euromarket 10-year interest rate swaps.

Since the beginning of the year there has been a further large fall in real 3-month rates, which now stand at 3 per cent, about half a percentage point above the average for the euro area (Figures 34 and 35). The real effective exchange rate of the lira has risen slightly.

Figure 34

Real short-term interest rate and real effective exchange rate of the lira

(monthly data; percentages and indices, 1993=100)

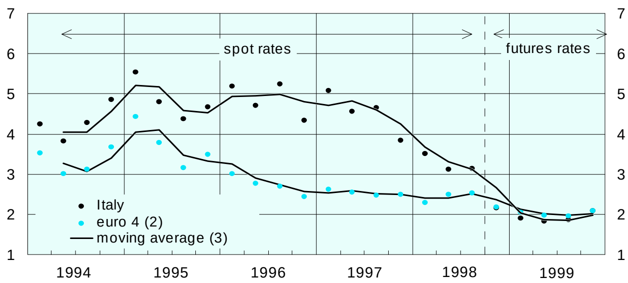


(1) Interest rate on 3-month interbank deposits, deflated using the change in the consumer price index (for worker and employee households) over the preceding twelve months. Moving average for the three months ending in the reference month. Left-hand scale. - (2) Calculated with respect to 24 trading partners on the basis of the producer prices of manufactures. Moving average for the three months ending in the reference month. An increase indicates an appreciation. Right-hand scale.

Figure 35

Expected and actual real interest rates on 3-month Euromarket deposits (1)

(three-month data; percentages)



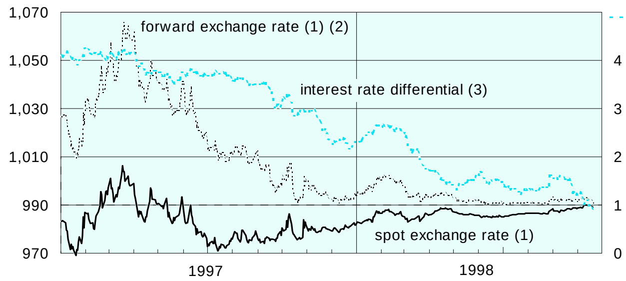
(1) The nominal interest rate on Euromarket deposits is deflated using the inflation expectations measured by the *Consensus Forecasts* quarterly survey with reference to the same time horizon. From December 1998 onwards the interest rates are those on Euromarket futures contracts. - (2) The average of the rates for France, Germany, Italy and Spain, weighted using each country's GDP at current prices in national currency, translated using purchasing power parities (average values for the three years 1992-94). Based on OECD data. - (3) Moving average of each figure and the preceding one.

The interest rates on 3-month Eurolira deposits came down between the end of January and the second half of July, when the level and the differential with respect to the corresponding DM rate both reached new lows, of 4.8 per cent and 1.2 percentage points, respectively. The convergence of Italian short-term interest rates came to a temporary halt in August, when the lira weakened slightly (Figure 36), and then gathered pace again from the end of September onwards; on 27 October the differential was equal to 0.7 percentage points.

Figure 36

Short-term lira/DM interest rate differential; spot and forward lira/DM exchange rates

(daily data; percentage points; lire per DM)



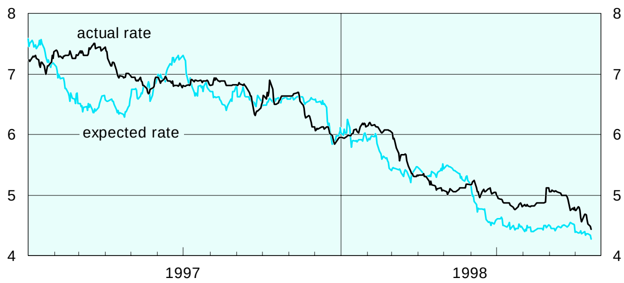
(1) Left-hand scale. - (2) Forward exchange rate at 1 January 1999, obtained on the assumption that the change in the exchange rate over the period is equal to the difference between lira and DM interest rates, calculated on the basis of Euromarket Libor and swap and future rates. - (3) Difference between 3-month Libor in lire and DMs. Right-hand scale.

Until May the fall in short-term lira interest rates proceeded in line with the market's expectations; it then slowed, as is shown by the gap of about half a percentage point that opened during the summer between the actual level and that expected by the market three months earlier (Figure 37).

Figure 37

Expected and actual interest rates on 3-month Eurolira deposits (1)

(daily data; percentages)



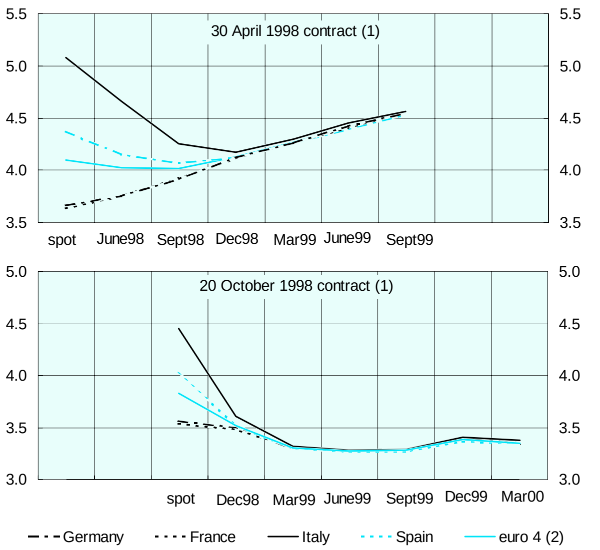
(1) The actual rate is that on 3-month Eurolira deposits at the date shown on the horizontal axis; the expected rate is obtained from the rates on 3 and 6-month Eurolira deposits observed three months earlier.

The slowdown in inflation, the improvement in the public finances and Italy's participation in the single currency from 1 January 1999 are the underlying reasons for the fall in medium and long-term lira interest rates over the year. Since the summer the fall in yields on government securities has also reflected the massive shift of funds into safer investments, provoked in all the leading countries by the accentuation of the crisis in international markets. The rate on the benchmark 10-year BTP declined from 5.6 to 5.2 per cent in the first five months of the year and by around 0.7 percentage points to 4.5 per cent between June and the second half of October.

Figure 38

Yield curve for futures contracts on 3-month Euromarket deposits in the main euro countries

(percentages)



(1) The first point of each curve is the spot rate on 3-month Euromarket deposits. The horizontal axis shows the settlement dates for the futures contracts to which the yields refer. - (2) The average of the rates for France, Germany, Italy and Spain, weighted using each country's GDP at current prices in national currency, translated using purchasing power parities (average values for the three years 1992-94). Based on OECD data.

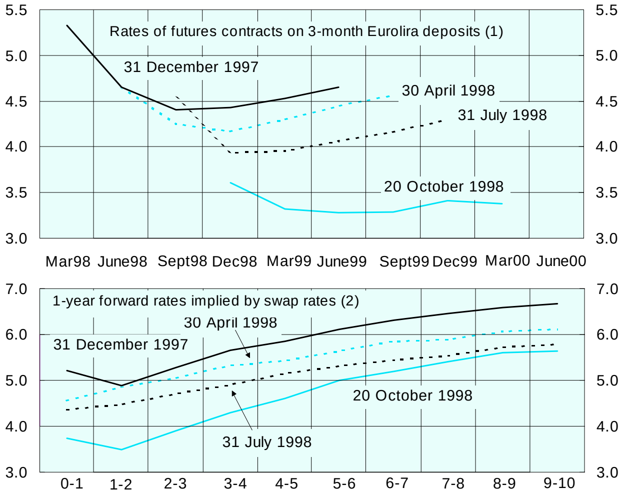
Forecasts of slower growth in the industrial countries have led markets to expect more accommodative monetary conditions; in Europe these expectations have been strengthened by the fall in both actual and expected inflation. The 3-month interest rate implied by futures contracts for the euro area at the beginning of 1999 has come down from 4.3 per cent at the end of April to 3.3 per cent. Moreover, interest rates are no longer expected to rise during 1999 (Figure 38).

The yield curve of one-year forward interest rates implied by lira swap rates has shifted downwards, with a larger fall for maturities up to five years (around one percentage point between the end of April and the second half of October; Figure 39).

Figure 39

Eurolira yield curve

(percentages)



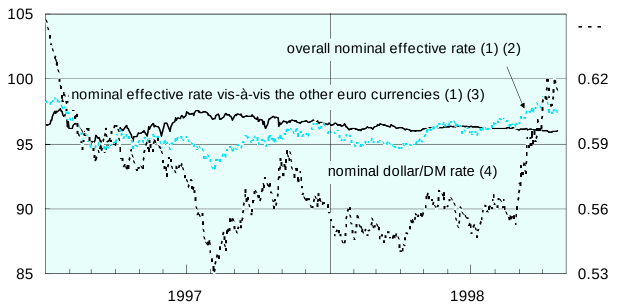
(1) The horizontal axis shows the settlement dates for the futures contracts to which the yields refer. The date on which the contract was concluded is shown beside each curve. - (2) The horizontal axis shows the period to which the yield refers, expressed in years from the contract date indicated. The date on which the contract was concluded is shown beside each curve.

The present configuration of yields and the inflation expectations measured by opinion surveys are consistent with the expectation of a real short-term interest rate in the euro area of 2 per cent for the whole of 1999 (Figure 35).

Since the beginning of the year the lira has appreciated against the dollar and the pound sterling by 8.1 and 5.2 per cent, respectively, while remaining virtually unchanged against the currencies of the euro area. The gain with respect to the yen in the first nine months of the year was almost completely wiped out in October. The nominal effective exchange rate of the lira calculated with respect to 24 trading partners rose by 1.4 per cent (Figure 40). This result was primarily due to the strengthening of the lira in the second quarter, when there was a large net inflow of foreign portfolio investment, and at the end of the summer, which mainly reflected the weakening of the dollar. In the period of financial market turbulence that lasted from mid-August to the early part of October, the lira/DM exchange rate came under slight pressure; at the same time the forward lira/DM exchange rate for the beginning of 1999 diverged a little from the central parity (Figure 36). The pressure on the exchange rate almost completely disappeared in the second half of October.

Figure 40

Effective exchange rate of the lira and the dollar/DM exchange rate
(indices, 1993=100; dollars per DM)



(1) Left-hand scale. A rise in the index corresponds to an appreciation of the lira. - (2) Calculated with respect to 24 trading partners. - (3) Calculated with respect to the other euro countries. - (4) Right-hand scale.

Monetary base contracted through September by 45 trillion lire; when account is taken of seasonal factors and the reserves released by the reductions in the compulsory reserve ratio, the aggregate grew by 8.7 per cent on an annual basis. The growth occurred in both currency and bank reserves (up by 6.9 and 10.8 per cent, respectively; Table 18). The foreign sector destroyed 31.1 trillion lire of liquidity and the Treasury 36.6 trillion, as a consequence of the increase of around 6 trillion in the balances on its accounts with the Bank of Italy and the redemption of more than 30 trillion of government securities in the Bank's portfolio. Open market operations created 32 trillion of monetary base (Table 19).

In the first nine months of the year the annualized rate of growth in M1, calculated on the basis of three-month average data, was 12.5 per cent, as against 8.1 per cent in 1997 as a whole. The narrowly-defined monetary aggregates also grew rapidly in other European countries, especially in those where interest rates fell fastest.

The seasonally adjusted and annualized growth in M2 through September was equal to 8.3 per cent (on the basis of monthly average data, it was 6.9 per cent). The sharp increase recorded in the first six months (13.2 per cent on an annual basis) was followed by a contraction in the third quarter that brought the growth since the beginning of the year closer to the objective set at the end of 1997 (Figure 41).

Table 18

Monetary variables (1)
(percentage changes)

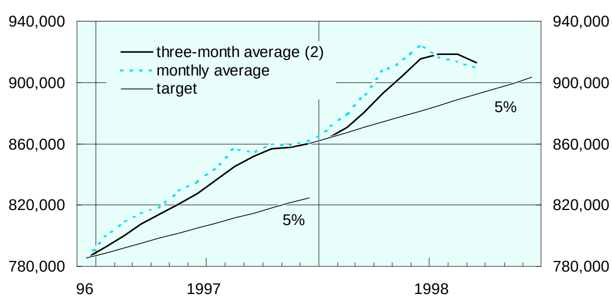
	1997		1998 (2)
	Jan.-Sept. (3)	Year	Jan.-Sept. (3)
Monetary base (4)	9.8	8.9	8.7
Currency	7.2	7.1	6.9
Bank reserves (4)	13.0	11.2	10.8
Short-term bank deposits	11.6	9.9	8.4
Money supply (M2)			
monthly average	10.6	9.0	6.9
3-month average (5)	11.4	9.7	8.3

(1) Currency, bank reserves and monetary base are calculated as averages of daily data in the mid-month to mid-month reserve maintenance period; bank deposits and the money supply as averages of daily data in the calendar month. – (2) Provisional. – (3) Annualized and seasonally adjusted. – (4) Adjusted for changes in the average compulsory reserve ratio. – (5) Average for the three months ending in the last month of the reference period.

In the first eight months of 1998 the total financing granted to the non-state sector increased by 5.2 per cent on a seasonally adjusted annual basis, as against 5.5 per cent in 1997 as a whole (Table 20). This result reflected the growth of 5.6 per cent in bank lending (5.4 per cent in 1997 as a whole). Foreign financing, in the form of loans and bond purchases, benefited from the stability of the exchange rate of the lira and increased by 7 per cent. Total credit expanded by 3.9 per cent, as against 3.6 per cent in 1997 as a whole.

Figure 41

M2 money supply (1)
(monthly data; billions of lire)



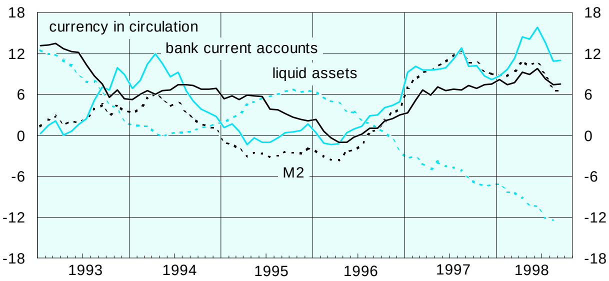
(1) Seasonally adjusted. - (2) Moving average for the three months ending in the reference month.

The behaviour of the money supply

The money supply continued to expand rapidly in the first six months of 1998 (Figure 1). On the basis of seasonally adjusted average quarterly data, the M2 money supply increased at an annual rate of 13.2 per cent, compared with 9.7 per cent in 1997. The contraction recorded in the subsequent quarter reduced the overall rise since the beginning of the year to 8.3 per cent.

Figure 1

Money and liquid assets (1)
(monthly data; 12-month percentage changes)



(1) For currency in circulation, bank current accounts and M2, monthly averages of daily data; for liquid assets, end-month data.

Protracted rapid growth in monetary aggregates is a potential source of inflationary pressure. The gradualness with which monetary conditions were eased during 1998 is partly ascribable to this concern and contributed to the slowdown in the money supply in recent months.

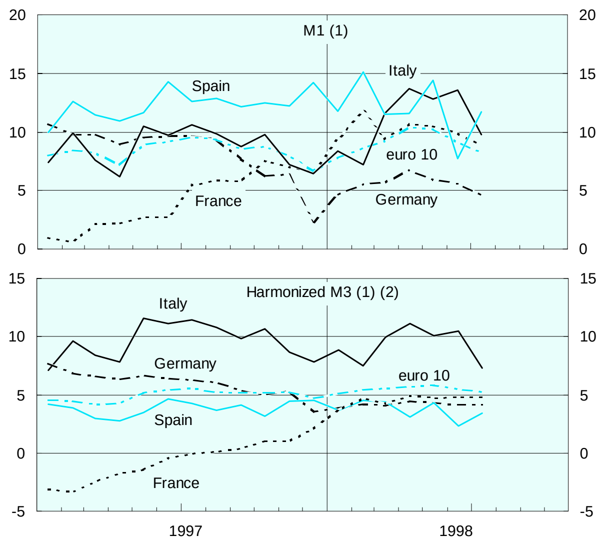
The growth in M2 mainly reflected the expansion of the narrower M1 aggregate, whose annual rate of increase (calculated on seasonally adjusted quarterly data) peaked at 18.4 per cent in June, before declining to 12.5 per cent in September. Among the components included in M2 but not in M1, short-term CDs contracted by 2.4 per cent in the twelve months to August, compared with an increase of 31.9 per cent in the previous twelve months, reflecting the fading impact of the June 1996 reform of the tax treatment of bank deposits (see the insert "The behaviour of bank deposits and the money supply", in Economic Bulletin, No. 25, October 1997).

The sharp increase in the most liquid components of the money supply is partly related to the decline in the opportunity cost of holding them. The differential between the average yield on Treasury bills and that on the components of M2 has narrowed from an average of 4.2 percentage points in 1996 to 3.0 points in 1997 and 2.5 points in the first eight months of this year.

Assuming that the demand function for money has not changed significantly in recent years, the rapid growth of M2 in the last two years is only partly explained by the behaviour of its underlying determinants, i.e. the reduction in opportunity cost and the moderate rate of increase in consumption. Econometric analyses of both aggregate and microeconomic data indicate that the elasticity of M2 demand to interest rates has increased in the last few years. This would increase the impact of the decline in the opportunity cost on the demand for money.

Figure 2

Monetary aggregates for the euro area
(monthly data; 12-month percentage changes)



Source: BIS.

(1) End-of-period data; the euro 10 aggregate does not include Luxembourg. - (2) For Italy, M2; for Germany, M3, whose definition is broadly the same as that for Italy's M2; for France, M3, which includes bank bonds and shares in money market funds; for Spain, M3, which includes bank bonds, shares in money market funds and repos. The average for the area is calculated by converting national aggregates into the same currency on the basis of purchasing power parities for 1993.

The behaviour of the monetary aggregates was also affected by changes in the composition of the financial assets held by the non-state sector. In the first eight months of 1998, investment in bonds and investment fund units totaled about 287 trillion lire, compared with a decline of about 52 trillion lire in CDs for terms of more than 18 months and net sales of government securities of about 146 trillion (see table). Analysis of the data for individual banks shows a correlation in the last two years between changes in the amount of securities held by households

cont.

and firms and changes in current accounts. In particular, an increase in current account holdings in a given month tends to be associated with a decline in government securities held in custody at banks in the same month and an increase in holdings of government and private securities in the subsequent month. The former effect could reflect the only partial renewal of maturing securities, with a consequent increase in current account holdings until reinvestment decisions are made, while the latter may be due to the need to accumulate liquid funds before acquiring financial assets. Part of the increase in liquid holdings could be permanent, reflecting a desire to offset the increased percentage of investments at medium and long term.

As in 1997, the behaviour of the broadest financial aggregates appears consistent with the hypothesis that the recent growth in the money supply is at least partly attributable to portfolio shifts: liquid assets have contracted sharply, while the increase in domestic financial assets is broadly in line with the rise in nominal GDP.

Other European countries have also recorded a pronounced increase in the more liquid monetary aggregates. Based on end-of-period data, the twelve-month rate of growth in M1 in July was equal to 9.8 per cent in Italy, compared with 8.2 per cent in the euro area (Figure 2). The expansion was especially rapid in countries where the opportunity cost had fallen most. As in Italy, the composition of portfolios in Spain became polarized between liquid assets and investment fund units.

In the countries of the euro area, the broadest harmonized aggregate M3H (which corresponds to M2 in Italy) has expanded less rapidly, increasing at a twelve-month rate of about 5 per cent in July. The rate of increase differed among the individual countries, with the aggregate expanding by 4.1 per cent in Germany, 4.8 per cent in France, 7.3 per cent in Italy and 3.4 per cent in Spain. However, the divergences in the growth rates are at least partly attributable to the harmonization procedure, which brings together the aggregates that play the most important role in monetary policy in the various countries despite differences in their definitions. For example, the German aggregate is virtually identical to Italy's M2, while the French and Spanish aggregates incorporate other components such as marketable securities and other medium and long-term bank liabilities. If repos, CDs and bank bonds with a maturity at issue of two years or less are added to Italy's M2, the aggregate is broadly unchanged in 1998.

Financial assets of the non-state sector (1)
(billions of lire and percentage shares)

	Flows				Percentage composition of stocks (2)	
	12 months ending in:		From start of year to:			
	August 1997	August 1998	August 1997	August 1998	August 1997	August 1998
Liquid assets	**–85,678**	**–192,907**	**–99,363**	**–173,511**	**48.4**	**39.6**
M2	82,595	60,679	–16,894	–23,916	26.6	26.7
bank current accounts	*48,574*	*54,967*	*–24,256*	*–1,367*	*15.1*	*15.8*
short-term CDs and savings deposits	*25,000*	*–5,801*	*13,709*	*–14,291*	*6.4*	*5.8*
Other liquid assets	–168,273	–253,587	–82,469	–149,595	21.8	12.9
Treasury bills	*–70,827*	*–128,836*	*–34,413*	*–94,023*	*7.6*	*3.3*
CDs for terms of 18 months or more	*–115,399*	*–99,876*	*–85,152*	*–51,691*	*5.7*	*2.5*
Medium and long-term securities	**71,513**	**–19,156**	**49,352**	**–29,100**	**32.0**	**29.2**
Bonds	105,866	54,709	64,352	23,123	10.0	10.9
Government securities	–34,354	–73,865	–15,000	–52,223	22.0	18.3
Investment fund units (3)	**118,881**	**317,921**	**88,995**	**263,539**	**9.5**	**19.0**
Other financial assets	**2,887**	**1,146**	**1,663**	**–107**	**0.3**	**0.3**
External financial assets	**79,084**	**81,568**	**61,795**	**64,217**	**9.9**	**11.9**
Total	**186,686**	**188,571**	**102,442**	**125,037**	**100.0**	**100.0**

(1) Excluding shares. Rounding may cause discrepancies in totals. Provisional data for 1998. – (2) End-of-period data. – (3) Includes the share component.

Table 19

Monetary base: sources and uses
(changes in billions of lire) (1)

	1997		1998 (2)
	Jan.-Sept.	Year	Jan.-Sept.
		Sources	
Foreign sector	**20,390**	**22,829**	**–31,098**
foreign currency swaps	*–2,921=*	*–2,921=*	*–13,724*
Treasury	**–37,305**	**–49,537**	**–36,620**
Treasury payments account	–6,430	1,204	3,733
Sinking fund for redemption of government securities	–817	–4,224	–10,028
Other BI-UIC operations with the Treasury (3)	–30,058	–46,517	–30,326
Open market	**18,580**	**32,734**	**31,980**
Repos (4)	–19,731	–19,270	–2,124
Outright Treasury bill operations	32,880	42,630	20,963
Other outright transactions	5,431	9,374	13,141
Refinancing	**–371**	**862**	**–1,949**
Other sectors	**2,886**	**6,616**	**–7,310**
Total	**4,180**	**13,503**	**–44,997**
		Uses	
Currency	**–173**	**7,327**	**–1,238**
Bank reserves	**4,353**	**6,176**	**–43,758**
compulsory reserves (5)	*7,771=*	*10,669=*	*–40,481*

(1) Rounding may cause discrepancies in totals. – (2) Provisional. – (3) Net redemptions of government securities in the BI-UIC portfolio and other items (see notes to Table a27). – (4) At book value. – (5) Average reserve requirement during the mid-month to mid-month reserve maintenance period.

The total financial assets of the non-state sector (excluding shares) grew at an annualized rate of 7.3 per cent in the first eight months of the year, as against 5.5 per cent in 1997 as a whole. The growth in the domestic component accelerated from 3.1 to 4.7 per cent. The rapid rise in foreign assets continued with an increase of 29.9 per cent. Starting from 9.9 per cent in August 1997, their share of the non-state sector's portfolio has risen to 11.9 per cent.

In the first eight months of the year households and enterprises ran down their portfolio of directly held government securities by 146.2 trillion lire, compared with a reduction of 49.4 trillion in the corresponding period in 1997. The contraction in their holdings of Treasury bills and credit certificates was especially large, with the Treasury making net redemptions of both these securities. The growth in holdings of bank bonds slowed. Net purchases of investment fund units recorded an exceptionally large increase: between January and August they totaled 263.5 trillion lire, as against 89 trillion in the corresponding period in 1997.

Table 20

Credit and financial assets
(percentages; end-of-period data)

	Growth rates in the period			Share of stocks	
	1997		1998 (1)	1997	1998 (1)
	Jan.-Aug. (2)	Year	Jan.-Aug. (2)	August	August
Total credit	**2.4**	**3.6**	**3.9**	**100.0**	**100.0**
Finance to the non-state sector =	*3.6=*	*5.5=*	*5.2=*	*35.3=*	*36.4*
banks	3.4	5.4	5.6	31.0	32.1
bonds	–23.9	–9.9	–40.4	0.4	0.3
foreign finance	9.6	8.2	7.0	3.8	4.0
Financial assets of the non-state sector (3)	**6.7**	**5.5**	**7.3**	**100.0**	**100.0**
Domestic	3.9	3.1	4.7	90.1	88.1
liquid assets	–5.6	–7.2	–13.8	48.4	39.6
M2 (4)	*12.4=*	*9.0=*	*9.0=*	*26.6=*	*26.7*
medium and long-term government securities	7.8	6.2	–4.2	32.0	29.2
investment fund units and other (5)	73.5	71.6	121.2	9.7	19.3
Foreign	41.1	33.1	29.9	9.9	11.9

(1) Provisional. – (2) Annualized and seasonally adjusted. – (3) Net of shares held directly. – (4) Growth rates are calculated from monthly averages. – (5) Investment fund units (including the equity component), non-state sector claims on banks, surety deposits of firms, atypical securities and Republic of Italy bonds held by the non-state sector.

Table 21

Banks’ balance sheets: main items (1)

(percentage changes on corresponding period in previous year; billions of lire)

	1995	1996	1997	1998			Stocks December 1997
				March	June	August	
Assets							
Securities (2)	–8.7	8.9	–10.5	–10.3	–2.1	–2.4	343,406
government securities (2)	*–7.8=*	*10.8=*	*–11.3=*	*–13.0=*	*–6.1=*	*–6.3=*	*296,481*
Loans (3) (4) (5)	2.7	2.4	5.4	6.3	5.1	5.5	1,160,916
short-term (4)	*3.2=*	*0.9=*	*5.5=*	*5.9=*	*5.0=*	*5.7=*	*590,716*
medium and long-term (5)	*2.1=*	*4.0=*	*5.3=*	*6.6=*	*5.3=*	*5.4=*	*570,200*
Bad debts	21.0	11.7	–2.5	3.8	5.2	4.8	119,990
External assets in lire (6)	50.8	53.0	3.2	13.0	10.1	14.9	191,452
External assets in foreign currency (3) (6)	–4.5	11.5	1.8	8.6	6.1	8.6	157,783
Liabilities							
Domestic deposits and bonds (averages) (7)	1.4	8.3	2.3	2.7	4.4	2.6	1,210,352
deposits	*1.7=*	*2.9=*	*–7.8=*	*–6.6=*	*–3.8=*	*–5.2=*	*832,609*
current accounts	*0.6=*	*6.0=*	*9.3=*	*12.4=*	*17.4=*	*12.6=*	*495,589*
short-term CDs	*–14.1=*	*12.3=*	*27.5=*	*12.9=*	*2.2=*	*–5.0=*	*86,478*
medium and long-term CDs=	*16.2=*	*–1.5=*	*–49.0=*	*–52.3=*	*–55.3=*	*–53.4=*	*138,466*
bonds	*–0.2=*	*30.2=*	*34.8=*	*29.9=*	*26.1=*	*22.1=*	*377,743*
External liabilities in lire (6)	27.6	34.2	19.9	31.4	22.1	19.4	159,797
External liabilities in foreign currency (3) (6)	–15.1	–0.6	–2.6	5.5	9.7	13.6	260,951
Repos with resident non-banks	44.5	–5.5	10.6	–6.4	–14.7	–9.7	132,466

(1) The figures for August 1998 are provisional. The adjustments described in notes 2-5 relate only to the percentage changes. – (2) Net of loan conversion securities. – (3) The foreign currency component is net of exchange rate adjustments. – (4) Including loans converted into securities and settlements of storage agency bills. – (5) Adjusted for the effects of the transactions in January 1997 between Banco di Napoli and the non-bank company SGA. – (6) Source, UIC. – (7) For deposits, monthly averages of daily data; for bonds, end-of-period data; for CDs with a maturity of 18 months or more until 1994, average of end-month data for the reference month and the previous month.

Banking

As in the final part of 1997, bank lending has grown faster than GDP this year, fueled by the fall in interest rates and easy conditions of credit supply. The increase in the twelve months ending in August was 5.5 per cent, compared with 5.4 per cent for 1997 as a whole (Tables 21 and 22). The lira component grew by 6.2 per cent; the increase of 6.5 per cent in medium and long-term lira lending mainly involved loans to industrial firms and consumer households. Short-term lending rose by 5.7 per cent, with lira loans to large firms accounting for most of the growth: loans to customers with total bank borrowings of more than 50 billion lire each grew by 11.1 per cent in the twelve months ending in June. Reverse repos with customers increased by 12.9 trillion lire in the first eight months of the year, whereas they had decreased by 800 billion lire in the same period in 1997.

Bad debts, including those still on the books of Sicilcassa in liquidation, increased by 7 per cent in the twelve months to August, compared with 7.1 per cent in the corresponding period in 1997. The ratio of bad debts to total loans rose from 9.4 per cent at the end of 1997 to 9.7 per cent. The volume of loans newly marked down as bad debts in the first half of the year was equal to 1.1 per cent of total loans outstanding at

Table 22

Bank lending and bad debts by branch of economic activity (1)

(percentages)

	General govern-ment (2)	Finance and insur-ance com-panies (3)	Enterprises						Households		Total (3)
				Holding companies	Non-financial enterprises						
						Industry excluding construc-tion	Construc-tion	Services	Consumers	Sole traders	
							12-month percentage changes in lending				
1996 – December . .	–2.1	14.0	0.5	–6.6	1.1	3.1	–5.0	0.4	3.2	4.5	2.4
1997 – June	0.7	26.7	1.5	–3.7	2.0	3.0	–8.5	4.8	5.4	1.4	3.4
1997 – December . .	1.7	25.2	4.2	3.1	4.3	7.3	–5.2	5.0	7.7	2.5	5.4
1998 – June	–7.2	8.7	6.6	–1.7	7.2	9.4	–0.5	7.8	9.5	1.1	5.1
							12-month percentage changes in bad debts				
1996 – December . .	–31.4	17.3	10.4	23.3	9.9	1.0	26.8	8.5	14.9	11.6	11.7
1997 – June (4)	–35.8	–14.3	–0.4	1.0	–0.4	–6.7	9.5	–0.5	17.7	–1.2	1.7
	–31.5=	*2.5=*	*8.7=*	*4.2=*	*8.9=*	*0.8=*	*21.4=*	*6.2=*	*21.8=*	*5.7=*	*9.6*
1997 – December (4)	–22.5	–17.5	–5.9	–15.6	–5.5	–8.1	–2.7	–3.2	13.1	–4.1	–2.5
	–16.3=	*0.0=*	*5.5=*	*–8.6=*	*6.1=*	*0.1=*	*13.3=*	*4.9=*	*20.1=*	*3.0=*	*7.1*
1998 – June (5)	–60.6	38.3	3.5	–20.6	4.4	0.3	6.1	5.4	11.2	4.1	5.2
	–56.7=	*33.1=*	*5.8=*	*–15.6=*	*6.6=*	*1.0=*	*10.1=*	*6.6=*	*13.8=*	*4.4=*	*7.5*
							Ratio of bad debts to total lending (6)				
1996 – December . .	0.7	3.1	10.7	5.6	11.1	7.6	20.2	10.4	11.0	16.9	10.1
1997 – June	0.7	2.2	10.2	5.6	10.5	6.9	20.8	9.8	11.3	15.8	9.6
1997 – December . .	0.6	2.0	9.7	4.7	10.1	6.5	20.6	9.6	11.5	15.9	9.4
1998 – June	0.3	2.8	9.9	4.6	10.3	6.3	21.8	9.6	11.5	16.2	9.7
							Interest rates on short-term lira loans (7)				
1997 – June	8.50	7.84	9.92	7.96	10.06	9.43	11.44	10.33	11.39	11.93	9.99
1997 – December . .	8.10	7.15	9.04	6.97	9.20	8.63	10.61	9.44	10.83	11.23	9.13
1998 – June	7.21	5.97	8.04	6.35	8.13	7.52	9.67	8.45	9.91	10.16	8.10
							Percentage composition of lending				
1997 – June	9.9	9.4	51.8	3.8	48.0	22.7	6.3	18.1	15.9	12.9	100.0
1998 – June	8.8	9.7	52.5	3.5	49.0	23.6	6.0	18.5	16.6	12.4	100.0

(1) The figures for June 1998 were obtained by reaggregating the subgroups of the different sectors of economic activity according to the classification criteria in force until May. Changes in the foreign currency component are net of exchange rate adjustments. – (2) Includes loans raised by the State Railways with the costs borne by the government, as established by Eurostat. – (3) Percentage changes in lending are adjusted for the effects of the transactions in January 1997 between Banco di Napoli and the non-bank company SGA. – (4) The figures in italics are the percentage changes obtained after reattributing the bad debts transferred from Banco di Napoli to SGA and those retained on the books of Sicilcassa in liquidation. – (5) The figures in italics are the percentage changes obtained after reattributing the bad debts retained on the books of Sicilcassa in liquidation. – (6) The denominator includes bad debts. – (7) Central Credit Register data.

the end of December; the slight increase from 1.03 per cent in the first half of 1997 was partly due to the bad debts recorded during the liquidation of Sicilcassa.

Bank lending rates have come down in parallel with money and financial market yields (Figure 42). The average rate on short-term lira loans was 7.6 per cent in September, 1.4 percentage points lower than at the end of 1997. The differential with the 3-month interbank rate narrowed from 2.9 to 2.6 points. Interest rates on disbursements of medium and long-term loans decreased from 7.4 to 6.6 per cent.

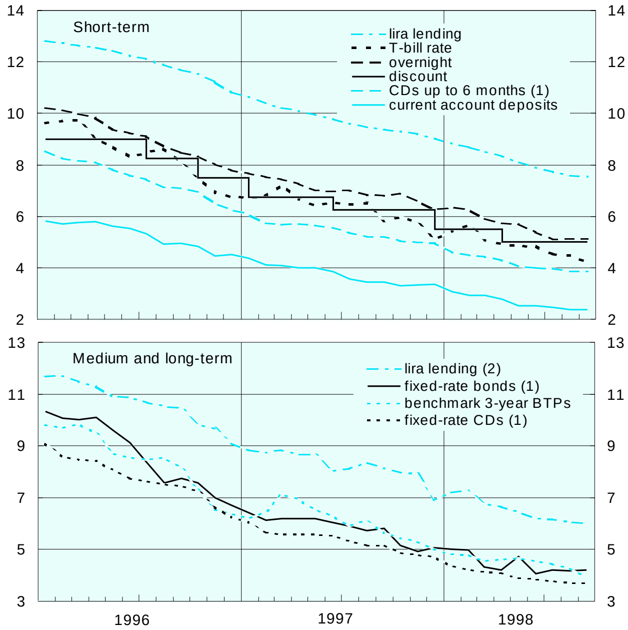
The latest data indicate that convergence between the cost of bank credit in Italy and that in Germany is now virtually complete. In the second half of 1998 the arithmetic mean of the rates on individual overdrafts of between 1 and 5 billion lire was 8.7 per cent (Table 23), around one percentage point higher than the cost of new current account credit for similar amounts in Germany. In September the average rate on short-term lira loans fell by around 0.6 points compared with the average level in the second quarter, while the German rate held steady. Two factors account for the remaining differential of around half a point. In the first place, the German rates refer to flows of new credit whereas the Italian rates refer to the stock of debt, so that the German clients in the range of credit considered can be presumed to be larger borrowers than their Italian counterparts on average and hence able to obtain better terms. Second, commissions paid by borrowers are included in the cost of credit in Italy but not in Germany.

The differential with German rates has also basically closed for medium and long-term corporate loans. In September the cost of fixed and floating rate loans in lire, weighted by the amount of credit granted, was 6 per cent, while the fixed rate on loans in marks, calculated as the arithmetic mean for disbursements of between 1 and 10 million marks, was 5.8 per cent. A wider differential of around 1.5 percentage points was recorded for medium and long-term loans to households, which in Italy include both consumer credit and less risky mortgage loans, whereas in Germany they only refer to the latter.

Italian banks' funding costs have declined slightly less than their lending rates during the year. The average deposit rate came down by 1.3 percentage points, to stand at 2.9 per cent in September; the rate on current accounts fell by 1 point, to 2.4 per cent. In Germany, the rate on current account deposits was 2 per cent in September. During the year the yield on fixed-rate bonds issued by Italian banks has fallen from 5.1 to 4.2 per cent, 0.3 points more than offered by German banks on their 4-year paper.

Figure 42

Bank interest rates



(1) Average rate on issues during the month. - (2) Average rate on loans disbursed during the month to resident firms.

Banks' total borrowed funds grew by 2.6 per cent in the twelve months to August, compared with 2.3 per cent in 1997 (Table 21). The short-term component grew by 7.6 per cent as a result of the large increase of 12.6 per cent in current account deposits, stemming from the reduction in the yield differential between Treasury bills and bank deposits and the aggressive fund-raising policies pursued by the banks. Short-term certificates of deposit fell by 9.4 trillion lire from the start of the year.

CDs with a maturity of at least 18 months have continued to contract: at the end of August they amounted to 87.1 trillion lire, 51.3 trillion less than at the end of 1997; bond issues offset only part of the contraction. Total medium and long-term borrowed funds fell by 10 trillion.

Table 23

Bank interest rates in Italy and Germany (1)

(percentages)

	Lending rates								Deposit rates				Bond yields	
	Short term			Medium and long term					Current accounts		CDs up to 6 months	3-month deposits		
				Enterprises		Households								
	Italy	Italy (2)	Germany (3)	Italy	Germany (4)	Italy	Germany (6)	Germany (6)	Italy	Germany (7)	Italy	Germany (8)	Italy (9)	Germany (10)
1997 – Jan.	10.64	–	7.83	8.84	6.50	11.50	7.71	5.98	4.36	1.97	6.08	2.69	6.42	4.37
Feb.	10.38	–	7.82	8.74	6.36	11.27	6.83	5.78	4.11	1.96	5.72	2.67	6.14	4.22
Mar.	10.20	10.87	7.73	8.84	6.34	11.27	6.84	5.80	4.07	1.97	5.67	2.71	6.19	4.21
Apr.	10.10	–	7.78	8.66	6.42	11.14	6.96	5.92	4.01	1.96	5.69	2.72	6.18	4.27
May	9.96	–	7.76	8.67	6.44	11.00	6.90	5.88	3.99	1.98	5.64	2.71	6.19	4.24
June	9.78	10.49	7.73	8.04	6.42	10.73	6.86	5.82	3.84	1.95	5.56	2.70	6.03	4.21
July	9.61	–	7.70	8.12	6.36	10.46	6.75	5.72	3.55	1.94	5.36	2.69	5.91	4.16
Aug.	9.46	–	7.69	8.35	6.39	10.54	6.76	5.84	3.44	1.93	5.21	2.71	5.74	4.22
Sept.	9.37	10.04	7.75	8.13	6.42	10.32	6.77	5.88	3.46	1.94	5.21	2.73	5.82	4.25
Oct.	9.27	–	7.73	7.98	6.46	10.17	6.72	5.96	3.29	1.97	5.04	2.85	5.17	4.33
Nov.	9.19	–	7.69	7.92	6.56	9.98	6.80	6.15	3.33	1.97	4.97	3.00	4.93	4.50
Dec.	9.01	9.80	7.71	6.90	6.50	9.38	6.66	6.08	3.36	1.99	4.95	3.06	5.07	4.53
1998 – Jan.	8.83	–	7.70	7.18	6.35	9.53	6.40	5.85	3.08	1.98	4.60	2.99	5.01	4.34
Feb.	8.69	–	7.71	7.29	6.26	9.20	6.24	5.71	2.93	2.00	4.49	2.96	4.97	4.29
Mar.	8.51	9.23	7.68	6.77	6.20	8.89	6.11	5.62	2.94	2.01	4.44	2.98	4.32	4.23
Apr.	8.33	–	7.71	6.66	6.17	8.62	6.04	5.60	2.78	2.01	4.28	2.99	4.21	4.22
May	8.11	–	7.68	6.46	6.18	8.20	6.07	5.64	2.51	1.98	4.07	3.02	4.74	4.23
June	7.89	8.72	7.65	6.19	6.14	7.61	6.00	5.58	2.53	2.00	4.01	3.02	4.07	4.21
July	7.73	–	7.65	6.15	6.12	7.39	5.93	5.53	2.47	1.99	3.97	3.01	4.22	4.19
Aug.	7.59	–	7.59	6.06	6.01	7.61	5.81	5.41	2.38	2.01	3.86	2.99	4.18	4.09
Sept.	7.55	....	7.65	6.01	5.83	6.82	5.63	5.19	2.37	2.00	3.86	2.96	4.17	3.88

(1) For the methods of calculating Italian rates, see the methodological notes in the Bank of Italy's *Supplemento al Bollettino Statistico, Aggregati Monetari e Finanziari, Banche*; average rates are calculated as means weighted on the basis of the amount of credit granted. For German interest rates, the source is *Deutche Bundesbank Monthly Report*, Chapter VI, Section 5. Average rates are calculated as unweighted arithmetic means of the rates on new transactions reported falling between the 5th and 95th percentiles. – (2) Unweighted arithmetic mean of the rates falling between the 5th and 95th percentiles on individual current account overdrafts of between 1 and 5 billion lire in the three months ending in the reference month; Central Credit Register data. – (3) Average interest rate on current account credit of between DM 1 million and DM 5 million. – (4) Average interest rate on long-term fixed-rate loans to enterprises and self-employed workers of between DM 1 million and DM 10 million with agreed maturities of 4 years and more (excluding lending to the housing sector). – (5) Average interest rate on 10-year fixed-rate mortgage loans. – (6) Average interest rate on 5-year fixed rate mortgage loans. – (7) Average interest rate on high-yield sight deposits. – (8) Average interest rate on 3-month deposits of between DM 100,000 and DM 1 million. – (9) Average interest rate on fixed-rate issues. – 10) Average interest rate on issues of 4-year fixed-rate bank savings bonds.

Banks have sustained faster growth in lending than in fund-raising without running down their securities portfolios, in contrast with what happened in 1997. In the first half of the year they increased their foreign currency borrowing abroad, to take advantage of the favourable yields in lire; subsequently, they exploited the release of compulsory reserves.

Banks' net foreign liabilities increased by 2 trillion lire net of exchange rate adjustments in the first eight months of the year, whereas they had decreased by 6.1 trillion in the same period in 1997. In the lira component, the growth in assets (25.7 trillion) far outstripped that in liabilities (4.2 trillion). In the foreign currency component, the opposite occurred, as the strong growth in fund-raising,

Revision of supervisory rules on country risk

New analytical rules for the prudential treatment of Italian banks' loans to borrowers subject to country risk were introduced in 1993. They were applied to countries not belonging to the OECD. In 1997 the rules were extended to OECD countries having restructured their foreign debt within five years. Those having signed a General Arrangement to Borrow with the IMF remained exempt.

The rules in effect until June 1998 provided that countries with more than 10 billion lire in debt to Italy were subject to three adjustment coefficients (15, 30 and 40 per cent) for increasing risk classes, to be applied to unguaranteed exposures in order to calculate the amount to be deducted from capital and reserves. Credits with other countries were subject to a single coefficient of 30 per cent. Given their lower risk, all trade credits were weighted at 30 per cent of their face value in determining the aggregate exposure.

The riskiness of each country was assessed every six months using a classification method agreed to within the Italian Bankers' Association by the most highly exposed banks, with the cooperation of the Bank of Italy. The risk class of each country was determined by a score for a set of variables, grouped into four categories: market indicators (credit rating, spread and market access), macroeconomic indicators (debt service ratio, i.e. debt service payments including principal as a ratio to exports, foreign debt/GDP and foreign debt/exports), conduct indicators (moratoria, missed payments, debt restructurings), and exceptional factors not ordinarily reflected in the quantitative data.

Experience in applying the rules and intervening changes in the structure and functioning of the international financial markets necessitated a review of the method for calculating these prudential adjustments to supervisory capital. In view of the growing importance of portfolio investment in the emerging countries and the degree of liquidity and volatility of these assets, the weight of the market indicators in assigning the overall risk class had to be increased, because they reflect individual country risk more promptly than macroeconomic indicators, which change more slowly and which international statistics pick up with a lag.

The method that goes into effect in December assigns greater importance to two factors: the ratings of the main international agencies, in the absence of which the assessment of the Italian Export Credit Insurance Agency is used; and the yield spread between a medium or long-term government bond and US Treasury paper o fequivalent maturity. A new variable has been added to the macroeconomic indicators, namely the ratio of official reserves to imports, which reflects a country's ability to cope with a sudden decline in exports.

Among the conduct indicators, greater importance is now attached to debt moratoria as symptoms of grave difficulties. However, the score assigned to a moratorium is reduced if the country restructures its debt.

Finally, more emphasis has been put on exceptional factors, which include, in addition to extraordinary events not fully reflected by the other indicators, considerations on the country's institutional arrangements.

To capture country risk more accurately, the number of risk classes has been increased from three to six, with adjustment coefficients ranging from 15 to 60 per cent. Thanks to more favourable treatment under the new income tax code, the funds set aside on this head enjoy partial tax deductibility.

The new method applies to countries to which the Italian banking system has an exposure of more than 25 billion lire, reducing the number of countries covered from over eighty to about fifty, which account for more than 95 per cent of the system's overall foreign exposure. All are present in international financial markets, which is indispensable for evaluation that employs market indicators. For the other countries the banks apply a flat 30 per cent coefficient to unguaranteed credits; alternatively, however, they may opt definitively to apply the coefficient resulting from the new method of calculation.

Examination of the conduct of most of the countries involved in debt crises confirms the low risk of trade credits, i.e. credits with maturity of less than 18 months explicitly connected with an import-export transaction and to be repaid out of its proceeds. Accordingly, the value of trade credits for purposes of capital adjustment has been lowered from 30 to 15 per cent. Account is now taken of hedging via forward or credit derivative contracts with residents in countries at risk. Finally, the rules defining the guarantees that can exempt credits from subjection to the country risk requirements have been revised, bringing them into line with the EU-harmonized rules on solvency coefficients.

In order to graduate the impact of the new procedure on the banking system, for the first two assessments the banks are only required to diminish their own funds by 70 per cent of the amount of the adjustment resulting from the new calculation method.

especially in the first quarter, brought an increase of 23.5 trillion in net liabilities.

The banks' aggregate securities portfolio expanded by 2.7 trillion lire through August, compared with a contraction of 29.1 trillion in the same period in 1997. There was a shift in the composition of the portfolio in favour of bank bonds and short-term securities, especially Treasury bills (Table a40).

Banks' net interest income in the first half amounted to 29.3 trillion lire, down slightly from 30.2 trillion in the same period a year earlier. The exceptional growth in income from securities trading and asset management services led to gross income increasing by around 6 trillion compared with the first half of 1997, from 3.49 to 3.77 per cent of total assets. Staff costs decreased by 1 trillion, or 5.4 per cent compared with the first half of 1997, but this decline is attributable to the accounting effects connected with the entry into force of the regional tax on productive activities, which eliminated National Health Service contributions. Adjusting for this factor, staff costs remained unchanged in absolute terms but fell from 43 per cent of gross income in 1997 to 38 per cent thanks to the surge in non-interest income. Value adjustments to balance sheet assets fell from 9.4 trillion lire in the first half of 1997 to 6.9 trillion in the first of this year despite an increase of 240 billion in write-downs for country risk, the supervisory rules for which were recently changed with effect from December 1998. Profits after tax amounted to 8 per cent of capital and reserves, compared with 1 per cent in the first half of 1997.

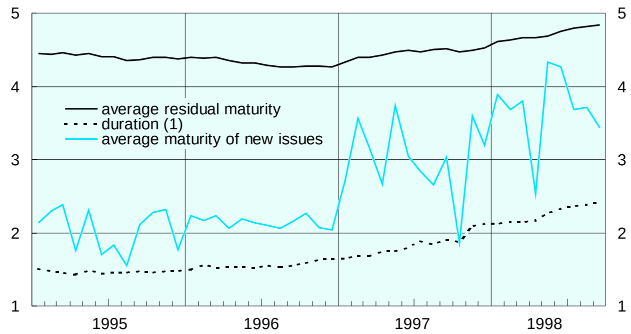
The securities market and the Eurolira market

In the first nine months of the year the Treasury continued its policy of lengthening the average residual maturity of the public debt, which increased from 54 to 58 months (Figure 43); that of listed securities alone rose from 39 to 43 months.

