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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 third stage of Economic and Monetary Union in Europe began on 1 January; the euro was introduced, its conversion rates in relation to the currencies of the eleven participating countries having been irrevocably fixed on 31 December 1998.

The last two months of 1998 were a period of relative calm in the international financial markets. One contributory factor was the agreement reached in November between the International Monetary Fund and the Brazilian authorities on support for the Brazilian economic adjustment programme. Stock market indices in the United States and Europe showed significant gains.

In January of this year the situation suddenly began to deteriorate again. The Brazilian authorities ran into difficulties implementing the fiscal austerity programme, leading to massive speculative attacks on the real. On 15 January, two days after widening the currency's fluctuation band, the Brazilian authorities decided to abandon the exchange rate peg with the dollar and to allow the real to float freely. The currency crisis in Brazil had repercussions on the stock markets and currencies of other emerging countries, especially those in Latin America; some countries raised their interest rates to stem the outflow of funds. Stock markets in the industrialized countries lost part of their previous gains.

In view of Brazil's size in terms of output and trade, its difficulties will adversely affect the growth prospects of other economies in Latin America. They could also cause a further decline in commodity prices, which have already fallen to historic lows in relation to the prices of manufactures. These effects of the Brazilian crisis will compound the already serious repercussions of the financial crises in Asia and Russia and the recession in Japan. The latest estimates from the IMF confirm the sharp slowdown in the growth of world output and trade between 1997 and 1998, with GDP growth declining from 4.2 to 2.2 per cent and the growth in world trade slowing down from 9.9 to 3.3 per cent.

The economic picture in Japan has worsened. It is estimated that GDP, which has been declining since the final quarter of 1997, fell by almost 3 per cent in 1998; price deflation has become more pronounced. In an environment in which it is difficult for budgetary policy to stimulate growth, the monetary policy stance remained expansionary; in November the Bank of Japan launched emergency measures to increase the banks' propensity to lend, and in mid-February it induced a further decline in the overnight rate to 0.15 per cent. The programme to restructure the banking system began with the nationalization of two of the major banks.

Economic activity declined sharply last year in the Asian countries most directly affected by the financial crisis. Signs of improvement have begun to appear in the last few months: currencies have stabilized, allowing interest rates to be reduced, in some cases to the levels recorded in the summer of 1997. The decision by the Chinese authorities to maintain the exchange rate of the yuan helped reduce tensions in the Asian markets. In South Korea and Thailand, where economic and financial reforms have been more far-reaching, the economic climate is gradually improving.

In Russia, on the other hand, the economic crisis is deepening; GDP collapsed in the second half of 1998. A new recovery plan that resolutely tackles the country's serious structural problems is an essential precondition for restoring the confidence of international investors and reinstating the loan agreed with the IMF in July, which is currently in suspense.

In the United States the upturn in economic activity continued in the second half of the year, reflecting the growth in consumption, which was due partly to the steep rise in the equity market; the household saving rate decreased further. Growth in the euro area remained firm, although signs of a slowdown emerged in the final quarter.

In the United States and the European Union fiscal policies were broadly unchanged in 1998, while monetary policies took on a more expansionary slant. In November the Federal Reserve reduced the target rate for federal funds for the third time since the end of September, bringing it to its lowest level for four years. The move was justified not only by the absence of inflationary pressures but also by the difficulties firms were having obtaining credit and uncertainty about economic developments at the international level. The Bank of England also reduced base rate several times, so that at the beginning of February it stood at 5.5 per cent. In the euro area interest rates completed their convergence towards the lowest levels obtaining within the area; at the end of December official rates in the participating countries were 3 per cent.

In the first two months of 1999 the exchange rates among the three leading currencies were relatively stable, being little affected by the crisis in Brazil. The yen appreciated considerably between December and January, owing partly to an increase in long-term yields in Japan. The dollar strengthened slightly from the end of January onwards in response to expectations of a widening of the yield differential in favour of the United States.

The economic and financial crisis in the emerging countries

According to IMF estimates, growth in the developing countries fell from 5.7 per cent in 1997 to 2.8 per cent in 1998. In the countries of Central and Eastern Europe and the former USSR, where in 1997 GDP had risen for the first time since the beginning of the transition to the market economy, output contracted again.