Net issues of government securities totaled 66.8 trillion lire through September (Table 24). The increase with respect to the 36.9 trillion of the same period in 1997 was largely due to the contraction in the share of the borrowing requirement financed with loans and postal funds. Net issues of 24-month zero-coupon Treasury credit certificates amounted to 42.5 trillion; those of Treasury bonds, totaling 125.6 trillion, were concentrated on the longer maturities (10 and 30 years). For Treasury bills, credit certificates and 18-month zero-coupon certificates, net issues were negative. The Treasury's net fund-raising in international markets decreased by 600 billion lire, whereas it had increased by 8 trillion in the same period in 1997.

Figure 43

Average maturity of outstanding government securities and of new issues
(years)



(1) Calculated from securities listed on MTS.

Institutional investors' demand for government securities was very strong, with pronounced differences in the composition of the purchases made by Italian investors and non-residents. In the first half of the year Italian investment funds' net purchases amounted to 99.6 trillion lire, two thirds (62 trillion) of which were represented by Treasury bonds. In the same period non-resident investors' net purchases totaled 121.6 trillion, compared with 80.8 trillion a year earlier, the greater part of which consisted of Treasury bills and credit certificates (35.5 and 37 trillion lire respectively). At the end of June non-resident investors held 31.4 per cent of the Italian government securities in circulation, compared with 25 per cent at the end of 1997 (Table 25).

In the first six months of the year, banks sold 2.2 trillion lire of government securities. Other investors (primarily households and non-financial firms) sold directly held government securities amounting to 153.6 trillion lire, including 67.2 trillion of Treasury

Table 24

Issues of government securities and composition of stocks (1)

	1994	1995	1996	1997	1997 Jan.–Sept.	1998 Jan.–Sept.
			Gross issues (2) *(billions of lire)*			
BOTs	679,500	714,250	665,023	506,000	393,500	330,768
CTZs	0	47,217	59,924	105,905	83,333	80,094
CCTs (3)	60,767	122,810	105,945	64,404	60,904	34,964
BTPs	167,574	118,484	148,917	190,596	157,867	206,520
CTOs and other lira securities	5,594	3,165	10,395	162	91	–
CTEs and BTEs	17,665	6,769	3,913	–	–	–
Republic of Italy issues	18,115	18,769	17,870	12,481	12,481	13,889
Total	**949,215**	**1,031,464**	**1,011,987**	**879,547**	**708,175**	**666,235**
			Net issues *(billions of lire)*			
BOTs	19,155	–1,500	–27,453	–82,310	–57,560	–23,982
CTZs	0	38,299	51,515	41,484	38,729	22,194
CCTs (3)	37,629	–28,870	30,460	7,982	11,799	–23,175
BTPs	104,458	95,925	57,652	68,590	60,150	125,566
CTOs and other lira securities	–6,378	–7,581	–9,786	–19,761	–19,832	–25,680
CTEs and BTEs	–4,708	–8,163	–4,734	–4,354	–4,354	–7,488
Republic of Italy issues	16,059	14,788	12,213	6,291	7,965	–596
Total	**166,216**	**102,897**	**109,868**	**17,921**	**36,897**	**66,838**
			Stocks (2) *(percentage composition at end of period)*			
BOTs	24.7	21.7	19.2	14.8	15.8	13.2
CTZs	0.0	2,5	5.3	7.8	7.5	8.8
CCTs (3)	32.7	27,9	27.9	27.7	27.7	25.8
BTPs	30.9	33,7	34.7	37.5	36.8	42.0
CTOs and other lira securities	4.5	7,6	6.7	5.6	5.5	4.2
CTEs and BTEs	3.3	2,6	2.0	1.8	1.8	1.4
Republic of Italy issues	3.8	4,1	4.2	4.9	4.9	4.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Memorandum item:						
Total stock in billions of lire	**1,671,699**	**1,900,120**	**2,008,031**	**2,047,479**	**2,065,013**	**2,109,469**

(1) Rounding may cause discrepancies in totals. – (2) Face values. – (3) Floating rate issues only.

Table 25

Stocks and net purchases of securities (1)

	Government securities						Corporate bonds	Total government securities and corporate bonds	Italian listed shares
	BOTs	CTZs	CCTs	BTPs	Other (2)	Total			
					Stocks *(billions of lire)*				
June 1998									
BI-UIC	6,735	650	7,322	41,474	76,500	132,681	483	133,164	8,812
Banks	41,737	23,830	131,991	89,546	6,776	293,880	61,716	355,596	6,247
Investment funds	28,449	71,824	60,468	124,166	4,854	289,761	6,980	296,741	73,564
Non-residents (3)	67,741	27,474	132,042	308,575	125,456	661,288	....	661,288	144,028
Other (4)	138,338	55,687	224,296	284,378	26,955	729,654	377,941	1,107,595	608,418
Total	**283,000**	**179,465**	**556,119**	**848,139**	**240,541**	**2,107,264**	**447,120**	**2,554,384**	**841,069**
					(percentage shares)				
BI-UIC	2.4	0.4	1.3	4.9	31.8	6.3	0.1	5.2	1.0
Banks	14.7	13.3	23.7	10.6	2.8	13.9	13.8	13.9	0.7
Investment funds	10.1	40.0	10.9	14.6	2.0	13.8	1.6	11.6	8.7
Non-residents (3)	23.9	15.3	23.7	36.4	52.2	31.4	0.0	25.9	17.1
Other (4)	48.9	31.0	40.3	33.5	11.2	34.6	84.5	43.4	72.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
					Net purchases *(billions of lire)*				
January-June 1998									
BI-UIC	−7,629	331	−616	−11,607	−741	−20,262	−13	−20,275	2,290
Banks	8,218	3,274	−15,916	6,514	−4,326	−2,236	11,695	9,459	2,796
Investment funds	11,851	3,378	19,271	62,006	3,071	99,577	1,610	101,187	17,932
Non-residents (3)	35,501	21,861	36,992	23,515	3,836	121,635	....	121,635	9,524
Other (4)	−67,191	−11,863	−51,228	5,328	−28,647	−153,601	23,693	−129,908	−22,601
Total	**−19,250**	**16,981**	**−11,567**	**85,756**	**−26,807**	**45,113**	**36,985**	**82,098**	**9,941**

(1) Stocks of government securities and corporate bonds are stated at face value, while those of shares are stated at market value; net purchases are stated at market value. – (2) Includes Republic of Italy issues, whose attribution is partly estimated. – (3) For CTZs, partly estimated; CCTs include all Treasury credit certificates. – (4) Households, enterprises, the Treasury, social security institutions, the Deposits and Loans Fund, securities investment firms and insurance companies; the figures for shares are partly estimated.

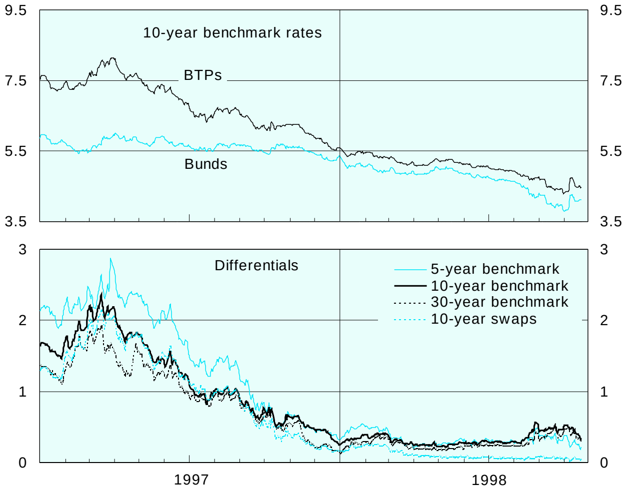
bills and 51.2 trillion of Treasury credit certificates. The average maturity of the household sector's portfolio lengthened further.

Eurolira market issues were 12.6 per cent lower in the first nine months of 1998 than a year earlier, owing primarily to the decline from 16.2 to 9 trillion lire in the volume of issues placed in the countries of the euro area.

The yield on 10-year BTPs fell from 5.6 per cent at the start of the year to 4.5 per cent at the end of October, in line with the fall in interest rates in the leading countries. The yield differential with respect to 10-year Bunds diminished in the early part of the year and then stabilized around 0.3 percentage points from April onwards. It widened temporarily in August and September, reaching a maximum of 0.57 points, and averaged 0.47 points in September (Figure 44). The increase in the spread over Bunds, which was also recorded by the government securities of the other main European countries, was a consequence of the turbulence in international markets; another factor was the rise in the price of the German security, demand for which surged in the spot market, partly as a result of the exceptional growth in trading in the futures contract. The differential returned to around 0.3 points during October.

Figure 44

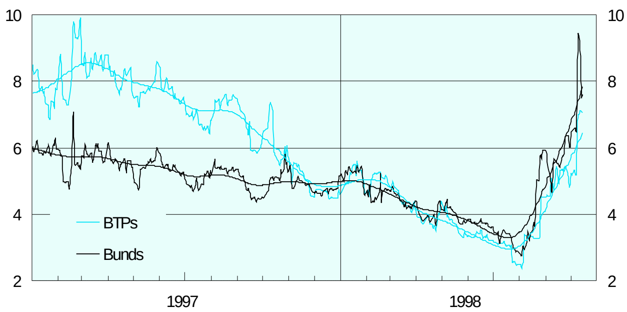
BTP and Bund yields: levels and differentials
(percentages and percentage points)



Sources: Reuters for the swap rates; BIS for the 10-year benchmark rates; Datastream for the 5 and 30-year benchmark rates.

Figure 45

Implied volatility of BTPs and Bunds listed on LIFFE (1)
(percentage points on an annual basis)



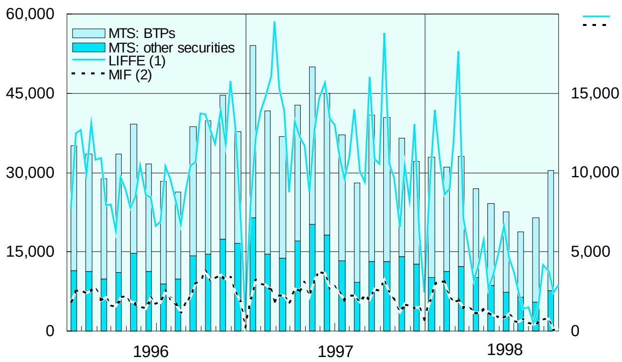
(1) Standard deviation of the probability distribution of the percentage changes in the price of 10-year futures, implied by the price of the at-the-money option closest to expiry. The trend lines were generated by applying the Hodrick-Prescott filter.

In the first seven months of the year the expected volatility of the yield on 10-year BTPs was very low and in line with that for Bunds; from August onwards the uncertainty generated by international financial turbulence caused a general rise in volatility, which was more pronounced in the case of Bunds (Figure 45).

Turnover in 10-year BTPs in the spot and futures markets has been considerably lower than in 1997, partly owing to the smaller and stable differential between long-term Italian and German rates. Spot turnover in Treasury bonds in the screen-based market in government securities (MTS) was 32 per cent lower in the first nine months than in the same period in 1997 (Figure 46). The fall in turnover in the futures contract amounted to 55 per cent on LIFFE and 50 per cent on MIF. The transfer of trading in Bund futures to the Eurex circuit, where more than 90 per cent of trades were already carried out at the end of August, may have contributed to the contraction on LIFFE.

Figure 46

Turnover in government securities in the spot and futures markets
(average daily turnover in billions of lire)



(1) Turnover in futures contracts on 10-year BTPs. Right-hand scale. - (2) Turnover in futures contracts on 5 and 10-year BTPs. Right-hand scale.

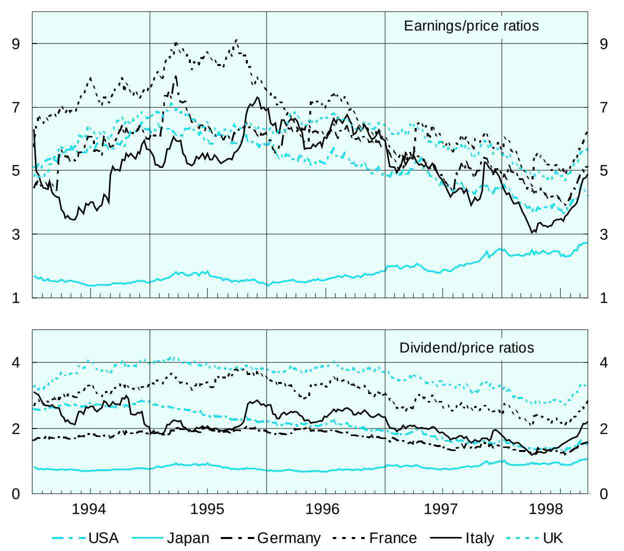
The volume of trading in 3-month Eurolira futures on LIFFE was 2 per cent higher in the first nine months of the year than in the same period in 1997.

The share market and professional asset management

Following their rise in 1997, Italian share prices continued to surge in the first few months of 1998 on expectations of a strong, prolonged economic expansion and a reduction in the risk premium on equities. In March the expected earnings/price ratio and dividend yield stood at very low levels of respectively 3.2 and 1.2 per cent (Figure 47).

Figure 47

Expected earnings/price ratios and dividend/price ratios on the main international stock exchanges (1)
(percentages)



Source: Datastream.

(1) For France, Germany and Italy, earnings and dividends for 1998 are estimates; for Japan, the United Kingdom and the United States, they are aggregates based on the most recent half-yearly financial statements.

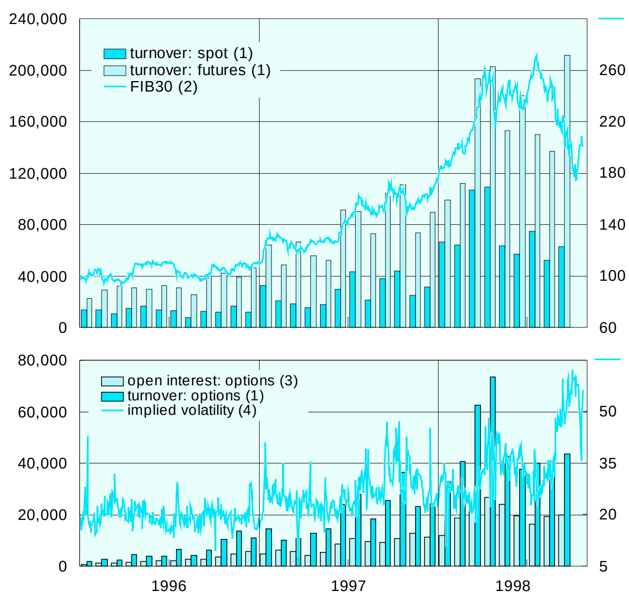
After slumping in April, Italian share prices rebounded in July, in step with the leading international markets, and approached the peak they had reached in March (Figure 48); total stock market capitalization reached the historic high of 45 per cent of GDP, compared with 30.7 per cent at the end of 1997 and 20.6 per cent at the end of 1996. Subsequently, the slowdown in economic activity and renewed perception of the riskiness of shares in the light of the increasing instability in the international markets caused prices to fall on all the leading exchanges. Prices also fell sharply in Italy: the index fell by 27 per cent between mid-July and the end of September. The expected earnings/price ratio rose to 4.9 per cent, slightly above that of the US stock market (4.3 per cent) but lower than those of the German, UK and French markets (5.2, 5.7 and 6.5 per cent, respectively).

Notwithstanding the adverse developments of recent months, in mid-October the share price index showed a gain of 14.6 per cent from the start of the year, more than the average for the countries of the euro area (10.5 per cent) and outperforming the US, UK and Japanese stock markets, which were up by 13.6 per cent and down by 2.6 and 12.9 per cent, respectively. Bank and insurance shares recorded the largest gains (33 and 22 per cent, respectively), while manufacturing shares remained unchanged overall. The rise in prices and the listing of new bank shares resulted in such shares rising from 15 per cent of total market capitalization at the end of 1996 to 25 per cent in September 1998. Over the same period industrial shares' proportion of total capitalization diminished from 34 to 26 per cent.

Despite the deepening of the spot market and the growth of the derivatives market, the volatility of share prices on the Italian exchange was almost constantly higher than elsewhere. In the first nine months of the year expected volatility, implied by the price of stock index options, averaged 33 per cent on an annual basis (Figure 48), compared with an average of 25 per cent for the five leading international exchanges; *ex post* volatility amounted to 26 per cent, compared with an average of 19 per cent for the other leading exchanges.

Figure 48

Italian stock exchange: spot and futures markets



(1) Monthly turnover in billions of lire; left-hand scale. - (2) Index, 29 December 1995=100; right-hand scale. - (3) Billions of lire; left-hand scale. - (4) Standard deviation of the probability distribution of the percentage changes in the FIB30 index implied by the price of the at-the-money option closest to expiry; right-hand scale.

Average daily turnover through September rose almost threefold from a year earlier, rising from 1.2 to 3.4 trillion lire; total turnover rose from 49 to 82 per cent of market capitalization. In the derivatives market, average daily turnover rose from 3.4 to 7.6 trillion lire for Fib30 futures contracts on the Mib30 index and from 800 billion to 2.2 trillion for Mib30 index options.

New share issues in the first nine months increased substantially to around 48 trillion lire, compared with 11.9 trillion a year earlier, and from 3 to 6 per cent of stock market capitalization. Issues by listed companies accounted for around a quarter of the total and 17 flotations made up the rest. Public offerings amounted to 18 trillion, of which 12 trillion from the sale of the fourth tranche of ENI shares by the Treasury.

The demand for equities was very brisk, particularly on the part of Italian investment funds and foreign investors, whose purchases in the first half of the year amounted to 18 and 9.5 trillion lire respectively (compared with 6.4 and 13.4 trillion in 1997 as a whole). In June the shares held by investment funds and foreign investors rose to respectively 8.7 and 17.1 per cent of total market capitalization.

Under the measure that provided for the stock market to be managed by a private company, Borsa Italiana S.p.A. became operational at the beginning of 1998; the company's shares are held mainly by Italian banks and affiliated financial intermediaries. In May Borsa Italiana S.p.A. purchased MIF.

In the first nine months of the year the net assets of Italian investment funds rose from 368.4 to 646.7 trillion lire. The expansion largely reflected net fund-raising of 275 trillion, compared with 100.9 trillion in the same period in 1997. The most active segments were bond funds, which accounted for more than two thirds of the total inflow, and funds specializing in foreign securities. In addition to government securities, investment funds' net purchases included 109 trillion lire of securities denominated in foreign currency (of which 36 trillion of equities) and 16.7 trillion of Italian shares. In July Italian shares represented 14 per cent of the investment funds' aggregate portfolio; at the end of September this figure had fallen to 11 per cent.

Portfolio management services recorded a net inflow of 91 trillion in the first half of the year; most of these fresh resources were used to buy foreign securities and investment fund units, which rose from 18 to 33 per cent of the total assets under management. Assets under management increased by 30 per cent between the end of 1997 and the end of June, when they amounted to 489 trillion lire.

Short-term economic prospects, prices and monetary policy

The international situation

The outlook for the world economy has deteriorated sharply and rapidly in the second half of 1998. The recession in Japan has deepened, despite budget measures aimed at sustaining demand; the economy is in a state of deflation. Far from attenuating, the crisis that afflicted the Asian countries last year has spread to other areas of the world, combining with a decline in raw materials prices and a pronounced general fall in share prices from the extremely high levels they had reached.

The fall in oil prices to a level that was close, in real terms, to that of 1974 and the financial instability triggered by the Asian crisis engulfed Russia during a particularly difficult phase in the economic and institutional transition that began with the dissolution of the Soviet Union; the international credit rating of many other emerging economies also deteriorated abruptly. The contraction in output in the East Asian countries hardest hit by the crisis has been much more severe than had originally been predicted. In China growth has lost momentum. In some large Latin American economies, made vulnerable by their massive foreign debt, a climate of severe uncertainty is drastically reducing growth.

The fall in share prices and the financial crisis in emerging countries has had adverse effects on the balance sheets of some banking institutions in industrial countries; heavy losses have been sustained by hedge funds with the greatest exposure to emerging markets. A huge volume of funds has sought refuge in long-term government securities issued by the leading industrial countries, especially German and US bonds, the nominal yields on which have declined further.

In the emerging markets the sudden increase in risk perceived by international creditors caused yields on dollar-denominated government bonds to soar in a matter of days to levels close to those reached during the Mexican crisis in 1995, when the rise had been much more gradual. After the Russian crisis, the seeds of recession and financial instability contributed to a sudden, pronounced and general deterioration in market expectations.

In the industrial countries inflation has declined further to rates below those observed in the sixties in response to the weakening of world demand and the fall in international commodity prices.

In the United States growth remained very brisk in the first few months of the year; in the second quarter exports declined and investment slackened. Consumer and business confidence deteriorated in the summer; industrial output began to slow down. The monetary authorities adjusted their policy stance from the end of September onwards; in two stages they lowered the federal funds target rate from 5.5 to 5 per cent and the discount rate from 5 to 4.75 per cent, thereby revealing fears of a sharp slowdown in growth.

The currencies of the euro-area countries have displayed a notable degree of cohesion, even during times of market turbulence, reflecting confidence in a smooth launch of the single currency; in combination with the cautious stance of monetary policy, this has benefited mainly the countries which in the past had been most exposed to exchange rate pressures, including Italy. The central banks of Germany and France have kept their reference interest rates unchanged. Futures on short-term ecu interest rates indicate expectations that rates will be slightly below 3.5 per cent when the euro is launched, implying that interest rates in the area will decline to the levels now prevailing in Germany and France. The markets show expectations of small reductions in subsequent months.

In the leading countries of the euro area as well, the indicators point to a slowdown in activity in the second half of the year, especially as regards export

Table 26

Actual and forecast performance of selected international macroeconomic variables
(percentage changes on previous year)

	1997	1998			1999	
		IMF		Consensus	IMF	Consensus
		(a)	(b)		(a)	
GDP (1)						
World	4.1	2.0	3.1	–	2.5	–
Industrial countries	2.9	2.3	2.4	–	2.0	–
United States	*3.9*	*3.5*	*2.9*	*3.4*	*2.0*	*2.0*
Japan	*0.8*	*–2.5*	. .	*–2.5*	*0.5*	*–0.2*
Euro 11	*2.5*	*3.0*	–	*2.9*	*2.8*	*2.5*
Developing countries	5.8	2.3	4.0	–	3.6	–
ASEAN-4 (2)	*3.7*	*–10.4*	*–2.7*	*–9.8*	*–0.1*	*–1.5*
China	*8.8*	*5.5*	*7.0*	*7.2*	–	*7.5*
Latin America	*5.1*	*2.8*	*3.2*	*3.0*	*2.7*	*3.5*
South Korea	5.5	–7.0	–0.8	–6.7	–1.0	–0.3
Russia	0.9	–6.0	1.0	–	–6.0	–
Consumer prices						
Industrial countries	2.0	1.5	1.8	–	1.7	–
United States	*2.3*	*1.6*	*2.0*	*1.6*	*2.3*	*2.3*
Japan	*1.7*	*0.4*	*0.9*	*0.4*	*–0.5*	*–0.4*
Euro 11	*1.7*	*1.4*	–	*1.3*	*1.6*	*1.4*
Developing countries	9.1	10.3	10.2	–	8.3	–
ASEAN-4 (2)	*5.7*	*31.4*	–	*27.1*	*17.2*	*15.7*
South Korea	4.4	8.5	10.5	7.9	4.3	4.9
Russia	14.7	48.4	8.1	–	73.2	–
World trade (3)	9.7	3.7	6.4	–	4.6	–
Raw material prices (4)						
Oil	–5.4	–31.1	–23.9	–	9.3	–
Non-oil	–3.3	–13.9	–7.4	–	0.4	–
Current account balances (5)						
Industrial countries	64	–19	–28	–	–66	–
United States	*–155*	*–236*	*–228*	*–234*	*–290*	*–270*
Japan	*94*	*131*	*121*	*118*	*136*	*129*
Euro 11	*112*	*111*	–	*113*	*108*	*115*
ASEAN-4 (2)	–16	18	–	23	18	23
South Korea	–8	39	15	37	27	27
Budget balances (6)						
United States	0.2	1.1	0.1	–	1.2	–
Japan	–3.1	–5.7	–3.8	–	–7.0	–
Germany	–2.7	–2.6	–2.7	–	–2.3	–

Sources: National statistics; IMF, *World Economic Outlook*; Consensus, *Consensus Forecasts*, October 1998.
(a) *World Economic Outlook*, October 1998, (b) *World Economic Outlook*, May 1998.
(1) At constant prices. – (2) The Philippines, Indonesia, Malaysia and Thailand. – (3) Goods and services. – (4) In US dollars. – (5) Billions of dollars. – (6) As a percentage of GDP.

demand and investment. If the slowdown intensifies, it will further subdue the prospects for employment and make it more difficult to reduce budget deficits along the lines set out in the Stability and Growth Pact.

Serious uncertainties hang over the forecasts for the world economy in 1999, especially with regard to the future course of the financial crisis and its impact on world demand, which is already slowing sharply. The IMF forecast is based on the assumption of a halt in the fall in output in Japan, a gradual recovery in Asia and a return to orderly conditions in the financial markets of Latin America; however, world output is expected to increase by barely 2.5 per cent and world trade by 4.6 per cent (Table 26). The growth in GDP in the industrial countries as a whole is not expected to exceed 2 per cent; the greatest contribution to growth is likely to come from the euro area. There remains a risk that actual results will fall short of these forecasts, perhaps to the point of stagnation.

In October the Group of Seven and the IMF acknowledged the seriousness of the crisis and indicated the need to stimulate demand in Japan and sustain growth in the United States and Europe. The US authorities moved swiftly and pragmatically in that direction by giving an expansionary twist to monetary policy, which had the effect of bringing US real interest rates closer to those obtaining in Europe. Net of risk premiums, the cost of money is clearly declining worldwide. In Japan a massive rescue programme for the banking system has been passed. The US Congress has approved an increase in the country's contribution to the capital of the IMF, encouraging other countries to follow suit; this will make it possible to strengthen the Fund's resources significantly. In the middle of October Brazil reached agreement with the IMF on an economic adjustment programme for which the international community has pledged financial support.

Economic developments and fiscal policy in Italy

The discrepancy between the initial expectations for growth in 1998 and the results that now seem likely on the basis of developments in the course of the year is greater in Italy than in the other European countries. Italy's growth gap with respect to the euro-area countries has widened.

Industrial production declined until April; in May it rose again and since then has hovered at a level below that reached at the end of 1997. Firms' demand expectations remain generally weak. In the first half of the year GDP grew only marginally in relation to the previous half-year. There was modest growth in household consumption. Gross fixed capital formation, which increased quite briskly at the beginning of the year, slowed in the spring as the economic prospects darkened and expectations deteriorated. Following the considerable expansion of 1997, export growth decelerated, reflecting the slowdown in world demand and the greater competitiveness of the countries of Asia. Imports, which were boosted partly by the stockpiling of raw materials due to the decline in commodity prices, slowed down less sharply. Owing in part to a pronounced widening of the deficit on invisibles, the surplus on the current account of the balance of payments fell in the first half of the year but remained substantial, at 18 trillion lire, compared with 26.4 trillion in the same period of 1997.

On a seasonally adjusted basis, average employment during the first seven months was 80,000 higher than the 1997 average, a rise of 0.4 per cent, thanks to increases in the services sector, in female employment and in the South. A significant proportion of the new jobs are part-time. As the supply of labour also increased, the unemployment rate rose to 11.9 per cent; the rate rose from 21.9 to 22.5 per cent in the South and remained unchanged at 6.9 per cent in the Centre and North.

In view of these developments, the Forecasting and Planning Report presented at the end of September by the Minister of the Treasury, the Budget and Economic Planning, revised the 1998 growth forecast down to 1.8 per cent, compared with the figure of 2.5 per cent contained in last spring's Economic and Financial Planning Document (Table 27). The new forecast assumes a sharp acceleration in the second half of the year. In the light of the latest available data, the downward revision could prove insufficient. It takes account of the slowdown in world demand and the deterioration in Italian competitiveness on the one hand and the slowdown in domestic demand on the other. It seems likely that the growth in domestic demand will diminish considerably by comparison with 1997, despite a pickup in investment in machinery and equipment.

Table 27

Forecast outturns and planning scenario for the Italian economy

	1997	1998 (1)	1999 (1)
	(percentage changes)		
Real aggregates			
Gross domestic product	1.5	1.8	2.5
Domestic demand	2.5	2.2	2.8
Imports (2)	11.8	8.1	8.2
Exports (2)	6.3	6.0	6.3
Deflators			
Gross domestic product	2.6	2.6	2.1
Private consumption	2.4	2.3	1.5
Imports (2)	−0.5	−1.6	0.4
Exports (2)	−0.1	0.8	1.6
	(percentage ratios)		
Balance/GDP			
General government net borrowing	2.7	2.6	2.0
Balance-of-payments surplus on current account	3.2	3.2	3.2

(1) Estimates and forecasts contained in *L'economia italiana nel 1999; relazione previsionale e programmatica*. – (2) National accounts data.

The marked improvement in the terms of trade owing to the fall in world commodity prices should sustain the balance-of-payments surplus on current account, which is likely to decline only marginally in relation to GDP.

Labour market conditions are not expected to change significantly, with average employment showing a very modest increase in 1998 as a whole.

The performance of the public finances over the first three quarters of the year appears to be consistent with the objective of holding net borrowing down to 2.6 per cent of GDP, compared with 2.7 per cent in 1997. In contrast to previous years, no supplementary budgetary measures have been enacted this year. The primary surplus should decline from 6.8 to 5.5 per cent of GDP, the decrease being fully offset by a further fall in interest expenditure. The contribution of temporary measures to curbing the deficit is less than in 1997, although still not inconsiderable.

By comparison with the assumptions underlying the Government's planning, the reduction in the forecast increase in tax revenue as a result of slower-than-expected growth in economic activity appears to have been offset by a shift in consumer spending towards durable goods, which are subject to higher indirect taxes, and by the efficacy of the recent far-reaching reform of the tax system. Given the slower growth in output, the reduction in the ratio of tax to GDP is expected to be slightly less than planned (1.3 per cent of GDP). The reduction stems from the expiry of some temporary measures and the effect of lower interest rates on the revenue from taxes on financial income.

The ratio of primary expenditure to GDP is expected to increase by more than forecast, despite lower disbursements in 1998 as a result of switching the payment of pensions from a two-monthly to a monthly basis.

The prospects for 1999 depend heavily on developments in the world economic environment. Within the framework of the IMF's forecasting scenario mentioned above, which assumes that the current risks will attenuate, the Italian economy could find itself on a growth path of about 2 per cent. Employment is expected to continue to stagnate.

The budget measures for 1999 to which the new Government has committed itself dovetail with the policy for the gradual reduction in net borrowing as outlined in the Economic and Financial Planning Document for the three years from 1999 to 2001; in keeping with the commitments entered into at the European level, this policy should lead to a balanced budget in the medium term. General government net borrowing should fall to 2 per cent of GDP in 1999. The expected fall in interest expenditure should make it possible to achieve this objective by keeping the primary surplus at the level planned for this year (5.5 per cent of GDP).

The budget for 1999

The Economic and Financial Planning Document published in April set an objective of 43.6 trillion lire for general government net borrowing in 1999, compared with 51.6 trillion on a current programmes basis. An adjustment of 13.5 trillion would have allowed a reduction of 8 trillion in net borrowing and left 5.5 trillion for economic development policies. During the preparation of the budget an additional 1.2 trillion was allocated to social policies without changing the objective for net borrowing, thereby increasing the adjustment measures required to 14.7 trillion. This figure excludes around 1.8 trillion of allocations to social and development policies completely covered by other measures increasing revenue or reducing expenditure. When these items are included, the additional resources for social and development policies are equal to 8.5 trillion.

Taken together, the budget on a current programmes basis, the first 1998 budget variation, the Finance Bill and the bill with the accompanying measures provide for a net increase in revenue of around 2.8 trillion lire and a net reduction in expenditure of around 5.2 trillion.

Revenue

Increase in revenue *- Most of the additional revenue comes from the sale to banks and financial intermediaries of social security contributions due to INPS (5.3 trillion). The aim of the sales, which will be governed by similar rules to those applicable to the factoring of services, is to permit the immediate receipt of revenue.*

The introduction of a payment on account of the licence fees payable by telecommunications companies is expected to generate 1 trillion of additional revenue and the disposal and better management of government real estate another 100 billion.

Social and development policies: tax relief *- The budget provides for the refund of 60 per cent of the personal income surtax component of last year's special Europe tax (3 trillion). For employees, the refund will begin when the year-end balances of their liabilities for 1998 are computed; for persons paying VAT, it will be offset against their liabilities from January 1999 onwards.*

Additional registration tax and VAT relief is granted to buyers of a "first house" (about 150 billion). The taxation of small pensions is reduced (around 350 billion); in particular, the tax credit for pensioners with a total annual income of less than 18 million lire is increased from 70,000 to 120,000 lire and the welfare component of pensions topped up to the minimum level will be exempt from personal income tax. Lastly, the stamp duty on nautical licences and the tax on the issue and annual validation of passports are to be eliminated (around 150 billion).

Total effects of the budget on the consolidated general government income statement (1)
(billions of lire)

REVENUE	
Increase in revenue	**6,450**
Accelerated collection of INPS receivables	5,300
Telecommunications licence fees	1,000
Sales of real estate	100
Other	50
Social and development policies	**–3,650**
Partial refund of the Europe tax	–3,000
Relief for taxes on housing	–150
Relief for taxes on pensions	–350
Abolition of stamp duty and taxes on government licences	–150
TOTAL REVENUE (net increase in revenue)	**2,800**
EXPENDITURE	
Reduction in expenditure	**10,050**
Budget on a current programmes basis	2,400
Accompanying measures	7,650
Public employment	*450*
Local finances	*2,200*
Public utilities	*1,200*
Health care, pensions and welfare benefits	*1,000*
Other	*2,800*
Social and development policies	**–4,850**
Support for investment and reconstruction	–2,500
Sectoral policies	–1,000
Increase in pensions and welfare benefits	–450
Allowances for families with three or more children	–400
Abolition of the fixed portion of health charges	–450
Other	–50
TOTAL EXPENDITURE (net reduction in expenditure)	**5,200**
TOTAL REDUCTION IN PRIMARY NET BORROWING	**8,000**

(1) Based on official estimates (see the *Relazione tecnica* annexed to the bills accompanying the Finance Bill).

cont.

Revenue-neutral measures

Structural reduction of taxes *- The additional tax revenues that are expected to result from the fight against tax evasion (defined as the increment in revenues exceeding that forecast each year on the basis of macroeconomic conditions and new legislation) will be used to restructure income tax.*

Supplementary pensions *- The Government has been delegated by Parliament to issue one or more legislative decrees revising the tax treatment of supplementary pensions, life insurance policies and severance pay within nine months of the entry into force of the accompanying measures concerning the equalization and rationalization of taxation and fiscal federalism. The measures adopted must not impose any additional burden on the budget.*

Fiscal federalism *- From 1 January 1999 onwards most transfers to the regions will be abolished and replaced by a revenue sharing scheme for VAT and the excise duty on petrol. The Government has been delegated to legislate on the financing of the regions and inter-regional tax equalization mechanisms.*

Carbon tax *- The measures to reduce the level of carbon dioxide emissions in accordance with the targets set at the Kyoto conference make provision for: (i) the reconfiguration of excise duties on mineral oils until they reach the levels indicated for 1 January 2005; (ii) the introduction of a tax of 1,000 lire per ton on the consumption of coal in large plants. The revenues generated by the measures will be used: (i) to reduce the share of social security contributions in labour costs, the surtax on motor vehicles with diesel engines and the tax on heating oil in some parts of the country; (ii) to introduce a tax credit for hauliers; and (iii) to create a fund to be used to encourage energy efficiency.*

Expenditure

Reduction in expenditure *- About one quarter of the reduction in spending provided for in the budget is to be achieved by cuts in current programmes appropriations. The remaining part will be produced by the accompanying measures concerning the following expenditure items.*

Public employment *- The number of permanent staff is to be reduced and greater use made of part-time and trainee contracts, generating savings of about 450 billion lire. Provision is also made for a reduction of 10 per cent in appropriations for overtime and the automatic adjustment of the compensation of central government personnel not covered by collective bargaining in line with that of other public employees.*

Local finances *- The reduction in transfers to the regions and other local authorities is expected to generate savings of 2.2 trillion lire. These bodies will be subject to the so-called "internal stability pact", which lays down targets for net borrowing that are consistent with those set at European level.*

Public utilities *- Transfers to the State Railways are to be cut by 700 billion lire and a saving of around 500 billion is to be made in the postal sector.*

Health care, pensions and welfare benefits *- Provision is made for measures to rationalize pensions, producing savings of about 400 billion lire, and to reduce expenditure on pharmaceuticals by 450 billion. The latter amount will be used to finance the elimination of fees on specialist care and laboratory tests for certain categories of beneficiary. In addition, public sector and university physicians who opt to work as independent professionals will be put on part-time contracts, producing savings of about 150 billion lire.*

Other measures *- Savings are expected from the revision of the procedures whereby investment grants and subsidies are credited to banks (1.35 trillion) and from the measures for monitoring the cash outlays of schools (1.2 trillion). Further savings are expected from the reduction of 5 per cent in spending by central government departments on goods and services (200 billion).*

Social and development policies: increase in expenditure *- The Finance Bill and the accompanying legislation appropriate 2.5 trillion for investment in infrastructure and the reconstruction of areas recently struck by natural disasters. An additional 1 trillion is appropriated for interventions in sectors of particular importance for economic growth and employment.*

The accompanying legislation allocates around 1.3 trillion lire to social policies, specifically: an increase of 80,000 lire per month in social pensions and welfare benefits (around 450 billion), allowances for low-income families with three or more dependent children (around 400 billion), and abolition of the fixed portion of National Health Service charges for some categories of beneficiary (450 billion).

In order to guarantee this result by compensating for the expiry of certain temporary measures and the underlying rise in some expenditure items, the budget for 1999 provides for a net correction of 8 trillion lire in the primary surplus by comparison with the figure on a current programmes basis. The overall size of the spending cuts and increases in revenue is much larger than this, because a considerable part of the resources raised will be used to stimulate economic growth and assist certain population groups suffering particular hardship.

The measures will have no significant impact on the medium-term trend in revenue and expenditure. Some reductions in central government transfers may lead to increases in local taxes and charges or greater borrowing by public enterprises. Around half of the proposed correction in the primary balance stems from temporary measures; the overall effect of such measures is estimated to diminish from 0.6 per cent of GDP in 1998 to 0.2 per cent in 1999.

The reduction in the ratio of net borrowing to GDP prescribed in the Government programmes for 1999-2001 should derive entirely from a further expected fall in interest expenditure; the primary surplus is likely to remain constant. Over a longer time-scale the savings on interest expenditure will diminish, as they will stem solely from the fall in the ratio of public debt to GDP. In order to maintain a constant primary surplus, measures will have to be taken to offset both the steady rise in expenditure on pensions and health care due to demographic trends and the loss of revenue that may result from greater factor mobility fostered by growing economic integration and from differences in national tax rates.

Growth may receive a boost from efforts to curb and improve current primary expenditure, which hold out the prospect of a substantial and progressive reduction in the tax burden. A commitment to keep the public finances on a sustainable path in the medium and long term as well would reduce the uncertainty caused by the succession of corrective budgetary measures, thereby helping to create an environment favourable to economic growth. The prospects for employment can be improved by making more extensive use of systems of remuneration that are more closely linked to the condition of the firm and the local economy and by stepping up the public investment planned for the South.

Inflation and monetary policy

The moderate acceleration in prices that began in the summer of 1997 has petered out in the course of this year.

In the first six months of 1998 the average inflation differential with France and Germany, measured on the basis of twelve-month rates of change in the harmonized consumer price indices, remained above one percentage point. The changes recorded during the summer with reference to shorter time horizons indicated that the gap was narrowing steadily.

The seasonally adjusted and annualized three-month rise in the cost-of-living index, which had stood at 2.5 per cent in the first quarter, came down to 1.8 per cent in August and 1.3 per cent in October. The movement in the index was lagged and somewhat smaller by comparison with the slowdown in producer prices, whose seasonally adjusted and annualized three-month rate of increase gradually declined from 2.5 per cent at the end of 1997 to practically nil in the summer. The fall in energy prices contributed to the slowdown in the cost of living.

The decline in the index of core consumer price inflation, which excludes regulated prices as well as those of food and energy products, was less pronounced. Until August the seasonally adjusted and annualized three-month rise remained above 2 per cent; in October it was equal to 1.8 per cent.

Firms' main cost items rose much more slowly in the first six months of the year than in the first half of 1997. This moderated the rise in prices. Although profit margins widened, they were held in check by the weakness of demand. In manufacturing industry the fall in the costs of imported inputs was accompanied by a decline of 0.2 per cent in unit labour costs with respect to the second half of last year. Most of this further decrease in unit labour costs was due to the smallness of the rise in the compensation of employees and earnings (2.5 per cent). The growth in unit labour costs is declining towards the rates prevailing in France and Germany. A sizable gap remains, but if the imminent round of contract renewals confirms the current trend, it could narrow substantially.

Monetary conditions have been relaxed further. On 26 October official rates were lowered by one point, the discount rate from 5 to 4 per cent and the rate on fixed-term advances from 6.5 to 5.5 per cent.

As part of the process of bringing Italian regulations into line with those set by the European Central Bank, the compulsory reserve ratio was lowered to 9 per cent in June and to 6 per cent in July. Compliance with the ratio of 2 per cent, which will apply in the euro area from January 1999 onwards, will be completed by the end of the year.

Market interest rates have continued to converge towards the levels prevailing in the euro-area countries with the lowest inflation. Between the beginning of the year and 20 October the differential between 3-month Eurolira and Euromark rates narrowed from 2.3 to 0.9 percentage points; by 27 October it had decreased by a further 0.2 points.

Long-term interest rates also came down substantially until August. Subsequently, the yield differential between the 10-year Italian Treasury bond and the benchmark German security of corresponding maturity widened temporarily, reflecting, as in other leading European countries, the rise in the price of the Bund as a consequence of the turbulence in the international financial markets. By 20 October the differential had returned to the level recorded in August.

Bank lending rates continued to come down in 1998, declining slightly more than both money market rates and bank deposit rates. Despite a slight contraction in their net interest income, banks' gross income rose substantially in the first half compared with a year earlier, thanks to the exceptional increase in earnings from asset management services. At the same time labour costs remained unchanged in the absence of contract renewals and lending risks diminished. The combined result was a large increase in Italian banks' net profits, which on an annual basis rose from 1 to 8 per cent of capital and reserves. If the competitive gap with foreign banking systems is to be closed, the recovery in profitability, which was partly attributable to temporary circumstances, needs to be consolidated, above all by means of labour contracts that bring the Italian banking system's labour costs into line with those prevailing elsewhere in Europe.

The gradualness with which monetary conditions have been eased and the certainty that Italy will participate in the euro from the start have driven the improvement in inflation expectations. According to Consensus Forecasts, the expectations for the next two years are for the inflation rate to hold steady at around 1.5 per cent; the differential with the leading countries of the euro area is expected to disappear. This is encouraging wage restraint, and hence creating a virtuous circle.

As well as consolidating market behaviour that is consistent with price stability, the caution shown in the exercise of monetary policy contributed decisively to safeguarding the exchange rate of the lira from domestic and external turbulence, thereby fostering an orderly launch of the euro.

The spot lira/DM exchange rate remained slightly above the central parity throughout the period. From mid-August onwards the forward lira/DM rate for January 1999 came under slight pressure; since mid-October it has moved back towards the central parity.

After expanding very rapidly in the first half of the year, the M2 money supply has slowed down markedly and approached the 5 per cent upper limit of its target range for the year. A contributory factor has been a deceleration in the shift of households' financial portfolios into riskier assets.

The behaviour of the Treasury borrowing requirement recorded in August, which ruled out revenue losses following the far-reaching tax reform introduced this year, was confirmed in September. In October both actual and expected inflation remained stable at less than 2 per cent. The international financial tensions showed signs of easing; the fear of a world economic slowdown fostered a reduction in official rates in the industrial countries, including Europe. During the parliamentary debate at the end of the month, the new Government reaffirmed the political commitment to approving the Finance Bill that had been drafted for 1999.

The reduction in official interest rates at the end of October constitutes further important progress in convergence towards the lower levels prevailing in Europe.

Next January the Governing Council of the European Central Bank will assume responsibility for monetary management in the euro area. The appropriate monetary policy stance for maintaining price stability in the euro area, not least in view of the risks inherent in developments on the international stage, is being defined.

From the quantitative point of view, the Governing Council has defined this objective as an annual increase in consumer prices in the euro area of less than 2 per cent in the medium term. The role of the money supply will be central: the point of reference will be a specified percentage increase in a broad monetary aggregate. Special attention will be paid not only to the behaviour of the money supply but also to various indices of prices, costs and activity and to inflation forecasts.

Based on information available at 27 October.

Articles

The regulations on intermediaries issued by the Bank of Italy in implementation of the Consolidated Law on Financial Markets (*)

I The primary legislation

The Consolidated Law on Financial Markets (Legislative Decree 58/1998) came into force on 1 July 1998.

The decree is divided into three parts and comprehensively regulates securities intermediaries, financial markets and the centralized management of securities, and companies issuing securities widely held by the public.[1]

The part dealing with intermediaries covers “investment services” and “collective asset management”. Accordingly, it addresses the whole range of intermediaries eligible to do business in the securities field (SIMs, banks authorized to provide investment services, financial intermediaries entered in the special register referred to in Article 107 of the Banking Law for the investment services they are allowed to provide; stockbrokers, asset management companies and SICAVs).

As regards investment services, the regulation of which was modified in 1996 with the implementation of the investment services directive (Directive 93/22/EEC), the Consolidated Law does not contain major innovations, except as regards the system of reserved activities, with the extension to asset management companies of the right to provide the service of management on a client-by-client basis of investment portfolios, and the provisions on consolidated supervision.

The most important innovations concern the regulation of asset management services, which has been completely overhauled in order to make good the shortcomings in the earlier rules, notably: the limited scope for Italian intermediaries to diversify their product ranges (by adding new types of investment fund) and adopt organizational arrangements able to maximize the efficiency of their operations.

As regards product diversification, the Consolidated Law has removed the creation of new types of investment fund from the scope of primary legislation and made it a matter for secondary legislation.

In particular, the Minister of the Treasury is required to define the structure of investment funds by outlining the main characteristics of the various categories, with special reference to the types of assets to be invested in (listed securities, unlisted securities, real estate, etc.), the form of the fund (open or closed) and the types of investors to whom units are to be sold (individual or institutional investors).

(*) Prepared by the Financial Supervision Department.

As regards the organizational options open to intermediaries for the performance of their activities, the Consolidated Law promotes their independence. In particular, it:

a) allows asset management companies to engage jointly in the activities of management on a client-by-client and a collective basis;

b) allows asset management companies to separate their fund management and fund promotion activities, which can therefore be entrusted to other asset management companies;

c) provides explicitly for fund managers to be able to delegate specific investment choices to third parties within the framework of asset allocation criteria that they lay down.

As regards asset management on a client-by-client basis, the ban on banks and SIMs entrusting the performance of their management engagements to third parties, which had already been partly lifted by Legislative Decree 415/1996, has been completely eliminated; intermediaries may now delegate the management of all or part of a client's portfolio to third parties, provided they first obtain the client's consent in writing.

As regards supervision, the Consolidated Law confirms the division of responsibility according to the purpose of the controls: the Bank of Italy is responsible for carrying out prudential supervision, information monitoring and on-site controls with the aim of limiting risks and ensuring intermediaries' stability; Consob for ensuring transparency and proper conduct.

II The implementing regulations issued on 1 July 1998

On 1 July the Bank of Italy and Consob[2] issued regulations implementing the Consolidated Law. Although the new rules do not exhaust the tasks entrusted to the two supervisory authorities, they have allowed immediate effect to be given to the many innovations that the Consolidated Law introduced in the regulatory framework.

The regulations issued by the Bank of Italy and published in *Gazzetta Ufficiale* no. 120 of 11 July 1998 cover both collective asset management, with a complete revision of the earlier rules, and investment services, with the introduction of new rules on the depositing and subdepositing of customers' assets.

A) COLLECTIVE MANAGEMENT SERVICES

1. Authorization of asset management companies

The Consolidated Law has transferred responsibility for authorizing asset management companies from the Minister of the Treasury to the Bank of Italy; the Bank's regulations lay down the procedure to be followed in applying for authorization and the documents to be submitted with the application in order to demonstrate satisfaction of the statutory requirements. The documentation asset management companies have to submit under the new rules is less extensive than before but nonetheless includes information on the group to which they belong and their programme of activities and organizational structure.

2. Minimum share capital and capital adequacy of asset management companies

Under the Consolidated Law asset management companies receive a single licence that allows them to set up and manage funds of any kind. Accordingly, just one minimum level of share capital has been set, equal to 2 billion lire, whereas before there had been different levels according to the nature of the funds managed.

As regards capital adequacy, the new regulations relate the capital required to the value of the assets under management (0.5 per cent for open-end funds, SICAVs and pension funds; 2 per cent for closed-end funds; with additional capital required in the case of pension funds guaranteeing the repayment of principal). In any case the capital available must be equal to 25 per cent of the asset management company's fixed operating costs in the previous financial year.

3. Acquisition of qualified shareholdings in asset management companies and SICAVs

The regulations governing the control of the ownership of asset management companies and SICAVs provided for in the Consolidated Law have been implemented by introducing:

- the obligation to give advance notice to the Bank of Italy of the intention of acquiring or disposing of interests exceeding 5, 10, 20, 33 or 50 per cent of the capital of an asset management company and, regardless of the size of the interest, where the transaction results in control of the asset management company being gained or lost;
- special measures for SICAVs to take account of the fact that their capital is variable;
- the obligation to transmit, together with the above-mentioned notices, documents attesting the integrity of the persons intending to acquire the interests and their suitability with a view to ensuring the sound and prudent management of intermediaries.

4. General criteria for the minimum content of investment fund rules and their preparation

In order to allow asset management companies to benefit immediately from the changes in the regulation of collective asset management introduced by the Consolidated Law, the new Bank of Italy regulations on the preparation of investment fund rules have completely revised those previously in force.

In particular, since the Consolidated Law has allowed asset management companies to diversify their product ranges and to adopt more flexible organizational structures, the regulations prescribe a set of general criteria that are applicable to all the different kinds of funds and provide for the case in which a fund is managed by an asset management company other than the one that promoted it.

The provisions apply both to funds that were already regulated (open and closed-end securities funds and closed-end real-estate funds) and to those that asset management companies will be allowed to set up when the Minister of the Treasury has defined their structure and manner of operating.

In line with the contractual function performed by fund rules, which establish the terms of the agreement between unitholders and asset management companies, the elements prescribed in the regulations satisfy the need for clear and complete information to be given on the type of product offered and the persons involved in providing the service.

As regards the type of product, fund rules must define, among other things, the aims of the fund (objectives pursued, time horizon, etc.) and its characteristics and functioning (the assets in which it may invest, its duration and investment policies, etc.) and regulate the manner in which investors participate (issue and redemption of units, etc.) and all the relevant commissions, fees and expenses.

As regards the information to be provided on the persons involved in providing the service, fund rules must specify whether the management of the fund is entrusted to an asset management company other than the company that promoted it and, where appropriate, provide all the elements needed to identify such person or persons with certainty. As for the regulation of the dealings between the promoter and the manager of a fund, the fund rules must:

- clearly specify the functions attributed to each party;
- state that, regardless of the division of functions between the two parties, the promoter and the manager are jointly and severally answerable, according to law, to the participants in the fund.

5. Asset management companies' administrative and accounting procedures and internal control mechanisms

The Consolidated Law empowers the Bank of Italy to regulate the organizational arrangements of asset management companies, in the same way as for other intermediaries subject to its supervision. This innovation is especially important in view of the large increase in the range of management services such companies may now provide and the considerable latitude they have in choosing the operational models to adopt to perform their activities.

In this respect the new regulations contain provisions on:

- the organization of the dealings between the various players (fund promoter, fund manager, depositary bank and distributors) whose complementary functions interact in the production of management services. Broad guidelines are laid down concerning the organizational models intermediaries should adopt in the light of the functions they perform. The regulations also call for appropriate measures to be adopted to ensure adequate coordination of the various players;
- the organizational arrangements of individual asset management companies. In particular, stress is placed on the need for the governing bodies to provide continuous general guidance and control and for companies to equip themselves with adequate information systems and internal control structures. The latter must be independent of the companies' operating structures and their responsibilities must be clearly defined and approved by the board of directors.

At the same time as it provides for intermediaries to be able to outsource accessory and instrumental company functions, the Consolidated Law draws attention to the risks associated with this choice and consequently stresses the need to grant the governing bodies powers of control and intervention with respect to activities that are outsourced.

6. Connected and instrumental activities asset management companies may perform

In this field the Consolidated Law makes a break with the past by entrusting the Bank of Italy with the task of deciding which "connected and instrumental activities" asset management companies may engage in.

In order to build in flexibility, the regulations do not contain a list of eligible activities but define the concepts of "connection" and "instrumentality" and give examples of activities that satisfy these criteria.

In order to guarantee that SIMs and asset management companies providing management services on a client-by-client basis are treated equally, the regulations allow the latter to provide the same "accessory" services as the former.

7. Authorization and minimum initial capital of SICAVs

Since the Consolidated Law has transferred responsibility for authorizing SICAVs from the Minister of the Treasury to the Bank of Italy, the regulations, which broadly reiterate the provisions governing the authorization of asset management companies, lay down the procedure SICAVs are to follow and specify the documents to be submitted with the application for authorization.

The minimum initial capital requirement for SICAVs has been substantially reduced and set equal to that for asset management companies (2 billion lire).

8. Marketing in Italy of the units and shares of EU investment funds and SICAVs falling within the scope of Directive 85/611/EEC

The Consolidated Law has removed the regulation of the marketing of units of UCITS complying with Directive 85/611/EEC (referred to as “harmonized”) from the sphere of primary legislation and entrusted the task to the Bank of Italy. At the same time it has transferred responsibility for managing the related procedures from the Ministry of the Treasury to the Bank of Italy and Consob.

Accordingly, the regulations lay down:

- a procedure for entering the Italian market based, in accordance with Directive 85/611/EEC, on a notice sent in advance to the Bank of Italy and Consob and on the supervisory authorities' faculty to forbid the start of marketing before two months have elapsed where the conditions established in the Directive are not satisfied;
- rules governing the organizational model the UCITS must adopt, again in accordance with the above-mentioned Directive, to ensure participants can exercise their property rights in Italy.

9. Marketing abroad of the services of Italian asset management companies and SICAVs

In contrast with SICAVs, whose foreign operations may only consist in the marketing of their own shares, asset management companies may also provide asset management services on a client-by-client basis. Accordingly, the regulations establish rules:

- for the marketing abroad of the units of investment funds and the shares of SICAVs requiring intermediaries to give advance notice or obtain an authorization depending on whether the target country belongs to the European Union or not;
- for the marketing abroad of asset management services on a client-by-client basis (with or without the establishment of branches) requiring intermediaries to comply with a procedure analogous to that in force for SIMs wishing to open branches or operate under the freedom to provide services.

B) INVESTMENT SERVICES

The second set of regulations issued by the Bank of Italy covers the manner of depositing and subdepositing cash and financial instruments belonging to customers held by intermediaries operating in the investment services field. The aim of the regulations is primarily to guarantee the concrete application of the principle of separation between the assets of individual customers and between customers' assets in general and those of the intermediary.

The most important features of the regulations are:

a) the obligation to keep customers' positions separate at all times both from those of other customers and from those of the intermediary, with the assets of each customer recorded separately in the accounts;

b) the ban on intermediaries using customers' financial instruments, however held, in their own interest or in that of third parties, unless authorized in writing by the customer;

c) the obligation to deposit sums of money received from customers promptly with a bank, unless the performance of the engagement calls for the material delivery of the sums received and such delivery is imminent in view of the nature of the engagement to be performed;

d) the rules for the keeping of the accounts at subdepositaries in the cases where the subdepositing of customers' financial instruments is provided for.

Furthermore, since there are SIMs that may not hold customers' cash or financial instruments even temporarily, the regulations suggest an operational model for intermediaries to follow in choosing solutions able to satisfy this requirement.

Stockbrokers are authorized to hold customers' assets temporarily provided they comply with the provisions applying to SIMs and:

- periodically provide the Bank of Italy with information on the assets held on deposit for customers;

- engage a firm of auditors to verify their compliance with the provisions governing this matter at least once every three months.

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[1] For a detailed analysis of the innovations introduced by the Consolidated Law, see "The Consolidated Law on Financial Intermediation", statement by Pierluigi Ciocca, Deputy Director General of the Bank of Italy, before the Finance Committee of the Chamber of Deputies, in *Economic Bulletin*, no. 26, February 1998.

[2] With reference to the matters falling within the scope of Consob's authority, the adaptation of the regulatory framework to the provisions of the Consolidated Law was effected in Consob Resolution no. 11522 of 1 July 1998, published in *Gazzetta Ufficiale* no. 125 of 17 July 1998.

The regulations adopted in the Resolution concern:

- the procedure for the authorization of Italian investment firms (SIMs) to perform investment services and the rules for EU and non-EU investment firms wishing to enter the Italian market;
- the rules that intermediaries must comply with in providing investment and collective asset management services;
- the telemarketing of investment services and financial products;
- the register of financial salesmen and the regulation of their activities.

Speeches

Fact-finding preliminary to the examination of the budget for 1999

Statement by the Governor, Antonio Fazio,
to the Joint Session of the Fifth Committees of the Italian Senate and Chamber of Deputies

Rome, 28 October 1998

1. The macroeconomic framework

In the first half of this year economic activity slowed down sharply. The increase in output in real terms with respect to the preceding six months was very modest, amounting to 0.2 per cent. The stagnation in activity reflected a small rise in consumption, intense recourse to imports and moderate growth in exports. The low rate of increase in both current and expected demand held back the expansion in investment. Thanks to the economy's steady acceleration in 1997, output in real terms was 1.8 per cent higher in the first half of 1998 than in the same period in 1997; however, the expansion is plainly weaker than that recorded in the other European countries and the United States.

The available indicators of confidence signal considerable uncertainty over the development of economic activity. Orders and expected demand are tending to weaken in both the domestic and export components. The uncertainty also reflects the deepening of the international financial crisis during the summer.

Industrial production diminished between January and April, turned upwards in May and since then has basically stabilized at a level lower than the peak reached in December of last year.

The economy's performance to date has led to a revision of the official forecasts for growth this year. The expected increase in GDP has been reduced to 1.8 per cent, compared with the forecast of 2.5 per cent contained in the Economic and Financial Planning Document presented in April. For final consumption the estimated increase is now 1.3 per cent, against 1.8 per cent in the Document.

In the new macroeconomic context gross fixed investment is also seen as expanding more slowly, at a rate of 4.4 per cent, compared with the forecast of 5.3 per cent in April; the deceleration regards construction as well as machinery, equipment and transport equipment. So far the effects of the incentives introduced for residential building appear to have been smaller than expected; the impulse should prove larger in the second half of the year.

The forecast for export growth is now 6.0 per cent, against 6.8 per cent in the April Document; that for imports is 8.1 against 7.7 per cent.

There will have to be a marked acceleration in productive activity in the final part of the year if the GDP growth of 1.8 per cent hypothesized in the Forecasting and Planning Report is to be achieved. According to the available data, no such acceleration is under way.

2. The public finances in 1998

The Forecasting and Planning Report for 1998 set the target for general government net borrowing at 2.8

per cent of GDP, with a primary surplus of 5.6 per cent. The Government aimed at consolidating the significant gains achieved in 1997 and reducing the transitory component of the adjustment measures.

The budget correction needed to attain these objectives had been set in the autumn of 1997 at 25 trillion lire, equal to about 1.3 per cent of GDP. The passage of the Finance Bill and the accompanying legislation through Parliament left the overall amount of the adjustment unchanged but modified its composition; in particular, the curbs on social welfare spending were eased and social security contributions were increased. The instruments introduced in 1997 for controlling disbursements were confirmed; steps were taken to reduce the level of unspent appropriations, which had risen considerably in 1997.

In the quarterly Report on the Borrowing Requirement published in March the objective for net borrowing was lowered to 2.6 per cent of GDP. The change reflected not a further increase in the primary surplus, which was actually reduced to 5.5 per cent of GDP, but the downward revision of the estimate for interest payments from 8.3 to 8.0 per cent of GDP.

In the first nine months of the year, net of settlements of past debts and privatization receipts, the state sector borrowing requirement amounted to 59.1 trillion lire, compared with 51.5 trillion in the same period in 1997. The increase of 7.6 trillion was mainly due to the effects of the new regional tax on productive activities (IRAP) on the timing of tax receipts and to the possibility of paying the main self-assessed taxes in instalments. These measures postpone some tax receipts to the fourth quarter.

The course of developments appears consistent with substantial achievement of the objectives for 1998 for the general government accounts. Net borrowing should fall slightly, from 2.7 per cent of GDP in 1997 to 2.6 per cent, while the primary surplus should shrink by 1.3 percentage points from the 1997 figure of 6.8 per cent of GDP.

The effects of the budget measures and the significant reduction in interest payments are offsetting the expansionary momentum of some expenditure items and the disappearance of some of the revenue-side effects of the temporary measures included in the 1997 budget.

The forecasts for the public finance balances in 1998 also reflect factors that could adversely affect the accounts for 1999.

The slowdown in economic growth has attenuated the growth in revenue. Receipts from the regional tax on productive activities have been lower than expected. However, the difference has been made up by larger receipts from other taxes, attributable in part to a shift in consumption towards durable goods, which are taxed at a higher average rate, and in part to the greater efficacy of the set of reform measures introduced in recent years. On the expenditure side, the rate of increase in outlays has been temporarily curbed by the changeover from two-monthly to monthly pension payments; for the current year, this entails a significant postponement of disbursements.

The reduction in the ratio of tax and social security receipts to GDP is likely to be smaller than planned, amounting to around 1 percentage point instead of 1.3. The decline is due to the lapsing of the one-off measures introduced in 1997 and to the effects of the fall in interest rates on receipts from withholding tax on interest income from government securities and bank deposits.

The GDP ratio of primary expenditure, i.e. net of interest payments, is likely to rise by around half a percentage point, compared with the Planning Document’s forecast of 0.2 points, notwithstanding the postponement of pension payments mentioned earlier. The increase reflects a high rate of growth in current expenditure. The Report on the Borrowing Requirement indicates that primary current payments of the public sector have outpaced the growth in nominal GDP and increased by 6.3 per cent in the first half of the year compared with the corresponding period of 1997.

According to the Forecasting and Planning Report, the ratio of the public debt to GDP should fall more sharply than it did last year, declining from 121.6 to 118.2 per cent.

3. The public finance targets for 1999

The macroeconomic framework for 1999 is less favourable than that set out in the Economic and Financial Planning Document in April.

The growth forecast of the Forecasting and Planning Report has been lowered from 2.7 to 2.5 per cent. As with 1998, the expected increase in households' consumption has been revised down, from 2.3 to 2.1 per cent. An expansionary impulse is expected to come from collective consumption; the rate of growth in imports is forecast to be higher and that in exports lower.

The target for growth appears ambitious. The Italian economy will not be able to attain a growth path significantly higher than 2 per cent in the absence of a decided improvement in the international situation. This requires a rapid restoration of confidence in the financial markets, a recovery in Asia, above all in Japan, now gripped by recession and deflation, and a correction of the macroeconomic imbalances afflicting several large countries of Latin America.

Achieving the objectives of growth established in the Forecasting Report will depend on continued and stepped-up action along the lines indicated in the official programmes: more flexible employment conditions, to be agreed by the social partners, and the provision of tangible and intangible infrastructure to foster business investment, especially in the South.

The Forecasting Report for 1999 confirms a net borrowing target equal to 2.0 per cent of GDP and a primary surplus of 5.5 per cent. The planned adjustment to the primary surplus remains equal to 8 trillion lire, or 0.4 per cent of GDP. A contribution to containing the overall deficit will come from interest payments: the dynamics of interest rates should produce additional savings of at least 5 trillion lire with respect to the indications contained in the Planning Document.

The ratio of interest expenditure to GDP has fallen steadily from a peak of over 12 per cent in 1993. In 1999 it is forecast to be just above 7 per cent. Of the fall of 7.5 percentage points in the ratio of net borrowing to GDP, around 5 points are attributable to the reduction in interest rates. Additional savings, on the order of 2 points, could come over the next five years from the gradual alignment of the average cost of the debt with market interest rates. In the longer term, the reduction in interest payments will depend solely on the ability to reduce the amount of the debt.

4. The budget measures

The composition of the adjustment to the primary balance, amounting to 8 trillion lire, is slightly different from that outlined in the Planning Document; it envisages 9.6 trillion in spending cuts and 5.1 trillion in of additional revenue. This action to reduce the deficit creates room for new social welfare and development measures totaling 6.7 trillion lire.

The estimate of the measures given in presenting the budget does not include several allocations for social policies and development, totaling some 1.8 trillion lire, which are offset by specific additional measures to increase revenue and reduce expenditure by a corresponding amount. In all, resources amounting to 8.5 trillion are earmarked for social policy and development programmes.

The net effects of the budget measures are estimated at 2.8 trillion lire on the revenue side and 5.2 trillion on the expenditure side.

The planned correction of 2.8 trillion lire on the revenue side consists of measures designed to increase receipts by 6.4 trillion and social policy and development interventions likely to decrease them by 3.6 trillion.

Most of the expected additional revenue is to come from the sale by INPS of claims to unpaid social security contributions: 5.3 trillion lire in 1999 and 5.9 trillion in 2000 and 2001. By its nature, this measure does not generate permanent revenue. The other measures basically concern the licence fees due from firms for operating public utilities, which are expected to bring in 1 trillion lire in 1999 and 100 billion in each of the two subsequent years, and a plan for the disposal and better management of state-owned real estate, expected to yield 100 billion.

The refunding of 60 per cent of the special tax for Europe is envisaged. The refund, which will be included in calculating the year-end balance of 1998 liabilities for employees and will be set off against tax payments due from January 1999 onwards for persons with VAT accounts, will reduce revenue by 3 trillion lire in 1999.

Additional relief from registration tax and VAT for the purchase of one's principal dwelling is granted. Income tax on small pensions is reduced; the tax credit for pensioners with annual income of up to 18 million lire is increased, and the welfare component of pensions topped up to the minimum level will be exempt from personal income tax. Some stamp duties and licence fees will be eliminated.

For subsequent years the budget package includes other measures and delegations of power to the Government that should leave overall fiscal revenue unchanged. One set of measures is basically aimed at reducing the environmental impact of economic activity through a reallocation of the fiscal burden. The excise duties on mineral oils are to be gradually remodeled and a tax on the combustion of fossil fuels in large plants will be introduced; the additional revenue is to be used to reduce the incidence of social security contributions on labour costs and lower the surtax on motor vehicles with diesel engines and the tax on heating oil in some parts of the country, to introduce a tax credit for hauliers, and to encourage energy efficiency.

Furthermore, the Government is delegated to issue one or more legislative measures revising the tax treatment of supplementary pension plans, life insurance policies and severance pay within nine months of the entry into force of the legislation accompanying the Finance Law; these measure must not impose any additional burden on the budget. Most of the transfers to the regions will be replaced by a revenue-sharing scheme for VAT and the excise on petrol. The Government is also entrusted with the task of revising the financing of the regions and the mechanism for offsetting inter-regional fiscal imbalances. The reform can be the occasion for better distributing tasks among the various levels of government. Finally, the additional receipts expected from the fight against tax evasion, defined as the increment in revenue exceeding that forecast each year, will be earmarked as appropriate to a permanent restructuring of income taxes.

For 1999, the official valuation calls for net expenditure savings of 5.2 trillion lire, with spending cuts of more than 10 trillion and additional outlays of 4.8 trillion. Part of the savings, 2.4 trillion lire, will come from budget reductions, including restrictions on purchases of goods and services by government departments that the Finance Bill imposes on individual ministries under current legislation. Transfers to regions and other local authorities will be reduced by 2.2 trillion lire. Under the internal stability pact these authorities are required to contribute to the achievement of the public finance targets by reducing their net borrowing by 0.1 per cent of GDP annually for the next three years. Transfers to the State Railways will be reduced by 700 billion lire and those to the Post Office by 500 billion. Additional savings of 1.2 trillion lire are expected from the extension to schools of the controls on current outlays already in effect for universities and research institutions. Payments should be reduced by 1.35 trillion lire as the result of a revision of the procedures for crediting banks with the contributions provided for by investment subsidy programmes.

Rationalization in social security and curbs on health spending should bring outlay reductions of 400 and 600 billion lire respectively. The requirement of authorization for hiring will be extended to all government departments and this, together with greater recourse to part-time employment and trainee contracts and reduced appropriations for overtime, is expected to produce staff cost savings of 450 billion lire. Other spending items are to be cut by a total of 250 billion.

The reductions in expenditure are partially offset by additional income support for the needy. Specifically, the old age welfare benefit and the allowances for families with three or more dependant children will be increased and the fixed prescription fee for some classes of health service patients will be abolished.

Finally, additional outlays of 2.5 trillion lire are allocated to investment in infrastructure and reconstruction in areas recently struck by natural disasters. Another 1 trillion lire is appropriated for specific intervention in sectors of key importance for economic growth and employment.

The programme for the reduction of the public debt will benefit in 1999 from extraordinary receipts of about 6 trillion lire as the Treasury's share of the profits realized by the Italian Foreign Exchange Office as a consequence of the transfer of foreign currency reserves to the Bank of Italy and the imputation to the profit and loss account of previous allocations to provisions.

This operation is an integral part of the transformation of the Foreign Exchange Office provided for by Legislative Decree 319 of 26 August 1998.

The funds to be transferred to the Treasury are the fruit of large-scale allocations in recent years deriving from the profits of the Office on the investment of the foreign exchange reserves.

At this point, with your permission, I should like to undertake a more specific examination of this issue, in relation to the debate that has been conducted in recent weeks.

Under the rules in effect until 30 September, the Italian Foreign Exchange Office held the country's foreign currency reserves, which it managed in the national interest on the basis of criteria of liquidity and yield. The Office was funded through a current account with the Bank of Italy, bearing a rate of interest related to the yield on the reserves.

Gold reserves have always been managed by the Bank of Italy itself, which also has a limited portfolio of reserve currencies for prompt foreign exchange market intervention.

In managing the reserves, when amounts are limited the emphasis is placed on liquidity. When amounts are substantial, yield becomes increasingly important.

At the end of 1992 the total gold and foreign exchange reserves of the Bank of Italy and the Italian Foreign Exchange Office amounted to $56.5 billion, but of this $23.2 billion was in gold. As virtually all of the foreign exchange reserves originated from short-term borrowings by the Bank and the Office from banks and financial institutions, net reserves amounted to just $5.7 billion. The laborious task of replenishing Italian reserves not derived from borrowing was begun. At the end of 1994 net foreign currency reserves, excluding gold, were $10.5 billion; by the end of 1996 they had increased to $30 billion; and at the end of 1997 they stood at $46.8 billion.

The need for more dynamic management to improve the return on reserve assets became more impellent, bearing in mind that the gold reserves are non-interest-bearing.

The Board of Directors of the Italian Foreign Exchange Office regularly issued general directives governing the management of reserves.

The reserves had always been invested with financial intermediaries of the highest international standing. In 1991 it was decided that a very small part could go into more dynamic investments, known as pilot portfolios. These assets too were entrusted to intermediaries of top international repute; they were managed more dynamically, with good results. On 30 September $600 million, or 1 per cent of Italy's official reserves, were invested in such assets, divided into five pilot portfolios.

In February 1994, after the requiste fact-finding, it was decided to invest $100 million in the Long Term Capital Management investment fund. The operation was conceived as part of the pilot portfolio programme. The intermediary enjoyed high esteem in the New York financial market and among the central banks participating in the Bank for International Settlements.

Investments in Long Term Capital Management can be redeemed every three years, with advance notice.

Given the exceptional performance of the financial markets, between 1994 and the first part of 1998 the investment generated high returns for the Fund's investors.

Overall, in the three years from 1994 through 1996 the Italian Foreign Exchange Office received $105.8 million in profits from Long Term Capital Management. At the end of 1996 the Office confirmed its participation. It also subscribed $150 million in bonds issued by the Fund, maturing 31 December 2000, at an interest rate higher than LIBOR. The Office received another $17.2 million at the start of 1998 as earnings on its $100 million investment in 1997; interest on the bonds was paid on schedule.

The summer of 1998 witnessed the grave, systemic crisis of the international financial markets, which now threatens the Office with the loss of a large part of the $100 million investment.

Given the rescue plan for Long Term Capital Management that has been undertaken by a group of international banks at the request of the Federal Reserve, no problem has yet arisen with the regular debt service payments on the $150 million in bonds.

As far as the capital investment of $100 million is concerned - the loss on which, let me repeat, could come to a very large part of the total investment - the Italian Foreign Exchange Office has already taken in $122.9 million in profits, credited over the years to its profit and loss account.

Through 30 June 1998 a total of $17.7 million had been received in interest on the bond holding.

According to the statement by Alan Greenspan, Chairman of the Federal Reserve, to Congress on 1 October, it is the intention of the committee of new investors that has undertaken the refinancing, retaining the previous managers in view of their high moral and professional standing, to “shrink LTCM’s portfolio so as to reduce risk of loss and return the remaining capital to the investors as soon as practicable. I do not rule out the possibility that the new owners of what is left of LTCM may decide to keep part of it in business.”

For the sake of completeness, let me recall that the return on the Italian Foreign Exchange Office’s foreign currency reserves was 4.3 per cent in 1997, which as in the past was in line with market conditions and the yields of comparable portfolios.

On 1 October the reserves were transferred to the Bank of Italy. The Foreign Exchange Office has now become an instrumental entity of the Bank’s. In addition to its specific tasks under the laws on money laundering and usury and the gathering of balance-of-payments statistics, the Office will act as the Bank’s agent in implementing its reserve management strategy.

5. An evaluation of the budget for 1999. Prospects

The distinctive feature of the budget for 1999 is the effort to reactivate public investment, stimulate economic growth and provide support to people contending with severe economic hardship. The delegations of legislative authority concerning taxation and decentralized finance should help to make public action more efficient. These are important steps that need to be properly implemented and consolidated.

The budget does not appear to affect the medium-term trends of receipts and payments; the decisions regarding the revision of the levels of expenditure and taxation are put off to subsequent years.

Most of the expenditure savings are entrusted to reductions in budgetary allocations and transfers to non-state public bodies on the one hand and the extension of disbursement controls on the other, without affecting the norms regulating the activity of the various sectors. The achievement of the planned reduction will depend on the behaviour of administrators.

The curbs on transfers to non-state public bodies could imply tax or public service charge increases at the regional or local level. The reduction in contributions to the State Railways and the Post Office could lead to increased borrowing or the imposition of higher charges by these entities.

Temporary increases in revenue, besides compensating for the partial refunding of the tax for Europe, account for more than one third of the deficit reduction. In the absence of more resolute action on the spending side, this choice, which avoids a permanent increase in the tax rates, minimizes the impact of the deficit reduction on economic activity. But only a structural containment of expenditure can permanently ensure fiscal equilibrium and the easing of the tax burden.

The overall contribution to deficit reduction of measures with transitory effects will decline to 0.2 per cent of GDP, compared with 0.6 per cent this year.

In 1999 the tax burden will diminish marginally according to our estimates, although these do not take account of the increase in taxation at the local level that, as mentioned, could result from the planned reductions in transfers to non-state public bodies. It will remain at around 43 per cent of GDP, one percentage point below the peaks recorded in 1993 and 1997.

The rate of growth in primary expenditure in 1999 should not diverge from that in GDP.

The uncertainty bearing on some of the public finance results for the current year, the development of cyclical conditions in 1999 and several components of the budget package examined here necessitate careful monitoring of revenue and expenditure so as to correct any overshooting promptly.

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With 1997 the phase in which Italian budgetary policy aimed primarily at meeting the requirements for participation in the single currency came to a close. General government net borrowing was brought back below the limit of 3 per cent. The growth in the debt-to-GDP ratio was halted and a start made on reducing it. The action to adjust the public finances relied significantly on revenue increases, some of them temporary, and constraints on disbursements; major structural reforms were begun.

After the pause for consolidation this year, the action planned for 1999 reflects the commitment undertaken with the Stability and Growth Pact to move as quickly as possible towards budgetary balance or surplus. The Planning Document for the three years from 1999 to 2001 has outlined a path of gradual deficit reduction which on a current programmes basis is consistent with that commitment.

The recommendations contained in the European Monetary Institute’s Convergence Report call on the countries with high public debt ratios to reduce the debt rapidly. In this regard, it is essential that the primary surplus remain at least equal to 5.5 per cent of GDP.

The launch of the single currency opens a new phase in which fiscal consolidation will have to be complemented by greater attention to the profound impact that the size and structure of the budget have on economic activity, growth and employment.

The reduction in the ratio of tax revenue to GDP, which presupposes the curbing of expenditure, must proceed in conjunction with improvements in the budget balance. This is the condition for bringing the Italian economy back to a rate of growth at least equal to those of the other leading industrial countries.

In the medium term, reducing the tax pressure is essential to remove the factors that brake individuals’ and firms’ propensity to work and invest; in the context of increasing international integration, it will make the Italian economy more competitive.

The tax reforms introduced in 1998 move in the right direction. They make the tax system more neutral from the point of view of resource allocation, broaden the tax bases, restrict the possibilities of evasion and simplify the administrative obligations imposed on the public. The overall fiscal burden on the Italian economy remains disproportionately high for the new configuration of international economic relations.

Deeper tax cuts require curbs on the growth in spending. What is needed is a structural adjustment of expenditure that cuts out waste and alters the current trends by modifying the rules and practices that determine the level of social security and welfare benefits, the beneficiaries, and the quality and quantity of public services.

Following the passage of the Finance Bill, the new phase of economic policy must be characterized by a determined effort to lead the public finances onto a path that is sustainable in the medium and long term as well, thereby helping to improve the population's expectations and reducing the uncertainty that stems from repeated budget adjustments.

The structural adjustment of current expenditure must expand the scope for investment in infrastructure; the administrative and financial constraints that now impede the execution of projects must be eliminated. The level of economic activity will benefit with the immediate creation of new jobs. The efficiency gains and the greater competitiveness of the economy will consolidate and reinforce the growth in employment.

Table 1

State sector balances (1)
(billions of lire and percentages)

	Year			First 9 months	
	1995	1996	1997	1997	1998 (2)
Primary balance (surplus: –)	**68,130**	**66,284**	**–126,304**	**85,139**	**–61,000**
as a percentage of GDP	*3.8*	*3.5*	*–6.5*		
Borrowing requirement net of settlements of past debts and privatization receipts	**126,869**	**128,799**	**52,720**	**51,523**	**59,052**
as a percentage of GDP	*7.2*	*6.9*	*2.7*		
Settlements of past debts (3)	4,085	13,502	–409	1,871	2,042
Privatization receipts (4)	–8,354	–6,226	–21,179	–4,666	–8,151
Total borrowing requirement	**122,600**	**136,074**	**31,131**	**48,728**	**52,943**
as a percentage of GDP	*6.9*	*7.3*	*1.6*		
FINANCING					
Medium and long-term securities	88,649	126,909	99,003	92,240	93,783
Treasury bills in lire and ecus	–1,506	–27,453	–82,310	–57,560	–23,982
Treasury current accounts with BI	–8,195	17,370	–3,020	–7,248	–6,296
Other BI-UIC financing	–244	304	435	607	232
Post Office funds	15,791	13,229	11,635	8.618	2,076
of which: current accounts	*–735*	*–1,219*	*–630*	*653*	*–3,650*
Bank lending	2,254	–9,858	1,136	5,186	–4,529
Other domestic financing	253	194	194	175	274
Foreign loans	25,598	15,380	4,059	6,707	–8,616

(1) Based on Eurostat accounting rules. – (2) Provisional data. – (3) Includes Local Health debts and the early redemption of a bond loan granted to IRI by Deposits and Loans Fund. – (4) Includes Treasury purchases of shareholdings in STET drawing on the sinking fund for the redemption of government securities: 3,000 billion lire in 1996, 13,500 billion lire in 1997 and 8,166 billion lire in 1998.

Table 2

Estimated effects of the 1999 budget
(billions of lire)

REVENUE	
1. Increase in revenue	**6,426**
– *Accelerated collection of INPS receivables*	*5,300*
– *Telecommunications licence fees*	*1,010*
– *Sales of real estate*	*100*
– *Other*	*16*
2. Social and development policies	**–3,661**
– *Partial refund of the special tax for Europe*	*–3,000*
– *Tax relief for housing*	*–130*
– *Tax relief for pensions*	*–360*
– *Abolition of stamp duty and taxes on government licences*	*–171*
Total revenue (net increase in revenue)	**2,765**
EXPENDITURE	
1. Reduction in expenditure	**10,038**
– *Budget on a current programmes basis*	*2,390*
– *Accompanying measures*	*7,648*
– Public employment	447
– Domestic stability pact	2,200
– Monitoring of school outlays	1,200
– Revision of investment procedures	1,350
– Rationalization of the social security sector	386
– Measures affecting the postal sector	520
– Reduction in transfers to the State Railways	700
– 5% reduction in purchases of goods and services	200
– Curbs on expenditure on pharmaceuticals	450
– Savings on physicians who also work privately	145
– Other	50
2. Social and development policies	**–4,800**
– *Support for investment and reconstruction*	–2,500
– *Sectorial policies*	–1,000
– *Increase in pensions and welfare payments*	–430
– *Allowances for families with three or more children*	–390
– *Abolition of the fixed portion of health charges*	–450
– *Other minor items*	–30
Total expenditure (net reduction in expenditure)	**5,238**
Total reduction in primary net borrowing	**8,003**

Table 3

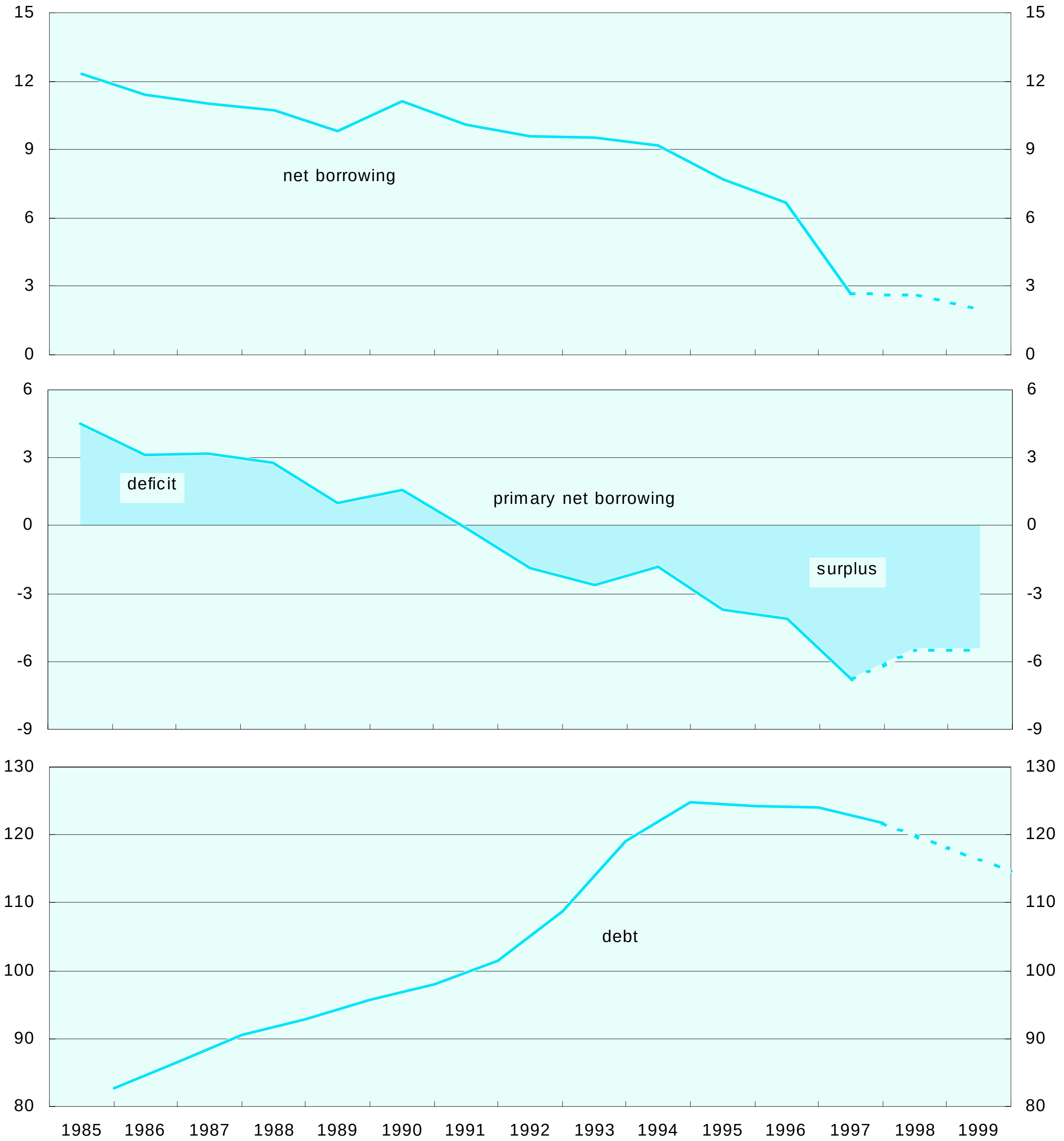
The public finances: outturns and objectives

	1997	1998	1999	1997	1998	1999
		Billions of lire			As a percentage of GDP	
State sector						
Borrowing requirement (1)	52,602	52,700	45,210	2.7	2.6	2.1
Interest payments	179,024	159,400	152,650	9.2	7.8	7.2
Primary balance (surplus: –)	–126,422	–106,700	–107,440	–6.5	–5.2	–5.0
General government						
Current balance (surplus: –)	2,632	–10,400	–31,700	0.1	–0.5	–1.5
Net borrowing	52,220	52,500	43,600	2.7	2.6	2.0
Interest payments	185,163	163,900	160,000	9.5	8.0	7.5
Primary balance (surplus: –)	–132,943	–111,400	–116,400	–6.8	–5.5	–5.5

Sources: *Documento di Programmazione economico-finanziaria per gli anni 1999-2001*.
(1) Net of settlements of past debts and privatization receipts.

Figure 1

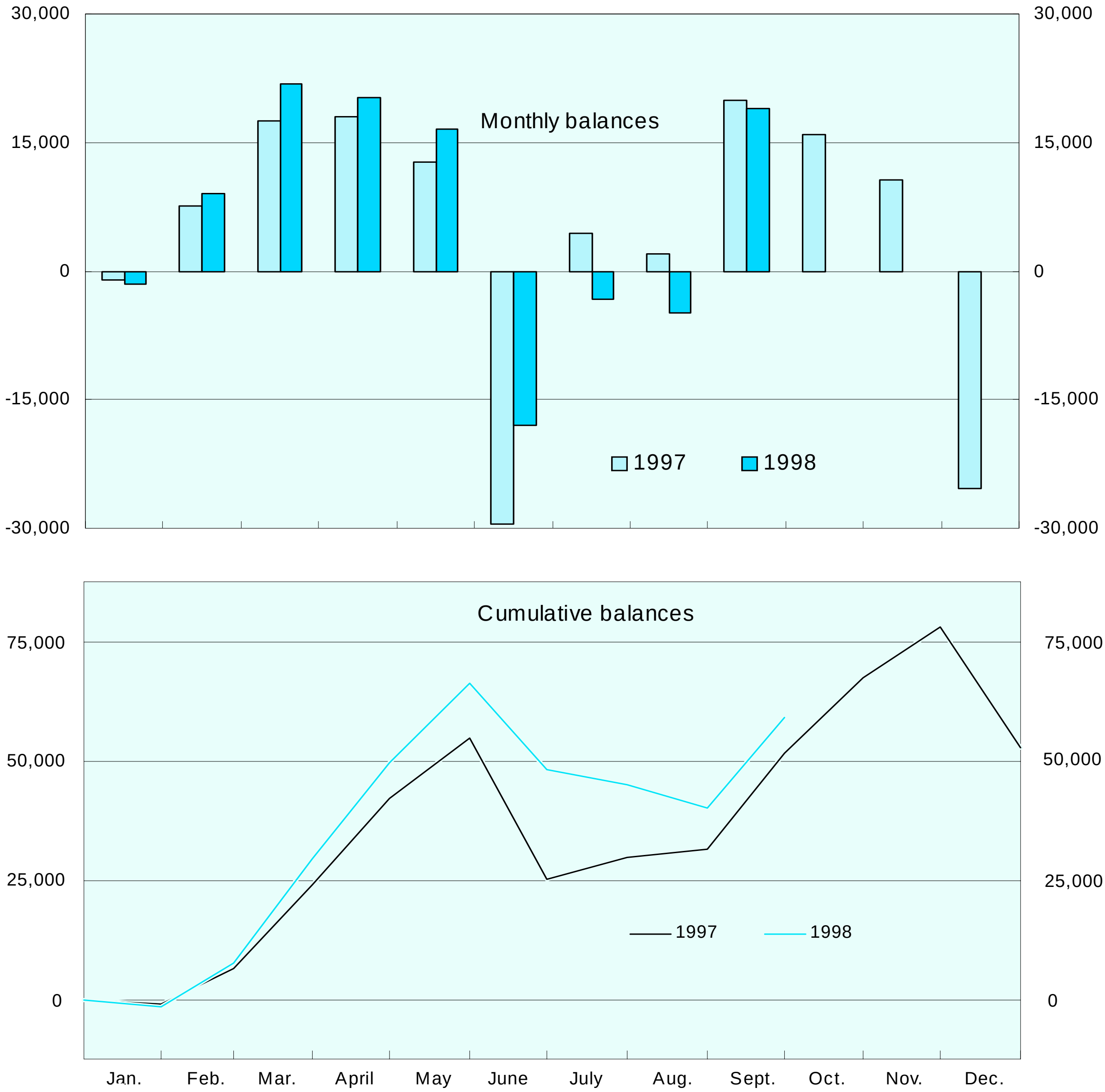
General Government net borrowing, primary balance and debt (1)
(as a percentage of GDP)



(1) For 1998 and 1999 forecasts published in *Documento di programmazione economico-finanziaria (1999-2001).*

Figure 2

State sector borrowing requirement in 1997 and 1998 (1)
(billions of lire)



(1) Net of settlements of past debts and privatization receipts.

Figure 3

General Government revenue, social services expenditure and gross investment
(as a percentage of GDP)

Address by the Governor, Antonio Fazio,

to the Association of Italian Savings Banks on the occasion of the 74th World Savings Day

Rome, 31 October 1998

The financial crisis that exploded in Asia in the middle of 1997 and then became global is now affecting the European economy, including Italy's.

Economic activity expanded briskly in Europe in the first half of 1998. Compared with the same period in 1997, GDP grew by 3.2 per cent in France and by 2.9 per cent in Germany.

In Italy it grew by 1.8 per cent.

Investment is still sluggish in Germany, whereas in the United States it is racing ahead at an annual rate of 12 per cent and GDP is growing at a rate of close to 4 per cent.

The underlying cause of the crisis and the reason for its persistence lie in the poor performance of the economy in Japan, where investment is falling at a rate of 8 per cent and GDP at a rate of 2.7 per cent.

Signs of deflation are increasingly visible; the problems of the banking system are growing worse. The intermingling of the financial and industrial sectors has lowered the quality of credit in many Asian countries.

The collapse of commodity prices triggered the crisis of the ruble in August, in an economy suffering from severe structural disequilibria and institutional shortcomings. At times the risk of the crisis spreading to the countries of Latin America has been very great.

The slowdown that occurred in the European economies during the summer has been paralleled in Italy until now by the virtual stagnation of industrial production, which is still below its level at the end of 1997.

The recovery in economic activity in 1997 has had a positive effect on employment; between January and July of this year there were 80,000 more persons in employment on average than in 1997; most of the increase was in the South of Italy.

The spread of more flexible forms of employment has helped: in manufacturing there has been an increase in the proportion of workers with fixed-term contracts, especially for short periods; in the services sector the use of part-time contracts has grown.

The problem of work is at the centre of attention.

The labour market is highly segmented in Italy. Beside protected workers with regular jobs there are large numbers, especially in the South, with jobs that are irregular with respect to the conditions laid down in collective agreements and often with respect to the laws and regulations concerning social security contributions, taxation and workplace safety.

Official estimates indicate that irregular workers make up 31 per cent of the total workforce in the South; this is probably an underestimate. In some sectors of production the proportion of irregular workers tops 50 per cent.

The unemployment rate recorded by Italy's Central Statistical Institute is 6.9 per cent in the Centre and North of the country and 22.5 per cent in the South. Among women it is much higher.

The situation of distress with regard to employment is better expressed by the ratio of persons in employment to those of working age. This index, which includes a large number of irregular workers, is equal to 51 per cent for Italy as a whole and to 40 per cent for the southern regions. It is equal to 63 per cent in France and to 59 per cent in Germany, even though the unemployment rate there is much the same as in Italy. The ratio rises to 73.5

per cent in the United States, reflecting the rapid growth of the economy. Prolonged exclusion from work is harmful to human capital, especially among the young.

The organization of work in firms is gradually becoming more flexible in terms of shifts, working hours and the duration of the relationship.

These changes reduce the time it takes for employment to adapt to demand and link labour costs more closely to seasonal and cyclical fluctuations; they have helped to sustain the level of employment.

Achieving higher and less fitful rates of economic growth remains an essential condition for a large and lasting increase in employment

The existence of a large proportion of irregular work is first of all evidence that a broad range of activities are not economically viable when carried out in compliance with national labour contracts and the related contributory and tax obligations. The market tries to find its own equilibrium through grey work. This, however, is deleterious for the efficiency of the economy as a whole because it distorts competition; its effects on civil society are even more pernicious.

Failure to comply with the rules laid down in collective agreements brings workers, especially young ones, into proximity with illegality; it deprives them of the dignity that a legal and lasting employment relationship gives, even when the level of pay is low

Negotiations between employers and the trade unions must seek to establish, in the first place for the young and in the South, conditions that are less onerous for firms than those agreed at the national level.

In several regions the two sides of industry, with encouragement from the authorities, are already working hard to attain this goal. The significance of a positive outcome of these efforts goes beyond the purely economic sphere; it is valuable for civil society as well.

For many years unit labour costs rose faster in Italy than in the other industrial countries. The gap widened again in 1996, especially in comparison with Germany and France.

The rigorous stance of monetary policy and resolute action to curb the budget deficit have succeeded in bringing inflation expectations down towards the levels prevailing in the countries with more stable currencies. This has had a beneficial effect on labour cost dynamics, with contract renewals tending to limit wage settlements to the lower expected rise in the cost of living and to focus increasingly on regulating the manner in which work is performed.

The growth of the Italian economy nonetheless continues to fall short of that achieved by the other countries of continental Europe, the United Kingdom and the United States. The gap has its origin in factors that discourage investment.

The growing tendency for Italian firms to move production to areas and countries where taxation and labour costs are lower is symptomatic. In some sectors such action nonetheless has a positive side, insofar as it contributes to the defence of market share and domestic employment by permitting a more efficient specialization of production.

The Italian banking system, on a par with its counterparts in other industrial countries, has withstood the wave of instability provoked by the international financial crisis.

The system’s solid capital base, its limited exposure to emerging economies and the Bank of Italy’s careful supervision have all played a part. Aside from internal inefficiencies, the instability endemic to southern banks is to be attributed to the serious crisis that has afflicted the economy of the Mezzogiorno in recent years.

Between 1992 and 1997 the GDP of the southern regions grew by only 1.7 per cent; public and private investment contracted; employment fell sharply and consumption slowed.

The major banks, already burdened by high costs and suffering from organizational and operational deficiencies, were unable to cope with the difficulties engendered by the sudden ending of special development measures and the fall in industrial activity.

The action taken by the Bank of Italy and the Treasury, in some cases with the intervention of Parliament, prevented the crisis of the southern banking system from precipitating and has laid the foundations for a recovery of its efficiency.