Table 1

Main economic indicators for selected emerging countries

	GDP (1)		Consumer prices (2)		Public sector balance (3) (4)		Current account balance (3)		Exports (1)		Imports (1)	
	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998
Latin America												
Argentina	8.6	5.2	0.8	1.3	–2.1	–1.7	–3.5	–4.5	12.3	8.0	29.0	12.3
Brazil	3.2	0.5	7.9	3.9	–6.3	–8.1	–4.1	–4.2	10.8	0.4	12.8	–5.5
Mexico	7.0	4.6	20.6	15.3	–1.4	–1.9	–1.9	–3.5	14.5	9.6	23.3	15.6
Venezuela	5.1	–2.5	50.0	36.1	1.6	–2.1	6.9	–1.3	11.3	–2.4	23.9	9.0
Asia												
South Korea	5.5	–7.0	4.4	7.8	0.3	–5.9	–1.8	13.2	27.0	16.0	3.2	–22.8
Philippines	5.2	0.2	6.0	9.8	–1.0	–2.7	–5.2	1.2	22.3	20.5	16.2	–5.7
Indonesia	4.6	–15.3	6.6	61.1	1.1	–6.8	–1.8	3.0	8.8	–8.9	2.2	–37.7
Malaysia	7.7	–7.5	2.7	5.2	6.0	–2.6	–4.2	11.0	10.4	2.3	10.4	–21.6
Thailand	–0.4	–8.0	5.6	8.0	–1.6	–2.7	–2.0	11.4	9.2	7.9	–10.5	–25.8
Russia	0.7	–5.7	15.0	26.0	–7.5	–8.5	–0.1	1.6	–0.7	–1.8	2.9	–12.7

Sources: IMF, *World Economic Outlook,* December 1998, and internal estimates.

(1) Percentage changes at constant prices. – (2) Percentage changes. – (3) As a percentage of GDP. – (4) For Venezuela, the central government budget; for Indonesia, the reference period is the fiscal year beginning on 1 April.

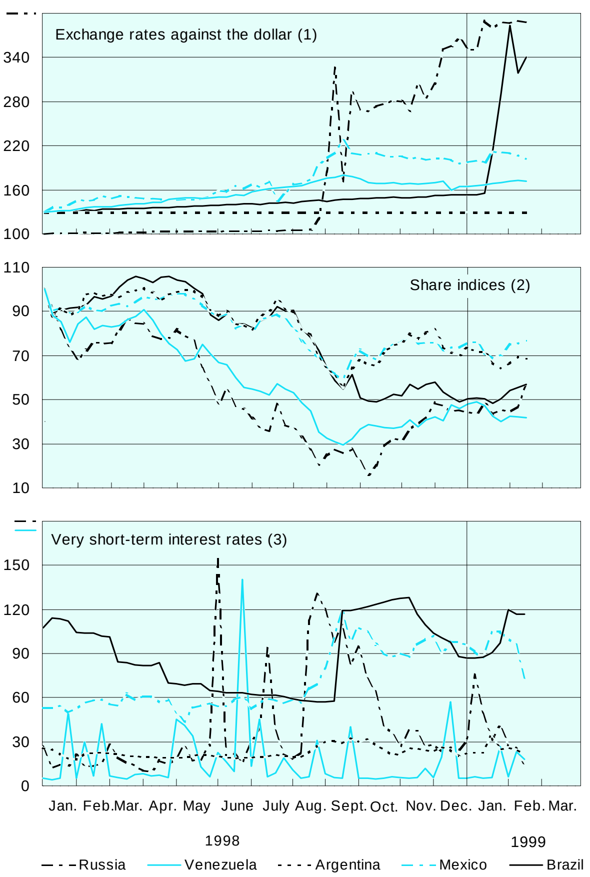
In Latin America the rate of growth more than halved, to 2.5 per cent. The severe slowdown affected almost all the countries, but especially Venezuela, where output fell by 2.5 per cent. Despite the deceleration in activity, the current account deficits of many countries in the region increased (Table 1).

The difficult situation in Brazil had an immediate impact on the financial markets of the other countries in the region. Share indices fell sharply in the first two weeks of January, by about 14 per cent in Mexico, by 15 per cent in Venezuela and by 16 per cent in Argentina. The equity markets in Russia and some Asian countries also felt the effects (Figures 1 and 2). Shares regained part of their losses in the days following the devaluation of the real.