With the complete opening of banking and financial markets in Europe, numerous foreign intermediaries, mostly from other European countries, have entered the Italian market and are providing innovative corporate finance and asset management services. The ability of Italian banks to provide new services in other European countries remains limited.

There has been a growing tendency for important foreign banking groups to acquire significant equity interests in Italy's leading banks.

On more than one occasion we decided not to allow investments in excess of 5 per cent of the bank's capital in order to ensure its sound and prudent management or to prevent the letter and the spirit of its bylaws from being violated. Larger acquisitions would have hindered reorganization plans aimed not only at improving efficiency but also at allowing banks to achieve a size that would enable them to compete more effectively in the new conditions of international openness.

Where the presence of significant foreign shareholdings fostered or strengthened plans for the consolidation of Italian banks, the initiatives have been welcomed. Three important merger operations involving major banks have already been completed in this way, leading to the creation of groups whose size is also satisfactory from the standpoint of international competition. Plans for further aggregations, constantly monitored by the Bank's Supervision Department, are being drawn up.

The privatization of the banking system is moving ahead rapidly; the share of publicly-owned capital in the banking system as a whole has fallen from 60 per cent at the end of 1993 to 25 per cent today. Operations now under way will further reduce this figure.

Acting in accordance with the repeated promptings of the supervisory authority, banking foundations have taken the initiative in promoting the creation of stable groups of Italian and foreign core investors to which to sell significant portions of their shareholdings.

The first benefits of the reorganization of the banking system are beginning to appear in banks' profit and loss accounts. Basically stable earnings from credit business have been accompanied by a sharp rise in income from services.

The action taken to curb costs has improved overall profitability. Although net interest income declined with the narrowing of the spread between lending and deposit rates, the return on equity improved considerably in the first half of 1998 compared with the same period in 1997, rising from 1 per cent to nearly 8 per cent on an annual basis. Some of the improvement, however, was due to temporary factors connected with the favourable performance of financial markets; income from asset management could decline in the second half of the year. The strong growth in revenues resulted in the ratio of total labour costs to gross income falling significantly.

The robustness of the Italian economy has its origins in the high level of actual and potential saving. An efficient banking and financial system is essential in order to transform saving into domestic investment, to the benefit of growth and employment, and to prevent an excessive share of resources from being channeled to other economies.

Between 1993 and 1997 a string of balance-of-payments surpluses allowed Italy to repay its net foreign debt completely. This is one of the fundamental factors in the return to monetary and financial stability.

Italy is about to become a net creditor. The major improvement on this score has been achieved in a context marked by a lack of effective demand, sub-optimal growth and high unemployment.

The meeting of the Group of Seven Finance Ministers and Governors held in Washington at the beginning of October produced a commitment to stimulate economic activity in Japan and to sustain and strengthen growth in North America and Europe.

In the United States the economy and employment continue to expand in conditions of monetary stability. I have already mentioned the rapid rise in investment, a key aspect of confidence in the prospects for growth. The US economy suffers from a persistent shortfall of saving, but it is able to attract enough from the rest of the world to finance its investment.

The European Union has an external current account surplus on the order of $100 billion, more than 1 per cent of the area's GDP. The growth in investment, although not negligible, is showing signs of faltering as the world financial crisis continues and deepens. Employment is stagnant and unemployment rates are still high.

Support for domestic demand drawing on the excess of actual and potential saving is desirable and possible, without running counter either to the objectives of monetary control or to the reduction in public debts.

In Japan economic activity and investment are contracting, prices are falling and the balance of payments continues to register growing surpluses. Domestic demand needs to be stimulated with expansionary fiscal measures; the Japanese authorities have made explicit commitments in this respect. Halting the decline in economic activity and reviving growth will also benefit the public finances; it will help to shore up the value of a growing proportion of bank credit, which risks becoming uncollectible, and to raise the level of economic activity in numerous neighbouring countries.

The ability of monetary policy to stimulate the area's economy has already been exhausted. Further monetary expansion, although of help in meeting the banking system's liquidity needs, would have no effect on consumption or investment since interest rates are already close to zero. The plan, on a huge scale, aimed at defending the solvency of the banking system has bolstered the yen but, in the absence of a recovery in economic activity, is not sufficient to guarantee the objective of restoring the banks' accounts to health.

Just over a year ago, in the spring of 1997, the IMF predicted that the world economy would expand by around 4.2 per cent in 1998; today, the growth expected is less than half that figure.

North America, Europe and Japan account for about half the world economy. A prompt and effective translation into action of the commitments entered into by governments at the international level can prevent a widespread decline in economic activity.

The outlook for the Italian economy, which has so far performed unevenly and less well than expected, depends to a significant extent on how the international situation develops. The existence of idle resources and an excess of saving means there is scope for faster growth.

The expansion in investment appears to be smaller than forecast in the spring. This could lead to a slowdown in consumption and a worsening of the outlook for employment.

In the areas where youth unemployment is highest the action to promote contracts that substantially reduce labour costs with respect to the national average must be stepped up.

New impetus must be given to public works and infrastructure investment, which has been seriously held back in the last few years by problems related to the emergence of episodes of corruption, the inadequate project development capability and the shortage of financial resources. Appropriate initiatives on the part of local and central government could stimulate the participation of private capital in the financing of public works.

The results of a recent Bank of Italy survey of a sample of manufacturing firms indicate that the conditions will be right, as early as the first quarter of next year, for production to recover from the state of stagnation in which it has so far languished.

The economy's development necessarily depends on the entrepreneurial and innovatory drive of private firms. The cost of labour, the level of taxation, conditions of security and the quality of public services must be such as will permit profitability and competitiveness.

Confidence has its roots in stability and expectations of growth in demand beyond the short term. The fall in interest rates and the launch of the monetary union bode well for the availability of finance at low cost. The efforts to improve the efficiency of government, already begun with the reforms that have been introduced, must be carried forward. Certainty must be given to the prospect of a reduction, in the medium term, of the main items of public expenditure and the burden of taxation.

In the new phase of economic policy it will be necessary to strengthen the commitment of the authorities, organized labour, private enterprise and the banking and financial system to transform the existing potentialities into an increase in investment and employment.

This must be the hope on the day devoted to the celebration of savings, which are the fruit of man's industry and foresight, in order to dispel the uncertainties weighing on the future of so many families and young people looking for work, and to ensure the steady advance of Italy's economy and civil society.

Appendix

Statistical tables

SYMBOLS AND CONVENTIONS

In the following tables:

- figures in parentheses in roman type () are provisional;
- figures in parentheses in italics *()* are estimated.

Table a1

Gross domestic product, GDP deflator and current account balance

	US	Japan	Germany	France	Italy	UK (1)	Canada
				Real GDP *(% changes on previous period; seasonally adjusted quarterly data)*			
1992	2.7	1.0	2.2	1.2	0.6	–0.5	0.9
1993	2.3	0.3	–1.2	–1.3	–1.2	2.1	2.5
1994	3.5	0.6	2.7	2.8	2.2	4.3	3.9
1995	2.3	1.5	1.2	2.1	2.9	2.7	2.2
1996	3.4	3.9	1.3	1.6	0.7	2.2	1.2
1997	3.9	0.8	2.2	2.3	1.5	3.4	3.7
1997 – 1st qtr.	1.0	2.0	0.4	0.2	0.2	0.7	1.2
2nd ”	1.0	–2.8	1.0	1.1	1.8	1.0	1.0
3rd ”	1.0	0.8	0.6	0.9	0.5	0.8	1.1
4th ”	0.7	–0.4	0.3	0.8	0.3	0.6	0.7
1998 – 1st qtr.	1.4	–1.3	1.4	0.7	–0.1	0.8	0.8
2nd ”	0.5	–0.8	0.1	0.6	0.4	0.5	0.4
				GDP deflator *(% changes on previous period; seasonally adjusted quarterly data)*			
1992	2.7	1.7	5.6	2.1	4.7	4.0	1.3
1993	2.6	0.6	4.0	2.5	4.4	2.7	1.3
1994	2.4	0.2	2.4	1.5	3.5	1.5	1.2
1995	2.3	–0.6	2.2	1.6	5.1	2.5	2.6
1996	1.8	–0.5	1.0	1.2	5.0	3.3	1.4
1997	1.9	0.6	0.6	0.9	2.6	2.7	0.5
1997 – 1st qtr.	0.7	0.3	0.4	0.2	0.2	0.8	–0.3
2nd ”	0.4	0.7	–0.2	0.5	0.5	0.5	–0.2
3rd ”	0.4	0.3	0.1	0.2	0.8	1.4	0.1
4th ”	0.3	–0.4	0.2	. .	1.1	0.2	0.1
1998 – 1st qtr.	0.2	1.0	0.5	0.1	0.5	0.2	–0.5
2nd ”	0.3	–0.7	0.3	0.4	0.4	0.7	0.3
				Current account balance *(billions of dollars; seasonally adjusted quarterly data)*			
1992	–56.4	112.3	–19.2	6.5	–29.3	–18.4	–21.0
1993	–86.1	132.0	–14.0	11.7	10.0	–15.5	–21.8
1994	–123.8	130.6	–20.8	7.4	14.2	–2.3	–13.0
1995	–115.3	111.4	–22.6	10.8	26.8	–5.9	–4.7
1996	–134.9	65.8	–13.8	20.5	41.2	–2.6	3.3
1997	–155.2	94.1	–4.4	39.6	36.8	13.1	–9.3
1997 – 1st qtr.	–37.0	15.8	–6.2	7.7	10.8	3.1	–0.7
2nd ”	–35.1	24.1	0.3	11.2	8.1	3.4	–1.3
3rd ”	–38.1	26.2	0.5	8.8	8.6	3.4	–3.9
4th ”	–45.0	28.2	0.6	11.5	9.3	3.3	–3.3
1998 – 1st qtr.	–46.7	29.0	–3.8	8.9	4.1	–0.8	–3.0
2nd ”	–56.5	27.9	1.5	9.2	8.6	1.0	–2.9

(1) See the “Notes to the statistical tables” for details on the new method of calculating data adopted in this issue.

Table a2

Industrial production

(percentage changes on previous period; seasonally adjusted data)

	US	Japan	Germany	France	Italy	UK	Canada
1992	3.2	−6.1	−2.6	−1.1	−0.2	0.3	1.1
1993	3.5	−3.9	−7.5	−3.8	−2.4	2.2	5.1
1994	5.4	0.9	3.5	3.8	5.2	5.4	6.0
1995	4.9	3.4	1.0	2.2	5.4	2.1	4.1
1996	3.5	2.3	0.4	0.2	−1.7	1.1	1.5
1997	5.0	3.6	3.6	3.9	2.2	1.4	5.0
1996 – 3rd qtr.	0.9	2.0	1.0	0.6	1.0	0.7	1.9
4th "	1.0	2.1	0.1	−0.2	−2.5	0.4	0.7
1997 – 1st qtr.	1.3	2.0	0.6	. .	1.8	0.1	1.0
2nd "	1.1	−0.3	1.5	3.1	1.6	0.5	1.5
3rd "	1.5	0.2	1.6	2.1	1.0	1.0	1.9
4th "	1.8	−2.5	0.7	1.0	0.9	−0.9	0.6
1998 – 1st qtr.	0.3	−1.2	2.3	0.8	−0.1	−0.2	−0.3
2nd "	0.4	−5.1	0.2	1.1	0.1	1.2	0.6
3rd "	. .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
1997 – Sept.	0.3	1.5	−0.3	−0.6	−2.4	−0.3	−0.2
Oct.	0.7	−0.7	1.7	1.9	1.3	−0.3	0.9
Nov.	0.8	−4.5	. .	−1.7	0.6	−0.5	−0.2
Dec.	0.3	2.2	1.0	1.9	0.3	0.1	0.9
1998 – Jan.	−0.1	2.0	1.2	−0.8	. .	−0.3	−2.8
Feb.	−0.4	−3.5	−0.1	0.8	−0.5	−0.2	2.3
Mar.	0.5	−2.3	1.4	1.4	−0.3	0.7	1.4
Apr.	0.3	−1.6	−1.0	−0.6	−0.4	1.3	−0.7
May	0.3	−2.0	1.0	0.7	2.5	−1.2	−0.5
June	−1.0	1.7	−1.1	−0.1	−2.4	0.7	−0.2
July	−0.4	−0.6	3.7	−0.3	1.4	0.4	−1.4
Aug.	1.6	−1.3	0.2	. .	. . . .	. . . .	. . . .
Sept.	−0.2	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .

Table a3

Consumer prices

(percentage changes on corresponding period)

	US	Japan	Germany	France	Italy	UK	Canada
1992	3.0	1.7	5.1	2.4	5.3	4.7	1.5
1993	3.0	1.2	4.5	2.1	4.6	3.0	1.9
1994	2.6	0.7	2.7	1.7	4.1	2.4	0.2
1995	2.8	–0.1	1.8	1.8	5.2	2.8	2.2
1996	2.9	0.1	1.5	2.0	4.0	2.9	1.6
1997	2.3	1.7	1.8	1.2	2.0	2.8	1.6
1996 – 3rd qtr.	2.9	0.2	1.4	1.8	3.5	2.9	1.4
4th ”	3.2	0.5	1.4	1.7	2.9	3.2	2.0
1997 – 1st qtr.	2.9	0.6	1.7	1.5	2.5	2.9	2.1
2nd ”	2.3	2.0	1.6	0.9	1.9	2.6	1.6
3rd ”	2.2	2.1	1.9	1.3	1.8	2.8	1.7
4th ”	1.9	2.1	1.8	1.2	2.0	2.8	1.0
1998 – 1st qtr.	1.5	2.0	1.2	0.7	2.0	2.5	1.0
2nd ”	1.6	0.3	1.3	1.0	2.0	3.0	1.0
3rd ”	1.6	. . . .	0.8	0.7	. . . .	. . . .	0.9
1997 – Sept.	2.2	2.4	1.9	1.3	1.8	2.7	1.6
Oct.	2.1	2.5	1.8	1.0	2.0	2.8	1.5
Nov.	1.8	2.1	1.9	1.3	2.0	2.8	0.8
Dec.	1.7	1.8	1.8	1.1	1.9	2.7	0.7
1998 – Jan.	1.6	1.8	1.3	0.5	1.9	2.5	1.1
Feb.	1.4	1.9	1.1	0.7	2.1	2.6	1.0
Mar.	1.4	2.2	1.1	0.8	2.1	2.6	0.9
Apr.	1.4	0.4	1.4	1.0	2.1	3.0	0.8
May	1.7	0.5	1.3	1.0	2.0	3.2	1.1
June	1.7	0.1	1.2	1.0	2.1	2.8	1.0
July	1.7	–0.1	0.9	0.8	2.1	2.6	1.0
Aug.	1.6	–0.3	0.8	0.7	2.1	2.5	0.8
Sept.	1.5	. . . .	0.8	0.6	. . . .	. . . .	0.7

Table a4

Producer prices of manufactures

(percentage changes on corresponding period)

	US	Japan	Germany	France	Italy	UK	Canada
1992	0.8	–0.9	1.6	–0.3	2.2	3.5	0.5
1993	1.4	–1.7	0.1	–0.5	4.0	3.7	3.6
1994	1.4	–1.8	0.7	0.8	3.6	2.5	6.1
1995	4.0	–0.7	2.2	1.7	7.7	3.9	7.4
1996	1.4	–1.8	0.2	–1.3	2.4	3.0	0.4
1997	0.3	0.7	0.7	–0.3	0.7	1.4	0.8
1996 – 2nd qtr.	0.9	–1.9	0.1	–1.1	2.2	3.5	0.6
3rd "	1.0	–1.7	–0.2	–2.0	1.1	2.6	0.1
4th "	2.1	–1.6	0.1	–2.3	1.3	2.1	. .
1997 – 1st qtr.	1.9	–0.9	0.3	–1.3	0.6	1.3	0.5
2nd "	–0.3	1.3	0.6	–0.5	0.5	1.4	1.2
3rd "	0.1	1.3	1.1	0.3	0.9	1.4	0.7
4th "	–0.4	1.1	0.9	0.3	0.8	1.4	0.8
1998 – 1st qtr.	–2.6	0.5	0.6	–0.1	1.3	1.4	. .
2nd "	–1.3	–1.9	0.2	–0.5	1.2	1.0	–0.6
1997 – July	. .	1.3	0.9	. . . .	0.8	1.4	0.9
Aug.	. .	1.3	1.2	. . . .	1.0	1.4	0.8
Sept.	0.3	1.4	1.0	. . . .	1.0	1.5	0.5
Oct.	0.5	1.3	0.9	. . . .	0.6	1.5	0.7
Nov.	0.2	1.1	1.0	. . . .	0.9	1.1	1.3
Dec.	–1.8	0.9	0.8	. . . .	1.0	1.6	0.6
1998 – Jan.	–3.4	0.9	0.6	. . . .	1.1	1.4	0.7
Feb.	–2.8	0.4	0.6	. . . .	1.3	1.4	0.3
Mar.	–1.7	0.1	0.6	. . . .	1.4	1.3	–0.9
Apr.	–1.1	–2.0	0.4	. . . .	1.3	1.0	–0.8
May	–1.4	–1.9	0.3	. . . .	1.1	1.0	–0.8
June	–1.5	–1.9	. .	. . . .	1.0	1.0	–0.2
July	–1.5	–1.9	. .	. . . .	1.0	1.1	0.3

Table a5

Short-term interest rates

	US	Japan	Germany	France	Italy	UK	Canada
				Official reference rates *(end-of-period data)*			
1993	3.00	1.75	5.75	6.20	8.00	5.50	4.11
1994	4.75	1.75	4.50	5.00	7.50	6.25	7.43
1995	5.25	0.50	3.00	4.45	9.00	6.50	5.79
1996	5.00	0.50	2.50	3.15	7.50	6.00	3.25
1997 – Sept.	5.00	0.50	2.50	3.10	6.25	7.00	3.50
Oct.	5.00	0.50	2.50	3.30	6.25	7.00	3.75
Nov.	5.00	0.50	2.50	3.30	6.25	7.25	4.00
Dec.	5.00	0.50	2.50	3.30	5.50	7.25	4.50
1998 – Jan.	5.00	0.50	2.50	3.30	5.50	7.25	4.50
Feb.	5.00	0.50	2.50	3.30	5.50	7.25	5.00
Mar.	5.00	0.50	2.50	3.30	5.50	7.25	5.00
Apr.	5.00	0.50	2.50	3.30	5.00	7.25	5.00
May	5.00	0.50	2.50	3.30	5.00	7.25	5.00
June	5.00	0.50	2.50	3.30	5.00	7.50	5.00
July	5.00	0.50	2.50	3.30	5.00	7.50	5.00
Aug.	5.00	0.50	2.50	3.30	5.00	7.50	6.00
Sept.	5.00	0.50	2.50	3.30	5.00	7.50	5.75
				Money market rates *(period averages)*			
1994	4.63	2.28	5.31	5.85	8.51	5.51	5.54
1995	5.92	1.25	4.48	6.58	10.46	6.68	7.13
1996	5.39	0.62	3.27	3.94	8.82	6.03	4.45
1997	5.62	0.64	3.30	3.46	6.88	6.83	3.56
1997 – Sept.	5.60	0.60	3.29	3.41	6.66	7.21	3.63
Oct.	5.65	0.55	3.55	3.59	6.65	7.26	3.80
Nov.	5.74	0.59	3.70	3.69	6.49	7.54	3.99
Dec.	5.80	1.09	3.71	3.69	6.08	7.62	4.57
1998 – Jan.	5.54	1.12	3.55	3.62	6.09	7.48	4.65
Feb.	5.54	1.20	3.49	3.57	6.13	7.46	4.98
Mar.	5.58	0.80	3.50	3.57	5.62	7.48	4.87
Apr.	5.58	0.72	3.61	3.63	5.23	7.44	4.90
May	5.59	0.61	3.60	3.61	5.11	7.41	5.02
June	5.59	0.63	3.54	3.57	5.12	7.63	5.02
July	5.59	0.76	3.52	3.56	4.88	7.71	5.05
Aug.	5.58	0.84	3.48	3.56	4.89	7.66	5.31
Sept.	5.41	0.73	3.46	3.54	4.97	7.38	5.60

Table a6

Long-term interest rates and share price indices

(period averages)

	US	Japan	Germany	France	Italy	UK	Canada
				Bond rates			
1994	7.08	4.20	6.88	7.21	10.52	8.15	8.37
1995	6.58	3.29	6.85	7.53	12.21	8.32	8.16
1996	6.44	3.01	6.21	6.31	9.40	7.94	7.23
1997	6.35	2.13	5.64	5.58	6.86	7.13	6.14
1997 – Sept.	6.21	1.96	5.59	5.52	6.36	6.88	5.88
Oct.	6.03	1.72	5.58	5.59	6.20	6.57	5.61
Nov.	5.88	1.67	5.56	5.57	6.13	6.70	5.50
Dec.	5.81	1.64	5.33	5.32	5.74	6.43	5.67
1998 – Jan.	5.55	1.68	5.11	5.11	5.43	6.16	5.36
Feb.	5.57	1.70	4.99	5.03	5.37	6.10	5.43
Mar.	5.65	1.56	4.90	4.95	5.20	6.05	5.43
Apr.	5.64	1.56	4.90	4.96	5.15	5.88	5.31
May	5.65	1.29	4.96	5.01	5.21	5.92	5.39
June	5.50	1.21	4.80	4.86	5.08	5.87	5.32
July	5.46	1.35	4.68	4.78	4.97	5.92	5.35
Aug.	5.34	1.17	4.42	4.52	4.79	5.63	5.57
Sept.	4.81	0.88	4.06	4.20	4.53	5.17	5.25
				Share price indices			
1994	173.35	75.07	168.49	164.86	129.61	169.05	129.71
1995	203.93	64.67	164.56	149.78	118.82	176.91	134.24
1996	252.40	75.40	189.35	166.52	119.39	203.43	159.49
1997	328.69	65.57	263.38	221.08	163.66	240.20	195.53
1997 – Sept.	352.74	66.24	282.89	235.48	181.03	253.00	213.15
Oct.	358.06	63.03	284.90	235.26	185.67	260.16	207.16
Nov.	353.45	58.00	266.54	222.85	180.80	246.28	197.18
Dec.	362.27	56.49	283.84	232.26	191.57	256.45	202.83
1998 – Jan.	362.65	56.86	291.19	240.39	217.22	263.63	202.85
Feb.	385.38	59.57	309.45	260.39	234.92	281.80	214.73
Mar.	405.36	59.34	331.52	289.73	266.46	294.29	228.84
Apr.	418.68	57.34	354.96	308.93	296.20	300.64	232.06
May	417.25	56.97	362.14	320.95	289.06	302.26	229.79
June	417.24	55.89	374.67	330.40	279.88	298.06	223.04
July	435.38	59.15	394.64	341.76	297.79	301.13	209.85
Aug.	404.54	55.26	355.64	316.82	278.95	278.97	167.44
Sept.	384.21	50.93	315.41	283.83	237.39	257.48	169.97

Table a7

Interest rates on international markets and US dollar premium/discount

(period averages)

	US dollar	Japanese yen	German mark	Lira	Pound sterling	US dollar	Japanese yen	German mark	Lira	Pound sterling
	Rates on 3-month Eurodeposits					**Rates on 12-month Eurodeposits**				
1994	4.60	2.18	5.21	8.29	5.44	5.45	2.41	5.30	8.92	6.25
1995	5.92	1.07	4.38	10.24	6.64	6.13	1.11	4.58	10.79	7.12
1996	5.41	0.42	3.21	8.61	6.06	5.68	0.67	3.35	8.25	6.29
1997	5.62	0.38	3.22	6.74	6.79	5.94	0.48	3.45	6.24	7.15
1997 – Sept.	5.60	0.45	3.20	6.54	7.18	5.90	0.49	3.58	6.03	7.42
Oct.	5.64	0.41	3.46	6.52	7.22	5.86	0.43	3.91	5.73	7.43
Nov.	5.72	0.21	3.64	6.42	7.49	5.87	0.29	4.01	5.57	7.70
Dec.	5.77	0.23	3.63	5.92	7.57	5.89	0.31	3.93	5.16	7.65
1998 – Jan.	5.52	0.38	3.46	5.93	7.44	5.58	0.41	3.72	5.08	7.43
Feb.	5.51	0.42	3.42	6.01	7.40	5.57	0.49	3.66	5.10	7.37
Mar.	5.56	0.48	3.43	5.47	7.43	5.68	0.46	3.66	4.62	7.45
Apr.	5.56	0.45	3.53	5.08	7.40	5.74	0.44	3.80	4.47	7.38
May	5.56	0.38	3.52	4.99	7.35	5.77	0.35	3.83	4.41	7.34
June	5.56	0.37	3.45	4.97	7.58	5.71	0.36	3.78	4.40	7.70
July	5.56	0.37	3.43	4.78	7.65	5.68	0.36	3.72	4.23	7.80
Aug.	5.55	0.36	3.40	4.77	7.61	5.60	0.34	3.63	4.16	7.52
Sept.	5.37	0.21	3.46	4.86	7.34	5.17	0.20	3.47	3.97	6.99
	3-month US dollar premium (–)/discount (+)					**12-month US dollar premium (–)/discount (+)**				
1994		2.41	–0.61	–3.69	–0.85		3.04	0.16	–3.47	–0.80
1995		4.85	1.54	–4.32	–0.72		5.02	1.55	–4.66	–0.99
1996		4.99	2.20	–3.20	–0.64		5.01	2.33	–2.57	–0.61
1997		5.24	2.40	–1.12	–1.17		5.46	2.49	–0.30	–1.21
1997 – Sept.		5.15	2.40	–0.94	–1.58		5.41	2.32	–0.13	–1.52
Oct.		5.23	2.18	–0.88	–1.58		5.43	1.95	0.13	–1.57
Nov.		5.51	2.08	–0.70	–1.77		5.58	1.86	0.30	–1.83
Dec.		5.54	2.14	–0.15	–1.80		5.58	1.96	0.73	–1.76
1998 – Jan.		5.14	2.06	–0.41	–1.92		5.17	1.86	0.50	–1.85
Feb.		5.09	2.09	–0.50	–1.89		5.08	1.91	0.47	–1.80
Mar.		5.08	2.13	0.09	–1.87		5.22	2.02	1.06	–1.77
Apr.		5.11	2.03	0.48	–1.84		5.30	1.94	1.27	–1.64
May		5.18	2.04	0.57	–1.79		5.42	1.94	1.36	–1.57
June		5.19	2.11	0.59	–2.02		5.35	1.93	1.31	–1.99
July		5.19	2.13	0.78	–2.09		5.32	1.96	1.45	–2.12
Aug.		5.19	2.15	0.78	–2.06		5.26	1.97	1.44	–1.92
Sept.		5.16	2.01	0.51	–1.97		4.97	1.70	1.20	–1.82

Table a8

Lira exchange rates and the price of gold

	Lire per unit of currency								Gold (dollars per ounce)
	US dollar	Japanese yen	German mark	French franc	Pound sterling	Swiss franc	SDR	Ecu	
1992	1,232.3	9.7399	790.04	233.11	2,164.1	878.52	1,735.5	1,592.2	333.25
1993	1,572.7	14.2201	950.69	277.54	2,360.9	1,064.63	2,196.0	1,837.7	390.65
1994	1,611.8	15.7837	994.68	290.79	2,467.3	1,180.82	2,307.5	1,909.0	383.25
1995	1,628.9	17.4525	1,137.99	326.63	2,571.6	1,379.87	2,471.0	2,107.2	386.75
1996	1,543.0	14.2043	1,026.25	301.75	2,408.1	1,250.94	2,240.0	1,932.7	369.25
1997	1,703.4	14.1147	982.21	291.78	2,789.5	1,173.98	2,344.0	1,923.6	290.20
1996 – 3rd qtr.	1,521.3	13.9588	1,015.95	298.66	2,364.8	1,244.55	2,209.2	1,918.5	379.00
4th "	1,522.1	13.4982	994.72	294.17	2,488.7	1,184.89	2,197.3	1,911.2	369.25
1997 – 1st qtr.	1,637.8	13.5215	987.69	292.67	2,670.0	1,140.27	2,280.7	1,917.5	348.10
2nd "	1,690.1	14.1656	986.21	292.49	2,764.4	1,169.78	2,336.2	1,924.4	334.55
3rd "	1,761.6	14.9522	975.37	289.55	2,864.2	1,183.82	2,402.0	1,918.7	332.10
4th "	1,720.3	13.7741	979.97	292.49	2,853.4	1,200.68	2,349.9	1,933.9	290.20
1998 – 1st qtr.	1,792.5	14.0059	985.26	294.01	2,950.7	1,214.54	2,412.2	1,948.7	301.00
2nd "	1,769.2	13.0363	986.35	294.19	2,925.3	1,185.18	2,371.0	1,948.8	296.30
3rd "	1,739.7	12.4391	986.87	294.35	2,874.3	1,183.66	2,332.5	1,945.7	293.85
1997 – Sept.	1,746.1	14.4645	975.87	290.31	2,793.6	1,185.87	2,373.7	1,914.3	332.10
Oct.	1,720.9	14.2269	979.73	292.04	2,807.3	1,185.80	2,357.4	1,925.2	311.40
Nov.	1,697.4	13.5618	979.79	292.60	2,865.2	1,206.46	2,332.2	1,938.5	297.00
Dec.	1,742.6	13.4656	980.42	292.88	2,894.6	1,212.03	2,359.8	1,939.1	290.20
1998 – Jan.	1,787.7	13.8316	984.34	293.92	2,924.2	1,212.25	2,401.1	1,944.0	304.85
Feb.	1,790.8	14.2500	986.82	294.40	2,936.0	1,223.59	2,417.6	1,948.5	297.40
Mar.	1,798.3	13.9423	984.69	293.74	2,988.1	1,208.40	2,417.3	1,953.2	301.00
Apr.	1,792.5	13.5615	987.71	294.65	2,996.7	1,189.94	2,407.6	1,957.8	310.70
May	1,749.5	12.9657	986.17	294.08	2,863.6	1,183.94	2,350.9	1,942.4	293.60
June	1,764.9	12.5991	985.21	293.84	2,913.3	1,181.78	2,353.5	1,946.0	296.30
July	1,772.8	12.6078	985.95	294.09	2,914.1	1,171.16	2,359.4	1,948.1	288.85
Aug.	1,764.3	12.1935	986.67	294.30	2,881.4	1,180.62	2,340.7	1,946.0	273.40
Sept.	1,681.5	12.4972	988.01	294.65	2,825.9	1,199.64	2,295.0	1,942.9	293.85

Table a9

Nominal effective exchange rates

(period averages; indices, 1993=100)

	US	Japan	Germany	France	Italy	UK	Canada	Switzerland
1992	97.6	83.2	97.6	97.9	120.1	110.4	106.2	97.9
1993	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1994	99.1	107.6	100.2	100.7	95.6	100.1	93.8	106.5
1995	99.3	113.5	106.1	104.3	87.1	95.9	93.1	114.4
1996	104.9	98.9	103.6	104.5	95.3	97.8	95.1	112.7
1997	112.9	94.4	98.6	100.9	95.6	113.3	95.8	105.7
1996 – 3rd qtr.	105.0	98.6	103.7	104.6	96.4	97.0	94.7	113.4
4th ”	106.0	95.6	102.5	103.9	97.5	103.6	96.4	109.0
1997 – 1st qtr.	110.6	91.9	100.2	102.1	96.3	109.4	97.1	103.5
2nd ”	111.9	94.6	98.9	101.0	95.4	112.2	95.4	105.2
3rd ”	113.1	97.7	96.5	99.2	94.6	115.0	95.9	105.6
4th ”	116.0	93.3	98.7	101.4	95.8	116.7	94.8	108.5
1998 – 1st qtr.	121.0	95.9	98.7	101.3	95.3	119.9	94.6	109.0
2nd ”	121.9	89.2	99.6	101.9	96.0	119.9	93.6	107.0
3rd ”	124.4	86.2	100.8	103.0	96.8	119.1	89.7	107.9
1997 – Sept.	113.7	95.4	97.3	100.0	95.2	112.8	95.8	106.4
Oct.	113.3	94.7	98.0	100.8	95.3	113.9	95.7	106.6
Nov.	115.3	92.1	98.7	101.5	96.0	117.5	94.3	109.3
Dec.	119.4	93.3	99.2	101.8	96.2	118.9	94.4	109.8
1998 – Jan.	121.7	95.5	99.1	101.7	95.7	119.4	94.1	109.2
Feb.	120.6	97.4	98.8	101.3	95.1	119.1	94.3	109.6
Mar.	120.6	94.7	98.3	101.0	95.1	121.2	95.5	108.2
Apr.	120.7	91.8	98.7	101.2	95.0	121.6	94.5	106.5
May	121.4	89.3	100.1	102.3	96.4	117.9	93.6	107.3
June	123.8	86.3	100.1	102.3	96.5	120.1	92.8	107.3
July	123.9	85.8	99.9	102.3	96.2	119.9	91.3	106.1
Aug.	126.2	83.8	100.7	102.8	96.7	119.3	88.9	107.5
Sept.	123.2	88.9	101.8	103.8	97.6	118.3	88.9	110.2

Table a10

Real effective exchange rates

(period averages; indices, 1993=100)

	US	Japan	Germany	France	Italy	UK	Canada	Switzerland
1992	98.0	86.2	98.8	99.7	116.4	107.5	103.8	98.6
1993	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1994	98.2	103.7	99.2	99.7	97.8	101.1	98.1	104.4
1995	96.3	104.1	103.7	101.2	93.2	97.4	100.2	108.4
1996	100.2	87.5	100.5	98.9	103.9	101.6	101.0	104.0
1997	105.7	83.0	95.2	94.1	103.9	118.1	101.6	95.9
1996 – 2nd qtr.	100.3	88.7	99.9	99.1	103.8	99.7	100.7	104.2
3rd "	100.1	87.1	100.6	98.6	105.2	100.9	100.7	104.5
4th "	101.2	83.6	99.2	97.3	106.4	107.6	101.6	99.6
1997 – 1st qtr.	105.4	80.2	96.9	95.5	104.8	114.1	102.1	94.3
2nd "	104.2	84.1	95.5	94.4	103.6	117.2	101.9	95.6
3rd "	105.4	86.2	93.2	92.5	102.8	119.7	101.9	95.7
4th "	107.8	81.5	95.2	94.0	104.3	121.6	100.5	98.0
1998 – 1st qtr.	109.7	83.1	95.2	94.0	104.2	126.0	100.8	98.0
2nd "	110.5	76.7	96.1	94.5	105.2	126.3	99.9	96.0
1997 – July	104.3	88.1	93.1	91.8	103.0	122.3	102.0	95.6
Aug.	105.9	86.8	92.7	92.2	102.0	119.5	102.1	95.3
Sept.	106.0	83.9	93.8	93.4	103.5	117.3	101.8	96.3
Oct.	105.9	83.0	94.6	93.6	103.7	118.3	101.1	96.3
Nov.	107.6	80.4	95.3	94.0	104.5	121.9	99.9	98.7
Dec.	110.0	81.0	95.7	94.5	104.7	124.4	100.4	99.0
1998 – Jan.	110.8	83.0	95.6	93.6	104.6	125.4	100.5	98.6
Feb.	109.2	84.3	95.2	94.2	104.0	125.0	100.9	98.4
Mar.	109.2	81.9	94.8	94.1	104.1	127.5	101.2	97.1
Apr.	109.3	79.0	95.1	94.0	104.1	128.0	100.8	95.6
May	110.0	76.9	96.7	94.7	105.6	124.2	99.8	96.0
June	112.0	74.3	96.7	94.7	105.9	126.8	99.2	96.3
July	112.1	73.9	96.7	93.8	105.8	126.7	97.9	95.3

Table a11

Real effective intra-EU exchange rates

(period averages; indices, 1993=100)

	Germany	France	Italy	UK	Spain	Netherlands	Belgium
1992	93.7	96.1	112.5	102.1	109.4	97.5	99.3
1993	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1994	99.6	100.0	98.1	101.5	95.9	99.7	102.3
1995	102.6	100.1	91.8	95.2	97.3	102.3	104.8
1996	98.1	97.1	102.1	99.0	98.5	100.5	102.3
1997	93.9	93.5	103.4	118.8	95.3	98.4	99.8
1996 – 2nd qtr.	98.0	97.7	102.4	97.6	98.9	100.6	102.4
3rd ”	98.1	96.8	103.3	98.1	98.0	100.7	102.1
4th ”	96.3	95.3	104.4	105.0	97.4	99.7	101.1
1997 – 1st qtr.	95.0	94.3	103.6	113.5	95.8	98.6	99.9
2nd ”	94.2	93.7	103.2	117.8	95.3	98.6	99.7
3rd ”	93.1	92.7	103.5	122.3	94.9	98.2	99.8
4th ”	93.4	93.0	103.4	121.8	95.1	98.1	99.6
1998 – 1st qtr.	93.2	92.9	103.2	126.6	94.1	96.9	98.5
2nd ”	93.5	92.9	103.6	125.8	93.8	96.0	98.9
1997 – July	92.9	92.0	103.6	125.0	94.7	97.5	99.3
Aug.	93.0	92.8	103.1	122.8	94.7	98.5	100.0
Sept.	93.3	93.4	103.8	119.1	95.3	98.7	100.2
Oct.	93.6	93.1	103.5	119.4	95.4	98.7	100.2
Nov.	93.4	92.8	103.4	121.9	95.2	98.1	99.8
Dec.	93.3	93.1	103.2	124.2	94.7	97.5	98.9
1998 – Jan.	93.4	92.3	103.4	125.7	94.4	97.4	98.7
Feb.	93.4	93.2	103.1	125.8	94.2	97.0	98.7
Mar.	92.9	93.1	103.2	128.3	93.8	96.4	98.1
Apr.	92.9	92.8	103.0	128.4	93.6	96.1	98.7
May	93.8	92.9	103.8	123.3	94.1	96.2	99.4
June	93.6	92.8	103.9	125.7	93.9	95.8	98.6
July	93.9	92.0	104.0	125.9	94.0	95.8	98.7

Table a12

External position of the Italian banking system (1)

(end-of-period outstanding claims in billions of lire)

	1997 Q3	1997 Q4	1998 Q1
Industrial countries	344,291	343,064	391,884
Developing countries	37,677	38,255	43,531
Latin America	*19,746*	*21,589*	*25,975*
Africa	*4,874*	*4,964*	*5,305*
Asia	*8,869*	*7,588*	*7,655*
Middle East	*4,188*	*4,113*	*4,597*
East European countries	9,495	9,908	11,700
Offshore centres	31,899	28,446	29,027
International organizations	7,405	10,049	11,604
Total	**430,768**	**429,721**	**487,746**
Memorandum items:			
Albania	135	142	183
Argentina	6,285	7,387	8,347
Bolivia	3	15	5
Brazil	4,773	4,847	6,627
Bulgaria	296	302	402
Chile	868	875	971
Colombia	1,008	834	1,040
Croatia	215	282	304
Czech Republic	244	212	224
Ecuador	144	172	250
Hungary	448	499	1,468
Ivory Coast	26	27	30
Mexico	2,994	3,215	3,905
Morocco	459	481	387
Nigeria	351	374	495
Peru	1,561	1,865	2,161
Philippines	250	171	160
Poland	503	681	934
Romania	355	346	357
Russia	7,368	7,546	7,865
Slovenia	264	86	89
Uruguay	567	691	662
Venezuela	1,102	1,143	1,136

(1) See the “Notes to the statistical tables” for details on the new method of calculating the data adopted in this issue.

Table a13

Sources and uses of income

(percentage changes on previous period)

	Sources			Uses					
				Gross fixed investment					
	GDP	Imports	Total	Building	Machinery, equipment and vehicles	Total	House-holds' consump-tion	Other domestic uses	Exports
				At 1990 prices					
1992	0.6	5.4	1.4	–2.4	–1.2	–1.8	1.0	1.5	5.9
1993	–1.2	–8.1	–2.3	–6.3	–19.5	–12.8	–2.4	–2.6	9.1
1994	2.2	8.4	3.2	–5.9	8.2	0.5	1.4	2.9	10.7
1995	2.9	9.6	4.1	0.6	13.8	7.1	1.9	–0.9	11.6
1996	0.7	–2.0	0.2	1.1	–0.3	0.4	0.8	–1.7	–0.2
1997	1.5	11.8	3.3	–1.6	2.6	0.6	2.4	4.9	6.3
1996 – 2nd qtr.	–1.0	–6.4	–2.0	–0.8	–0.3	–0.5	. .	–9.4	–2.3
3rd "	0.4	1.6	0.6	. .	–1.1	–0.6	0.2	1.5	1.8
4th "	–0.4	6.2	0.8	–0.6	–0.7	–0.6	0.6	1.2	1.8
1997 – 1st qtr.	0.2	–3.8	–0.5	–2.0	1.7	–0.1	1.1	–1.5	–4.2
2nd "	1.8	12.3	3.6	1.1	1.2	1.2	0.7	10.8	7.8
3rd "	0.5	4.2	1.2	. .	1.6	0.8	0.3	–3.4	7.0
4th "	0.3	1.6	0.5	1.2	0.8	1.0	. .	5.0	–1.4
1998 – 1st qtr.	–0.1	2.3	0.3	–1.4	2.2	0.5	0.1	3.4	–1.3
2nd "	0.4	1.6	0.7	–0.3	0.6	0.2	0.4	–0.3	2.5
				Implicit prices					
1992	4.7	1.1	4.0	5.2	2.4	3.9	5.6	1.6	1.6
1993	4.4	11.6	5.5	3.2	5.6	4.6	5.1	3.7	10.1
1994	3.5	5.1	3.7	3.5	3.5	3.3	4.6	3.3	1.8
1995	5.1	12.3	6.3	3.7	6.7	5.0	5.7	4.7	10.2
1996	5.0	–1.8	3.8	2.5	3.6	3.1	4.4	4.1	2.2
1997	2.6	–0.5	2.0	2.6	1.0	1.7	2.4	3.8	–0.1
1996 – 2nd qtr.	0.9	–1.2	0.5	0.4	0.3	0.3	0.9	1.1	–1.0
3rd "	0.9	. .	0.7	1.4	0.4	0.9	0.6	2.8	–0.6
4th "	0.9	–0.9	0.5	0.7	–0.3	0.2	0.5	1.1	0.5
1997 – 1st qtr.	0.2	–0.6	0.1	0.4	. .	0.2	0.6	–0.5	–1.1
2nd "	0.5	–0.1	0.3	0.3	0.5	0.4	0.5	–0.8	0.9
3rd "	0.8	3.1	1.2	0.9	1.0	0.9	0.6	4.3	0.9
4th "	1.1	–1.6	0.6	0.5	0.1	0.3	0.8	0.9	0.3
1998 – 1st qtr.	0.5	–1.6	0.1	–0.3	0.5	0.1	0.6	–1.1	–0.4
2nd "	0.4	–1.8	. .	0.4	0.3	0.3	0.3	–1.1	–0.2

Table a14

Industrial production and business opinion indicators

(seasonally adjusted data)

	Industrial production				Isco business opinion indicators				
	General index	Consumer goods	Investment goods	Intermediate goods	Changes in level of orders			Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal
					domestic	foreign	total		
	(indices, 1990=100)=				*(average balance of monthly responses)*				
1991	99.1	100.4	95.9	99.4	–27.5	–31.5	–26.7	11.2	8.5
1992	98.9	101.1	92.1	99.7	–32.0	–36.9	–32.0	1.9	7.2
1993	96.5	98.7	88.9	97.7	–43.1	–21.7	–35.6	2.8	4.6
1994	101.5	104.1	92.2	103.0	–17.9	8.9	–6.9	25.1	–4.3
1995	107.0	107.7	105.0	107.2	–5.7	16.6	1.4	21.8	–1.2
1996	105.2	106.2	105.6	104.6	–29.6	–16.9	–22.7	7.5	3.8
1997	107.5	109.3	102.3	108.2	–14.6	–6.0	–8.5	20.7	–3.1
1991 – 1st qtr.	98.8	100.6	97.5	98.6	–28.2	–34.7	–27.4	9.6	9.7
2nd "	98.8	99.3	95.9	99.2	–28.2	–32.7	–27.9	11.0	9.7
3rd "	98.9	99.9	95.2	99.7	–26.6	–30.3	–25.0	12.8	8.3
4th "	99.8	101.9	94.9	100.0	–27.2	–28.3	–26.6	11.4	6.3
1992 – 1st qtr.	101.2	103.0	95.1	101.9	–24.7	–30.4	–23.7	10.7	11.3
2nd "	100.9	102.3	93.9	101.7	–27.5	–39.0	–29.4	8.5	11.0
3rd "	96.0	98.4	88.6	98.2	–34.1	–38.2	–35.0	–3.5	5.3
4th "	97.4	100.9	90.7	97.2	–41.9	–40.0	–40.1	–8.2	1.0
1993 – 1st qtr.	98.8	102.4	93.2	98.7	–44.7	–34.2	–42.5	–2.9	3.3
2nd "	96.6	98.3	89.5	97.7	–46.4	–28.1	–40.4	–0.1	7.0
3rd "	94.5	96.9	86.2	96.1	–44.8	–18.3	–33.8	3.6	6.7
4th "	96.1	97.1	86.6	98.2	–36.6	–6.2	–25.7	10.8	1.3
1994 – 1st qtr.	97.5	100.9	86.3	99.2	–31.2	–1.1	–18.5	17.6	–2.3
2nd "	101.1	104.6	92.2	102.2	–20.2	8.5	–7.9	25.3	–1.0
3rd "	103.3	105.9	94.7	104.5	–15.6	11.4	–5.9	29.0	–4.7
4th "	104.1	104.8	95.6	106.1	–4.6	16.5	4.5	28.5	–9.3
1995 – 1st qtr.	104.7	106.4	97.1	106.1	–1.3	25.2	6.8	23.3	–4.7
2nd "	105.2	107.3	99.8	106.1	–2.6	21.2	5.0	21.7	0.3
3rd "	109.6	109.3	109.4	109.0	–5.1	13.7	1.1	24.4	–1.7
4th "	108.6	108.0	113.8	107.6	–13.6	6.3	–7.5	17.9	1.3
1996 – 1st qtr.	105.8	105.3	107.2	105.6	–23.8	–7.9	–17.4	9.7	5.0
2nd "	105.2	106.0	107.2	104.6	–32.6	–20.3	–24.0	6.1	6.3
3rd "	106.2	107.4	106.3	105.4	–31.3	–19.1	–23.6	6.6	5.7
4th "	103.6	106.1	101.9	102.9	–30.9	–20.5	–25.9	7.8	–2.0
1997 – 1st qtr.	105.5	108.1	102.3	105.2	–19.6	–14.2	–15.9	16.0	–5.0
2nd "	107.2	108.8	103.4	107.5	–15.9	–7.7	–11.7	17.2	. .
3rd "	108.2	110.7	101.5	109.4	–12.9	–2.0	–4.6	23.0	–4.3
4th "	109.3	109.8	101.9	110.8	–9.9	–0.1	–1.7	26.5	–3.0
1998 – 1st qtr.	109.2	107.4	101.8	111.7	–7.4	0.1	–2.1	24.9	–1.7
2nd "	109.3	108.9	102.4	111.5	–15.8	–3.6	–7.6	18.1	1.7

Table a15

Labour market statistics

(thousands of units and percentages)

	Employment					Unem-ployment	Labour force	Unem-ployment rate	Partici-pation rate
	Agriculture	Industry excluding construction	Construc-tion	Other	Total				
1993	1,669	5,000	1,725	12,074	20,467	2,335	22,801	10.2	40.4
1994	1,573	4,933	1,655	11,959	20,120	2,561	22,680	11.3	40.1
1995	1,492	4,878	1,614	12,025	20,009	2,724	22,733	12.0	40.1
1996	1,402	4,876	1,599	12,211	20,088	2,764	22,851	12.1	40.3
1997	1,370	4,857	1,593	12,268	20,087	2,804	22,892	12.3	40.3
1993 – 1st qtr.	1,675	5,047	1,713	12,131	20,566	2,112	22,676	9.3	40.2
2nd "	1,622	4,961	1,731	12,107	20,421	2,372	22,792	10.4	40.4
3rd "	1,662	5,005	1,756	12,129	20,553	2,313	22,865	10.1	40.5
4th "	1,716	4,986	1,700	11,927	20,327	2,542	22,871	11.1	40.5
1994 – 1st qtr.	1,551	4,894	1,645	11,931	20,021	2,502	22,522	11.1	39.8
2nd "	1,551	4,899	1,647	12,051	20,148	2,578	22,726	11.4	40.2
3rd "	1,613	5,002	1,670	12,019	20,304	2,458	22,763	10.8	40.2
4th "	1,578	4,936	1,656	11,834	20,005	2,705	22,710	11.9	40.2
1995 – 1st qtr.	1,429	4,819	1,598	11,852	19,698	2,739	22,437	12.2	39.6
2nd "	1,490	4,898	1,571	12,053	20,011	2,715	22,726	12.0	40.1
3rd "	1,554	4,916	1,646	12,124	20,241	2,673	22,914	11.7	40.5
4th "	1,493	4,880	1,642	12,070	20,086	2,769	22,855	12.1	40.3
1996 – 1st qtr.	1,356	4,857	1,606	12,013	19,833	2,756	22,589	12.2	39.8
2nd "	1,333	4,925	1,571	12,248	20,078	2,816	22,894	12.3	40.4
3rd "	1,454	4,870	1,628	12,357	20,308	2,691	23,000	11.7	40.5
4th "	1,465	4,851	1,590	12,226	20,132	2,791	22,922	12.2	40.4
1997 – 1st qtr.	1,310	4,794	1,538	12,182	19,823	2,809	22,634	12.4	39.8
2nd "	1,311	4,804	1,585	12,388	20,087	2,875	22,962	12.5	40.4
3rd "	1,413	4,909	1,638	12,350	20,310	2,688	22,998	11.7	40.5
4th "	1,447	4,919	1,609	12,150	20,126	2,845	22,972	12.4	40.4
1998 – 1st qtr.	1,327	4,878	1,538	12,196	19,940	2,781	22,722	12.2	39.9
2nd "	1,302	4,848	1,532	12,429	20,112	2,882	22,993	12.5	40.3
3rd "	1,381	4,947	1,574	12,524	20,425	2,767	23,193	11.9	40.7

Table a16

General index of consumer prices (1)

(percentage change on year-earlier period)

	Goods and services not subject to price controls									Goods and services subject to price controls					
	Non-food and non-energy products	*excluding cars*	Services	Total excluding food and energy products and items subject to price controls	Food products: Processed	Food products: Not processed	Food products: Total	Energy products	Total	Goods (3)	Utility charges	*of which: energy*	Rents	Total	Overall index (4)
Weights (2)	*32.7*	*29.6*	*26.7*	*59.4*	*10.2*	*9.5*	*19.6*	*3.4*	*82.5*	*4.2*	*10.3*	*3.4*	*3.0*	*17.5*	*100*
1988	4.9	5.1	7.5	5.9	3.3	3.8	3.6	4.9	5.1	4.5	4.2	2.9	4.3	4.3	5.1
1989	5.2	5.3	7.5	6.2	6.4	6.0	6.2	5.7	6.2	3.4	8.1	3.2	5.6	6.3	6.3
1990	4.5	4.7	8.1	6.0	6.2	6.1	6.1	13.8	6.5	3.9	6.4	8.2	6.1	5.7	6.5
1991	4.5	4.6	7.4	5.8	5.8	7.4	6.5	9.2	5.9	11.9	7.8	8.7	5.9	9.3	6.3
1992	4.0	4.0	7.3	5.4	5.0	5.1	5.0	0.7	5.1	2.7	6.5	1.2	6.5	5.5	5.3
1993	4.7	4.2	5.7	5.1	4.6	−0.4	2.1	5.6	4.4	7.7	4.2	3.1	7.6	5.6	4.6
1994	4.1	3.5	4.3	4.2	4.0	3.0	3.5	4.0	4.0	3.3	3.3	4.6	8.4	4.1	4.1
1995	4.9	4.3	5.3	5.1	6.7	5.4	6.1	7.8	5.4	1.9	3.8	3.7	7.6	3.9	5.2
1996	3.8	3.7	4.5	4.1	4.6	3.7	4.2	4.6	4.2	4.2	1.3	−0.7	8.3	3.2	4.0
1997	1.5	1.8	2.9	2.2	0.8	−0.8	0.0	2.0	1.6	5.4	2.5	1.9	6.6	4.0	2.0
1997 – Jan. .	2.3	2.6	3.5	2.9	2.5	1.8	2.2	4.6	2.8	2.8	0.4	−1.4	7.9	2.3	2.7
Feb.	2.0	2.2	3.3	2.6	1.8	1.2	1.5	4.7	2.4	3.1	0.4	−1.0	7.9	2.4	2.4
Mar. .	1.7	2.0	3.1	2.4	1.4	0.6	1.0	3.7	2.1	5.2	1.2	0.0	7.9	3.3	2.3
Apr. .	1.6	1.9	3.1	2.3	1.1	−0.6	0.3	1.0	1.8	5.1	1.1	0.1	6.7	3.1	2.0
May .	1.4	1.6	3.0	2.1	0.6	−1.8	−0.6	1.5	1.5	5.1	2.5	0.2	6.7	3.9	1.9
June	1.3	1.6	2.9	2.0	0.4	−2.4	−0.9	2.0	1.3	5.3	2.4	0.1	6.7	3.9	1.7
July .	1.2	1.5	2.9	2.0	0.3	−2.5	−1.0	1.8	1.2	5.8	4.2	5.8	6.2	5.0	1.8
Aug.	1.2	1.5	2.7	1.9	0.3	−2.3	−1.0	2.3	1.2	5.8	4.0	5.4	6.2	4.9	1.8
Sept.	1.2	1.5	2.7	1.9	0.2	−1.7	−0.7	1.5	1.2	6.5	3.5	4.1	6.2	4.7	1.8
Oct. .	1.3	1.5	2.8	2.0	0.1	−1.0	−0.4	0.8	1.4	6.5	4.1	4.6	5.7	5.0	2.0
Nov.	1.5	1.8	2.6	2.0	0.2	−0.5	−0.1	0.3	1.4	6.7	3.4	2.8	5.7	4.7	2.0
Dec.	1.4	1.7	2.6	1.9	0.2	0.0	0.1	−0.3	1.4	6.7	3.2	2.7	5.7	4.5	1.9
1998 – Jan. .	1.8	1.7	2.7	2.2	0.3	0.8	0.5	−1.2	1.6	3.8	2.8	2.1	5.3	3.5	1.9
Feb.	2.0	1.7	2.8	2.4	0.4	1.2	0.8	−2.0	1.8	3.5	2.8	1.9	5.3	3.4	2.1
Mar. .	2.0	1.8	2.9	2.4	0.5	1.2	0.8	−2.6	1.8	3.9	2.1	0.9	5.3	3.2	2.1
Apr. .	2.1	1.9	2.8	2.4	0.6	1.3	1.0	−2.0	1.9	4.0	1.9	0.7	5.8	3.1	2.1
May .	2.1	1.8	2.9	2.4	0.9	1.4	1.2	−1.9	2.0	4.1	0.2	0.1	5.8	2.2	2.0
June	2.1	1.8	2.9	2.4	0.9	1.7	1.3	−2.0	2.0	4.1	0.3	0.1	5.8	2.2	2.1
July .	2.0	1.9	2.8	2.4	0.9	1.8	1.3	−1.7	1.9	5.3	0.2	−0.3	5.2	2.4	2.1
Aug.	2.1	1.9	2.9	2.5	0.9	2.1	1.5	−2.5	2.0	5.4	0.3	−0.3	5.2	2.4	2.1

Source: Based on Istat data.

(1) Sundry bases; for 1996 the comparison is with the 1990-based index, with the average for 1995 set equal to 100. – (2) With reference to 1995=100. – (3) Medicines, salt and tobacco products. In the case of medicines, the reference is to the aggregate calculated by Istat; around one third of this consists of products in the so-called “C band”, the prices of which are unregulated. Water, electricity and gas are included under utility charges. – (4) Changes published by Istat; calculated on indices rounded to the first decimal place.

Table a17

Index of consumer prices for worker and employee households (1)

(percentage change on year-earlier period)

	Goods and services not subject to price controls									Goods and services subject to price controls					Overall index (4)
	Non-food and non-energy products	Non-food and non-energy products: excluding cars	Services	Total excluding food and energy products and items subject to price controls	Food products: Processed	Food products: Not processed	Food products: Total	Energy products	Total	Goods (3)	Utility charges	Utility charges: *of which: energy*	Rents	Total	
Weights (2)	*35.6*	32.5	*23.6*	*59.2*	*10.6*	*9.7*	*20.3*	*3.7*	*83.2*	*2.0*	*11.4*	*3.2*	*3.4*	*16.8*	*100.0*
1988	4.8	5.0	7.3	5.8	3.1	4.0	3.6	4.4	5.0	1.0	4.6	2.8	5.1	4.4	5.0
1989	5.6	5.5	8.4	6.7	6.3	6.0	6.2	4.6	6.4	0.9	9.1	3.2	5.8	7.4	6.6
1990	4.8	5.0	7.3	5.8	6.1	5.7	5.9	12.6	6.1	0.9	6.1	8.6	5.7	5.7	6.1
1991	5.5	5.6	7.8	6.4	6.6	7.1	6.8	9.3	6.7	7.3	4.1	–2.7	6.1	4.8	6.4
1992	4.3	4.8	7.5	5.6	5.0	4.2	4.6	0.9	5.1	–0.4	7.4	–1.5	6.5	6.8	5.4
1993	4.3	3.4	5.5	4.8	4.3	–0.2	2.1	5.9	4.2	7.5	2.8	2.9	8.1	4.7	4.2
1994	3.8	3.4	4.0	3.9	3.8	2.9	3.4	4.6	3.8	0.3	3.5	4.5	8.3	4.7	3.9
1995	5.0	4.3	5.2	5.1	6.5	5.1	5.8	8.1	5.4	–7.9	5.5	3.3	7.5	5.2	5.4
1996	3.9	3.8	3.9	3.9	4.6	3.8	4.2	4.5	4.0	3.0	1.7	–1.4	9.3	3.4	3.9
1997	1.5	1.8	2.4	1.9	0.6	–0.8	–0.1	1.8	1.4	6.5	1.9	1.3	7.0	3.5	1.7
1997 – Jan. .	2.4	2.6	3.0	2.7	2.3	2.2	2.2	4.3	2.6	5.0	0.5	–2.3	9.1	2.8	2.6
Feb.	2.1	2.3	3.0	2.5	1.5	1.4	1.5	4.6	2.3	5.5	0.4	–1.9	9.1	2.8	2.4
Mar. .	1.8	2.0	2.9	2.2	1.2	0.9	1.0	3.6	2.0	5.5	0.9	–0.8	9.1	3.2	2.2
Apr. .	1.6	1.9	2.8	2.1	0.8	–0.2	0.3	0.5	1.6	5.4	0.6	–0.7	7.2	2.6	1.7
May .	1.4	1.7	2.4	1.8	0.4	–1.6	–0.5	1.0	1.2	5.4	1.7	–0.7	7.2	3.3	1.6
June	1.4	1.7	2.2	1.7	0.3	–2.2	–0.9	1.7	1.1	5.7	1.7	–0.7	7.2	3.4	1.4
July .	1.3	1.6	2.3	1.7	0.2	–2.3	–1.0	1.5	1.0	6.6	3.3	5.7	6.2	4.3	1.6
Aug.	1.2	1.5	2.1	1.6	0.2	–2.3	–1.0	2.0	1.0	6.6	3.1	5.2	6.2	4.2	1.5
Sept.	1.2	1.5	2.1	1.5	0.1	–2.1	–0.9	1.4	0.9	7.9	2.5	3.9	6.2	3.9	1.4
Oct. .	1.3	1.5	2.3	1.7	0.2	–1.6	–0.7	1.0	1.1	7.9	3.2	4.3	5.7	4.3	1.6
Nov.	1.4	1.7	2.0	1.7	0.1	–1.1	–0.5	0.4	1.1	8.1	2.7	2.4	5.7	4.0	1.6
Dec.	1.3	1.6	2.1	1.6	0.2	–0.7	–0.3	–0.2	1.1	8.1	2.5	2.4	5.7	3.8	1.5
1998 – Jan. .	1.6	1.6	2.3	1.9	0.2	–0.1	0.1	–1.1	1.3	3.0	2.1	2.2	5.5	3.0	1.6
Feb.	1.8	1.5	2.5	2.1	0.5	0.6	0.5	–1.8	1.5	2.5	2.1	2.1	5.5	2.9	1.8
Mar. .	1.8	1.6	2.6	2.2	0.6	0.6	0.6	–2.6	1.6	2.7	1.7	0.9	5.5	2.7	1.7
Apr. .	1.9	1.7	2.6	2.2	0.7	0.9	0.8	–2.0	1.6	2.9	1.6	0.8	5.8	2.7	1.8
May .	1.9	1.7	2.7	2.2	0.9	1.2	1.0	–1.9	1.8	3.1	0.4	0.2	5.8	1.9	1.7
June	1.9	1.7	2.9	2.3	0.8	1.6	1.2	–1.9	1.8	3.1	0.4	0.2	5.8	1.9	1.8
July .	1.8	1.7	2.9	2.3	0.8	1.7	1.2	–1.7	1.8	5.1	0.5	–0.2	5.1	2.1	1.8
Aug.	1.9	1.8	3.0	2.4	0.8	2.0	1.4	–2.4	1.9	5.1	0.5	–0.2	5.1	2.1	1.9
Sept.	1.9	1.7	2.7	2.2	0.9	2.0	1.4	–2.6	1.8	4.6	0.5	–0.5	5.1	2.0	1.8

Source: Based on Istat data.
(1) Excluding tobacco products. Sundry bases; for 1996 the comparison is with the 1992-based index, with the average for 1995 set equal to 100. – (2) With reference to 1995=100. – (3) Medicines and salt. In the case of medicines, the reference is to the aggregate calculated by Istat; around one third of this consists of products in the so-called “C band”, the prices of which are unregulated. Water, electricity and gas are included under utility charges. – (4) Changes published by Istat; calculated on indices rounded to the first decimal place.

Harmonized index of consumer prices

(percentage change on year-earlier period)

	Non-food and non-energy products		Services		Total net of food and energy products	Food products				Energy products	Total
		excluding cars		excluding rents		Processed	Not processed	Tobacco products			
Weights (1)	*36.7*	*33.0*	*34.3*	*31.6*	*71.0*	*9.5*	*10.9*	*1.9*	*22.3*	*6.7*	*100.0*
1996	3.8	3.7	4.6	4.3	4.2	4.9	3.4	5.9	4.3	1.8	4.0
1997	1.7	2.0	3.3	3.0	2.5	0.7	–0.7	3.9	0.3	1.9	1.9
1997 – Jan.	2.4	2.7	3.5	3.2	3.0	2.6	1.6	0.0	1.9	1.7	2.6
Feb. .	2.2	2.4	3.4	3.0	2.7	1.9	0.9	0.0	1.2	2.0	2.3
Mar. .	1.9	2.2	3.4	3.1	2.6	1.5	0.3	4.7	1.2	1.9	2.2
Apr. .	1.8	2.1	3.3	3.0	2.5	1.1	–0.7	4.7	0.5	0.5	1.9
May .	1.6	1.9	3.5	3.2	2.5	0.5	–1.6	4.7	–0.2	0.7	1.8
June	1.5	1.9	3.4	3.1	2.4	0.4	–2.1	4.7	–0.5	1.0	1.6
July .	1.4	1.8	3.3	3.0	2.3	0.2	–2.1	4.7	–0.6	3.5	1.7
Aug. .	1.3	1.7	3.1	2.8	2.2	0.2	–1.9	4.7	–0.5	3.6	1.6
Sept.	1.4	1.8	3.0	2.7	2.2	0.1	–1.4	4.7	–0.2	2.7	1.6
Oct. .	1.6	1.8	3.2	3.0	2.4	0.1	–0.8	4.7	0.0	2.5	1.9
Nov. .	1.8	2.1	3.0	2.8	2.4	0.2	–0.4	4.7	0.3	1.4	1.8
Dec. .	1.7	2.0	2.9	2.7	2.3	0.2	0.0	4.7	0.5	1.0	1.8
1998 – Jan. .	2.0	1.9	2.9	2.7	2.5	0.2	0.7	4.7	0.8	0.3	1.9
Feb. .	2.2	1.9	3.0	2.8	2.6	0.3	1.2	4.7	1.1	–0.2	2.1
Mar. .	2.3	2.0	3.0	2.8	2.6	0.4	1.2	5.5	1.2	–1.1	2.1
Apr. .	2.3	2.1	2.9	2.7	2.6	0.5	1.4	5.5	1.4	–0.8	2.2
May .	2.3	2.1	2.7	2.4	2.5	0.8	1.5	5.5	1.6	–1.0	2.0
June	2.3	2.1	2.7	2.4	2.5	0.8	1.8	5.5	1.7	–1.0	2.1
July .	2.3	2.2	2.6	2.4	2.4	0.8	1.9	5.5	1.8	–1.1	2.1
Aug. .	2.4	2.2	2.7	2.4	2.5	0.8	2.1	5.5	1.9	–1.6	2.2

Source: Based on Eurostat data.
(1) Each January, Eurostat revises the weights of each elementary item, which were initially determinated in relation to the structure of consumption in 1996, in accordance with the changes in the 12 months ending in the previous December. The sum of the weights is set equal to 100. The weights in the table are those from January 1998.

Table a19

Index of producer prices of manufactures sold in the domestic market (1)

(percentage changes on corrisponding period)

	Non-energy products								Energy products	Overall index
	Consumer goods not subject to price controls (3)				Investment goods	Intermediate goods	Other goods (4)	Total		
	Non-food products		Food products	Total						
		excluding cars								
Weights (2)	*18.5*	*16.4*	*12.3*	*30.8*	*9.5*	*41.0*	*4.1*	*85.4*	*14.6*	*100.0*
1988	5.1	5.4	2.1	3.8	3.1	4.8	5.1	4.1	−0.2	3.6
1989	4.9	4.7	5.3	5.0	5.8	5.8	3.2	5.5	9.4	5.9
1990	2.7	2.5	3.0	2.8	4.1	1.7	3.1	2.6	16.2	4.1
1991	2.3	2.3	5.3	3.8	3.3	5.5	1.9	3.8	−2.4	3.3
1992	3.2	3.0	3.8	3.4	3.3	1.0	5.3	2.2	−0.4	1.9
1993	3.1	2.7	3.9	3.4	3.6	3.2	6.0	3.4	6.3	3.8
1994	3.2	2.6	3.6	3.3	2.9	4.2	5.0	3.8	3.2	3.7
1995	5.1	5.0	6.0	5.4	5.0	10.7	4.4	8.1	6.4	7.9
1996	3.4	3.2	2.8	3.2	3.6	−0.1	3.5	1.7	3.4	1.9
1997	0.7	1.0	1.1	0.9	1.8	0.5	0.9	0.8	4.3	1.3
1997 – Jan.	1.6	1.5	0.5	1.1	2.3	−1.6	−0.1	−0.1	6.5	0.9
Feb.	1.1	1.1	0.1	0.7	2.1	−1.1	−0.2	0.0	6.0	0.8
Mar.	0.8	0.9	0.4	0.7	1.8	−0.9	0.9	0.1	5.4	0.9
Apr.	1.0	1.2	−0.3	0.5	1.9	−0.1	0.6	0.4	3.7	0.8
May	0.9	1.1	0.1	0.6	1.9	0.4	0.8	0.7	4.4	1.1
June	0.6	1.0	0.7	0.7	1.8	0.8	0.8	0.9	6.0	1.6
July	0.3	0.8	1.2	0.7	1.4	0.7	0.8	0.8	7.2	1.7
Aug.	0.5	0.9	1.5	0.9	1.7	1.0	0.7	1.0	5.5	1.7
Sept.	0.5	0.9	2.0	1.1	1.7	1.2	0.9	1.2	3.7	1.6
Oct.	0.3	0.8	2.1	1.0	1.6	1.6	1.6	1.4	2.7	1.6
Nov.	0.6	1.0	2.6	1.4	1.6	1.7	2.1	1.6	1.2	1.6
Dec.	0.6	1.1	2.7	1.4	1.5	2.0	2.4	1.7	−0.5	1.5
1998 – Jan.	1.0	1.3	2.3	1.5	1.8	2.0	3.4	1.9	−2.3	1.3
Feb.	1.3	1.4	2.3	1.7	2.0	2.0	3.0	1.9	−2.7	1.3
Mar.	1.4	1.4	2.1	1.6	1.8	1.8	2.4	1.8	−3.6	0.9
Apr.	1.2	1.3	2.3	1.7	1.8	1.2	3.8	1.6	−3.1	0.9
May	1.4	1.4	1.9	1.6	1.8	0.6	3.7	1.3	−3.5	0.6
June	1.5	1.4	1.6	1.6	1.7	0.4	3.7	1.2	−4.0	0.4
July	1.7	1.5	1.4	1.6	1.9	0.4	3.6	1.1	−4.9	0.3
Aug.	1.8	1.4	1.1	1.5	1.8	−0.2	3.6	0.8	−6.1	−0.3

Source: Based on Istat data.

(1) Sundry bases. For 1996 the comparison is with the 1990-based index, with the average for 1995 set equal to 100. – (2) With reference to 1995=100. – (3) Excludes tobacco products and medicines. – (4) Includes tobacco products and medicines, the prices of which are subject to official control. In the absence of elementary indices for medicines, the reference is to the Istat aggregate “Chemical, pharmaceutical and medical products”, which includes goods with unregulated prices.

Table a20

Exports of manufactures: average unit values in lire (1)

(percentage changes on corresponding period)

	Non-energy products								Energy products	Overall index
	Consumer goods (2)				Investment goods	Intermediate goods	Other goods (3)	Total		
	Non-food products		Food products	Total						
		excluding cars								
1988	4.4	3.1	2.3	4.1	6.2	4.4	–21.1	4.2	9.1	4.8
1989	5.4	5.8	4.8	5.4	4.2	7.5	8.9	6.1	8.0	6.4
1990	1.8	1.2	–1.3	1.4	4.2	0.8	12.2	1.9	–3.2	1.5
1991	3.8	3.7	–0.5	3.1	3.4	1.6	–1.9	2.5	–2.7	2.1
1992	2.2	2.5	1.7	1.9	4.6	–0.3	42.5	1.8	–8.5	1.0
1993	11.7	11.6	10.2	11.4	11.8	10.4	59.6	11.6	15.3	12.0
1994	2.1	1.1	6.4	2.9	3.4	3.5	5.9	3.2	5.8	3.7
1995	6.7	5.1	10.8	7.2	1.6	13.4	–3.9	8.6	18.7	9.3
1996	8.1	10.0	2.3	7.3	4.2	–1.6	34.5	3.1	–1.2	2.9
1997	–1.3	–1.8	–3.9	–1.7	–0.5	–1.1	8.9	–1.1	3.4	–0.9
1997 – Jan.	–4.1	–3.8	–4.4	–4.2	–2.9	–5.1	–11.2	–4.4	5.4	–3.8
Feb.	–2.1	–2.7	–6.9	–2.8	–2.4	–5.3	21.0	–3.7	6.2	–3.2
Mar.	–1.6	–2.2	–2.6	–1.6	–3.3	–3.9	36.0	–2.8	–1.3	–2.8
Apr.	–2.0	–2.8	–4.1	–2.2	1.8	–0.7	14.7	–0.6	–0.7	–0.9
May	–2.0	–2.9	–3.3	–2.3	–1.2	–1.0	5.6	–1.2	–1.7	–1.4
June	1.5	1.0	–5.3	0.6	–2.8	–2.8	–7.5	–1.8	–3.1	–2.1
July	–0.4	–1.2	–6.5	–1.3	–0.3	–0.7	8.9	–0.8	0.3	–0.9
Aug.	–1.0	–1.5	–3.2	–1.5	4.5	–1.3	–5.2	–0.4	11.9	0.8
Sept.	–0.3	–0.5	–3.6	–0.9	1.5	0.6	11.3	0.4	10.8	1.0
Oct.	–1.2	–1.5	–2.4	–1.4	–1.1	1.5	20.6	0.1	8.8	0.5
Nov.	–1.7	–2.1	–4.8	–2.1	–0.1	3.7	24.4	1.1	7.2	1.6
Dec.	0.7	0.5	0.8	0.8	1.9	1.0	–10.7	1.1	–2.0	0.7
1998 – Jan.	1.3	1.2	1.6	1.4	2.5	2.0	37.3	2.2	8.3	3.0
Feb.	–1.3	–1.5	–0.1	–1.0	–3.4	3.8	10.9	0.7	–10.2	–0.1
Mar.	–0.1	0.1	1.1	0.1	–1.6	1.6	–4.0	0.6	3.9	0.8
Apr.	0.5	1.2	0.4	0.6	0.4	0.6	7.1	0.6	–5.2	0.3
May	–0.2	–0.3	–1.8	–0.3	3.5	0.5	8.2	0.8	–7.5	0.2

Source: Based on Istat data.

(1) Each good is allocated to the category in the table corresponding to the predominant economic use of that good. – (2) Excluding tobacco products and medicines. – (3) Includes tobacco products and medicines. In the absence of elementary indices for medicines, the reference is to the Istat aggregate “Pharmaceutical products”.

Table a21

Imports of manufactures: average unit values in lire (1)

(percentage changes on corresponding period)

	Non-energy products								Energy products	Overall index
	Consumer goods not subject to price controls (2)				Investment goods	Intermediate goods	Other goods (3)	Total		
	Non-food products		Food products	Total						
		excluding cars								
1988	4.3	4.3	6.9	5.6	2.5	9.6	7.3	7.2	–4.2	5.8
1989	2.8	4.1	7.2	4.3	2.5	7.2	17.0	5.4	14.8	7.4
1990	2.5	–0.3	–5.2	0.3	–1.5	–6.2	13.6	–2.8	3.8	–1.4
1991	1.8	0.4	0.0	1.3	2.0	–3.0	5.6	–0.2	–1.8	–0.1
1992	3.1	–1.6	4.8	3.9	2.1	–2.0	10.3	1.1	–8.3	–0.6
1993	6.5	10.8	11.2	7.3	22.5	9.0	9.7	10.1	19.2	11.2
1994	–1.0	–1.0	4.9	0.8	3.3	7.7	–11.9	3.8	4.8	4.8
1995	9.0	7.3	9.6	9.2	3.4	16.8	–5.6	11.7	15.6	13.1
1996	4.7	4.3	–5.0	2.0	3.0	–5.8	18.5	–0.9	3.8	–0.2
1997	–1.7	–1.2	1.5	–0.6	–0.5	–1.7	–0.1	–1.1	3.2	0.1
1997 – Jan.	–3.4	–5.6	–5.7	–3.9	–6.8	–12.7	–10.6	–8.5	9.7	–5.4
Feb.	–3.9	–4.5	–2.3	–3.4	–6.6	–8.7	–3.6	–6.4	11.5	–3.8
Mar.	–5.4	–8.8	0.0	–3.5	–2.6	–6.8	4.5	–4.7	6.2	–1.9
Apr.	–3.1	–3.5	–3.0	–2.8	–4.0	–5.2	–8.3	–4.5	4.1	–2.0
May	–4.4	–4.1	1.2	–2.7	3.4	–3.0	0.8	–1.8	4.2	–0.3
June	–1.1	–1.3	–0.9	–0.7	3.4	–0.9	10.0	0.2	2.7	1.2
July	–1.1	–0.2	1.4	–0.1	5.6	0.8	5.1	1.1	3.8	2.2
Aug.	1.1	4.9	2.9	2.1	–1.7	2.8	–10.7	1.0	10.7	4.4
Sept.	1.4	3.6	5.4	3.0	2.6	3.7	–11.1	3.0	1.9	3.4
Oct.	–0.6	3.6	5.5	1.4	–1.2	4.7	0.7	2.5	–1.9	2.2
Nov.	–0.5	0.0	6.6	1.7	–1.2	5.4	14.6	3.2	–2.9	2.2
Dec.	1.7	2.9	4.7	2.8	0.6	3.2	8.8	2.3	–6.8	0.8
1998 – Jan.	1.9	2.7	6.3	3.2	1.3	4.8	5.2	3.5	–10.4	0.9
Feb.	4.3	5.9	3.4	4.2	0.0	2.3	–1.3	2.3	–11.6	0.2
Mar.	2.5	2.8	1.3	2.3	–2.4	0.9	–0.1	1.1	–9.0	0.1
Apr.	4.5	3.3	2.3	4.2	2.3	0.1	7.7	2.2	–17.0	–1.9
May	5.1	1.9	–3.7	3.2	–4.3	–2.9	7.1	–1.0	–12.7	–2.6

Source: Based on Istat data.

(1) Each good is allocated to the category in the table corresponding to the predominant economic use of that good. – (2) Excludes tobacco products and medicines. – (3) Includes tobacco products and medicines, the consumer prices of which are subject to official control. In the absence of elementary indices for medicines, the reference is to the Istat aggregate “Pharmaceutical products”, which includes goods with unregulated prices.

Table a22

Balance of payments

(balances in billions of lire)

	Current items					Capital flows			Errors and omissions	Change in official reserves
	Goods	Invisible items			Total	Non-bank	Bank	Total		
		Services	Incomes	Transfers						
1995	72,882	1,011	−25,533	−4,680	43,680	51,790	−58,102	−6,312	−34,458	−2,910
1996	93,736	3,074	−23,124	−10,335	63,351	37,475	−47,394	−9,919	−32,835	−20,597
1997	79,897	3,419	−19,006	−1,769	62,541	(−24,084)	11,679	(−12,405)	(−27,296)	−22,840
1996 – 2nd qtr. . .	25,150	2,717	−7,279	−4,153	16,435	20,430	−14,465	5,965	1,680	−24,080
3rd " . .	26,551	2,189	−4,666	−2,232	21,842	212	−11,401	−11,189	−11,894	1,241
4th " . .	23,741	−671	−5,183	−3,964	13,923	32,424	−40,538	−8,114	−8,467	2,658
1997 – 1st qtr. . .	16,735	−342	−5,265	3,169	14,297	−13,676	24,627	10,951	−25,744	496
2nd " . .	19,808	1,591	−6,434	−2,868	12,097	18,265	−42,089	−23,824	10,012	1,715
3rd " . .	23,608	2,586	−4,290	−1,928	19,976	(7,251)	14,019	(6,768)	(−4,142)	−22,602
4th " . .	19,746	−416	−3,017	−142	16,171	(−21,422)	15,122	(−6,300)	(−7,422)	−2,449
1998 – 1st qtr. . .	14,052	−3,562	−5,608	−272	4,610	(−22,095)	34,583	(12,488)	(−18,402)	1,304
2nd " . .	20,443	1,156	−5,703	−2,496	13,400	(22,107)	−37,929	(−15,822)	(−11,069)	13,491
1996 – Aug.	7,336	321	−190	−872	6,595	3,757	−15,024	−11,267	1,864	2,808
Sept.	4,780	254	−2,307	−683	2,044	6,766	−3,310	3,456	−3,610	−1,890
Oct.	10,234	−87	−1,690	−1,516	6,941	10,418	−5,718	4,700	−7,245	−4,396
Nov.	7,712	−486	−1,005	−1,109	5,112	4,479	−10,748	−6,269	−1,385	2,542
Dec.	5,795	−98	−2,488	−1,339	1,870	17,527	−24,072	−6,545	163	4,512
1997 – Jan.	4,104	−53	−1,647	4,418	6,822	−11,656	20,639	8,983	−10,431	−5,374
Feb.	6,034	−95	−1,136	−806	3,997	1,061	937	1,998	−7,958	1,963
Mar.	6,597	−194	−2,482	−443	3,478	−3,081	3,051	−30	−7,355	3,907
Apr.	6,411	−51	−1,816	−296	4,248	−3,095	−4,371	−7,466	1,072	2,146
May	7,048	328	−1,961	−1,132	4,283	14,175	−17,061	−2,886	174	−1,571
June	6,349	1,314	−2,657	−1,440	3,566	7,185	−20,657	−13,472	8,766	1,140
July	13,252	1,514	−1,087	5	13,684	(−6,873)	−647	(−7,520)	(5,960)	−12,124
Aug.	6,659	159	−1,224	−1,410	4,184	(−9,509)	11,963	(2,454)	(−1,839)	−4,799
Sept.	3,697	913	−1,979	−523	2,108	(9,131)	2,703	(11,834)	(−8,263)	−5,679
Oct.	8,558	316	−1,640	−795	6,439	(−5,922)	656	(−5,266)	(−3,572)	2,399
Nov.	6,205	−410	−904	−122	4,769	(−13,191)	16,613	(3,422)	(−7,360)	−831
Dec.	4,983	−322	−473	775	4,963	(−2,309)	−2,147	(−4,456)	(3,510)	−4,017
1998 – Jan.	2,920	−2,412	−3,224	−1,308	−4,024	(−12,308)	14,900	(2,592)	(−3,084)	4,516
Feb.	4,312	−472	−684	−404	2,752	(2,961)	2,932	(5,893)	(−4,684)	−3,961
Mar.	6,820	−678	−1,700	1,440	5,882	(−12,748)	16,751	(4,003)	(−10,634)	749
Apr.	5,354	−467	−2,469	−1,189	1,229	(1,854)	2,126,	(3,980)	(−8,172)	2,963
May	7,952	62	−2,061	−736	5,217	(10,647)	−9,795	(852)	(−11,783)	5,714
June	7,137	1,561	−1,173	−571	6,954	(9,606)	−30,260	(−20,654)	(8,886)	4,814
July	....	....	....	....	....	(−19,017)	(14,751)	(−4,266)	....	(6,795)
Aug.	....	....	....	....	....	(9,296)	(−9,434)	(−138)	....	(−940)

Table a23

External position of BI-UIC

	Short-term assets				Short-term liabilities	Medium and long-term position			Reserve position in the IMF	Gold	Overall position
						Assets		Liabilities			
	Convertible currencies	Official ecus	SDRs	Total		Total	*of which: foreign securities*				
					(billions of lire)						
1994 – Dec. . . .	39,197	7,554	204	46,955	790	2,290	1,817	1,671	3,314	41,338	91,436
1995 – Dec. . . .	38,377	9,377	0	47,754	2,462	4,470	3,533	1,655	3,112	40,257	91,476
1996 – Dec. . . .	44,846	16,323	45	61,214	366	6,234	5,259	1,546	2,839	38,366	106,741
1997 – Aug. . . .	64,154	15,166	97	79,417	281	7,471	6,413	1,685	3,032	38,301	126,255
Sept. . .	68,839	15,101	95	84,035	261	7,721	6,679	1,655	3,026	37,940	130,806
Oct. . . .	65,722	15,870	97	81,689	232	7,410	6,374	1,644	3,006	37,940	128,169
Nov. . . .	66,347	15,948	115	82,410	237	7,647	6,618	1,652	3,306	37,940	129,414
Dec. . . .	69,724	15,932	118	85,774	308	8,325	7,290	1,667	3,942	37,578	133,644
1998 – Jan. . . .	66,040	14,819	144	81,003	175	7,898	6,851	1,700	4,989	37,578	129,593
Feb. . . .	71,115	14,825	161	86,101	218	6,171	5,127	1,694	5,395	37,578	133,333
Mar. . . .	70,332	14,924	162	85,418	150	6,345	5,293	1,707	5,436	34,127	129,469
Apr. . . .	68,260	15,122	162	83,544	223	4,727	3,694	1,677	5,340	34,127	125,838
May . . .	60,920	15,037	199	76,156	254	5,094	4,086	1,649	5,744	34,127	119,218
June . .	56,265	15,117	203	71,585	218	5,396	4,382	1,663	5,793	35,571	116,464
July . . .	45,601	16,614	182	62,397	242	5,906	4,841	1,639	6,359	35,584	108,365
Aug. . . .	46,227	16,667	198	63,092	208	6,173	5,077	1,649	6,397	35,584	109,389
					(millions of dollars)						
1994 – Dec. . . .	24,052	4,635	125	28,812	485	1,405	1,115	1,025	2,034	26,342	57,082
1995 – Dec. . . .	24,217	5,917	0	30,134	1,554	2,821	2,229	1,044	1,964	25,654	57,975
1996 – Dec. . . .	29,300	10,664	29	39,993	239	4,073	3,436	1,010	1,855	24,630	69,302
1997 – Aug. . . .	36,461	8,619	55	45,136	160	4,246	3,645	958	1,723	22,463	72,451
Sept. . .	39,874	8,747	55	48,676	151	4,472	3,869	959	1,753	21,806	75,598
Oct. . . .	38,840	9,379	57	48,277	137	4,379	3,767	972	1,776	21,806	75,130
Nov. . . .	38,409	9,232	67	47,708	137	4,427	3,831	956	1,914	21,806	74,761
Dec. . . .	39,634	9,056	67	48,757	175	4,732	4,144	948	2,241	19,371	73,979
1998 – Jan. . . .	36,699	8,235	80	45,014	97	4,389	3,807	945	2,772	19,371	70,505
Feb. . . .	39,809	8,299	90	48,198	122	3,454	2,870	948	3,020	19,371	72,973
Mar. . . .	38,657	8,203	89	46,948	82	3,487	2,909	938	2,988	20,057	72,460
Apr. . . .	38,504	8,530	91	47,125	126	2,666	2,084	946	3,012	20,057	71,790
May . . .	34,655	8,554	113	43,322	144	2,898	2,324	938	3,268	20,057	68,462
June . .	31,640	8,501	114	40,255	123	3,034	2,464	935	3,258	19,556	65,045
July . . .	25,986	9,468	104	35,558	138	3,366	2,759	934	3,624	19,563	61,039
Aug. . . .	26,440	9,533	113	36,086	119	3,531	2,904	943	3,659	19,563	61,776

Table a24

State sector borrowing requirement

(billions of lire)

	Budget			Treasury operations	Lending by the Deposits and Loans Fund	ANAS, the State Forests and other bodies	Gross borrowing requirement	Settlements of past debts (–)	Privatization receipts (–)	Net borrowing requirement
	Receipts	Payments (–)	Balance							
1991	445,914	576,566	–130,652	–10,291	–4,498	–1,073	–146,514	–73	2,100	–148,541
1992	499,612	609,933	–110,321	–45,287	–3,515	–3,658	–162,782	–31	–	–162,751
1993	470,685	614,660	–143,975	–3,259	–11,094	538	–157,790	–10,837	–	–146,953
1994	477,160	615,876	–138,716	1,493	–15,346	–531	–153,101	–9,342	5,921	–149,679
1995	523,486	639,645	–116,160	8,976	–12,923	–2,494	–122,600	–4,085	8,354	–126,869
1996	549,509	680,987	–131,478	4,081	–10,086	1,409	–136,074	–13,502	6,226	–128,799
1997	621,690	599,774	21,916	–48,533	–5,905	1,391	–31,131	409	21,179	–52,720
1997 – 1st qtr. . .	109,737	101,936	7,801	–36,786	–1,153	–237	–30,376	–	–6,297	–24,079
2nd ” . . .	154,512	116,848	37,663	–39,495	–2,124	434	–3,522	–451	–1,885	–1,186
3rd ” . . .	146,970	173,641	–26,672	12,812	–985	15	–14,830	–1,420	12,848	–26,258
4th ” . . .	210,472	207,348	3,123	14,936	–1,642	1,179	17,596	2,280	16,513	–1,197
1998 – 1st qtr. . .	117,823	115,039	2,784	–28,714	73	7	–25,849	3,599	–94	–29,354
2nd ” . . .	114,114	181,493	–67,378	41,823	–2,396	426	–27,525	–3,121	–5,541	–18,862
3rd ” . . .	174,203	161,111	13,092	–11,115	–1,560	14	431	–2,520	13,787	–10,836
1997 – Sept.	33,618	44,347	–10,729	–8,823	–677	15	–20,214	–293	–	–19,921
Oct. . . .	38,777	55,616	–16,839	569	–691	283	–16,679	–738	–	–15,941
Nov.	69,355	54,445	14,910	–3,973	–496	–	10,441	–425	21,510	–10,644
Dec.	102,340	97,287	5,053	18,340	–455	896	23,834	3,444	–4,997	25,388
1998 – Jan.	44,182	37,871	6,311	–1,110	757	–	5,958	4,501	–94	1,551
Feb.	36,423	28,804	7,619	–16,583	–441	–	–9,404	–379	–	–9,025
Mar.	37,218	48,364	–11,146	–11,021	–243	7	–22,403	–523	–	–21,880
Apr.	37,741	72,270	–34,529	12,812	–806	252	–22,271	–540	–1,500	–20,231
May	16,905	41,375	–24,470	8,275	–724	–	–16,919	–352	–	–16,567
June	59,469	67,848	–8,379	20,736	–866	175	11,660	–2,229	–4,042	17,936
July	84,318	59,519	24,799	–9,464	–338	–	14,997	–2,039	13,782	3,254
Aug.	56,693	51,729	4,964	–51	–517	–	4,396	–419	1	4,814
Sept.	33,192	49,863	–16,671	–1,600	–705	14	–18,962	–62	4	–18,904

Table a25

Financing of the state sector borrowing requirement

(billions of lire)

	Medium and long-term securities	BOTs and BTEs	BI-UIC financing other than securities purchases		PO deposits	Foreign loans	Other	Gross borrowing requirement
			Current accounts	Other				
1991	113,915	11,589	2,011	461	7,036	5,506	5,996	146,514
1992	91,121	46,479	7,706	–590	9,111	173	8,782	162,782
1993	163,120	5,577	–35,244	732	8,922	12,374	2,310	157,790
1994	225,609	11,706	–109,474	–2,245	21,738	9,569	–3,801	153,101
1995	88,649	–1,506	–8,195	–244	15,791	25,598	2,507	122,600
1996	126,909	–27,453	17,370	304	13,229	15,380	–9,665	136,074
1997	99,003	–82,310	–3,020	435	11,635	4,059	1,330	31,131
1997 – 1st qtr.	41,388	–19,560	1,897	–1,814	4,438	1,173	2,853	30,376
2nd ”	20,905	–18,250	–8,818	2,244	1,850	2,185	3,407	3,522
3rd ”	29,947	–19,750	–325	177	2,330	3,349	–898	14,830
4th ”	6,762	–24,750	4,227	–173	3,017	–2,648	–4,032	–17,596
1998 – 1st qtr.	32,584	–16,750	11,642	–101	842	–2,705	338	25,849
2nd ”	34,264	–2,500	–1,913	116	–187	1,204	–3,459	27,525
3rd ”	26,935	–4,732	–16,023	216	1,421	–7,115	–1,134	–431
1997 – Sept.	15,125	–8,000	11,458	–28	2,636	–82	–894	20,214
Oct.	13,220	–9,000	12,916	7	–149	–293	–22	16,679
Nov.	5,019	–8,500	–6,357	–155	37	–106	–379	–10,441
Dec.	–11,476	–7,250	–2,332	–24	3,129	–2,249	–3,631	–23,834
1998 – Jan.	866	–5,750	844	159	1,008	–3,409	325	–5,958
Feb.	20,859	–6,500	–5,349	–303	–103	714	86	9,404
Mar.	10,859	–4,500	16,146	43	–63	–9	–73	22,403
Apr.	9,493	–	13,390	226	–206	–220	–412	22,271
May	22,552	–500	–7,328	–1,054	1,202	3,032	–985	16,919
June	2,219	–2,000	–7,976	945	–1,184	–1,608	–2,062	–11,666
July	5,922	–1,500	–13,007	246	–221	–5,846	–592	–14,997
Aug.	9,391	–1,500	–14,708	10	1,342	1,427	–358	–4,396
Sept.	11,622	–1,732	11,692	–39	300	–2,696	–184	18,962

Table a26

General government debt

(face value; billions of lire)

	Medium and long-term securities excluding BI-UIC	BOTs and BTEs excluding BI-UIC	PO deposits	Lending by banks	Other dom-estic debt	Debt issued abroad	Borrowing from BI-UIC	Total (EU definition)	Total (EU definition): *as a per-centage of GDP*	Claims on BI-UIC	Total	*Memorandum item:* state sector debt
1991	732,625	338,254	96,198	81,022	3,205	54,987	142,858	1,449,147	*101.5*	–1,095	1,448,052	1,411,919
1992	805,338	393,827	105,308	93,878	3,458	64,575	167,385	1,633,770	*108.7*	–1,406	1,632,364	1,595,007
1993	958,951	399,434	114,230	107,691	3,599	85,505	176,990	1,846,399	*119.1*	–32,507	1,813,892	1,765,403
1994	1,104,569	397,016	135,968	106,415	3,632	96,022	203,541	2,047,163	*124.9*	–65,754	1,981,410	1,931,738
1994	1,204,460	407,144	151,759	111,333	3,844	119,274	204,061	2,201,876	*124.2*	–74,184	2,127,692	2,073,510
1996 – 1st qtr.	1,236,624	403,039	152,132	109,035	3,915	119,119	200,282	2,224,147		–53,318	2,170,829	2,117,776
2nd ”	1,282,441	390,226	153,692	111,443	3,975	119,954	206,490	2,268,221		–86,982	2,181,239	2,123,791
3rd ”	1,322,638	389,322	156,269	109,247	4,027	122,972	201,391	2,305,866		–73,849	2,232,017	2,172,861
4th ”	1,367,009	381,599	164,988	108,521	3,994	125,592	171,018	2,322,721	*124.0*	–56,459	2,266,262	2,205,040
1997 – 1st qtr.	1,409,505	352,612	169,426	108,597	4,054	132,394	181,625	2,358,213		–56,367	2,301,846	2,243,582
2nd ”	1,448,946	328,822	171,276	111,771	4,101	139,434	172,665	2,377,014		–62,962	2,314,052	2,251,592
3rd ”	1,492,379	309,972	173,606	109,079	4,170	142,256	158,672	2,390,135		–63,005	2,327,130	2,266,450
4th ”	1,500,885	287,195	176,623	110,214	4,133	139,738	154,834	2,373,623	*121.7*	–58,997	2,314,626	2,248,726
1998 – Jan. . . .	1,502,706	280,068	177,632	108,569	4,188	138,705	154,601	2,366,469		–57,975	2,308,493	2,244,754
Feb. . . .	1,522,299	278,771	177,528	108,514	4,225	139,770	149,329	2,380,436		–63,637	2,316,799	2,252,373
Mar. . . .	1,541,426	272,027	177,465	108,329	4,263	139,949	143,453	2,386,913		–47,441	2,339,472	2,274,777
Apr. . . .	1,549,411	275,580	177,259	107,995	4,302	137,760	139,596	2,391,904		–33,808	2,358,096	2,293,363
May . . .	1,572,140	276,055	178,461	108,827	4,357	138,823	138,265	2,416,930		–42,215	2,374,715	2,308,476
June . . .	1,576,482	275,726	177,278	103,283	4,369	138,580	135,474	2,411,191		–49,251	2,361,940	2,298,013
July . . .	1,611,059	274,662	177,057	100,361	4,385	130,597	105,625	2,403,745		–62,027	2,341,718	2,280,011
Aug. . . .	1,618,397	269,474	178,399	100,107	4,380	132,334	109,512	2,412,604		–76,711	2,335,893	2,274,625
Sept. . .	. . . .	. . . .	178,699	. . . .	4,407	128,205	110,201	. . . .		–65,047	. . . .	2,291,867

Monetary base

(flows in billions of lire)

	Sources								Uses				
	Foreign sector		Treasury accounts	Other BI-UIC opera-tions with the Treasury	Open market	Refi-nancing	Other sectors	Total	Currency in circulation	Bank reserves			
		of which: currency swaps								Deposits with the Bank of Italy	*of which: compulsory reserves*	Other	Total
1995	2,915	10,592	−8,195	−25,174	15,455	4,857	−1,786	−11,928	2,060	−15,310	−18,728	1,322	−13,988
1996	20,449	−24,227	17,370	−23,834	6,291	−5,647	−10,477	4,152	1,826	684	−1,779	1,641	2,326
1997	22,829	−2,921	−3,020	−46,517	32,734	862	6,616	13,503	7,327	6,111	10,669	65	6,176
1997 – Sept. . .	5,672	. .	11,458	−5,797	−7,494	−85	−976	2,779	1,051	1,246	−265	482	1,728
Oct. . . .	−2,393	. .	12,916	−5,974	418	133	−1,040	4,061	−772	5,017	438	−184	4,833
Nov. . . .	832	. .	−6,357	−6,941	7,644	8	4,487	−327	4,076	−5,734	2,204	1,331	−4,403
Dec. . . .	3,999	. .	−2,332	−3,544	6,092	1,091	283	5,590	4,196	48	256	1,346	1,394
1998 – Jan. . . .	−4,362	. .	844	−3,745	8,416	−1,237	−1,224	−1,309	−3,814	4,948	1,633	−2,443	2,505
Feb. . . .	3,815	. .	−5,349	−5,790	16,567	−29	67	9,280	−742	10,481	6,713	−458	10,023
Mar. . . .	−751	. .	16,146	−3,460	−17,096	−5	−2,570	−7,734	2,153	−10,521	−3,073	635	−9,887
Apr. . . .	−2,957	. .	13,390	−3,541	−1,970	−7	−299	4,617	608	4,012	1,513	−4	4,009
May . . .	−5,715	−6,998	−7,328	−3,864	21,676	113	304	5,187	2,833	2,552	2,909	−199	2,353
June . .	−4,814	. .	−7,976	(−1,624)	−3,866	107	2,973	(−15,200)	(−806)	−14,830	−24,798	437	−14,394
July . . .	−5,331		−13,007	(−1,540)	21,602	−12	−7,887	(−6,174)	(1,730)	−8,425	−329	520	−7,905
Aug. . . .	842	. .	−14,709	(−1,629)	9,629	−438	−385	(−25,947)	(−4,243)	−21,747	−22,104	43	−21,704
Sept. . .	(−11,826)	−6,726	11,693	(−5,132)	(−3,721)	−442	(1,712)	(−7,717)	(1,042)	−8,234	−2,945	(−525)	(−8,759)

Financing of the Treasury

(flows in billions of lire)

	Gross state sector borrowing requirement	Non-monetary financing							Treasury accounts	Other BI-UIC operations with the Treasury
		Net sales of securities in the primary market					Other	Total		
		Treasury bills	Treasury credit certificates	Treasury bonds	Other	Total				
1995	122,600	−21,957	26,011	−100,043	−21,750	−117,738	−54,938	−172,676	−8,195	−25,174
1996	136,074	14,356	−35,575	−65,985	−40,066	−127,271	−27,720	−154,991	17,370	−23,834
1997	31,131	49,861	−17,471	−77,684	−27,891	−73,184	−49,843	−123,027	−3,020	−46,517
1997 – Sept. . .	20,214	4,553	−1,685	−11,624	−4,148	−12,904	1,649	−14,554	11,458	−5,797
Oct. . . .	16,679	3,880	−2,010	−11,944	−157	−10,231	494	−9,737	12,916	−5,974
Nov. . . .	−10,441	3,312	−1,508	−5,602	−6,124	−9,922	−35,955	−45,877	−6,357	−6,941
Dec. . . .	−23,834	4,342	. .	5,166	2,867	12,375	15,578	27,953	−2,332	−3,544
1998 – Jan. . . .	−5,958	3,599	−3,806	−11,292	12,451	952	2,294	3,245	844	−3,745
Feb. . . .	9,404	1,080	−1,506	−21,164	1,724	−19,867	−678	−20,544	−5,349	−5,790
Mar. . . .	22,403	1,279	5,117	−8,471	−7,815	−9,890	173	−9,717	16,146	−3,460
Apr. . . .	22,271	−3,294	3,780	−14,114	327	−13,300	3,878	−9,422	13,390	−3,541
May . . .	16,919	−1,964	4,032	−22,585	−4,377	−24,894	−3,217	−28,111	−7,328	−3,864
June . .	−11,666	795	1,888	−11,435	5,964	−2,788	12,938	10,149	−7,976	(−1,624)
July . . .	−14,997	−64	2,930	−12,370	3,297	−6,207	−20,906	−27,113	−13,007	(−1,540)
Aug. . . .	−4,396	−4	4,661	−13,742	−446	−9,530	−2,413	−11,943	−14,709	(−1,629)
Sept. . .	18,962	(−2,247)	(5,412)	(−14,780)	(−3,369)	(−14,983)	−2,572	(−12,410)	11,693	(−5,132)

Table a28

Monetary base and BI operations: averages of daily data

(stocks in billions of lire and percentages)

	Monetary base						
	Currency in circulation	Bank reserves					
		Deposits with the Bank of Italy	*of which: excess reserves*	Vault cash	Undrawn overdraft facilities	Total	Percentage changes (over 12 months)
1995 – Dec.	98,380	73,921	202	5,736	179	79,836	0.6
1996 – Dec.	101,768	72,202	244	6,494	359	79,056	2.0
1997 – Sept.	100,094	80,019	291	6,035	222	86,275	13.5
Oct.	99,833	80,463	297	6,160	196	86,819	12.7
Nov.	104,088	82,741	371	6,373	540	89,653	12.8
Dec.	109,035	82,958	323	7,169	415	90,542	11.2
1998 – Jan.	103,791	84,568	309	6,430	218	91,216	9.7
Feb.	102,975	91,276	304	6,071	269	97,616	10.0
Mar.	105,850	88,245	346	6,224	225	94,694	9.8
Apr.	105,961	89,723	311	6,336	195	96,255	10.4
May	107,879	92,695	374	6,203	233	99,132	12.6
June	108,321	67,907	386	6,191	254	74,352	12.0
July	108,906	67,572	378	6,506	333	74,411	12.9
Aug.	107,107	45,612	518	6,366	280	52,258	11.0
Sept.	107,029	42,485	340	6,327	214	49,026	9.4

Table a28

Total	Percentage changes (over 12 months)	BI operations							
		Temporary operations				Fixed-term advances	Total	
		Securities			Foreign currency purchases			
		Purchases	Sales	Total				
178,216	1.2	15,852	1,277	14,575	42,143	3,819	60,537	.... Dec. – 1995
180,823	2.6	23,853	571	23,282	14,933	. .	38,214	.... Dec. – 1996
186,369	10.2	20,269	729	19,539	14,025	. .	33,564	.... Sept. – 1997
186,652	9.5	14,842	256	14,586	14,100	36	28,722	.... Oct.
193,741	10.0	17,052	246	16,806	13,910	74	30,790	.... Nov.
199,577	8.9	20,679	1,417	19,261	13,817	76	33,154	.... Dec.
195,007	8.6	20,242	136	20,106	13,818	. .	33,924	.... Jan. – 1998
200,591	8.6	31,052	95	30,957	14,088	. .	45,045	.... Feb.
200,544	8.8	15,902	119	15,783	14,215	. .	29,998	.... Mar.
202,215	9.7	14,333	88	14,245	14,324	29	28,598	.... Apr.
207,011	10.7	26,386	66	26,320	10,423	. .	36,743	.... May
182,673	10.8	23,953	131	23,822	7,149	. .	30,971	.... June
183,316	9.9	35,697	155	35,542	7,031	. .	42,573	.... July
159,364	9.2	25,905	168	25,738	7,048	. .	32,786	.... Aug.
156,055	8.1	13,955	124	13,831	3,564	. .	17,395	.... Sept.