Figure 1

Exchange rates, share indices and interest rates in selected Latin American countries and Russia

(end-week data)



Sources: Datastream and Reuters

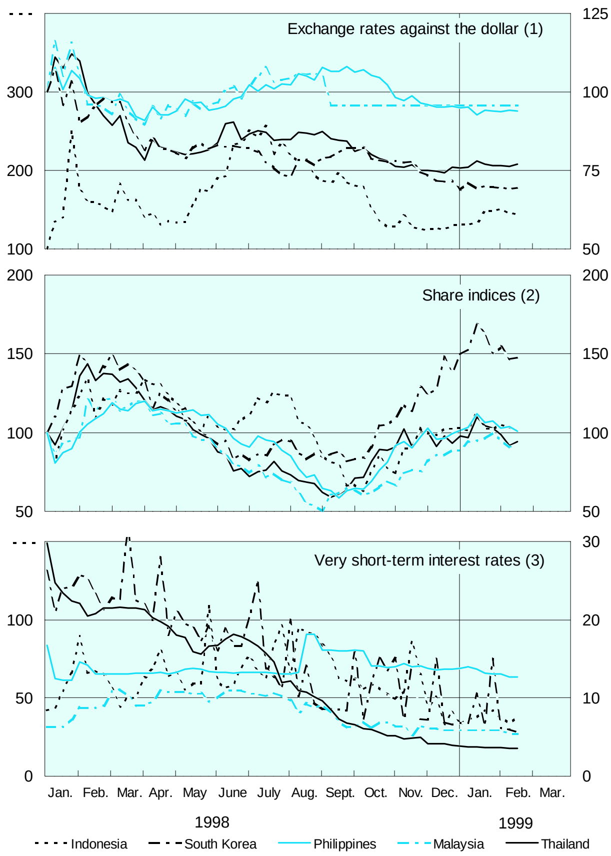
(1) Currency units per dollar; indices, 2 January 1998=100. - (2) Indices, 2 January 1998=100. - (3) Percentages.

Emerging countries found their access to capital markets further reduced. The yield differential between their bond issues and similar US Treasury securities, which had gradually narrowed to 10 percentage points at the beginning of 1999 after having touched a peak of 14 points in September 1998, temporarily widened again to 14; from mid-February onwards it remained below 12 points (Figure 3). It is estimated that net capital inflows to emerging and developing countries fell dramatically from $118 billion in 1997 to $70 billion last year.

Figure 2

Exchange rates, share indices and interest rates in selected Asian countries

(end-week data)



Source: Datastream.

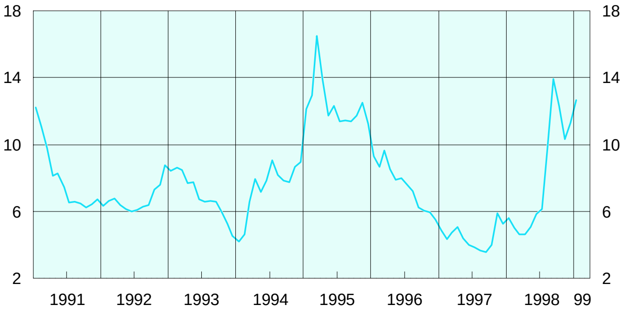
(1) Currency units per dollar; indices, 2 January 1998=100. - (2) Indices, 2 January 1998=100. - (3) Percentages.

In Russia the economic situation deteriorated rapidly after the crisis in August. The fall in output in 1998 is now put at 5.7 per cent; in the last few months of the year the inflation rate rose again to 60 per cent. One of the country's main problems continues to be the structural difficulty of ensuring an adequate flow of tax revenue. The budget deficit increased further to 8.5 per cent of GDP, compared with 7.5 per cent in 1997. Despite the fall in oil prices, the balance of payments returned to surplus as a result of the collapse of domestic demand. The problem of foreign debt, which amounts to about $150 billion, remains critical.

Figure 3

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

(monthly averages; 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).

In Asia the financial crisis that erupted in the summer of 1997 and the subsequent stabilization programmes have had a much greater impact on the real economy than had initially been foreseen. Output fell by between 7 and 8 per cent in South Korea, Malaysia and Thailand and by 5 per cent in Hong Kong. The collapse of GDP in Indonesia was devastating, in excess of 15 per cent. Signs of recovery are appearing in South Korea and Thailand, where industrial output began to rise again in the last few months of 1998. The contraction in GDP in these countries was accompanied by a dramatic correction in the current account of the balance of payments, which swung into large surpluses; their currencies stabilized against the dollar (Figure 2).

In China growth was slower than in 1997 but still above 7 per cent, mainly because of the impetus from public investment; inflation fell to practically zero. To tackle the problems of the financial system, the authorities began a programme of restructuring, under which it liquidated the Guangdong International Trust and Investment Corporation, one of the largest regional long-term financing institutions.

World commodity prices continued to decline in the fourth quarter of 1998. In particular, oil prices fell by almost 9 per cent between the third and fourth quarters to a level comparable to that prevailing before the oil crisis in the early seventies in relation to the prices of manufactures. Oil prices were 40 per cent lower than in December 1997.

The external accounts of Asian countries continued to improve in the second half of 1998, albeit less markedly than in the first half. The aggregate current account surplus of the five worst affected countries (South Korea, the Philippines, Indonesia, Malaysia and Thailand) is thought to have amounted to $60 billion in 1998, compared with a deficit of $24 billion in 1997. There was a further increase in Japan’s current account surplus, which amounted to $120 billion on an annualized basis in the first eleven months of the year, equal to 3.2 per cent of GDP.

The main counterpart to the emergence of a surplus in the Asian countries was an increase in the current account deficit of the United States, which in the first three quarters of 1998 rose to an annualized $220 billion (2.6 per cent of GDP). On the basis of data for the first nine months, the surplus of the euro area decreased to almost $60 billion on an annualized basis (0.9 per cent of GDP).

The leading financial markets

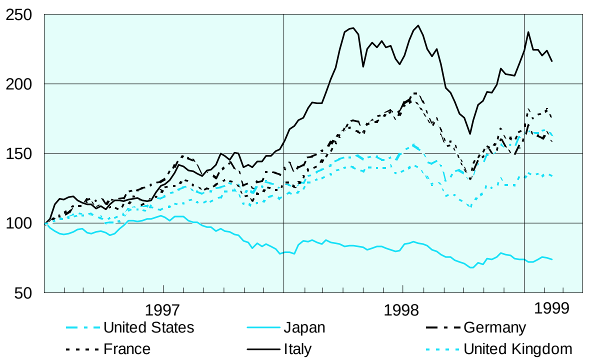
In the last two months of 1998 share prices on the stock markets of the leading countries apart from Japan, where the equity market remained very depressed, rose by between 9 and 25 per cent, thus returning to levels close to the historic highs recorded in July (Figure 4). The markets continued to rise in early January but suffered a slight setback after the currency crisis in Brazil.

Despite the partial correction in the second half of January, equity markets have recorded extremely large gains since the beginning of 1997: 120 per cent in Italy, between 55 and 70 per cent in the United States, Germany and France, and 40 per cent in the

United Kingdom. Price/earnings ratios in these countries are still far higher than the averages of the last decade. The exceptional increase in share prices appears to be attributable to the abundance of liquidity resulting from massive outflows of funds from emerging markets, especially those in Asia, and more recently to the decline in interest rates in the industrialized countries. In view of expectations of stable or declining profits, another contributory factor may have been the perception among investors that equity investment was less risky because of the larger proportion of savings managed professionally.

Figure 4

Share prices in the main industrial countries
(*weekly averages; indices, 30 December 1996=100*)



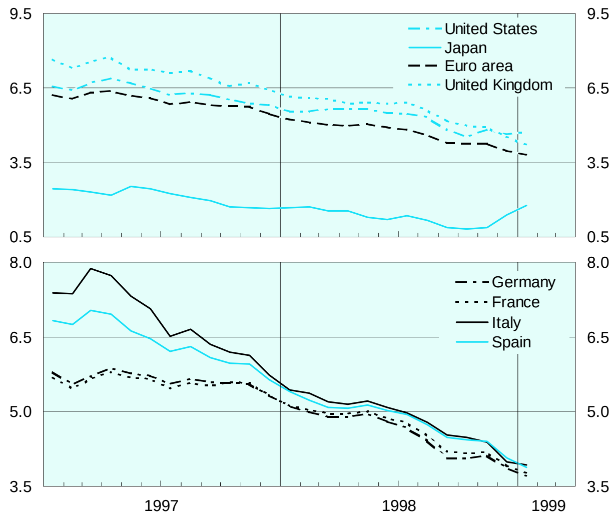
Source: Reuters.

Since the end of October long-term interest rates have declined by a further 0.3 percentage points in the euro area and risen by 0.4 points in the United States. In Japan the public sector's rising borrowing requirement and the announcement by some public agencies that they were reducing their subscriptions of government securities caused yields to rise rapidly by more than 1 percentage point. In the United Kingdom the prospect of a weakening of economic activity encouraged a decline of 0.6 points in long-term yields. The yield differential between 10-year Italian and Spanish Treasury bonds and their German equivalents is currently around 0.2 points (Figure 5). Adjusted for actual consumer price inflation recorded in December, long-term rates in the seven leading industrialized countries average 2.6 per cent, the lowest level since the beginning of the eighties.