Table a29

Monetary base

(end-of-period stocks in billions of lire)

	Sources										
	Foreign sector		Government securities	Treasury overdraft with BI	Treasury payments account	Sinking fund for government securities	Other		Credits & debits from temporary operations	Refinancing	Other sectors
		of which: currency swaps						*of which: coins in circulation*			
1994	91,572	32,129	192,911	–	–58,018	–5,921	2,903	1,816	43,741	2,819	–80,517
1995	91,617	41,791	193,582	–	–63,122	–9,012	2,794	1,951	35,836	7,676	–81,808
1996	106,733	15,193	165,665	–	–54,751	–13	3,201	2,055	48,225	2,029	–89,376
1997 – Sept.	130,798	13,811	153,091	–	–61,181	–830	3,868	2,114	28,494	20,217	–88,563
Oct. .	128,167	13,536	151,722	–	–35,105	–13,990	3,905	2,144	24,271	20,350	–89,365
Nov. .	129,413	13,819	151,869	–	–28,397	–27,055	3,766	2,161	24,965	20,358	–85,292
Dec. .	133,625	14,074	151,686	–	–53,547	–4,237	3,774	2,193	28,955	21,449	–86,489
1998 – Jan. .	129,728	14,396	150,582	–	–55,116	–1,824	3,961	2,221	33,244	20,212	–86,880
Feb. .	133,322	14,291	145,075	–	–58,834	–3,455	3,678	2,241	49,811	20,183	–86,592
Mar. .	129,456	14,556	139,367	–	–42,688	–3,455	3,749	2,269	24,366	30,706	–86,047
Apr. .	125,831	14,183	135,496	–	–30,797	–1,955	4,015	2,309	22,460	30,699	–85,678
May .	119,210	7,032	134,156	–	–38,125	–1,955	2,994	2,342	42,634	30,811	–84,467
June	116,456	7,113	131,403	–	–47,694	–362	(3,938)	(2,342)	38,952	30,919	–83,555
July .	109,821	7,019	102,102	–	–60,656	–407	(4,185)	(2,342)	51,762	67,215	–90,138
Aug. .	110,747	6,994	105,982	–	–75,364	–407	(4,194)	(2,342)	36,615	66,777	–90,607
Sept.	(98,922)	. .	106,951	–	–49,814	–14,264	(4,155)	(2,342)	26,831	66,335	–88,895

	Uses					Total monetary base
	Currency in circulation	Bank reserves				
		Deposits with the Bank of Italy		Other	Total	
			of which: compulsory reserves			
1994	96,221	87,377	92,464	5,893	93,270	189,490
1995	98,281	72,067	73,736	7,215	79,282	177,562
1996	100,107	72,751	71,957	8,856	81,607	181,714
1997 – Sept.	99,933	79,532	79,728	6,428	85,960	185,894
Oct.	99,161	84,549	80,166	6,244	90,793	189,954
Nov.	103,237	78,814	82,370	7,575	86,390	189,627
Dec.	107,433	78,862	82,626	8,921	87,784	195,217
1998 – Jan.	103,620	83,810	84,259	6,478	90,289	193,908
Feb.	102,877	94,292	90,972	6,020	100,312	203,189
Mar.	105,030	83,770	87,899	6,655	90,425	195,455
Apr.	105,638	87,782	89,412	6,452	94,434	200,072
May	108,472	90,334	92,321	6,453	96,787	205,258
June	(107,666)	75,504	67,523	6,889	82,393	(190,059)
July	(109,396)	67,079	67,194	7,409	74,488	(183,885)
Aug.	(105,153)	45,332	45,090	7,452	52,784	(157,937)
Sept.	(106,195)	37,098	42,145	(6,927)	(44,025)	(150,220)

Table a30

BI-UIC operations in government securities

(billions of lire)

	Outright operations					Temporary operations			Total
	Primary market			Open market	Total	Purchases	Sales	Net purchases	
	Subscrip-tions	Redemptions	Net subscriptions						
					Total				
1996	202	24,444	–24,242	–6,099	–30,341	11,782	608	12,389	–17,951
1997	96	47,186	–47,090	52,004	4,914	–15,078	–4,191	–19,270	–14,356
1997 – Aug.	7	2,166	–2,159	–1,737	–3,896	–18,639	–1	–18,640	–22,536
Sept.	7	5,786	–5,780	3,706	–2,074	–11,885	686	–11,199	–13,274
Oct.	5	6,015	–6,010	4,641	–1,369	–4,421	198	–4,223	–5,592
Nov.	3	6,806	–6,803	6,950	147	361	333	694	841
Dec.	5	3,556	–3,551	2,101	–1,450	8,697	–4,707	3,990	2,540
1998 – Jan.	8	3,941	–3,933	4,127	194	–501	4,789	4,289	4,483
Feb.	6	5,513	–5,507	. .	–5,507	16,592	–25	16,567	11,061
Mar.	5	3,536	–3,531	8,350	4,818	–25,343	–102	–25,445	–20,627
Apr.	6	3,814	–3,807	–64	–3,872	–1,852	–54	–1,906	–5,777
May	4	2,846	–2,842	1,502	–1,340	20,064	110	20,174	18,834
June	3	2,572	–2,568	–184	–2,752	–3,487	–195	–3,682	–6,434
July	4	1,790	–1,786	8,474	6,688	12,605	205	12,810	19,817
Aug.	108	1,747	–1,639	5,519	3,880	–15,098	–49	–15,147	–11,267
Sept.	. .	(5,093)	(–5,093)	6,602	(969)	–9,799	16	–9,783	(–8,814)
					of which: ***Treasury bills (BOTs)***				
1996	. .	13,097	–13,097	11,461	–1,636	4,459	. .	4,459	2,823
1997	. .	32,447	–32,447	45,102	12,654	–6,748	. .	–6,748	5,906
1997 – Aug.	. .	1,502	–1,502	–1,003	–2,505	–1,204	. .	–1,204	–3,709
Sept.	. .	3,448	–3,448	3,443	–5	–853	. .	–853	–858
Oct.	. .	5,120	–5,120	3,552	–1,567	399	. .	399	–1,168
Nov.	. .	5,188	–5,188	6,904	1,716	1,212	. .	1,212	2,928
Dec.	. .	2,908	–2,908	547	–2,361	1,009	. .	1,009	–1,352
1998 – Jan.	. .	2,151	–2,151	3,516	1,365	1,427	. .	1,427	2,792
Feb.	. .	5,420	–5,420	215	–5,205	1,152	. .	1,152	–4,053
Mar.	. .	3,221	–3,221	5,472	2,251	–2,644	. .	–2,644	–393
Apr.	. .	3,294	–3,294	–251	–3,545	–416	. .	–416	–3,961
May	. .	2,464	–2,464	1,498	–966	3,459	. .	3,459	2,493
June	. .	1,205	–1,205	–289	–1,494	586	. .	586	–908
July	. .	1,564	–1,564	999	–565	692	. .	692	127
Aug.	. .	1,504	–1,504	5,236	3,732	–301	. .	–301	3,431
Sept.	. .	(3,979)	(–3,979)	6,000	(2,021)	42	. .	42	(2,063)

Table a30 cont.

BI-UIC operations in government securities

(billions of lire)

	Outright operations					Temporary operations			Total
	Primary market			Open market	Total	Purchases	Sales	Net purchases	
	Subscrip-tions	Redemptions	Net subscriptions						
				of which: ***Treasury certificates (CCTs)***					
1996	17	2,803	–2,787	–1,211	–3,998	1,355	–139	1,216	–2,782
1997	12	2,167	–2,156	2,096	–70	–3,850	144	–3,706	–3,779
1997 – Aug.	. .	12	–11	–5	–17	–5,327	. .	–5,327	–5,344
Sept.	. .	893	–893	139	–754	–2,707	–116	–2,823	–3,577
Oct.	. .	. .	. .	711	711	–3,775	–11	–3,786	–3,075
Nov.	. .	2	–2	104	102	1,413	127	1,540	1,640
Dec.	. .	. .	. .	654	654	3,388	–45	3,343	3,997
1998 – Jan.	. .	. .	. .	140	140	–2,085	45	–2,040	–1,900
Feb.	. .	. .	. .	–52	–52	6,500	–25	6,475	6,423
Mar.	. .	52	–52	354	301	8,441	–103	–8,544	–8,243
Apr.	. .	156	–156	202	46	329	57	386	432
May	. .	74	–74	–4	–77	8,438	–1	8,437	8,360
June	. .	7	–7	93	86	–250	–45	–295	–209
July	. .	193	–193	90	–103	2,092	56	2,148	2,045
Aug.	108	94	15	53	67	–5,029	11	–5,018	–4,951
Sept.	. .	(200)	(–200)	3	(–197)	–3,359	19	–3,340	(–3,537)
				of which: ***Treasury bonds (BTPs)***					
1996	75	7,163	–7,088	–17,375	–24,463	5,953	747	6,700	–17,763
1997	84	7,111	–7,027	3,785	–3,241	–2,875	–4,335	–7,210	10,452
1997 – Aug.	6	595	–588	–977	–1,566	–10,345	. .	–10,345	–11,911
Sept.	7	689	–682	134	–548	–6,725	802	–5,923	–6,471
Oct.	5	. .	5	409	413	406	209	615	1,028
Nov.	3	1,617	–1,614	–57	–1,671	–3,767	227	–3,540	–5,211
Dec.	5	270	–265	735	470	2,879	–4,682	–1,803	–1,333
1998 – Jan.	8	1,123	–1,115	24	–1,091	1,714	4,744	6,458	5,367
Feb.	4	. .	4	–123	–118	6,782	. .	6,782	6,664
Mar.	5	263	–258	2,524	2,267	–12,594	. .	–12,594	–10,328
Apr.	6	363	–357	–8	–365	–1,383	–110	–1,493	–1,858
May	4	230	–226	10	–217	6,267	110	6,377	6,160
June	3	1,355	–1,352	13	–1,339	–3,783	–150	–3,933	–5,272
July	4	23	–18	7,385	7,366	10,918	150	11,068	18,753
Aug.	. .	150	–150	43	–107	–9,381	–60	–9,441	–9,548
Sept.	. .	(914)	(–914)	–1	(–915)	–3,743	–3	–3,746	(–4,661)

Table a31

Treasury bill auctions

	Maturing bills			Bills offered	Maturity (days)	Market demand	Bills allotted at auction	Average allotment price	Yields	
	Market	BI	Total						After-tax	Gross
					3-month					
1997 – mid-Oct.	3,371	129	3,500	3,500	92	8,372	3,500	98.43	5.64	6.48
end- ”	7,760	240	8,000	7,000	76	9,937	7,000	98.78	5.24	6.07
mid-Nov.	3,426	74	3,500	3,500	94	5,817	3,500	98.50	5.26	6.04
end- ”	6,975	24	7,000	6,500	80	8,178	6,500	98.75	5.13	5.91
mid-Dec.	3,468	32	3,500	3,500	91	5,465	3,500	98.64	4.92	5.65
end- ”	6,400	100	6,500	6,000	76	7,907	6,000	99.01	4.17	4.89
1998 – mid-Jan.	10,458	42	10,500	9,000	90	9,750	9,000	98.66	4.90	5.62
end- ”	–	–	–	–	–	–	–	–	–	–
mid-Feb.	10,000	. .	10,000	9,500	88	11,896	9,500	98.56	5.40	6.20
end- ”	–	–	–	–	–	–	–	–	–	–
mid-Mar.	9,238	262	9,500	8,500	91	19,814	8,500	98.62	4.99	5.73
end- ”	–	–	–	–	–	–	–	–	–	–
mid-Apr.	7,997	1,003	9,000	9,000	91	20,596	9,000	98.71	4.66	5.35
end- ”	–	–	–	–	–	–	–	–	–	–
mid-May	8,526	974	9,500	9,500	91	21,479	9,500	98.75	4.51	5.17
end- ”	–	–	–	–	–	–	–	–	–	–
mid-June	8,497	3	8,500	8,000	92	16,955	8,000	98.74	4.50	5.16
end- ”	–	–	–	–	–	–	–	–	–	–
mid-July	8,467	533	9,000	8,000	92	15,385	8,000	98.84	....	4.74
end- ”	–	–	–	–	–	–	–	–	–	–
mid-Aug.	9,282	218	9,500	9,000	94	11,614	9,000	98.82	....	4.72
end- ”	–	–	–	–	–	–	–	–	–	–
mid-Sept.	7,700	300	8,000	7,500	91	12,974	7,500	98.82	....	4.88
end- ”	–	–	–	–	–	–	–	–	–	–
mid-Oct.	7,993	7	8,000	9,500	92	13,852	9,500	98.86	....	4.65
					6-month					
1997 – mid-Oct.	4,000	. .	4,000	3,500	167	5,857	3,500	97.29	5.43	6.19
end- ”	10,562	438	11,000	10,000	181	12,271	10,000	97.22	5.09	5.85
mid-Nov.	4,445	55	4,500	4,000	167	4,887	4,000	97.41	5.15	5.90
end- ”	9,743	757	10,500	9,000	182	11,222	9,000	97.25	5.01	5.75
mid-Dec.	3,647	103	3,750	3,000	165	4,760	3,000	97.60	4.78	5.52
end- ”	9,452	548	10,000	8,500	182	10,375	8,500	97.60	4.35	4.99
1998 – mid-Jan.	4,413	87	4,500	4,500	166	6,056	4,500	97.67	4.67	5.32
end- ”	10,668	332	11,000	10,000	182	14,493	10,000	97.27	4.97	5.71
mid-Feb.	4,030	470	4,500	4,000	165	6,677	4,000	97.48	5.07	5.81
end- ”	9,254	1,746	11,000	9,000	185	16,004	9,000	97.19	5.03	5.78
mid-Mar.	3,943	57	4,000	4,000	168	8,816	4,000	97.66	4.54	5.28
end- ”	12,258	1,742	14,000	12,000	183	28,267	12,000	97.55	4.42	5.07
mid-Apr.	–	–	–	–	–	–	–	–	–	–
end- ”	13,056	944	14,000	14,000	183	23,663	14,000	97.62	4.29	4.92
mid-May	–	–	–	–	–	–	–	–	–	–
end- ”	11,495	505	12,000	11,500	185	19,541	11,500	97.62	4.24	4.87
mid-June	–	–	–	–	–	–	–	–	–	–
end- ”	12,304	696	13,000	12,000	183	18,121	12,000	97.65	4.23	4.86
mid-July	–	–	–	–	–	–	–	–	–	–
end- ”	13,695	305	14,000	13,500	182	18,635	13,500	97.76	....	4.65
mid-Aug.	–	–	–	–	–	–	–	–	–	–
end- ”	12,186	814	13,000	12,500	179	18,029	12,500	97.82	....	4.60
mid-Sept.	–	–	–	–	–	–	–	–	–	–
end- ”	10,391	1,609	12,000	11,500	182	15,119	11,500	97.98	....	4.18
mid-Oct.	–	–	–	–	–	–	–	–	–	–

Table a31 cont.

Treasury bill auctions

	Maturing bills			Bills offered	Maturity (days)	Market demand	Bills allotted at auction	Average allotment price	Yields	
	Market	BI	Total						After-tax	Gross
					12-month					
1997 – mid-Oct.	6,482	518	7,000	5,000	365	10,879	5,000	94.30	5.25	6.04
end- ”	12,706	3,794	16,500	12,000	349	13,068	12,000	94.75	5.01	5.79
mid-Nov.	4,867	1,633	6,500	4,000	367	9,590	4,000	94.50	5.03	5.79
end- ”	10,356	2,645	13,000	9,500	353	17,373	9,500	94.95	4.75	5.50
mid-Dec.	4,127	373	4,500	3,500	365	7,983	3,500	94.98	4.59	5.29
end- ”	12,249	1,751	14,000	10,500	350	11,099	10,500	95.49	4.25	4.93
1998 – mid-Jan.	5,926	74	6,000	5,500	365	15,488	5,500	95.16	4.42	5.09
end- ”	13,134	1,616	14,750	12,000	350	15,958	12,000	95.21	4.59	5.25
mid-Feb.	5,470	530	6,000	5,500	364	11,500	5,500	94.98	4.61	5.30
end- ”	11,326	2,674	14,000	11,000	353	19,278	11,000	95.19	4.53	5.22
mid-Mar.	4,415	585	5,000	4,000	364	12,133	4,000	95.51	4.10	4.71
end- ”	10,925	575	11,500	11,000	349	25,307	11,000	95.69	4.10	4.71
mid-Apr.	3,980	20	4,000	4,000	365	18,151	4,000	95.54	4.06	4.67
end- ”	9,673	1,327	11,000	11,000	350	22,033	11,000	95.72	4.06	4.66
mid-May	4,024	476	4,500	4,500	364	11,282	4,500	95.63	3.99	4.58
end- ”	7,991	509	8,500	8,500	350	17,405	8,500	95.77	4.02	4.61
mid-June	4,000	. .	4,000	4,000	365	18,017	4,000	95.63	3.98	4.57
end- ”	7,494	506	8,000	7,500	350	28,772	7,500	95.79	3.99	4.58
mid-July	4,210	290	4,500	4,500	364	27,460	4,500	95.83	....	4.35
end- ”	10,564	436	11,000	11,000	349	36,843	11,000	95.96	....	4.40
mid-Aug.	4,740	260	5,000	5,000	367	25,739	5,000	95.86	....	4.29
end- ”	9,788	212	10,000	9,500	350	12,532	9,500	96.12	....	4.21
mid-Sept.	4,675	325	5,000	5,000	365	24,367	5,000	96.10	....	4.06
end- ”	9,755	1,745	11,500	11,500	350	10,768	10,768	96.36	....	3.94
mid-Oct.	13,906	3,094	17,000	14,500	365	21,229	14,500	96.24	....	3.91
					Total					
1997 – mid-Oct.	13,853	647	14,500	12,000	–	25,107	12,000	–	5.42	6.21
end- ”	31,028	4,473	35,500	29,000	–	35,277	29,000	–	5.09	5.88
mid-Nov.	12,738	1,762	14,500	11,500	–	20,294	11,500	–	5.14	5.90
end- ”	27,075	3,426	30,500	25,000	–	36,773	25,000	–	4.94	5.70
mid-Dec.	11,242	508	11,750	10,000	–	18,208	10,000	–	4.76	5.48
end- ”	28,101	2,399	30,500	25,000	–	29,381	25,000	–	4.26	4.94
1998 – mid-Jan.	20,797	203	21,000	19,000	–	31,294	19,000	–	4.71	5.40
end- ”	23,802	1,948	25,750	22,000	–	30,451	22,000	–	4.76	5.46
mid-Feb.	19,500	1,000	20,500	19,000	–	30,073	19,000	–	5.10	5.86
end- ”	20,580	4,420	25,000	20,000	–	35,282	20,000	–	4.76	5.47
mid-Mar.	17,596	904	18,500	16,500	–	40,763	16,500	–	4.67	5.37
end- ”	23,183	2,317	25,500	23,000	–	53,573	23,000	–	4.27	4.90
mid-Apr.	11,977	1,023	13,000	13,000	–	38,747	13,000	–	4.48	5.14
end- ”	22,729	2,271	25,000	25,000	–	45,695	25,000	–	4.19	4.81
mid-May	12,550	1,450	14,000	14,000	–	32,761	14,000	–	4.34	4.98
end- ”	19,486	1,014	20,500	20,000	–	36,946	20,000	–	4.15	4.76
mid-June	12,497	3	12,500	12,000	–	34,972	12,000	–	4.33	4.96
end- ”	19,798	1,202	21,000	19,500	–	46,893	19,500	–	4.14	4.75
mid-July	12,677	823	13,500	12,500	–	42,845	12,500	–	....	4.60
end- ”	24,259	741	25,000	24,500	–	55,478	24,500	–	....	4.54
mid-Aug.	14,022	478	14,500	14,000	–	37,353	14,000	–	....	4.57
end- ”	21,974	1,026	23,000	22,000	–	30,561	22,000	–	....	4.43
mid-Sept.	12,375	625	13,000	12,500	–	37,341	12,500	–	....	4.55
end- ”	20,146	3,354	23,500	23,000	–	25,887	22,268	–	....	4.06
mid-Oct.	21,899	3,101	25,000	24,000	–	35,080	24,000	–	....	4.20

Table a32

Bank of Italy repurchase agreements

DATE OF AUCTION	Amount		Maturity (days)		Allotment rates	
	offered	taken up	minimum	maximum	marginal	weighted average
			Purchases			
1997 – Dec. 11	4,500	4,500	4	4	6.16	6.21
1997 – Dec. 17	7,000	7,000	16	16	6.16	6.18
1998 – Jan. 7	9,000	9,000	8	8	6.23	6.25
1998 – Jan. 22	16,000	16,000	38	38	6.07	6.17
1998 – Jan. 23	15,000	15,000	7	7	6.07	6.22
1998 – Feb. 2	13,500	13,500	10	10	6.16	6.19
1998 – Feb. 12	6,500	6,500	28	28	6.17	6.19
1998 – Feb. 16	9,000	9,000	30	30	5.95	6.10
1998 – Feb. 23	8,000	8,000	17	17	5.91	6.03
1998 – Feb. 26	7,000	7,000	4	4	6.15	6.17
1998 – Mar. 3	5,000	5,000	29	29	6.03	6.06
1998 – Mar. 19	7,000	7,000	27	27	5.63	5.66
1998 – Mar. 26	11,000	11,000	6	6	5.63	5.65
1998 – Apr. 1	7,000	7,000	14	14	5.68	5.68
1998 – Apr. 8	4,000	4,000	7	7	5.81	5.82
1998 – Apr. 17	13,000	13,000	17	17	5.66	5.67
1998 – Apr. 24	8,000	8,000	10	10	5.51	5.52
1998 – May 5	11,000	11,000	9	9	5.60	5.61
1998 – May 11	7,500	7,500	20	20	5.58	5.60
1998 – May 20	10,000	10,000	21	22	5.57	5.59
1998 – May 26	14,000	14,000	20	20	5.48	5.54
1998 – May 29	8,500	8,500	17	17	5.48	5.49
1998 – June 8	7,000	7,000	7	7	5.35	5.42
1998 – June 16	7,000	7,000	15	16	5.31	5.31
1998 – June 23	10,000	10,000	22	22	5.26	5.29
1998 – June 25	10,000	10,000	39	39	4.92	5.01
1998 – July 7	13,000	13,000	8	8	4.98	5.01
1998 – July 10	4,500	4,500	5	5	5.05	5.07
1998 – July 17	11,000	11,000	17	17	4.93	4.95
1998 – July 21	12,000	12,000	23	23	4.87	4.89
1998 – July 24	10,000	10,000	14	14	4.90	4.94
1998 – July 31	5,000	5,000	13	13	5.01	5.02
1998 – Aug. 4	10,000	10,000	28	28	4.93	4.94
1998 – Aug. 7	14,500	14,500	10	10	4.96	4.99
1998 – Aug. 12	7,500	7,500	5	5	4.99	5.01
1998 – Aug. 20	11,000	11,000	11	12	5.01	5.02
1998 – Aug. 25	13,000	13,000	21	22	4.98	4.99
1998 – Sept. 1	11,000	11,000	13	14	5.16	5.17
1998 – Sept. 8	6,000	6,000	23	23	5.24	5.26
1998 – Sept. 16	9,000	9,000	15	15	5.16	5.17
1998 – Sept. 24	5,500	5,000	7	7	5.07	5.08
1998 – Sept. 30	5,000	5,000	12	12	5.03	5.04
1998 – Oct. 6	6,500	6,500	8	8	5.12	5.13
1998 – Oct. 12	8,000	8,000	3	3	5.09	5.10
1998 – Oct. 21	8,000	8,000	12	12	4.87	4.90
1998 – Oct. 26	10,000	10,000	4	4	4.81	4.87
			Sales			
1996 – May 2	10,000	10,000	12	12	9.29	9.23
1996 – Oct. 1	11,000	11,000	6	6	8.38	8.35
1996 – Oct. 7	10,000	10,000	10	10	8.59	8.54
1996 – Oct. 15	9,000	9,000	10	10	8.60	8.56
1996 – Oct. 17	4,500	4,500	6	6	8.61	8.59
1996 – Nov. 4	14,000	14,000	2	2	8.30	8.10
1996 – Nov. 6	5,000	5,000	5	5	8.05	8.02
1996 – Nov. 11	4,000	4,000	15	15	8.03	8.03
1996 – Nov. 15	7,000	7,000	10	10	8.08	8.05
1997 – Dec. 29	4,500	4,500	9	9	6.29	6.24
1998 – Apr. 14	3,500	3,500	1	1	6.50	6.04

Table a33

Bank of Italy foreign currency swaps

DATE OF AUCTION	Amount		Maturity in days	Spot exchange rate	Forward points		Yields	
	offered	taken up			marginal	weighted average	marginal	weighted average
				Purchases of US dollars				
1996 – May 3	4,000	4,000	92	1,565.00	13.15	13.20	8.87	8.88
1996 – May 29	3,000	3,000	91	1,555.50	12.69	12.71	8.77	8.78
1996 – June 20	5,000	5,000	92	1,530.50	10.45	10.59	8.27	8.31
1996 – July 24	4,000	4,000	31	1,510.00	4.05	4.09	8.57	8.59
1996 – Aug. 5	3,000	3,000	92	1,515.50	11.52	11.57	8.55	8.56
1996 – Aug. 22	4,000	4,000	92	1,518.00	12.49	12.52	8.76	8.77
1996 – Aug. 28	3,000	3,000	92	1,514.50	12.05	12.11	8.72	8.74
1996 – Sept. 20	4,000	4,000	62	1,526.00	6.93	7.03	8.22	8.26
1996 – Nov. 21	4,000	4,000	92	1,493.00	6.38	6.44	7.20	7.21
1996 – Nov. 22	4,000	4,000	92	1,498.50	6.20	6.31	7.14	7.17
1997 – Feb. 21	4,000	4,000	28	1,667.50	2.55	2.57	7.35	7.37
1997 – Feb. 24	4,000	4,000	90	1,659.00	7.29	7.32	7.25	7.26
1997 – Mar. 21	4,000	4,000	92	1,690.00	7.15	7.23	7.40	7.42
1997 – May 22	4,000	4,000	92	1,668.00	3.57	3.61	6.66	6.67
1997 – June 23	4,000	4,000	92	1,689.25	4.22	4.26	6.77	6.78
1997 – Aug. 25	4,000	4,000	93	1,779.50	4.75	4.90	6.76	6.79
1997 – Sept. 23	4,000	4,000	95	1,745.50	2.73	2.75	6.30	6.31
1997 – Nov. 25	4,000	4,000	91	1,708.25	1.55	1.62	6.24	6.26
1997 – Dec. 23	4,000	4,000	91	1,746.25	–0.50	–0.24	5.80	5.86
1998 – Feb. 25	4,000	4,000	91	1,778.25	1.65	1.69	6.02	6.03
1998 – Mar. 26	4,000	4,000	92	1,802.75	–2.01	–2.01	5.23	5.24
1998 – June 26	4,000	4,000	31	1,771.50	–0.98	–0.93	5.00	5.04
1998 – July 29	4,000	4,000	31	1,743.15	–1.04	–1.02	4.95	4.97
1998 – Aug. 27	4,000	4,000	30	1,782.00	–0.94	–092	4.99	5.00
				Purchases of German marks				
1996 – Mar. 6	4,000	4,000	32	1,048.50	5.75	5.76	9.54	9.55
1996 – Mar. 8	4,000	4,000	31	1,056.50	5.65	5.66	9.60	9.61
1996 – Mar. 14	4,000	4,000	31	1,068.50	5.90	5.90	9.81	9.81
1996 – Apr. 3	4,000	4,000	30	1,056.50	5.68	5.68	9.84	9.85
1996 – Apr. 10	4,000	4,000	31	1,049.50	5.68	5.70	9.68	9.70
1996 – Apr. 16	4,000	4,000	32	1,044.50	5.96	5.97	9.81	9.82
1996 – May 7	4,000	4,000	31	1,021.50	5.07	5.08	8.98	8.99
1996 – May 9	4,000	4,000	31	1,031.00	5.05	5.06	9.08	9.09
1996 – May 15	4,000	4,000	31	1,015.00	4.88	4.90	8.97	8.99
1996 – June 5	4,000	4,000	30	1,010.25	4.76	4.78	9.04	9.07
1996 – June 11	4,000	4,000	32	1,010.50	5.08	5.09	9.05	9.06
1996 – June 18	3,000	3,000	32	1,015.25	4.99	5.00	8.98	8.99
1996 – July 8	3,000	3,000	33	1,003.50	5.08	5.08	8.91	8.92
1996 – July 11	3,000	3,000	32	1,006.75	5.11	5.12	9.10	9.11
1996 – July 18	3,000	3,000	14	1,022.25	2.21	2.22	8.94	8.96
1996 – Aug. 1	3,000	3,000	31	1,029.50	4.73	4.75	8.73	8.74
1996 – Aug. 8	3,000	3,000	31	1,023.00	4.86	4.88	8.88	8.90
1996 – Aug. 13	3,000	3,000	31	1,025.00	4.86	4.88	8.90	8.92
1996 – Sept. 3	3,000	3,000	32	1,018.00	4.83	4.84	8.48	8.49
1996 – Sept. 10	3,000	3,000	33	1,009.75	4.87	4.88	8.40	8.41
1996 – Sept. 12	3,000	3,000	30	1,010.50	4.42	4.42	8.39	8.39
1996 – Oct. 10	3,000	3,000	31	997.25	4.42	4.42	8.25	8.25
1996 – Nov. 13	3,000	3,000	31	1,007.50	3.94	3.95	7.68	7.69
1996 – Dec. 12	3,000	3,000	31	988.25	3.62	3.65	7.58	7.61
1997 – Jan. 14	3,000	3,000	33	973.25	3.75	3.76	7.34	7.36
1997 – Feb. 13	3,000	3,000	28	982.00	3.22	3.24	7.41	7.44
1997 – Mar. 14	3,000	3,000	31	996.25	3.49	3.51	7.33	7.35
1997 – Apr. 16	3,000	3,000	32	985.75	3.33	3.34	7.03	7.05
1997 – May 15	3,000	3,000	31	986.00	3.12	3.13	6.83	6.85
1997 – June 18	3,000	3,000	31	980.50	3.17	3.19	6.85	6.88

Table a34

Bank of Italy outright operations in Treasury bills: multiple price auctions

DATE OF AUCTION	Amount			Residual maturity in days		Allotment rates	
	offered	requested	taken up	minimum	maximum	marginal	weighted average
1997 – 14 January	2,750	5,746	2,750	17	104	6.52	6.86
29 January	1,500	3,535	1,500	30	121	6.80	6.86
10 February	2,000	3,364	2,000	18	140	6.75	6.78
17 February	2,500	2,246	2,246	39	164	6.50	6.62
5 March	2,000	7,092	2,000	117	300	6.76	6.82
14 March	2,000	5,467	2,000	108	291	6.86	6.87
2 April	1,500	3,685	1,500	120	240	6.80	6.86
23 May	4,500	9,711	4,500	69	342	6.37	6.41
20 June	2,500	5,304	2,500	38	311	6.37	6.46
26 June	3,000	2,884	2,884	35	187	6.06	6.28
11 July	2,500	4,028	2,500	20	203	6.19	6.26
29 July	2,000	2,485	2,000	31	154	6.05	6.11
5 August	1,500	2,071	1,500	24	147	6.10	6.17
12 August	−2,000	−5,175	−2,000	17	17	6.92	6.88
20 August	2,000	4,700	2,000	72	191	6.17	6.24
4 September	1,000	2,934	1,000	26	148	6.21	6.27
5 September	1,000	1,910	1,000	25	147	6.12	6.22
11 September	1,000	2,748	1,000	141	231	6.02	6.09
6 October	1,500	2,842	1,500	25	116	5.80	5.95
7 October	1,000	3,482	1,000	24	143	5.95	5.95
13 October	1,000	3,002	1,000	109	228	6.00	6.02
12 November	2,500	5,530	2,500	79	230	5.95	6.00
13 November	1,000	3,281	1,000	78	229	5.96	6.00
14 November	2,750	3,393	2,750	77	228	5.70	5.83
1998 – 9 January	3,500	6,908	3,500	111	340	4.95	5.04
12 March	2,500	3,352	2,500	19	110	5.41	5.47
13 March	1,000	2,247	1,000	18	140	5.30	5.37
31 March	2,000	1,263	1,263	15	59	5.01	5.18
14 May	1,500	3,803	1,500	32	78	5.02	5.03
10 June	−2,000	−6,530	−2,000	5	20	5.32	5.32
17 June	2,000	7,982	2,000	13	135	5.04	5.05
14 July	1,000	5,029	1,000	17	108	4.78	4.83
13 August	1,200	5,062	1,200	18	78	4.97	4.97
26 August	2,000	4,155	2,000	35	96	4.76	4.85
28 August	1,000	4,825	1,000	33	94	4.91	4.92
4 September	2,000	6,265	2,000	26	117	4.95	4.96
10 September	1,500	4,296	1,500	20	111	4.91	4.95
21 September	2,500	7,222	2,500	39	130	4.90	4.90

Table a35

Official rates
(percentages)

	Discount	Ordinary advances (base) (a)	Premium (b)	Fixed advances (a) + (b)
1991 – May 13	11.50	11.50	. .	11.50
Nov. 26	11.50	11.50	0.50	12.00
Dec. 23	12.00	12.00	0.50	12.50
1992 – June 5	12.00	12.00	1.00	13.00
July 6	13.00	13.00	1.50	14.50
July 17	13.75	13.75	1.50	15.25
Aug. 4	13.25	13.25	1.50	14.75
Sept. 4	15.00	15.00	1.50	16.50
Oct. 9	15.00	15.00	1.00	16.00
Oct. 26	14.00	14.00	1.00	15.00
Nov. 13	13.00	13.00	1.00	14.00
Dec. 23	12.00	12.00	1.00	13.00
1993 – Feb. 4	11.50	11.50	1.00	12.50
Apr. 23	11.00	11.00	1.00	12.00
May 21	10.50	10.50	1.00	11.50
June 14	10.00	10.00	1.00	11.00
July 6	9.00	9.00	1.00	10.00
Sept. 10	8.50	8.50	1.00	9.50
Oct. 22	8.00	8.00	1.00	9.00
1994 – Feb. 18	7.50	7.50	1.00	8.50
May 12	7.00	7.00	1.00	8.00
Aug. 12	7.50	7.50	1.00	8.50
1995 – Feb. 22	8.25	8.25	1.50	9.75
May 29	9.00	9.00	1.50	10.50
1996 – July 24	8.25	8.25	1.50	9.75
Oct. 24	7.50	7.50	1.50	9.00
1997 – Jan. 22	6.75	6.75	1.50	8.25
June 30	6.25	6.25	1.50	7.75
Dec. 24	5.50	5.50	1.50	7.00
1998 – Apr. 22	5.00	5.00	1.50	6.50
Oct. 27	4.00	4.00	1.50	5.50

Table a36

Interest rates

(percentages)

	BI operations								Gross Treasury bill yields			
	Discount	Fixed-term advances	Currency swaps		Repos				3-month	6-month	12-month	Average
					Purchases		Sales					
			minimum	average	minimum	average	maximum	average				
1995	9.00	10.50	10.13	10.15	10.08	10.12	–	–	10.73	10.85	10.96	10.85
1996	7.50	9.00	8.85	8.86	9.07	9.13	8.65	8.60	8.61	8.48	8.32	8.46
1997	5.50	7.00	6.77	6.80	6.92	6.96	6.29	6.24	6.40	6.36	6.26	6.33
1997 – Jan. .	6.75	8.25	7.34	7.36	7.45	7.50	–	–	6.98	6.78	6.55	6.74
Feb. .	6.75	8.25	7.34	7.36	7.39	7.41	–	–	6.75	6.87	6.67	6.76
Mar. .	6.75	8.25	7.37	7.39	7.40	7.42	–	–	7.10	7.24	7.24	7.20
Apr. .	6.75	8.25	7.03	7.05	7.20	7.21	–	–	6.69	6.55	6.78	6.67
May .	6.75	8.25	6.75	6.76	6.96	7.00	–	–	6.39	6.46	6.45	6.44
June	6.25	7.75	6.81	6.83	6.71	6.83	–	–	6.65	6.52	6.45	6.54
July .	6.25	7.75	–	–	6.77	6.85	–	–	6.52	6.60	6.37	6.49
Aug. .	6.25	7.75	6.76	6.79	6.80	6.83	–	–	6.53	6.54	6.43	6.50
Sept.	6.25	7.75	6.30	6.31	6.77	6.79	–	–	5.81	5.94	5.73	5.82
Oct. .	6.25	7.75	–	–	6.86	6.87	–	–	6.21	5.94	5.86	5.98
Nov. .	6.25	7.75	6.24	6.26	6.60	6.63	–	–	5.96	5.80	5.59	5.76
Dec. .	5.50	7.00	5.80	5.86	6.16	6.20	6.29	6.24	5.17	5.13	5.02	5.10
1998 – Jan. .	5.50	7.00	–	–	6.12	6.21	–	–	5.62	5.59	5.20	5.43
Feb. .	5.50	7.00	6.02	6.03	6.07	6.14	–	–	6.20	5.79	5.25	5.66
Mar. .	5.50	7.00	5.23	5.24	5.76	5.79	–	–	5.73	5.12	4.71	5.10
Apr. .	5.00	6.50	–	–	5.67	5.67	6.50	6.04	5.35	4.92	4.66	4.92
May .	5.00	6.50	–	–	5.54	5.57	–	–	5.17	4.87	4.60	4.85
June	5.00	6.50	5.00	5.04	5.21	5.26	–	–	5.16	4.86	4.58	4.83
July .	5.00	6.50	4.95	4.97	4.96	4.98	–	–	4.74	4.65	4.39	4.56
Aug. .	5.00	6.50	4.99	5.00	4.97	4.99	–	–	4.72	4.60	4.24	4.49
Sept.	5.00	6.50	–	–	5.13	5.14	–	–	4.88	4.18	3.98	4.24

Table a37

Bank interest rates: domestic fund-raising in lire

(percentages)

	Deposits			Certificates of deposit			Bonds	
	Current account average	Overall average	Maximum	Overall average	Average for issues with maturities of less than 6 months	Average for issues with maturities of from 18 to 24 months	Overall average	Average for fixed rate issues
1994	5.03	5.90	6.88	. . . .	. . . .	. . . .	. . . .	. . . .
1995	5.86	6.87	8.62	8.86	8.66	9.20	11.06	10.86
1996	4.51	5.80	7.10	8.13	6.24	6.26	9.08	6.70
1997 – Aug.	3.44	4.55	5.83	7.12	5.21	5.15	7.69	5.74
Sept.	3.46	4.49	5.84	7.01	5.21	5.15	7.58	5.82
Oct.	3.29	4.29	5.66	6.89	5.04	4.86	7.46	5.17
Nov.	3.33	4.24	5.80	6.76	4.97	4.77	7.33	4.93
Dec.	3.36	4.19	5.79	6.63	4.95	4.72	7.15	5.07
1998 – Jan.	3.08	3.90	5.36	6.49	4.60	4.38	6.95	5.01
Feb.	2.93	3.74	5.22	6.32	4.49	4.21	6.86	4.97
Mar.	2.94	3.68	5.21	6.18	4.44	4.16	6.72	4.32
Apr.	2.78	3.48	5.02	6.02	4.28	4.09	6.58	4.21
May	2.51	3.21	4.69	5.87	4.07	3.90	6.45	4.74
June	2.53	3.16	4.73	5.72	4.01	3.84	6.31	4.07
July	2.47	3.08	4.64	5.60	3.97	3.76	6.07	4.22
Aug.	2.37	2.97	4.57	5.49	3.86	3.68	6.02	4.18

Table a38

Bank interest rates: lira loans to resident customers

(percentages)

	Outstanding loans				Disbursements		ABI prime rate
	Minimum for short-term loans	Average for short-term loans	Average for overdrafts	Average for medium and long-term loans	Average for medium and long-term loans to firms	Average for medium and long-term loans to consumer households	
1994	8.31	11.10	11.47	....	....	....	9.38
1995	10.18	12.88	13.22	12.45	11.71	13.35	11.50
1996	7.48	10.82	11.35	11.02	9.10	11.22	9.88
1997 – Aug.	6.67	9.46	9.99	9.78	8.35	10.54	9.00
Sept.	6.61	9.37	9.92	9.72	8.13	10.32	9.00
Oct.	6.45	9.27	9.85	9.65	7.98	10.17	9.00
Nov.	6.36	9.19	9.76	9.56	7.92	9.98	9.00
Dec.	6.12	9.01	9.60	9.42	6.90	9.38	8.88
1998 – Jan.	5.94	8.83	9.41	9.12	7.18	9.53	8.25
Feb.	5.88	8.69	9.23	9.07	7.29	9.20	8.25
Mar.	5.76	8.51	9.06	8.98	6.77	8.89	8.25
Apr.	5.53	8.33	8.88	8.81	6.66	8.62	7.88
May	5.32	8.11	8.64	8.69	6.46	8.20	7.88
June	5.14	7.89	8.43	8.52	6.19	7.61	7.88
July	4.98	7.73	8.29	8.22	6.15	7.39	7.88
Aug.	4.88	7.59	8.16	8.15	6.06	7.61	7.88

Principal assets and liabilities of banks

(billions of lire)

	Assets									
	Bank reserves	Loans to residents	Securities	Shares	Participating interest	Repos	Bad debts and protested bills	Interbank accounts	Interest-bearing external assets	*Memorandum item:* estimated realizable value of bad debts
1994	92,691	1,039,792	385,969	3,392	46,675	16,846	91,108	165,436	201,953	59,994
1995	78,996	1,073,410	352,260	1,661	49,544	14,771	110,269	151,979	231,119	72,370
1996	80,892	1,090,928	383,583	2,565	55,101	22,264	123,117	182,128	295,728	74,231
1997 – Aug. . .	83,269	1,109,155	354,505	3,599	55,343	21,487	119,697	146,959	291,472	71,110
Sept. .	85,117	1,111,782	349,517	3,423	55,420	18,698	117,327	156,640	313,060	68,294
Oct. . .	89,952	1,111,271	351,404	3,440	56,844	17,870	118,589	157,842	304,480	69,643
Nov. . .	85,227	1,120,270	351,953	3,703	57,717	18,241	118,565	164,091	305,012	70,343
Dec. . .	86,803	1,160,916	343,406	3,451	59,263	27,743	119,990	184,791	311,639	70,911
1998 – Jan. . .	89,279	1,150,123	350,998	3,848	68,570	34,016	119,833	162,897	297,524	70,036
Feb. . .	99,196	1,150,225	346,299	3,630	68,571	36,852	121,078	158,891	305,232	64,682
Mar. . .	89,335	1,158,109	348,132	5,342	68,309	37,355	121,697	168,167	319,422	63,293
Apr. . .	93,330	1,161,411	356,320	6,171	67,601	39,510	122,780	161,898	308,294	64,869
May . .	95,577	1,153,400	360,046	6,743	68,384	41,270	124,545	159,984	310,218	65,703
June . .	81,179	1,176,092	352,427	6,247	70,307	38,786	124,923	177,417	345,083	66,262
July . .	73,460	1,181,469	355,008	6,082	70,676	39,018	125,492	161,400	313,836	67,555
Aug. . .	52,327	1,169,444	346,103	5,698	70,951	40,689	125,396	162,440	321,379	67,330

	Liabilities									
	Residents' deposits in lire	Bonds	Public funds	Loans from BI-UIC	Repos	Interbank accounts	Capital and reserves	Interest-bearing external liabilities	Other	*Memorandum item:* supervisory capital
1994	923,371	215,676	5,644	2,834	132,680	166,671	219,387	375,663	1,937	173,721
1995	935,199	215,286	2,272	7,989	164,501	166,069	232,439	343,580	–3,326	171,776
1996	959,577	280,213	2,486	1,897	174,006	193,714	250,188	364,080	10,147	182,305
1997 – Aug. . .	857,115	343,867	2,283	1,674	202,011	161,941	257,079	364,459	–4,942	. . . .
Sept. .	867,734	353,384	2,261	1,699	175,250	166,215	256,096	381,329	7,015	185,366
Oct. . .	860,945	363,118	2,232	1,751	170,134	175,169	252,375	374,085	11,885	. . . .
Nov. . .	838,647	370,858	2,215	1,763	179,538	178,721	253,890	384,466	14,680	. . . .
Dec. . .	881,329	377,743	2,231	2,854	172,454	200,333	257,052	392,738	11,267	187,485
1998 – Jan. . .	850,552	380,882	2,277	1,617	198,186	174,526	267,711	404,015	–2,677	. . . .
Feb. . .	837,865	386,410	2,289	1,587	215,992	172,002	275,679	404,190	–6,039	. . . .
Mar. . .	855,399	396,467	2,346	1,587	179,060	177,201	279,113	429,194	–4,499	186,840
Apr. . .	855,823	400,717	2,337	1,580	177,548	168,914	276,031	423,632	10,735	. . . .
May . .	848,667	409,793	2,221	1,690	196,100	168,041	278,543	416,055	–942	. . . .
June . .	868,591	415,578	1,980	1,802	183,809	179,487	282,184	415,909	23,121	201,276
July . .	827,967	415,314	1,957	1,677	194,324	172,213	282,020	419,615	11,354	. . . .
Aug. . .	817,049	419,837	1,947	1,591	195,581	166,724	282,106	401,489	8,102	. . . .

Table a40

Banks: loan and securities portfolios

(billions of lire)

	Loans to residents						Loans to non-residents
	Short-term		Medium and long-term		Total		
		of which: in lire		*of which: in lire*		*of which: in lire*	
1994	535,159	458,553	504,633	449,277	1,039,792	907,830	17,901
1995	556,942	496,539	516,468	472,383	1,073,410	968,922	16,124
1996	556,364	502,124	534,565	498,854	1,090,928	1,000,978	17,854
1997 – Aug. . . .	556,218	493,333	552,938	522,170	1,109,155	1,015,502	18,101
Sept. . .	555,890	494,396	555,892	525,740	1,111,782	1,020,135	18,745
Oct. . . .	552,547	492,877	558,724	528,811	1,111,271	1,021,689	18,596
Nov. . . .	556,318	496,798	563,952	534,135	1,120,270	1,030,933	19,166
Dec. . . .	590,716	530,778	570,200	540,684	1,160,916	1,071,462	23,181
1998 – Jan. . . .	583,022	520,927	567,101	537,790	1,150,123	1,058,717	20,593
Feb. . . .	579,190	514,044	571,035	541,610	1,150,225	1,055,654	20,943
Mar. . . .	582,954	515,282	575,155	545,711	1,158,109	1,060,993	22,977
Apr. . . .	583,082	517,111	578,329	549,029	1,161,411	1,066,140	22,869
May . . .	573,063	509,400	580,337	551,322	1,153,400	1,060,723	21,335
June . . .	592,065	528,386	584,026	557,546	1,176,092	1,085,932	27,093
July . . .	598,733	533,747	582,736	556,304	1,181,469	1,090,051	23,707
Aug. . . .	586,909	522,360	582,535	556,057	1,169,444	1,078,416	24,023

	Securities							
	Government securities					Other		Total
		of which:					*of which: bonds issued by banks*	
		BOTs and BTEs	*CTZs*	*CCTs*	*BTPs*			
1994	326,992	68,456	. .	134,351	119,663	58,977	50,842	385,969
1995	301,552	44,650	10,222	133,268	107,090	50,708	47,576	352,260
1996	334,173	52,957	19,636	155,306	99,331	49,411	47,050	383,583
1997 – Aug. . . .	310,092	26,688	19,651	154,098	103,679	44,413	41,833	354,505
Sept. . .	305,954	27,837	19,564	157,094	95,622	43,563	40,915	349,517
Oct. . . .	306,424	30,429	17,688	155,265	97,088	44,980	42,324	351,404
Nov. . . .	306,471	29,852	18,453	155,329	96,751	45,481	42,829	351,953
Dec. . . .	296,481	32,094	18,661	154,455	86,220	46,925	43,491	343,406
1998 – Jan. . . .	304,007	31,731	20,503	155,215	94,164	46,991	43,584	350,998
Feb. . . .	296,788	33,680	20,236	150,703	88,672	49,511	45,815	346,299
Mar. . . .	295,887	33,185	21,070	148,651	89,708	52,245	48,193	348,132
Apr. . . .	301,992	34,416	22,646	142,599	99,382	54,328	47,623	356,320
May . . .	304,884	39,007	21,833	137,785	103,161	55,162	47,827	360,046
June . . .	294,552	40,234	21,935	136,673	92,734	57,875	53,681	352,427
July . . .	299,613	42,887	24,295	135,632	93,937	55,394	51,854	355,008
Aug. . . .	290,411	42,620	22,024	133,586	89,636	55,691	52,227	346,103

Banks: deposits and bonds

(billions of lire)

	Residents' lira deposits – end-of-period data						Residents' foreign currency deposits	Deposits of non-residents
	Current accounts	Savings accounts	Certificates of deposit					
			short-term	medium and long-term	total			
1994	478,186	135,806	71,778	237,601	309,379	923,371	14,830	13,858
1995	477,407	118,429	58,895	280,468	339,363	935,199	20,548	12,574
1996	506,682	114,841	67,013	271,042	338,055	959,577	19,962	14,644
1997 – Aug.	480,224	113,396	80,386	183,109	263,496	857,115	25,102	17,701
Sept.	500,392	112,791	82,398	172,153	254,551	867,734	24,246	14,990
Oct.	505,856	112,357	83,710	159,021	242,731	860,945	24,952	15,028
Nov.	494,547	113,550	84,427	146,123	230,550	838,647	24,791	15,004
Dec.	543,419	115,652	86,086	136,172	222,258	881,329	23,667	17,362
1998 – Jan.	523,003	115,357	85,144	127,047	212,192	850,552	26,452	16,903
Feb.	521,050	114,377	83,283	119,155	202,438	837,865	27,938	16,678
Mar.	545,678	112,745	83,049	113,928	196,976	855,399	24,235	19,223
Apr.	555,497	112,517	81,219	106,590	187,809	855,823	26,177	16,349
May	556,480	112,261	80,020	99,906	179,925	848,667	26,838	15,852
June	582,728	112,678	78,830	94,355	173,185	868,591	25,579	16,691
July	548,824	111,443	77,649	90,050	167,699	827,967	24,399	15,855
Aug.	542,280	112,071	76,348	86,350	162,698	817,049	27,040	14,390

	Residents' lira deposits – averages					Bonds	
	Current accounts	Certificates of deposit				fixed rate	variable rate
		short-term	medium and long-term	total			
1994	425,175	70,281	237,511	307,792	862,415	98,981	116,695
1995	427,748	60,402	275,980	336,382	877,376	89,138	126,147
1996	453,358	67,830	271,703	339,533	903,068	121,102	159,111
1997 – Aug.	473,276	81,104	186,835	267,939	853,560	156,261	187,607
Sept.	474,662	82,599	175,705	258,304	845,371	162,205	191,179
Oct.	486,754	83,999	163,395	247,394	846,679	167,633	195,485
Nov.	487,815	85,252	150,741	235,993	835,880	171,645	199,213
Dec.	495,589	86,478	138,466	224,944	832,609	174,568	203,175
1998 – Jan.	528,855	86,673	130,110	216,783	861,330	176,307	204,575
Feb.	509,952	85,875	121,291	207,166	830,570	180,412	205,998
Mar.	519,314	84,390	115,509	199,899	831,798	187,019	209,448
Apr.	537,964	82,872	108,690	191,562	841,906	189,629	211,088
May	547,514	81,296	101,854	183,150	842,887	194,898	214,895
June	548,063	80,716	94,919	175,635	835,452	179,233	236,345
July	548,582	79,018	91,147	170,165	830,440	....	....
Aug.	532,706	77,088	87,146	164,234	808,796	....	....

Table a42

Supervisory capital and capital adequacy (1)

(billions of lire)

	Core capital	Supplementary capital	of which: subordinated liabilities	Supervisory capital	Solvency ratio	Excess capital	Capital shortfalls: Number of banks	Capital shortfalls: Amount	Capital shortfalls: Share of loan market
June 1995									
Banks in the Centre and North	151,104	30,407	17,577	175,198	12.9	66,621	12	811	11.1
Banks in the South	15,321	4,201	3,071	18,767	10.1	6,083	13	2,255	5.6
Total	**166,425**	**34,608**	**20,649**	**193,966**	**12.6**	**72,704**	**25**	**3,066**	**16.7**
December 1995									
Banks in the Centre and North	151,840	33,211	18,769	178,832	13.0	67,595	9	590	8.7
Banks in the South	15,441	3,271	2,279	17,826	10.3	6,252	8	2,416	6.0
Total	**167,281**	**36,482**	**21,048**	**196,658**	**12.7**	**73,847**	**17**	**3,006**	**14.7**
June 1996									
Banks in the Centre and North	155,799	34,102	18,556	183,807	13.2	71,519	5	308	4.9
Banks in the South	14,355	3,088	1,957	16,746	9.7	6,502	11	3,587	7.5
Total	**170,155**	**37,190**	**20,513**	**200,553**	**12.8**	**78,021**	**16**	**3,895**	**12.4**
December 1996									
Banks in the Centre and North	157,795	34,188	18,164	186,205	13.3	73,595	6	301	4.2
Banks in the South	13,828	3,091	2,040	16,029	10.3	7,261	8	3,661	6.6
Total	**171,623**	**37,279**	**20,204**	**202,234**	**13.0**	**80,855**	**14**	**3,962**	**10.8**
June 1997									
Banks in the Centre and North	160,048	36,102	20,077	189,635	13.0	73,142	6	543	2.0
Banks in the South	13,868	3,061	2,098	16,135	11.1	7,108	12	2,611	6.2
Total	**173,916**	**39,163**	**22,175**	**205,770**	**12.8**	**80,250**	**18**	**3,154**	**8.2**
December 1997									
Banks in the Centre and North	163,439	36,560	20,845	193,972	12.5	71,505	7	1,435	10.1
Banks in the South	15,766	2,893	2,065	18,302	14.6	8,412	8	138	0.5
Total	**179,205**	**39,453**	**22,910**	**212,274**	**12.7**	**79,917**	**15**	**1,573**	**10.6**
March 1997									
Banks in the Centre and North	158,375	33,928	18,318	186,631	13.1	72,839	6	163	3.1
Banks in the South	13,769	3,016	2,000	16,056	11.2	7,188	8	2,573	4.3
Total	**172,144**	**36,944**	**20,318**	**202,687**	**13.0**	**80,027**	**14**	**2,736**	**7.3**
March 1998									
Banks in the Centre and North	168,699	42,044	26,252	204,784	12.9	79,452	9	1,650	12.3
Banks in the South	16,646	2,925	2,106	19,213	14.3	8,587	5	152	0.2
Total	**185,345**	**44,969**	**28,358**	**223,997**	**13.0**	**88,039**	**14**	**1,802**	**12.6**

(1) The figures refer to the individual returns of all banks except for the branches of banks located in other Community countries and other countries that apply supervisory rules comparable to those in force in Italy.

Table a43

Italian investment funds: securities portfolios and net assets

(end-of-period balance sheet value; billions of lire)

	Lira securities							
	Government securities					Bonds	Shares	Total
		of which:						
		BOTs	*CTZs*	*BTPs*	*CCTs*			
1994	52,400	6,981	–	20,551	22,960	2,600	20,598	75,599
1995	63,459	10,285	2,247	23,408	26,375	2,683	18,921	85,063
1996	123,819	25,764	20,125	41,897	34,931	3,833	20,651	148,304
1997	193,883	15,511	62,976	72,322	41,904	5,691	39,409	238,982
1996 – 3rd qtr. . .	100,868	16,543	12,547	37,200	33,435	3,404	18,678	122,950
4th ” . .	123,819	25,764	20,125	41,897	34,931	3,833	20,651	148,304
1997 – 1st qtr. . .	138,572	27,708	31,090	46,806	31,867	4,555	24,216	167,343
2nd ” . .	145,998	21,778	45,614	48,880	28,780	4,914	26,994	177,906
3rd ” . .	165,033	17,834	55,420	59,014	31,499	5,127	33,463	203,623
4th ” . .	193,883	15,511	62,976	72,322	41,904	5,691	39,409	238,982
1998 – 1st qtr. . .	233,673	20,521	66,551	101,428	45,067	7,030	74,354	315,057
2nd ” . .	294,300	27,633	66,982	134,248	61,066	7,334	73,564	375,197
3rd ” . .	(334,826)	(24,319)	(64,652)	(145,318)	. . . .	(7,835)	(64,358)	(407,019)
1997 – Sept.	165,033	17,834	55,420	59,014	31,499	5,127	33,463	203,623
Oct.	171,737	14,785	59,348	60,549	35,685	5,284	31,962	208,983
Nov.	180,678	12,941	60,741	64,906	40,625	5,473	33,784	219,935
Dec.	193,883	15,511	62,976	72,322	41,904	5,691	39,409	238,982
1998 – Jan.	204,650	17,570	64,468	77,970	44,444	6,107	48,468	259,226
Feb.	220,842	19,581	64,570	91,676	44,750	6,341	54,536	281,719
Mar.	233,673	20,521	66,551	101,248	45,067	7,030	74,354	315,057
Apr.	251,854	26,413	63,193	106,373	53,644	7,165	69,570	328,589
May	273,686	26,808	65,821	118,524	59,801	7,239	76,664	357,589
June	294,300	27,633	66,982	134,248	61,066	7,334	73,564	375,197
July	306,355	27,978	63,466	143,869	65,105	7,442	80,023	393,790
Aug.	308,079	25,623	61,775	146,009	67,157	7,515	68,038	383,632
Sept.	(334,826)	(24,319)	(64,652)	(145,318)	. . . .	(7,835)	(64,358)	(407,019)

Table a43

Foreign currency securities	*of which: shares*	Other financial assets	Total portfolio	Net assets	*Memorandum items:* Gross sales	Net sales	
37,289	20,025	682	113,570	130,168	85,032	25,455	 1994
30,905	17,675	739	116,706	126,802	46,978	−10,490	 1995
30,967	15,707	980	180,251	197,544	123,936	58,226	 1996
91,539	38,974	161	330,683	368,432	287,470	143,377	 1997
29,227	15,826	1,066	153,243	165,733	28,159	14,934	.... 3rd qtr. – 1996
30,967	15,707	980	180,251	197,544	46,242	26,478	.... 4th "
44,202	20,581	302	211,847	239,243	72,931	39,511	.... 1st qtr. – 1997
59,045	28,518	168	237,118	268,315	46,760	17,745	.... 2nd "
80,547	37,984	121	284,291	321,233	82,774	43,616	.... 3rd "
91,539	38,974	161	330,683	368,432	85,005	42,505	.... 4th "
148,580	61,326	177	463,814	503,915	174,421	103,656	.... 1st qtr. – 1998
187,003	75,965	191	562,392	607,287	201,497	107,334	.... 2nd "
(190,351)	(65,544)	(175)	(597,545)	(646,698)	(139,018)	(63,692)	.... 3rd "
80,547	37,984	121	284,291	321,233	23,520	11,877	.... Sept.– 1997
80,536	34,393	144	289,663	333,053	34,728	18,148	.... Oct.
85,790	36,305	156	305,880	348,452	24,479	11,892	.... Nov.
91,539	38,974	161	330,683	368,432	25,798	12,465	.... Dec.
106,526	43,681	147	365,899	407,719	52,116	32,515	.... Jan. – 1998
123,564	51,081	171	405,454	445,506	54,858	32,371	.... Feb.
148,580	61,326	177	463,814	503,915	67,447	38,770	.... Mar.
162,990	67,326	194	491,773	539,895	87,835	44,296	.... Apr.
175,208	70,493	189	532,985	581,000	59,979	35,807	.... May
187,003	75,965	191	562,392	607,287	53,683	27,231	.... June
196,656	80,263	205	590,681	643,698	59,487	30,719	.... July
191,483	69,477	184	575,299	645,736	41,344	21,830	.... Aug.
(190,351)	(65,544)	(175)	(597,545)	(646,698)	(38,187)	(11,143)	.... Sept.

Table a44

Italian securities investment funds

(billions of lire)

	Securities denominated in lire					
	Government securities					
		of which:				
		BOTs	*CTZs*	*BTPs*	*CCTs*	
1994	12,054	4,562	–	5,338	4,762	
1995	11,407	2,177	2,262	3,731	4,005	
1996	66,349	15,893	18,508	21,287	10,493	
1997	67,939	−10,929	42,201	29,429	7,564	
1996 – 3rd qtr.	18,798	4,710	6,175	5,833	2,170	
4th ”	23,043	9,048	7,751	4,376	1,839	
1997 – 1st qtr.	17,072	1,884	11,188	6,603	−2,600	
2nd ”	5,626	−6,228	14,364	1,002	−2,992	
3rd ”	17,623	−4,121	9,359	9,324	2,734	
4th ”	27,618	−2,465	7,291	12,500	10,422	
1998 – 1st qtr.	39,369	4,888	3,528	28,771	3,141	
2nd ”	60,302	6,963	−150	33,235	16,130	
3rd ”	(32,696)	(−2,154)	(−5,971)	(10,501)	(6,162)	
1997 – Sept.	9,590	−304	4,544	4,452	796	
Oct.	7,130	−3,076	4,137	1,757	4,206	
Nov.	8,182	−1,914	1,207	3,857	4,940	
Dec.	12,306	2,525	1,947	6,887	1,275	
1998 – Jan.	11,118	2,037	1,872	5,517	2,642	
Feb.	15,681	1,986	−82	13,473	284	
Mar.	12,569	865	1,738	9,781	214	
Apr.	18,503	5,839	−3,806	5,900	8,588	
May	21,467	366	2,626	11,763	6,233	
June	20,332	758	1,030	15,573	1,309	
July	11,100	276	−3,870	9,135	3,999	
Aug.	596	−2,430	−2,101	1,366	2,163	
Sept.	(21,000)	....	....	....	....	

Table a44

Bonds	Shares	Total	Foreign currency securities	*of which: shares*	Other financial assets	Total portfolio	
565	8,863	21,482	6,112	7,083	–338	27,256	 1994
134	125	11,666	–6,051	–2,862	284	5,899	 1995
1,116	128	67,593	4,723	–400	1,260	73,576	 1996
1,691	6,362	75,992	55,324	19,993	–805	130,511	 1997
318	308	19,424	1,942	168	155	21,521	. . . . . . 3rd qtr. – 1996
381	762	24,186	1,340	–565	–40	25,486	. . . . . . 4th "
705	1,324	19,101	10,804	3,194	–690	29,215	. . . . . . 1st qtr. – 1997
328	122	6,076	11,253	4,818	–123	17,206	. . . . . . 2nd "
144	1,384	19,151	20,694	9,002	–31	39,814	. . . . . . 3rd "
514	3,532	31,664	12,573	2,979	39	44,276	. . . . . . 4th "
1,139	13,363	53,871	47,653	14,848	3	101,527	. . . . . . 1st qtr. – 1998
377	4,569	65,248	41,526	15,669	18	106,792	. . . . . . 2nd "
(427)	(–1,232)	(31,891)	(19,435)	(5,475)	(41)	(51,367)	. . . . . . 3rd "
112	811	10,513	5,500	1,685	–36	15,977	. . . . . . Sept. – 1997
176	882	8,188	4,321	123	34	12,543	. . . . . . Oct.
173	747	9,102	4,031	1,235	12	13,145	. . . . . . Nov.
166	1,902	14,374	4,221	1,621	–6	18,589	. . . . . . Dec.
342	3,962	15,422	12,283	2,929	–14	27,691	. . . . . . Jan. – 1998
219	3,155	19,055	14,493	4,652	11	33,559	. . . . . . Feb.
579	6,246	19,394	20,876	7,267	6	40,276	. . . . . . Mar.
230	1,369	20,102	17,506	7,232	20	37,628	. . . . . . Apr.
. .	2,018	23,485	14,505	4,450	–3	37,987	. . . . . . May
147	1,182	21,661	9,516	3,988	1	31,178	. . . . . . June
–28	84	11,186	11,054	4,522	31	22,271	. . . . . . July
155	–1,316	–565	8,700	2,020	–6	8,129	. . . . . . Aug.
(300)	(. .)	(21,300)	(–300)	(–1,100)	(16)	(21,016)	. . . . . . Sept.

Table a45

Portfolio management services (1)

(end-of-period market values in billions of lire)

		Government securities			Bonds		Shares	
		of which:						
		BOTs	*BTPs*	*CCTs*	Italian	Foreign	Italian	Foreign
1996 - 3rd qtr.								
Banks	124,766	13,080	34,419	69,270	13,088	8,718	5,658	374
Securities firms ...	36,868	2,532	14,460	17,762	8,235	6,270	3,739	2,585
Total . . .	**161,634**	**15,612**	**48,879**	**87,032**	**21,323**	**14,988**	**10,764**	**3,030**
1996 - 4th qtr.								
Banks	136,942	14,624	42,172	69,786	14,302	10,006	6,206	393
Securities firms ...	38,899	3,261	16,002	17,272	8,225	7,187	4,096	3,079
Total . . .	**175,841**	**17,885**	**58,174**	**87,058**	**22,527**	**17,193**	**11,775**	**3,564**
1997 - 1st qtr.								
Banks	148,295	14,892	47,213	66,981	12,618	11,430	7,031	591
Securities firms ...	40,121	3,482	17,531	16,211	8,252	10,063	4,196	3,255
Total . . .	**188,416**	**18,374**	**64,744**	**83,192**	**20,870**	**21,493**	**12,821**	**3,942**
1997 - 2nd qtr.								
Banks	154,811	13,436	48,035	66,483	13,575	12,264	7,489	786
Securities firms ...	42,258	3,105	20,967	14,539	8,030	10,651	5,303	3,976
Total . . .	**197,069**	**16,541**	**69,002**	**81,022**	**21,605**	**22,915**	**14,580**	**4,914**
1997 - 3rd qtr.								
Banks	154,209	10,448	48,654	62,089	13,459	13,422	8,380	462
Securities firms ...	48,803	2,489	28,241	13,310	7,897	10,779	5,927	4,575
Total . . .	**203,012**	**12,937**	**76,895**	**75,399**	**21,356**	**24,201**	**16,645**	**5,231**
1997 - 4th qtr.								
Banks	152,911	7,684	52,017	59,829	14,119	14,857	11,076	576
Securities firms ...	54,076	2,438	32,158	13,434	7,981	12,000	9,637	5,266
Total . . .	**206,987**	**10,122**	**84,175**	**73,263**	**22,100**	**26,857**	**20,713**	**5,842**
1998 - 1st qtr. (2)								
Banks	157,452	6,962	67,657	51,132	12,249	17,663	15,095	1,089
Securities firms ...	51,793	2,443	34,026	9,736	8,058	13,124	12,418	6,549
Total . . .	**209,245**	**9,405**	**101,683**	**60,868**	**20,307**	**30,787**	**27,513**	**7,638**
1998 - 2nd qtr. (2)								
Banks	148,576	7,762	64,600	48,736	11,224	20,787	15,479	1,540
Securities firms ...	54,679	2,657	35,521	9,739	8,124	14,236	10,564	6,760
Total . . .	**203,255**	**10,419**	**100,121**	**58,475**	**19,348**	**35,023**	**26,043**	**8,300**

(1) See the notes to the statistical tables. – (2) Provisional.

Table a45

Investment fund units		Other financial assets	Total portfolio	Total managed funds	*Memorandum items:*		
Italian	Foreign				Gross fund-raising	Net fund-raising	
							1996 - 3rd qtr.
2,691	127	4,477	159,899	169,822	19,830	10,019	. . . . Banks
4,403	506	44	64,088	69,851	6,492	1,657	. . . . Securities firms
7,094	**633**	**4,521**	**223,987**	**239,673**	**26,322**	**11,676**	. . . **Total**
							1996 - 4th qtr.
3,553	144	4,271	175,817	187,471	25,934	14,130	. . . . Banks
4,648	536	30	68,265	73,113	7,298	1,109	. . . . Securities firms
8,201	**680**	**4,301**	**244,082**	**260,584**	**33,232**	**15,239**	. . . **Total**
							1997 - 1st qtr.
14,012	478	351	194,806	209,253	35,477	22,339	. . . . Banks
5,983	744	26	74,330	80,428	15,535	5,977	. . . . Securities firms
19,995	**1,222**	**377**	**269,136**	**289,681**	**48,012**	**28,316**	. . . **Total**
							1997 - 2nd qtr.
19,335	580	480	209,320	227,481	26,119	11,737	. . . . Banks
8,026	1,275	27	81,486	87,862	10,921	4,040	. . . . Securities firms
27,360	**1,855**	**508**	**290,806**	**315,343**	**37,040**	**15,777**	. . . **Total**
							1997 - 3rd qtr.
35,599	1,112	612	227,255	241,339	31,528	11,628	. . . . Banks
12,273	2,026	19	94,831	101,373	15,821	8,721	. . . . Securities firms
47,872	**3,137**	**631**	**322,086**	**342,712**	**47,349**	**20,349**	. . . **Total**
							1997 - 4th qtr.
46,582	1,469	555	242,145	260,457	37,665	9,438	. . . . Banks
17,064	2,494	23	108,540	115,008	20,633	11,559	. . . . Securities firms
63,646	**3,963**	**577**	**350,685**	**375,465**	**58,298**	**20,997**	. . . **Total**
							1998 - 1st qtr. (2)
76,255	2,893	982	283,677	300,542	59,867	30,420	. . . . Banks
31,966	3,709	23	127,640	135,332	27,542	11,199	. . . . Securities firms
108,221	**6,602**	**1,005**	**411,317**	**435,874**	**87,409**	**41,619**	. . . **Total**
							1998 - 2nd qtr. (2)
106,141	3,833	753	308,333	329,001	75,893	29,998	. . . . Banks
45,768	5,318	38	145,487	153,156	31,166	18,975	. . . . Securities firms
151,909	**9,151**	**791**	**453,820**	**482,157**	**107,059**	**48,973**	. . . **Total**

Table a46

Net issues of securities

(billions of lire)

	Issuers			Total bonds and government securities	Investors				Shares
	Public sector	Banks	International companies and supranational institutions		BI-UIC	Banks	Investment funds	Other	
1992	136,045	12,055	–3,464	144,635	14,483	52,376	1,500	76,276	3,368
1993	162,608	27,340	–2,341	187,607	11,557	25,409	17,042	133,599	15,230
1994	230,258	21,276	–2,070	249,464	108,187	34,926	12,619	93,732	12,982
1995	86,859	–521	–2,492	83,847	–1,702	–31,804	11,541	105,812	8,515
1996	100,854	64,715	1,205	166,774	–30,407	29,703	67,465	100,013	5,790
1997	12,259	97,228	723	110,209	–13,085	–38,678	69,630	92,342	7,145
1996 – 2nd qtr.	38,218	4,538	318	43,074	6,445	–6,785	18,202	25,212	526
3rd ”	31,784	19,292	597	51,673	–5,035	7,536	19,116	30,056	2,942
4th ”	7,309	35,575	–426	42,459	–27,908	15,905	23,424	31,038	1,539
1997 – 1st qtr.	20,011	24,957	1,203	46,171	10,468	5,340	17,777	12,586	546
2nd ”	–109	24,301	–1,483	22,709	–7,287	–28,385	5,954	52,427	619
3rd ”	9,164	23,730	134	33,028	–13,536	–10,821	17,767	39,618	350
4th ”	–16,808	24,241	869	8,302	–2,730	–4,812	28,132	–12,288	5,631
1998 – 1st qtr.	(11,733)	(18,677)	(–2)	(30,408)	–12,296	(4,455)	40,508	(–2,259)	(4,736)
2nd ”	(28,883)	(19,049)	(–739)	(47,193)	–7,980	(5,003)	60,679	(–10,509)	(5,205)
1997 – Aug.	–11,709	8,221	. .	–3,488	–3,883	–7,100	2,557	4,938	16
Sept.	7,403	9,490	84	16,977	–2,066	–5,078	9,702	14,419	226
Oct.	2,902	9,687	738	13,326	–1,417	2,980	7,306	4,457	11
Nov.	–3,518	7,714	145	4,341	143	421	8,355	–4,578	1,216
Dec.	–16,192	6,840	–14	–9,366	–1,456	–8,214	12,472	–12,168	4,404
1998 – Jan.	(–7,534)	(3,125)	(–1)	(–4,410)	–1,017	(7,186)	11,460	(–22,039)	(151)
Feb.	(12,959)	(5,518)	(–1)	(18,477)	–5,593	(–5,041)	15,900	(13,211)	(4,585)
Mar.	(6,308)	(10,034)	(. .)	(16,341)	–5,686	(2,311)	13,148	(6,568)	(. .)
Apr.	(8,108)	(4,232)	(. .)	(12,340)	–3,884	(7,143)	18,733	(–9,652)	(1,338)
May	(22,209)	(9,052)	(–739)	(30,522)	–1,360	(6,433)	21,467	(3,982)	(. .)
June	(–1,434)	(5,765)	(. .)	(4,331)	–2,735	(–8,572)	20,479	(–4,841)	(3,867)
July	(1,946)	(–285)	(–12)	(1,649)	–29,310	(2,952)	11,102	(16,905)	(1,676)
Aug.	(6,573)	(4,509)	(–501)	(10,581)	3,829	(–9,113)	751	(15,114)	(. .)

Table a47

Issue conditions of Treasury bonds (BTPs)

CODE	Date of maturity	Date of issue	Price at issue	Yield at issue		Amount taken up (lire billion)	Coupon	
				gross	net		gross	net
117000	1.11.2007	2.2.1998	104.65	5.45	4.70	4,400	3.000	2.625
115639	15.9.2002	3.2.1998	103.55	4.94	4.22	2,500	2.875	2.516
119549	15.1.2001	3.2.1998	100.90	4.72	4.09	3,135	2.500	2.188
117461	1.11.2027	18.2.1998	109.85	5.88	5.10	3,850	3.250	2.844
119549	15.1.2001	18.2.1998	100.97	4.69	4.06	2,750	2.500	2.188
120606	15.2.2003	18.2.1998	100.76	4.88	4.24	3,777	2.500	2.188
117000	1.11.2007	2.3.1998	105.90	5.27	4.53	4,792	3.000	2.625
119549	15.1.2001	3.3.1998	101.04	4.65	4.01	3,002	2.500	2.188
120606	15.2.2003	3.3.1998	100.90	4.84	4.20	3,000	2.500	2.188
117461	1.11.2027	19.3.1998	112.80	5.68	4.92	4,000	3.250	2.844
119549	15.1.2001	19.3.1998	101.60	4.42	3.79	2,500	2.500	2.188
120606	15.2.2003	19.3.1998	101.70	4.65	4.02	3,000	2.500	2.188
117000	1.11.2007	1.4.1998	107.15	5.11	4.37	5,000	3.000	2.625
119549	15.1.2001	2.4.1998	101.42	4.49	3.86	3,300	2.500	2.188
120606	15.2.2003	2.4.1998	101.48	4.70	4.07	4,400	2.500	2.188
36768	1.7.2006	17.4.1998	125.35	5.00	4.02	2,000	4.375	3.828
120606	15.2.2003	17.4.1998	101.49	4.69	4.06	4,000	2.500	2.188
122085	15.4.2001	17.4.1998	100.13	4.49	3.92	5,000	2.250	1.969
122430	1.5.2008	4.5.1998	98.70	5.23	4.57	6,600	2.500	2.188
122085	15.4.2001	5.5.1998	99.65	4.67	4.09	3,850	2.250	1.969
122428	1.5.2003	5.5.1998	99.64	4.88	4.27	5,500	2.375	2.078
117461	1.11.2027	19.5.1998	111.55	5.76	4.99	4,001	3.250	2.844
122085	15.4.2001	19.5.1998	99.82	4.60	4.03	3,066	2.250	1.969
122428	1.5.2003	19.5.1998	99.98	4.80	4.19	3,000	2.375	2.078
122430	1.5.2008	1.6.1998	99.50	5.12	4.47	5,331	2.500	2.188
122085	15.4.2001	2.6.1998	100.05	4.52	3.95	3,300	2.250	1.969
122428	1.5.2003	2.6.1998	100.24	4.74	4.13	3,300	2.375	2.078
117461	1.11.2027	17.6.1998	115.05	5.53	4.78	3,518	3.250	2.844
122085	15.4.2001	17.6.1998	100.27	4.43	3.86	2,000	2.250	1.969
122428	1.5.2003	17.6.1998	100.77	4.62	4.01	2,500	2.375	2.078
122430	1.5.2008	24.6.1998	100.35	5.01	4.36	2,000	2.500	2.188
122430	1.5.2008	1.7.1998	100.30	5.02	....	5,500	2.500	....
122428	1.5.2003	2.7.1998	100.70	4.63	....	3,300	2.375	....
123958	1.7.2001	2.7.1998	100.28	4.44	....	3,745	2.250	....
117461	1.11.2027	17.7.1998	114.90	5.54	....	3,300	3.250	....
123958	1.7.2001	17.7.1998	100.51	4.35	....	3,626	2.250	....
124463	15.7.2003	17.7.1998	99.96	4.56	....	4,718	2.250	....
122430	1.5.2008	3.8.1998	101.20	4.90	....	6,050	2.500	....
123958	1.7.2001	4.8.1998	100.56	4.33	....	3,031	2.250	....
124463	15.7.2003	4.8.1998	100.09	4.53	....	3,535	2.250	....
117461	1.11.2027	19.8.1998	117.70	5.37	....	3,185	3.250	....
123958	1.7.2001	19.8.1998	100.97	4.17	....	3,003	2.250	....
124463	15.7.2003	19.8.1998	100.82	4.36	....	3,000	2.250	....
122430	1.5.2008	1.9.1998	102.40	4.74	....	5,500	2.500	....
123958	1.7.2001	2.9.1998	101.17	4.09	....	3,133	2.250	....
124463	15.7.2003	2.9.1998	101.12	4.29	....	3,800	2.250	....
117461	1.11.2027	18.9.1998	118.55	5.31	....	2,200	3.250	....
124463	15.7.2003	18.9.1998	102.20	4.03	....	3,328	2.250	....
126080	1.9.2001	18.9.1998	100.63	3.80	....	4,175	2.000	....
122430	1.5.2008	1.10.1998	105.10	4.39	....	5,500	2.500	....

Table a47 cont.

Issue conditions of Treasury credit certificates (CCTs)

CODE	Date of maturity	Date of issue	Price at issue	Yield at issue		Amount taken up (lire billion)	Spread	First coupon	
				gross	net			gross	net
111536	1.5.2004	2.5.1997	99.05	7.19	6.28	6,993	0.15	3.450	3.019
111536	1.5.2004	15.5.1997	99.20	6.87	6.00	3,300	0.15	3.450	3.019
111536	1.5.2004	2.6.1997	99.00	7.01	6.12	2,148	0.15	3.450	3.019
111536	1.5.2004	18.6.1997	99.25	7.05	6.16	1,503	0.15	3.450	3.019
111536	1.5.2004	1.7.1997	99.30	6.94	6.06	1,550	0.15	3.450	3.019
111536	1.5.2004	1.8.1997	99.55	6.99	6.10	1,650	0.15	3.450	3.019
114537	1.9.2004	1.9.1997	99.75	6.85	5.99	3,300	0.15	3.350	2.931
114537	1.9.2004	1.10.1997	100.50	6.04	5.26	2,000	0.15	3.350	2.931
114537	1.9.2004	3.11.1997	100.40	6.15	5.36	1,500	0.15	3.350	2.931
114537	1.9.2004	2.1.1998	100.40	5.23	4.56	3,791	0.15	3.350	2.931
114537	1.9.2004	2.2.1998	100.40	5.92	5.16	1,500.3	0.15	3.350	2.931
114537	1.9.2004	2.3.1998	100.64	5.96	5.19	3,787	0.15	3.350	2.931
114537	1.9.2004	1.4.1998	101.25	5.18	4.50	3,500	0.15	3.350	2.931
122427	1.5.2005	4.5.1998	101.12	5.06	4.40	5,326	0.15	2.600	2.275
122427	1.5.2005	1.6.1998	101.21	4.95	4.30	3,300	0.15	2.600	2.275
122427	1.5.2005	1.7.1998	101.25	4.94	....	3,300	0.15	2.600	....
122427	1.5.2005	3.8.1998	101.31	4.73	....	3,300	0.15	2.600	....
122427	1.5.2005	1.9.1998	100.98	4.69	....	3,850	0.15	2.600	....
126385	1.10.2005	1.10.1998	100.90	4.29	....	3,850	0.15	2.200	....

Issue conditions of zero-coupon Treasury certificates (CTZs)

CODE	Date of maturity	Date of issue	Price at issue	Yield at issue		Amount taken up (lire billion)
				gross	net	
121599	15.10.1999	15.4.1998	93.64	4.47	3.92	3,160
121599	15.10.1999	30.4.1998	93.73	4.53	3.98	2,571
121599	15.10.1999	15.5.1998	94.00	4.46	3.90	2,000
121599	15.10.1999	29.5.1998	94.20	4.42	3.87	1,525
122833	31.5.2000	29.5.1998	91.56	4.49	3.94	2,750
121599	15.10.1999	15.6.1998	94.41	4.41	3.86	1,650
122833	31.5.2000	15.6.1998	91.82	4.45	3.90	1,650
121599	15.10.1999	30.6.1998	94.64	4.35	3.80	1,540
122833	31.5.2000	30.6.1998	92.04	4.41	3.87	2,740
121599	15.10.1999	15.7.1998	94.99	4.19	....	2,500
122833	31.5.2000	15.7.1998	92.47	4.25	....	3,228
124416	31.1.2000	31.7.1998	93.90	4.27	....	2,575
124415	31.7.2000	31.7.1998	91.90	4.31	....	3,091
124416	31.1.2000	14.8.1998	94.23	4.14	....	2,750
124415	31.7.2000	14.8.1998	92.30	4.16	....	2,750
124416	31.1.2000	31.8.1998	94.54	4.04	....	2,178
124415	31.7.2000	31.8.1998	92.67	4.05	....	2,200
124416	31.1.2000	15.9.1998	94.96	3.82	....	1,650
124415	31.7.2000	15.9.1998	93.23	3.81	....	1,650
124416	31.1.2000	30.9.1998	95.21	3.74	....	2,000
124415	31.7.2000	30.9.1998	93.48	3.74	....	2,000

Table a48

Securities market: yield to maturity and total return indices

	Yield to maturity (gross)					Total return indices (gross)				
	CCTs	CTEs	BTPs	CTOs	Bank bonds	CCTs	CTEs	BTPs	CTOs	Investment funds
1992	14.98	10.20	13.71	13.20	13.17	128.89	145.35	130.16	129.06	229.60
1993	11.77	7.81	11.31	11.12	11.21	154.01	181.23	168.51	160.83	287.95
1994	9.97	7.64	10.58	10.53	10.03	166.83	183.53	166.05	165.17	280.92
1995	11.60	8.82	11.79	11.64	11.45	188.74	223.20	193.53	188.20	299.98
1996	9.01	6.33	8.85	8.77	9.03	209.85	229.84	233.33	210.03	328.00
1997	6.81	5.42	6.55	7.17	7.24	224.74	242.48	263.33	224.43	366.70
1996 – 3rd qtr. . . .	8.86	6.38	8.79	8.67	8.82	204.36	224.00	221.18	204.89	318.60
4th ” . . .	7.57	5.87	7.30	7.33	7.72	209.85	229.84	233.33	210.03	328.00
1997 – 1st qtr. . . .	7.12	5.49	7.08	7.28	7.49	211.93	233.41	231.11	212.56	334.66
2nd ” . . .	7.13	5.26	7.07	7.17	7.51	215.93	234.80	244.54	216.85	349.88
3rd ” . . .	6.87	5.26	6.34	7.08	7.02	220.51	236.74	254.33	220.60	362.23
4th ” . . .	6.11	5.66	5.71	7.15	6.94	224.74	242.48	263.33	224.43	366.70
1998 – 1st qtr.	5.71	5.23	5.09	6.79	6.27	228.65	248.34	270.70	227.81	396.55
2nd ” . . .	5.06	5.48	4.88	–	5.59	231.95	249.07	275.31	–	393.90
3rd ” . . .	4.75	4.74	4.51	–	5.20	234.32	253.06	285.07	–	381.10
1997 – Sept.	6.65	5.38	6.10	7.06	7.01	220.51	236.74	254.33	220.60	362.23
Oct.	6.36	5.67	5.90	7.18	6.84	221.85	239.14	255.11	221.81	355.44
Nov.	6.21	5.65	5.81	7.12	7.08	223.26	241.16	259.12	223.12	359.21
Dec.	5.77	5.67	5.44	7.14	6.89	224.74	242.48	263.33	224.43	366.70
1998 – Jan.	5.60	5.12	5.21	6.76	6.26	225.43	244.76	265.64	225.56	374.71
Feb.	5.98	5.00	5.15	6.84	6.45	226.91	245.90	267.95	226.56	380.77
Mar.	5.54	5.57	4.92	6.78	6.09	228.65	248.34	270.70	227.81	396.55
Apr.	5.17	5.63	4.90	7.67	5.68	230.00	249.02	271.05	228.94	390.58
May	5.04	5.51	4.93	–	5.56	231.04	247.71	273.49	–	394.67
June	4.98	5.30	4.82	–	5.52	231.95	249.07	275.31	–	393.90
July	4.89	5.00	4.70	–	5.26	233.29	250.32	277.84	–	398.67
Aug.	4.72	4.73	4.54	–	5.21	233.89	252.19	280.80	–	386.53
Sept.	4.65	4.48	4.29	–	5.14	234.32	253.06	285.07	–	381.10

Table a49

The money supply

(stocks in billions of lire)

	End-of-period data					
	Notes and coin	Sight deposits		Other items	Total: M1	Short-term CDs
		Banks	Post Office			
1990	69,449	388,409	7,825	17,068	482,751	74,688
1991	76,354	435,150	7,017	19,429	537,950	81,164
1992	85,617	434,823	9,337	16,011	545,788	92,390
1993	89,769	465,071	9,479	14,760	579,078	87,286
1994	96,221	478,258	8,160	15,728	598,367	71,602
1995	98,281	482,902	8,493	15,971	605,647	63,518
1996 – Aug.	92,456	433,195	8,897	6,171	540,719	65,905
Sept. . . .	93,450	455,779	8,972	9,028	567,228	68,063
Oct.	92,605	453,742	9,437	10,191	565,975	69,798
Nov.	96,373	456,305	9,561	11,652	573,891	70,538
Dec.	100,107	506,025	7,275	(13,144)	(626,551)	72,084
1997 – Jan.	96,334	475,796	8,709	(11,167)	(592,005)	75,439
Feb.	95,714	477,765	8,674	(12,197)	(594,350)	77,413
Mar.	99,325	474,162	7,568	(9,616)	(590,671)	79,018
Apr.	96,861	476,427	7,138	(9,259)	(589,685)	80,633
May	99,345	485,235	6,763	(9,348)	(600,690)	82,450
June . . .	97,692	497,278	7,681	(12,710)	(615,361)	83,500
July	101,408	487,648	6,024	(11,943)	(607,024)	84,530
Aug.	98,883	481,770	5,868	(6,557)	(593,077)	85,578
Sept. . . .	99,933	499,079	7,986	(9,180)	(616,178)	87,501
Oct.	99,161	503,919	7,431	(10,116)	(620,627)	88,844
Nov.	103,237	493,475	6,686	(11,216)	(614,615)	89,523
Dec.	107,433	538,103	6,673	(14,095)	(666,304)	91,249
1998 – Jan.	103,620	519,784	6,459	(11,489)	(641,352)	90,268
Feb.	102,877	518,372	6,020	(9,278)	(636,547)	88,299
Mar.	105,030	539,121	5,406	(9,614)	(659,171)	87,753
Apr.	105,638	549,898	4,758	(10,208)	(670,502)	86,301
May	(108,472)	553,907	5,511	(9,884)	(677,774)	85,396
June . . .	(107,666)	(573,771)	(4,001)	(13,534)	(698,972)	85,821
July	(109,396)	(542,992)	(3,346)	(10,765)	(666,500)	84,883
Aug.	(105,153)	(536,736)	(3,679)	(8,345)	(653,912)	83,181

Table a49

			Average data			
Savings deposits	Postal savings deposits	Total: M2 (net of CDs with a maturity of at least 18 months)	M1	M2 (net of CDs with a maturity of at least 18 months)	Extended M2	
178,384	23,589	759,412	442,428	709,331	711,604	 1990
161,798	26,924	807,836	488,712	750,765	754,376	 1991
146,967	29,057	814,203	492,082	751,789	757,185	 1992
144,091	30,861	841,316	529,612	780,319	786,096	 1993
138,297	39,152	847,418	547,354	788,390	795,392	 1994
121,047	43,936	834,148	555,147	773,423	784,824	 1995
113,287	43,889	763,800	532,314	745,945	761,215	.... Aug. – 1996
113,970	43,839	793,100	540,835	757,881	773,508	.... Sept.
112,882	43,301	791,956	551,651	770,135	786,894	.... Oct.
114,361	44,314	803,104	562,121	783,210	800,020	.... Nov.
118,399	46,256	(863,290)	(576,638)	(802,938)	(818,010)	.... Dec.
117,014	46,914	(831,372)	(599,902)	(834,070)	(848,867)	.... Jan. – 1997
117,051	47,770	(836,584)	(577,572)	(813,801)	(829,940)	.... Feb.
117,508	48,203	(835,400)	(577,379)	(815,465)	(831,677)	.... Mar.
116,169	(48,524)	(835,010)	(578,970)	(818,708)	(835,401)	.... Apr.
116,215	(48,597)	(847,952)	(590,728)	(832,324)	(848,225)	.... May
116,777	(48,485)	(864,122)	(583,990)	(826,557)	(841,807)	.... June
116,794	(48,230)	(856,579)	(594,331)	(838,533)	(854,405)	.... July
118,615	(49,126)	(846,395)	(591,107)	(838,091)	(853,195)	.... Aug.
117,759	(49,316)	(870,755)	(589,621)	(838,849)	(853,847)	.... Sept.
117,313	(49,378)	(876,163)	(601,918)	(852,436)	(869,852)	.... Oct.
118,586	(49,776)	(872,500)	(605,038)	(856,672)	(875,603)	.... Nov.
121,433	(52,004)	(930,991)	(621,060)	(875,339)	(892,998)	.... Dec.
121,251	(52,229)	(905,100)	(647,579)	(907,661)	(924,605)	.... Jan. – 1998
121,198	(53,075)	(899,119)	(626,619)	(884,530)	(901,777)	.... Feb.
118,370	(53,402)	(918,696)	(635,929)	(892,437)	(909,702)	.... Mar.
117,465	(53,584)	(927,851)	(653,482)	(907,405)	(924,621)	.... Apr.
116,533	(53,874)	(933,578)	(665,429)	(917,175)	(933,780)	.... May
115,808	(53,886)	(954,488)	(666,249)	(915,303)	(929,857)	.... June
114,365	(53,626)	(918,974)	(663,473)	(910,205)	(923,747)	.... July
115,210	(54,772)	(907,075)	(647,889)	(893,881)	(907,159)	.... Aug.

Table a50

Liquid assets

(end-of-period stocks in billions of lire)

	M2	CDs with a maturity of at least 18 months	Securities acquired under repos	PO savings certificates	BOTs and BTEs	Banker's acceptances	Total liquid assets
1990	759,412	105,405	13,712	57,219	284,993	1,540	1,222,280
1991	807,836	139,457	53,346	61,865	298,373	2,104	1,362,982
1992	814,203	180,328	99,571	66,575	356,177	1,925	1,518,779
1993	841,316	226,074	95,746	72,162	313,471	1,554	1,550,324
1994	847,418	236,932	89,935	87,053	312,727	1,139	1,575,205
1995	834,148	279,114	126,864	97,773	339,059	900	1,677,857
1996 – Aug.	763,800	300,114	145,671	102,185	312,736	807	1,625,314
Sept.	793,100	291,707	133,754	102,947	309,419	711	1,631,639
Oct.	791,956	284,501	145,121	109,651	299,955	657	1,631,841
Nov.	803,104	276,311	140,722	108,700	288,146	501	1,617,485
Dec.	(863,290)	269,416	118,915	110,614	275,659	*(443)=*	*(1,638,336)*
1997 – Jan.	(831,372)	259,195	134,297	(111,869)	268,894	*(347)=*	*(1,605,974)*
Feb.	(836,584)	248,973	140,871	(112,723)	262,712	*(326)=*	*(1,602,189)*
Mar.	(835,400)	238,767	140,861	(113,409)	259,295	*(321)=*	*(1,588,052)*
Apr.	(835,010)	228,037	147,720	(113,966)	258,725	*(470)=*	*(1,583,927)*
May	(847,952)	218,004	150,579	(114,501)	254,910	*(445)=*	*(1,586,390)*
June	(864,122)	208,985	142,641	(114,733)	248,121	*(291)=*	*(1,578,894)*
July	(856,579)	194,503	147,944	(115,105)	242,963	*(338)=*	*(1,557,433)*
Aug.	(846,395)	181,937	153,463	(115,588)	241,022	*(344)=*	*(1,538,749)*
Sept.	(870,755)	171,022	140,250	(115,956)	231,750	*(296)=*	*(1,530,029)*
Oct.	(876,163)	157,931	141,461	(116,331)	223,056	*(287)=*	*(1,515,228)*
Nov.	(872,500)	145,068	146,452	(116,729)	215,744	*(274)=*	*(1,496,766)*
Dec.	(930,991)	135,152	129,443	(117,349)	206,019	*(210)=*	*(1,519,163)*
1998 – Jan.	(905,100)	126,072	146,268	(117,877)	194,098	*(213)=*	*(1,489,630)*
Feb.	(899,119)	118,214	145,995	(118,174)	186,674	*(225)=*	*(1,468,401)*
Mar.	(918,696)	112,905	129,478	(118,410)	175,933	*(230)=*	*(1,455,652)*
Apr.	(927,851)	105,649	122,237	(118,658)	161,546	*(235)=*	*(1,436,176)*
May	(933,578)	99,026	122,575	(118,857)	149,604	*(238)=*	*(1,423,878)*
June	(954,488)	93,336	112,289	(118,997)	134,182	*(238)=*	*(1,413,530)*
July	(918,974)	89,113	119,425	(119,423)	122,492	*(238)=*	*(1,369,484)*
Aug.	(907,075)	85,404	121,188	(119,751)	111,444	*(238)*	*(1,345,100)*

Table a51

Financial assets

(end-of-period stocks in billions of lire)

	Liquid assets	Medium and long-term securities			Units of investment funds	Other financial assets	**Total** domestic financial assets	Total financial assets
		Government securities	Bonds of Crediop and autonomous govt. agencies	Other bonds				
1990	1,222,280	450,724	11,426	81,985	47,379	4,848	1,818,643	1,888,416
1991	1,362,982	493,665	12,262	108,035	56,191	4,011	2,037,146	2,142,606
1992	1,518,779	492,263	15,231	113,564	60,663	2,825	2,203,325	2,339,680
1993	1,550,324	549,433	13,032	153,347	110,093	2,904	2,379,134	2,520,541
1994	1,575,205	640,491	15,811	170,306	130,168	4,404	2,536,384	2,717,672
1995	1,677,857	693,538	14,842	172,248	126,802	4,190	2,689,477	2,880,197
1996 – Aug.	1,625,314	724,465	16,919	196,608	159,056	5,420	2,727,783	2,946,102
Sept.	1,631,639	711,268	16,712	205,307	165,733	6,022	2,736,681	2,960,764
Oct.	1,631,841	702,900	16,693	219,241	173,962	6,396	2,751,033	2,984,030
Nov.	1,617,485	694,461	15,641	226,725	187,084	6,738	2,748,133	2,988,360
Dec.	*(1,638,336)=*	704,335	17,090	234,483	197,544	6,643	*(2,798,431)=*	*(3,037,823)*
1997 – Jan.	*(1,605,974)=*	687,355	(17,226)	(243,837)	219,985	6,658	*(2,781,035)=*	*(3,033,445)*
Feb.	*(1,602,189)=*	689,544	(17,419)	(252,794)	234,226	*(6,802)=*	*(2,802,973)=*	*(3,068,094)*
Mar.	*(1,588,052)=*	693,700	(17,420)	(258,788)	239,243	*(7,004)=*	*(2,804,207)=*	*(3,080,215)*
Apr.	*(1,583,927)=*	694,050	(17,499)	(268,961)	247,480	*(7,057)=*	*(2,818,973)=*	*(3,105,140)*
May	*(1,586,390)=*	695,000	(17,248)	(277,401)	255,338	*(7,808)=*	*(2,839,185)=*	*(3,126,257)*
June	*(1,578,894)=*	688,830	(17,175)	(283,047)	268,315	*(7,735)=*	*(2,843,996)=*	*(3,140,717)*
July	*(1,557,433)=*	703,040	(17,330)	(291,709)	291,563	*(7,951)=*	*(2,869,026)=*	*(3,178,896)*
Aug.	*(1,538,749)=*	700,778	(17,331)	(299,187)	300,994	*(8,323)=*	*(2,865,361)=*	*(3,180,601)*
Sept.	*(1,530,029)=*	692,023	(17,320)	(309,691)	321,233	*(8,956)=*	*(2,879,252)=*	*(3,195,745)*
Oct.	*(1,515,228)=*	692,235	*(17,257)=*	*(318,380)=*	333,053	*(9,148)=*	*(2,885,301)=*	*(3,212,292)*
Nov.	*(1,496,766)=*	*(684,696)=*	*(17,347)=*	*(326,023)=*	348,452	*(9,166)=*	*(2,882,451)=*	*(3,216,548)*
Dec.	*(1,519,163)=*	*(673,957)=*	*(17,335)=*	*(332,371)=*	368,432	*(9,077)=*	*(2,920,336)=*	*(3,257,411)*
1998 – Jan.	*(1,489,630)=*	*(664,812)=*	*(17,781)=*	*(334,275)=*	407,719	*(9,117)=*	*(2,923,333)=*	*(3,269,744)*
Feb.	*(1,468,401)=*	*(655,659)=*	*(17,518)=*	*(336,792)=*	445,506	*(10,949)=*	*(2,934,825)=*	*(3,289,786)*
Mar.	*(1,455,652)=*	*(649,655)=*	*(17,224)=*	*(343,466)=*	503,915	*(11,818)=*	*(2,981,731)=*	*(3,345,629)*
Apr.	*(1,436,176)=*	*(625,912)=*	*(16,200)=*	*(347,839)=*	539,895	*(11,675)=*	*(2,977,697)=*	*(3,354,612)*
May	*(1,423,878)=*	*(608,478)=*	*(15,026)=*	*(352,133)=*	581,000	*(12,207)=*	*(2,992,722)=*	*(3,378,604)*
June	*(1,413,530)=*	*(597,250)=*	*(13,261)=*	*(355,347)=*	607,287	*(8,956)=*	*(2,995,631)=*	*(3,384,636)*
July	*(1,369,484)=*	*(620,497)=*	*(11,606)=*	*(356,603)=*	643,698	*(8,971)=*	*(3,010,860)=*	*(3,411,798)*
Aug.	*(1,345,100)*	*(622,080)*	*(11,624)*	*(360,037)*	645,736	*(8,967)*	*(2,993,544)*	*(3,399,356)*

Table a52

Credit
(end-of-period stocks in billions of lire)

	Finance to the non-state sector				
	Short-term bank loans	Medium and long-term bank loans	Bonds placed domestically	Total domestic finance	Foreign finance
1990	455,671	300,933	23,453	780,057	93,504
1991	513,495	347,530	25,109	886,134	107,686
1992	570,627	384,286	20,510	975,423	128,680
1993	557,979	433,812	24,783	1,016,573	131,547
1994	531,853	474,804	21,873	1,028,530	124,660
1995	551,973	485,350	18,409	1,055,732	129,596
1996 – Aug.	537,929	494,205	19,029	1,051,162	125,413
Sept.	537,992	495,655	18,753	1,052,401	123,751
Oct.	532,905	496,969	17,498	1,047,372	123,175
Nov.	532,099	499,612	17,795	1,049,506	121,491
Dec.	554,157	511,158	17,957	1,083,271	122,955
1997 – Jan.	553,406	512,539	(17,936)	(1,083,881)	(124,758)
Feb.	553,774	512,916	(17,772)	(1,084,462)	(126,692)
Mar.	547,224	512,075	(17,417)	(1,076,716)	(125,842)
Apr.	545,851	514,072	(17,629)	(1,077,551)	(126,551)
May	545,227	517,336	(16,741)	(1,079,303)	(127,515)
June	562,202	524,430	(14,307)	(1,100,938)	(128,476)
July	571,826	523,293	(14,554)	(1,109,673)	(132,218)
Aug.	554,995	522,447	(14,608)	(1,092,050)	(132,657)
Sept.	554,559	526,424	(14,720)	(1,095,702)	(132,116)
Oct.	551,172	529,362	(15,103)	(1,095,638)	(135,199)
Nov.	554,976	534,970	(15,446)	(1,105,392)	(135,694)
Dec.	590,209	543,957	(15,764)	(1,149,930)	(136,029)
1998 – Jan.	582,151	(540,954)	(14,024)	(1,137,129)	(140,286)
Feb.	578,612	(544,544)	(13,763)	(1,136,920)	(140,124)
Mar.	582,479	(548,673)	(13,121)	(1,144,272)	(142,245)
Apr.	582,645	(552,261)	*(12,886)*	*(1,147,792)*	*(141,399)*
May	(572,550)	(555,385)	*(11,938)*	*(1,139,873)*	*(141,631)*
June	(591,773)	(560,927)	*(11,786)*	*(1,164,486)*	*(142,129)*
July	(598,287)	(560,396)	*(11,694)*	*(1,170,378)*	*(142,912)*
Aug.	(586,580)	(560,433)	*(11,032)*	*(1,158,045)*	*(142,437)*

Table a52

	State sector debt		Credit		
Total finance		*of which: domestic*	Total domestic	Total	
873,561	1,259,875	1,210,878	1,990,935	2,133,436	1990
993,820	1,411,919	1,357,010	2,243,144	2,405,739	1991
1,104,103	1,595,007	1,530,498	2,505,921	2,699,110	1992
1,148,120	1,765,403	1,679,954	2,696,527	2,913,523	1993
1,153,190	1,931,738	1,835,757	2,864,287	3,084,928	1994
1,185,328	2,073,510	1,954,265	3,009,997	3,258,838	1995
1,176,575	2,146,972	2,025,742	3,076,904	3,323,547	Aug.– 1996
1,176,151	2,172,861	2,050,173	3,102,573	3,349,012	Sept.
1,170,547	2,195,739	2,074,106	3,121,478	3,366,286	Oct.
1,170,996	2,206,909	2,084,678	3,134,184	3,377,906	Nov.
1,206,226	2,205,040	2,079,716	3,162,987	3,411,266	Dec.
(1,208,639)	2,207,229	2,079,400	(3,163,281)	(3,415,867)	Jan.– 1997
(1,211,154)	2,218,854	2,087,155	(3,171,617)	(3,430,007)	Feb.
(1,202,557)	2,243,582	2,111,481	(3,188,197)	(3,446,139)	Mar.
(1,204,103)	2,262,469	2,130,465	(3,208,016)	(3,466,572)	Apr.
(1,206,819)	2,278,789	2,142,230	(3,221,533)	(3,485,608)	May
(1,229,414)	2,251,592	2,114,606	(3,215,544)	(3,481,006)	June
(1,241,891)	2,247,944	2,104,547	(3,214,220)	(3,489,836)	July
(1,224,707)	2,247,717	2,105,855	(3,197,905)	(3,472,424)	Aug.
(1,227,818)	2,266,450	2,126,646	(3,222,349)	(3,494,268)	Sept.
(1,230,836)	2,281,669	2,142,960	*(3,238,597)*	(3,512,505)	Oct.
(1,241,086)	2,271,788	2,133,247	*(3,238,640)*	(3,512,874)	Nov.
(1,285,960)	2,248,726	2,111,446	*(3,261,377)*	(3,534,686)	Dec.
(1,277,415)	(2,244,754)	(2,108,514)	*(3,245,643)*	(3,522,169)	Jan.– 1998
(1,277,044)	(2,252,373)	(2,115,601)	*(3,252,521)*	(3,529,417)	Feb.
(1,286,517)	(2,274,777)	(2,137,842)	*(3,282,115)*	(3,561,294)	Mar.
(1,289,191)	(2,293,363)	(2,158,595)	*(3,306,387)*	*(3,582,555)*	Apr.
(1,281,504)	(2,308,476)	(2,172,638)	*(3,312,511)*	*(3,589,979)*	May
(1,306,615)	(2,298,013)	(2,162,851)	*(3,327,336)*	*(3,604,628)*	June
(1,313,290)	*(2,280,011)*	*(2,152,818)*	*(3,323,196)*	*(3,593,301)*	July
(1,300,482)	*(2,274,625)*	*(2,145,681)*	*(3,303,726)*	*(3,575,107)*	Aug.

Table a53

M2 and its counterparts
(changes in billions of lire)

	M2	Counterparts				
		Official reserves	Net foreign position of banks	Credit to the non-state sector	Credit to the state sector	Other items
1992	6,366	–32,591	–12,187	*(73,688)=*	*(83,416)=*	*(–105,960)*
1993	25,767	2,564	84,589	*(53,603)=*	*(14,875)=*	*(–129,864)*
1994	6,103	3,297	–21,594	10,198	27,004	–12,803
1995	–13,271	2,915	58,102	37,693	–25,491	–86,490
1996	29,142	20,449	47,394	51,111	3,073	–92,886
1997	67,701	22,829	–11,679	52,004	–50,560	55,107
1996 – Aug.	–4,623	–2,812	15,024	–17,844	599	410
Sept.	29,300	731	3,310	4,161	17,018	4,081
Oct.	–1,144	5,382	5,718	–1,273	14,266	–25,238
Nov.	11,148	–2,922	10,748	6,223	10,317	–13,219
Dec.	60,186	–3,963	24,072	37,622	–25,970	28,424
1997 – Jan.	(–31,917)	5,363	–20,639	–18,640	(4,729)	(–2,730)
Feb.	(5,212)	–1,608	–937	454	(2,352)	(4,950)
Mar.	(–1,184)	–4,262	–3,051	–7,042	(13,256)	(–85)
Apr.	(–390)	–2,131	4,371	–339	(4,655)	(–6,946)
May	(12,942)	1,571	17,061	5,323	(–551)	(–10,461)
June	(16,170)	–1,139	20,657	24,722	(–40,921)	(12,851)
July	(–7,543)	12,124	647	8,018	(–28,686)	(354)
Aug.	(–10,183)	4,801	–11,963	–17,628	(–550)	(15,157)
Sept.	(24,359)	5,672	–2,703	–37	(6,705)	(14,722)
Oct.	(5,408)	–2,393	–656	559	(11,706)	(–3,809)
Nov.	*(–3,663)=*	832	–16,613	9,350	(–6,819)	(9,588)
Dec.	*(58,491)=*	3,999	2,147	47,264	(–16,436)	(21,517)
1998 – Jan.	(–25,891)	–4,362	–14,900	(–9,431)	(8,812)	(–6,010)
Feb.	(–5,981)	3,815	–2,932	(348)	(–17,865)	(10,653)
Mar.	(19,577)	–751	–16,751	(7,847)	(9,522)	(19,710)
Apr.	(9,155)	–2,957	–2,126	(6,371)	(15,504)	(–7,637)
May	(5,727)	–5,715	9,795	(–2,444)	(–6,742)	(10,832)
June	(20,910)	–4,814	30,260	(26,130)	(–25,114)	(–5,552)
July	(–35,514)	–5,331	(–14,751)	(4,291)	(–37,646)	(17,923)
Aug.	(–11,899)	842	(9,434)	(–13,697)	(–20,192)	(11,714)

Notes to the statistical tables

Table a1

Sources: OECD, Istat and national statistics.

The annual figures for the current account balance may not coincide with the sum of the seasonally adjusted quarterly figures.

Table a2

Sources: Istat and national statistics.

For Italy, see the notes to Table a14.

Table a3

Sources: Istat and national statistics.

For Italy, the consumer price index; see the notes to Table a16.

For the United Kingdom, consumer prices excluding mortgage interest.

Table a4

Sources: OECD, calculations based on ENI and Istat data and national statistics.

Includes energy sources and products. For the United States, producer prices of industrial goods; for Germany, up to and including 1990 the figures refer to the country's western regions; for Italy, the series refers to producer prices of manufactures, extended to include energy sources and products.

Table a5

Source: National statistics.

Official reference rates. For France, intervention rate; for the United Kingdom, base rate; for Canada, official bank rate; for all the other countries, discount rate.

Money market rates. For the United States, rate on 3-month CDs; for Japan, 3-month call rate (uncollateralized); for Germany, 3-month bank lending rate; for France, Italy and the United Kingdom, 3-month interbank rate; for Canada, rate on 3-month prime corporate paper.

Table a6

Source: National statistics.

Bond yields (secondary market, gross). For the United States, 10-year Treasury notes and bonds; for Germany, 9-10 year public sector bonds; for Japan, France, the United Kingdom and Canada, 10-year public sector bonds; for Italy, yield on 10-year benchmark BTPs listed in the screen-based market.

Share indices (1988=100). For the United States, Standard and Poor's composite index; for Japan, Topix; for Germany, FAZ Aktien; for France, CAC 40; for Italy, MIB; for the United Kingdom, FT All-Share; for Canada, composite index of the Toronto stock exchange (closing prices).

Table a7

Source: National statistics.

The US dollar forward premiums and discounts are calculated as the differences between the interest rates shown in the upper part of the table.

Table a8

Source: IMF for the prices of gold.

Period averages except for gold prices, which are end-of-period values.

Table a9

The nominal effective exchange rates are calculated for each country with reference to the currencies of 24 trading partners. For the methodology, see the article "Nuovi indicatori di tasso di cambio effettivo nominale e reale", in Banca d'Italia, *Bollettino Economico*, no. 30, February 1998.

Table a10

Sources: Based on IMF and OECD data and national statistics.

The real effective exchange rates are calculated on the basis of the producer prices of manufactures of 25 countries. For the methodology, see the article "Nuovi indicatori di tasso di cambio effettivo nominale e reale", in Banca d'Italia, *Bollettino Economico*, no. 30, February 1998.

Table a11

Sources: Based on IMF and OECD data and national statistics.

For the methodology, see the article "Nuovi indicatori di tasso di cambio effettivo nominale e reale", in Banca d'Italia, *Bollettino Economico*, no. 30, February 1998.

Table a12

As of this issue of the Economic Bulletin (no. 27, October 1998), the method of calculating the foreign exposure of the Italian banking system has been modified to bring it into line with that used by the BIS.

As in the past, the aggregate comprises the claims (loans, securities, etc.) of the Italian banks, including their branches and subsidiaries abroad, on non-residents (except for loans granted by branches abroad to local operators in the currency of the host country). The changes concern the cancelling out of intragroup positions and the exclusion of the claims of Italian branches of foreign banks.

Table a13

Source: Istat.

Seasonally adjusted. "Other domestic uses" include government consumption and changes in stocks.

Table a14

Sources: Based on Istat and Isco data.

The indices of industrial production are adjusted for variations in the number of working days. The seasonal adjustment of the general index of production is distinct from that of the indices of production by economic use; the aggregate index may therefore differ from the weighted mean of the disaggregated indices. Raw data are shown for stocks of finished goods.

Table a15

Source: Istat.

The participation rate is calculated with reference to the whole population.

Table a17

Source: Istat.

The table reflects the introduction of the new base (1995=100), which replaces that previously used by Istat (1992=100).

As of February 1992 the consumer price index for worker and employee households excludes tobacco products (Law 81/1992). Since then the percentage changes between the indices including and excluding tobacco products have been calculated using Istat reconciliation coefficients (1.0034 for food products and 1.0009 for the overall index).

Table a19

Source: Istat.

The table reflects the introduction of the new base (1995=100), which replaces that previously used by Istat (1990=100).

Table a20

Source: Istat.

Average unit values of exported manufactures in lire. Each good is allocated entirely to the category in the table corresponding to the predominant economic use of that good.

Table a21

Source: Istat.

Average unit values of imported manufactures in lire. Each good is allocated entirely to the category in the table corresponding to the predominant economic use of that good.

Table a22

The item "Change in official reserves" is net of exchange rate adjustments and the revaluation of gold; a minus sign indicates an increase in net assets.

Table a23

The dollar balances may not coincide with the sum of the component items owing to rounding.

Table a24

The table shows the state sector borrowing requirement on the basis of the definition of the sector that comprises the budget and Treasury operations, the Deposits and Loans Fund, the Southern Italy Development Agency (suppressed in April 1993), the National Road Agency (ANAS) and the former State Forests.

The Treasury borrowing requirement comprises the budget deficit and the balance of Treasury operations. The budget deficit excludes accounting items that are offset under Treasury operations, loan disbursements and repayments and settlements of debts involving state sector bodies or which merely result in accounting transactions between the budget and Treasury operations. On the other hand, changes in the special VAT accounts are included, together, as of 1994, with VAT refunds channeled through taxpayers' tax accounts. As of 1996, budget revenues exclude the share of the receipts of the excise duty on petrol allocated to the ordinary statute regions. As of May 1998, following the introduction of the single tax payment form (Legislative Decree 241/1997) and the single mandate procedure (Ministerial Decree 183/1998), the monthly figures of the "Receipts" and "Payments" series are affected by the leads and lags with which tax refunds and collection charges are entered in the accounts. The interest on postal savings certificates is included under Treasury operations and determined on a cash basis. The items "Settlements of past debts" and "Privatization receipts" permit the reconciliation of the total funding requirement and the definition of the borrowing requirement currently used to determine the objectives for fiscal policy. The state sector borrowing requirement is obtained by summing the Treasury borrowing requirement, the net market borrowing of ANAS, the former State Forests and other bodies, shown in the table as "Borrowing requirement of ANAS and the State Forests", and the "Borrowing requirement of other bodies borne by the government" (in practice, the borrowing of the State Railways, excluding the part for which the costs are not borne by the government). The figures for the last year are provisional.

Table a25

The table shows the financing of the state sector borrowing requirement (for the definition of the state sector, see the notes to Table a24). "Foreign loans" comprise only those raised abroad directly by the Italian government and state sector bodies (including those raised by the State Railways with the costs borne by the government); they do not include loans contracted indirectly via banks, which are included under "Other", or BOTs and other government securities acquired by non-residents, which are included in the respective categories of domestic debt. The item also includes CTEs stamped as being for circulation abroad. The subitem "Current accounts" includes the Treasury's overdraft with the Bank of Italy, the Treasury payments account and a suspense account (the two latter accounts were established under Law 483/1993) and the sinking fund for the redemption of government securities set up under Law 432/1993, as amended by Decree Law 6/1996. The Treasury's current account with the Bank of Italy was closed on 31 December 1993 and the overdraft at that date transferred to the suspense account. The latter was closed in November 1994 following the consolidation of the debt by way of the assignment to the Bank of Italy of 76,206 billion lire of BTPs issued under a Ministerial Decree of 15.11.1994. These securities are included under "Medium and long-term securities". Postal savings certificates are included at their face value at issue. "Medium and long-term securities", "Foreign loans" and "Other" include the corresponding financial instruments related to operations entered into by the State Railways with the costs borne by the government. The figures for the last year are provisional.

Table a26

The table shows general government debt and its composition (the figure for the state sector is shown as a memorandum item). The debt (end-of-period data) is stated at face value and that denominated in foreign currency is translated at year-end exchange rates. The items "Medium and long-term securities excluding BI-UIC", "Treasury bills in lire and ecus excluding BI-UIC" and "Borrowing from BI-UIC" only include securities acquired outright. CTEs that are not stamped as being for circulation abroad and BTEs are included in domestic debt. Medium and long-term securities include bonds issued by Crediop on behalf of the Treasury and the former autonomous government agencies. The amount of these bonds is deducted from the lending of banks to these bodies. Medium and long-term securities and Treasury bills do not include those held by social security institutions and other bodies included in general government. PO deposits comprise current accounts, net of "service" accounts and Treasury payments to municipalities and provinces that are held with the PO. Postal savings certificates are included at their face value at issue. As of 1989, lending by banks has been based on automated prudential returns. Previously, automated prudential returns were used for the "banks" and Central Credit Register data for the "special credit institutions". "Debt issued abroad" includes only loans raised directly abroad and CTEs that are stamped as being for circulation abroad. Foreign loans are translated into lire on the basis of the currency in which the debt was originally contracted, regardless of subsequent swap transactions. In the same way as for the state sector borrowing requirement, the general government debt figures for “Medium and long-term securities”, “Lending by banks” and “Debt issued abroad” include the corresponding financial instruments related to operations entered into by the State Railways with the costs borne by the government. The figures for the last year are provisional.

Table a27

The item “Foreign sector” corresponds to the change in the net external position of BI-UIC, net of exchange rate adjustments. From January 1994 onwards the item “Treasury accounts” coincides with the movements on the Treasury payments account; as of December 1994 it also includes changes in the sinking fund for the redemption of government securities.

“Other BI-UIC operations with the Treasury” include net redemptions of government securities held by BI-UIC, the early redemption of government securities held by BI-UIC, coins in circulation, coins held by the Bank of Italy, postal securities to be redeemed, claims in respect of compulsory stockpiling bills, sundry services on behalf of the state and other BI-UIC financing, net of banknotes held by the Treasury.

The items “Open market” and “Refinancing” exclude the transactions carried out in connection with the advances granted under the Ministerial Decree of 27.9.1974 and Law 588/1996.

“Deposits with the Bank of Italy” comprise compulsory reserves, collateral for banker’s drafts and free deposits, including those of banks not subject to the compulsory reserve requirement. The subitem “Compulsory reserves” refers to the average reserve requirement in the maintenance period (from the 15th of the month indicated to the 14th of the next). On 5 June 1998 the Governor issued an order which, without prejudice to the other provisions in force, reduced the compulsory reserve ratio to 9 per cent of eligible deposits as of the 15 June - 14 July 1998 maintenance period; a further order issued on 17 July 1997 reduced the ratio to 6 per cent as of the 15 August - 14 September 1998 maintenance period. “Other items” comprise vault cash and undrawn ordinary advance facilities.

The gross state sector borrowing requirement includes settlements of past debts and privatization proceeds. A new definition of the gross state sector borrowing requirement was adopted in *Economic Bulletin* no. 24, February 1997, where it was described in the chapter on “The Public Finances”.

“Net sales of securities in the primary market” comprise total net subscriptions excluding those of BI-UIC (a minus sign indicates net purchases). The item “Other” comprises PO deposits, foreign loans, surety deposits with the Deposits and Loans Fund, and bank loans to the former autonomous government agencies included in the state sector; the securities retired by the Treasury are included in this item with a positive sign.

Table a28

Average of the daily data in the maintenance period (from the 15th of the month indicated to the 14th of the next). The figures for “Vault cash” are partly estimated on the basis of banks’ ten-day returns.

“Deposits with BI” comprise the compulsory reserve account (see the notes to Table a27), collateral for banker’s drafts and free deposits, including the deposits of banks not subject to the compulsory reserve requirement.

The twelve-month percentage changes in “Bank reserves” and “Monetary base” are adjusted for changes in the compulsory reserve ratio (For a description of the procedure adopted, see the section “Note metodologiche” in the Appendix to the *Relazione annuale per il 1997*).

The Bank’s “Repurchase agreements”, stated in nominal terms, comprise those with primary dealers in the screen-based secondary market for government securities.

Table a29

The figures for the stock of monetary base corresponding to the “Foreign sector” are calculated without considering exchange rate adjustments. This aggregate accordingly coincides with the net external position of BI-UIC, calculated on the basis of end-of-period prices and exchange rates. For the sake of accounting consistency, the above-mentioned adjustments are also excluded from “Other sectors”. Foreign currency swaps are translated using end-of-month exchange rates.

The figures for “Government securities” show the amounts acquired outright by the Bank of Italy; they include the securities issued by the Treasury in December 1993 to establish the Treasury payments account and those issued in November 1994 under Law 483/1993 to consolidate the Bank of Italy’s claim in respect of the overdraft on the Treasury’s former current account. The year-end figures include unrealized capital gains and losses on securities. The balance of the Treasury payments account is shown with a negative sign to indicate that it is a Bank of Italy liability towards the Treasury. The “Sinking fund for the redemption of government securities” was established at the Bank of Italy under Law 432/1993. As of 1994 privatization receipts, which were initially recorded in the Treasury payments account, have been recorded in this account. As of 1995 the Treasury has drawn on the fund to buy back government securities. Decree Law 598/1996, ratified as Law 662/1996, provides that the fund may also be used to acquire shares held by companies wholly owned by the Treasury. In addition to coins in circulation, the item "Other" includes claims in respect of compulsory stockpiling bills, coins held by the Bank of Italy, and PO securities to be redeemed. It also includes sundry services on behalf of the state and other BI-UIC financing, net of banknotes held by the Treasury.

As of April 1997, the item "Refinancing" includes the special advances granted under Law 588/1996 and the Ministerial Decree of 27.9.1974.

For the "Uses" items "Deposits with the Bank of Italy" and "Other", see the notes to Table a27.

Table a30

The figures for subscriptions include the government securities assigned to the Bank of Italy by the Treasury in settlement of tax credits.

The figures for redemptions include Treasury buybacks of securities drawing on the sinking fund for the redemption of government securities.

"Temporary operations" comprise finance granted to primary dealers in the screen-based secondary market for government securities.

Table a31

Multiple price auctions. Prices and yields are expressed in percentages, amounts in billions of lire. Yields are shown before and after withholding tax levied at 12.5 per cent. Those for 3 and 6-month Treasury bills are compound. The "Total" yields are means weighted on the basis of the quantities sold. As of 22 September 1997, following the introduction of the possibility of reopening Treasury bill auctions in several tranches, the net yields are calculated by applying the 12.5 per cent withholding tax to the amount of interest determined with reference to the average allotment rate of the first tranche.

As of 1 July 1998, following the entry into force of Legislative Decree 461/1997, no one figure can be determined ex ante for the net interest accruing to physical persons and the like because this is no longer influenced only by the 12.5 per cent withholding tax but also by the investor's personal situation and the size of the "adjustment factor" referred to in Article 4 of the Decree. Consequently, the Bank of Italy has decided to stop publishing figures for the net interest on securities as of the values for 1 July 1998.

Since January 1998 three-month bills have not been issued at the mid-month auction.

Table a32

Multiple price auctions. Yields are stated as percentages and amounts in billions of lire. The marginal yield is the minimum allotment rate for purchases and the maximum allotment rate for sales.

Table a33

Multiple price auctions based on the spread (forward points) between the spot and forward exchange rates.

The forward points are added to the spot rate to arrive at the forward rate. Yields are stated as percentages, amounts in millions of German marks or US dollars; spot rates and forward points are stated in lire. The yields are calculated with reference to the spread between the spot and forward rates and Libor for the currency of the transaction.

Table a34

Yields are stated as percentages, amounts in billions of lire. Purchases are shown with a plus sign, sales with a minus sign. The marginal yield is the minimum allotment rate for purchases and the maximum allotment rate for sales.

Table a36

The discount rate and the rate on fixed-term advances are end-of-period figures.

The rates on foreign currency swaps and repurchase agreements are arithmetic means of the operations concluded in the period.

Treasury bill yields are monthly means of the allotment rates at auction, weighted according to the quantities sold to the market. They are shown before withholding tax levied at 12.5 per cent and those for 3 and 6-month bills are compound.

Tables a37 and a38

The figures are based on the 10-day survey introduced in January 1995. The sample consists of the banks participating in the survey at each reference date. The pre-1995 figures are partially estimated on the basis of the previous 10-day survey results.

Table a39

The annual data refer to the month of December.

The figures for “Loans from BI-UIC” are based on the accounts of the Bank of Italy. Those for “Bank reserves” are also partly based on the same source and comprise lira liquidity (excluding deposits with the PO and the Deposits and Loans Fund), compulsory reserves, cash collateral for banker’s drafts and the deposits with the Bank of Italy of banks accepting medium and long-term funds.

“Securities” are stated at book value. Owing to the need for uniformity with the system of prudential returns introduced in 1995, the data on loans for banks raising medium and long-term funds have been recalculated up to December 1994 to include overdue instalments and the principal amounts of other instalments due and to exclude the component of bad debts consisting of principal amounts of loans still to mature; overdue instalments and the principal amounts of bad debts still to mature have been respectively deducted from and added to the item “Bad debts and overdue and protested bills”. “Capital and reserves” comprise own funds, loan loss provisions and the subordinated liabilities of domestic and foreign branches; as of 1997 data for “Supervisory capital” are available only on a three-monthly basis. “Interbank accounts” include the liquid balances on correspondent accounts. “Interest-bearing external assets” and “Interest-bearing external liabilities” refer to aggregates that do not coincide exactly with those included in the foreign exchange statistics.

For further information, see the section “Note metodologiche” in the Appendix to the *Relazione annuale per il 1997*.

Table a40

The annual data refer to the month of December.

“Loans” do not include those granted by branches abroad.

“Other” securities refer to banks’ holdings of lira and foreign currency bonds issued by residents.

Table a41

The annual data refer to the month of December.

The subitem “Short-term certificates of deposit” refers to lira-denominated CDs with a maturity at issue of less than 18 months.

Prior to 1995 residents’ foreign currency deposits and deposits of non-residents do not include those of the former special credit institutions.

In determining the data on average deposits prior to 1995, the average value of the deposits of the former special credit institutions has been estimated as the mean of end-of-period data.

Table a42

Source: Supervisory returns.

The data refer to supervisory capital and to the solvency ratio calculated on a solo basis.

Supervisory capital is determined as the algebraic sum of a series of positive and negative items, whose inclusion in core or supplementary capital is admitted, with or without restrictions, according to the item. The total of core and supplementary capital is then reduced by the amount of unconsolidated equity interests in banks and financial institutions exceeding 10 per cent of the capital of the investee company.

Paid-in capital, reserves and provisions for general banking risks - net of any own shares or capital parts held, intangible assets and loss for the year - are the elements of core capital, which is included in the calculation of supervisory capital without restriction. Revaluation reserves, provisions for losses and subordinated liabilities - net of any revaluation losses on securities held as financial fixed assets and other negative items - constitute supplementary capital, which is included in the calculation of supervisory capital up to the amount of core capital.

The regulations governing the solvency ratio require all banks, except for the branches of banks located in other EU or G-10 countries, to satisfy a minimum capital requirement based on the ratio of their supervisory capital to the total of their on- and off-balance-sheet assets, weighted according to their potential riskiness.

The calculation of the excess amounts and shortfalls of supervisory capital (“Excess capital” and “Capital shortfalls”) is based on the assumption of a minimum capital requirement of 8 per cent for all banks, including those belonging to banking groups, for which the supervisory regulations provide for a requirement of 7 per cent provided that the group as a whole satisfies the 8 per cent requirement.

As of 1995 the solvency ratio figures take account of the prudential requirements for market risks.

Table a43

“Foreign currency securities” include government securities denominated in foreign currencies and Eurolira bonds. “Other financial assets” include CDs, banker’s acceptances and commercial paper. The difference between “Total securities portfolio” and “Total net assets” consists of other net assets (mainly liquidity). Rounding may cause discrepancies in totals.

Table a44

"Foreign currency securities" include government securities denominated in foreign currencies and Eurolira bonds. "Other financial assets" include CDs, banker's acceptances and commercial paper. Rounding may cause discrepancies in totals.

Table a45

"Italian bonds" include CDs with a maturity of 18 months or more. "Foreign bonds" include foreign government securities. "Net fund-raising" is calculated as the sum of monthly flows. The amounts shown for "Banks" refer only to the portfolio management services that they provide directly.

Table a46

Investors' portfolios are not affected by repo sales and purchases.

The issues made by the public sector in December 1993 include the 30.67 trillion lire of BTPs and CCTs taken up by the Bank of Italy in order to establish the Treasury payments account. The issues made in November 1994 include the 76,205.8 billion lire of BTPs issued under Law 483/1993 to consolidate the overdraft on the Treasury's former current account with the Bank of Italy. "Listed shares" refer to issues of shares by companies listed on the Italian stock exchange, gross of double counting. Rounding may cause discrepancies in totals.

Table a47

The yield at issue on CCTs is the expected yield before and after tax in the months the first coupon matures, on the assumption that interest rates are unchanged over the period.

The amount taken up includes the subscriptions of issues restricted to the specialists operating in the screen-based government securities market.

As of 1 January 1997 the new International Securities Identification Number (ISIN) coding system has been in force. The new code has twelve elements and uses the old UIC codes. For example, the ISIN code for the BTP with UIC code 117461 is IT0001174611, where the last digit is the numerical control code.

Table a48

The expected yields of CCTs assume no change in interest rates. Those of CTEs refer to an investment in ecus and are therefore not comparable with the expected returns on lira investments. The expected yields of CTOs are based on the assumption that the securities are not redeemed early.

The gross yields are averages of daily data in the reference period calculated for securities listed on the Italian stock exchange. The BTP sample comprises listed securities with a residual maturity of more than one year.

The base for the total return indices is 31 December 1990 = 100; that for investment funds is 31 December 1984.

The total return indices refer to securities listed on MTS and are end-of-period data.

Table a49

For the definition of non-state-sector money, see the "Glossario" in the Appendix to the *Relazione annuale per il 1997*.

"Sight deposits - Banks" comprise demand deposits in lire and foreign currency.

The "Other items" in M1 comprise banker's drafts issued by the Bank of Italy and other credit institutions and current account deposits with the Treasury.

"Savings deposits" comprise savings and time deposits in lire and foreign currency.

The average figures are calculated as monthly averages of daily data, except for PO deposits and some minor items, which are calculated as two-term moving averages of end-of-month data.

"M2" does not include bank CDs with a maturity of 18 months or more (see the section "Glossario" in the Appendix to the *Relazione annuale per il 1997*).

"Extended M2" includes residents' deposits in lire and foreign currencies with the foreign branches of Italian banks.

Table a50

For the definition of non-state-sector liquid assets, see the "Glossario" in the Appendix to the *Relazione annuale per il 1997*.

"Securities acquired under repos" include foreign currency securities.

As of *Economic Bulletin* no. 24, February 1997, postal savings certificates are accounted for at their face value at issue (previously they were included at their redemption value; see the chapter “Public Finances” in *Economic Bulletin* no. 24, February 1997.

BOTs and BTEs are stated at face value. Net repo purchases are excluded.

Table a51

The table refers to the financial assets of the non-state sector, net of directly held shares. The foreign financial assets of the non-state sector are available from December 1988.

All the stocks are calculated at face value, except for the units of investment funds, which are shown at market prices.

“Government securities” comprise CCTs, BTPs, CTZs, CTEs, CTSs, ordinary certificates, CTOs and CTRs, as well as certificates issued by social security institutions and the Deposits and Loans Fund, 5% annuities and school building loans. The item refers to securities acquired outright; it excludes the securities bought by the non-state sector under repos but includes those sold.

“Crediop and autonomous government agency bonds” comprise bonds issued by Crediop on behalf of the Treasury and autonomous government agencies and the like. The item excludes such bonds bought by the non-state sector under repos but includes those sold.

“Other bonds” comprise bonds issued by public and private sector enterprises and Italian banks and local authorities. The item excludes such bonds bought by the non-state sector under repos but includes those sold.

“Other financial assets” comprise the bank current accounts of stockpiling agencies, the claims on banks of social security institutions, insurance companies, local authorities and individuals; bank current accounts of agricultural consortia, enterprises’ surety deposits, atypical securities and Republic of Italy issues held by the non-state sector.

“Total financial assets” include deposits with the foreign branches of Italian banks, foreign securities and loans to non-residents.

Table a52

As of *Economic Bulletin* no. 24, February 1997, the part of the debt of the State Railways that gives rise to payments of principal and interest by the government is included in the item “State sector debt” (see the chapter on “The Public Finances” in *Economic Bulletin* no. 24). Consequently, it is excluded from the item “Finance to the non-state sector”. The items “State sector debt” and “Total credit” are also affected by the change in the accounting treatment of postal savings certificates (see the notes to Table a50).

“Short-term bank loans” and “Medium and long-term bank loans” comprise loans in lire and foreign currency, overdue instalments and the principal amounts of other instalments due; they do not include the component of bad debts consisting of principal amounts of loans still to mature.

“Foreign loans” comprise foreign loans and bonds issued by the non-state sector held abroad. “State sector debt” is stated at face value.

Table a53

The table refers to end-of-period M2. For the definition of non-state-sector money, see the “Glossario” in the Appendix to the *Relazione annuale per il 1997*.

“Official reserves” and the “Net foreign position of banks” are stated net of exchange rate adjustments.

“Loans to the non-state sector” comprise the claims of banks and the Bank of Italy on the non-state sector.

“Loans to the state sector” comprise the claims of banks and the Bank of Italy on the state sector.

“Other items” comprise fund-raising repos, the financing provided by banks and the Bank of Italy to other banks, the “Other sectors” of the monetary base, banks’ shareholders’ equity, and CDs with a maturity of 18 months or more.

Statistical aggregates

Monetary aggregates

M1: *currency in circulation, residents' current accounts with banks in lire and foreign currency, current accounts with the post office, current accounts with other bodies, banker's drafts issued by the Bank of Italy and by banks.*

M2: *M1 + residents' savings and time deposits with banks, certificates of deposit with a maturity of less than 18 months and savings accounts with the post office.*

"Extended" M2: *M2 + residents' deposits with foreign branches of Italian banks.*

Liquid assets: *M2 + Treasury bills in lire and in ecus, banker's acceptances, post office savings certificates, certificates of deposit with a maturity of 18 months or more and banks' securities repurchase agreements with customers.*

Monetary base:

- *notes and coin held by the non-state sector and banks;*
- *deposits of the non-state sector and banks with the Bank of Italy, including compulsory reserves;*
- *banks' unused overdraft facilities with the Bank of Italy.*

General government[1]

- *central government*
- *local government*
- *social security institutions*

State sector

- *budget and Treasury operations*
- *Deposits and Loans Fund*
- *Southern Italy Development Agency (until April 1993)*
- *National Road Agency (ANAS) and the former state forests.*

Deposits and Loans Fund

A public body under the Treasury, its resources consist of funds placed with the post office and its lending is primarily to local authorities.

Non-state sector

- *households*
- *non-financial corporate and quasi-corporate public and private enterprises*
- *financial institutions (excluding investment funds and banks)*
- *insurance enterprises*
- *non-state public bodies*
- *state railways, monopolies and telephone company.*

Non-state public bodies

- *local authorities (regions, provinces and municipalities)*
- *social security institutions*
- *some minor central government entities.*

Private sector

- *households, including sole proprietorships*
- *public and private enterprises*
- *banks*
- *insurance enterprises*

Total domestic credit

- *bank lending in lire and foreign currency*
- *domestic bonds of firms and local authorities*
- *state sector debt net of borrowing abroad.*

Total credit

Total domestic credit, foreign loans and the bond holdings of non-residents.

1 *The reference aggregate for the excessive deficit procedure provided for in the Treaty on Monetary Union.*

Statistical aggregates cont.
(Labour market)

Labour force

Employed persons (excluding conscripts) plus job seekers (unemployed workers, first job seekers and other job seekers who were actively looking for a job in the previous four weeks).

First job seekers

Persons currently looking for a job who have never worked, have previously worked only in self-employment or have voluntarily not worked for over a year.

Other job seekers

Persons who declare they are of non-working status (housewives, students and pensioners, etc.) but also declare that they are seeking employment. This category also includes unemployed persons and first job seekers who plan to start a business but have not yet the means to do so.

Unemployed workers

Persons who have previously been in employment and who are seeking a job, have a job starting subsequently or plan to start a business and have the means to do so.

Unemployment

Unemployed workers + First job seekers + Other job seekers.

Unemployment rate

Ratio of unemployment to the labour force.

Wage Supplementation Fund

A fund administered by INPS to supplement the wages of workers in industry who have been temporarily laid off or put on short time. INPS (with contributions from firms) pays such workers up to about 80 per cent of their gross standard hourly rate within a limit that is currently about 60 per cent of average per capita earnings. "Ordinary" benefits cover short-term layoffs (up to three months) due to cyclical factors; "extraordinary" benefits (up to two years) cover restructuring procedures. In no case is the worker's formal employment relationship terminated.

List of abbreviations

ABI	—	*Associazione bancaria italiana* Italian Bankers' Association
BI-UIC	—	*Banca d'Italia - Ufficio italiano dei cambi* Bank of Italy - Italian Foreign Exchange Office
BOT	—	*Buoni ordinari del Tesoro* Treasury bills
BTE	—	*Buoni del Tesoro in ECU* Treasury bills in ecus
BTP	—	*Buoni del Tesoro poliennali* Treasury bonds
CCT	—	*Certificati di credito del Tesoro* Treasury credit certificates
CIP	—	*Comitato interministeriale prezzi* Interministerial Committee on Prices
CIPE	—	*Comitato interministeriale per la programmazione economica* Interministerial Committee for Economic Planning
Confindustria	—	*Confederazione generale dell'industria italiana* Confederation of Italian Industry
Consob	—	*Commissione nazionale per le società e la borsa* Companies and Stock Exchange Commission
CTE	—	*Certificati del Tesoro in ECU* Treasury certificates in ecus
CTO	—	*Certificati del Tesoro con opzione* Treasury option certificates
CTZ	—	*Certificati del Tesoro* zero-coupon Zero coupon Treasury certificates
Iciap	—	*Imposta comunale per l'esercizio di imprese e di arti e professioni* Municipal tax on businesses and the self-employed
Ilor	—	*Imposta locale sui redditi* Local income tax
INAIL	—	*Istituto nazionale per l'assicurazione contro gli infortuni sul lavoro* National Industrial Accidents Insurance Institute
INPS	—	*Istituto nazionale per la previdenza sociale* National Social Security Institute
Irap	—	*Imposta regionale sulle attività produttive* Regional tax on productive activities
Irpef	—	*Imposta sul reddito delle persone fisiche* Personal income tax
Irpeg	—	*Imposta sul reddito delle persone giuridiche* Corporate income tax
Isco	—	*Istituto nazionale per lo studio della congiuntura* National Institute for the Study of the Economic Situation
Istat	—	*Istituto nazionale di statistica* National Institute of Statistics
MIF	—	*Mercato italiano dei* futures Italian Futures Market
MTS	—	*Mercato telematico dei titoli di Stato* Screen-based market in government securities
SACE	—	*Sezione per l'assicurazione dei crediti all'esportazione* Export Credit Insurance Agency
UIC	—	*Ufficio italiano dei cambi* Italian Foreign Exchange Office

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Vincenzo DESARIO	—	Director General
Pierluigi CIOCCA	—	Deputy Director General
Antonio FINOCCHIARO	—	Deputy Director General

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