The yen strengthened considerably between December and January, partly on account of the large increase in yields on yen-denominated government securities and partly because of the gradual repatriation of funds by Japanese banks, which feared that a depreciation of the yen would increase the balance-sheet value of their foreign currency lending, making it more difficult to meet capital adequacy requirements. In the second week of January the exchange rate reached ¥109 to the dollar, an appreciation of 4.0 per cent since the end of December (Figure 6). The yen subsequently fell back to ¥120 to the dollar, partly as a result of exchange market intervention by the Bank of Japan. If the yen were to resume appreciating significantly, it would aid recovery in the other economies in Asia but there is a danger that it would exacerbate the recession in Japan.

Figure 5

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

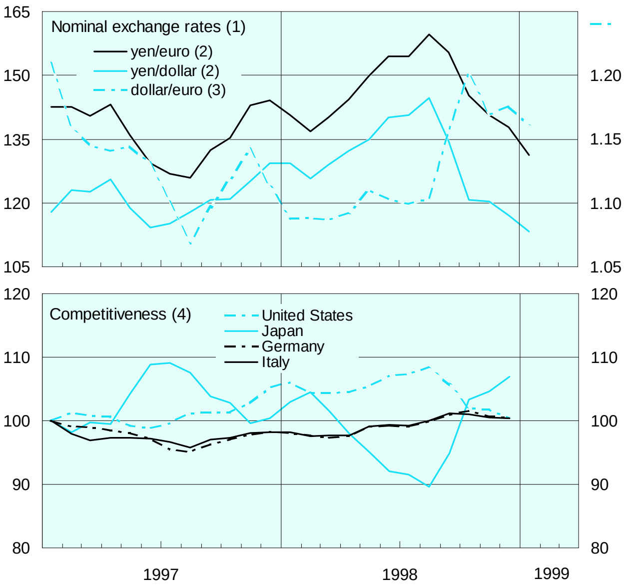


Source: National statistics.
(1) Yields on 10-year government bonds.

The euro had an orderly launch in a climate of market optimism and initially remained stable against the US dollar, fluctuating between $1.15 and 1.18 per euro. It began to depreciate at the beginning of February, when data on the performance of the US economy showed that the cyclical disparity between Europe and the United States was widening; at the end of the third week of February the euro stood at $1.11.

Figure 6

Nominal exchange rates and indicators of competitiveness of leading currencies
(monthly averages)



(1) Up to 1 January 1999 the exchange rates of the euro are proxied by those of the ecu. — (2) Left-hand scale. (3) Right-hand scale. — (4) Indices, January 1997=100, calculated using the method adopted by the Bank of Italy with reference to 24 trading partners on the basis of the producer prices of manufactures. A rise corresponds to a loss of competitiveness.

Economic activity and policies in Japan, the United States and the United Kingdom

The recession in Japan continued in the third quarter of 1998, with GDP contracting at an annual rate of 2.6 per cent with respect to the preceding quarter. The growth in exports, which rose by 6.7 per cent after falling in the first half of the year, only partly offset the contraction of 1.1 per cent in private consumption and 10 per cent in investment. The fall in industrial production, the persisting depressed climate of business confidence and the continued signs of deflation (in the fourth quarter wholesale prices were 3.6 per cent lower than a year earlier) indicate that activity continued to decline in the last quarter as well.

In November the Government introduced an impressive economic support programme totalling ¥24 trillion (around 5 per cent of GDP), comprising both tax cuts and increased expenditure. The first part of the programme, consisting of measures amounting to about ¥6 trillion, was launched in the third supplementary budget of 1998, which was approved in December. A further part was inserted into the Finance Law that will come into effect on 1 April. According to government estimates, the general government budget deficit for the 1998 fiscal year, net of social security, is likely to be equal to 9.8 per cent of GDP, compared with an initial forecast of 4.7 per cent.

Monetary policy remained expansionary. In the last quarter of 1998 the overnight rate fell to around 0.25 per cent and the 3-month call rate remained unchanged at about 0.8 per cent. The M1 money supply was 7.3 per cent higher than in the same period of 1997 (compared with almost 8.0 per cent in the third quarter), while the wider aggregate (M2 plus CDs) showed growth of 4.0 per cent (3.7 per cent in the third quarter), reflecting the stagnation in bank lending. In November the Bank of Japan announced the introduction of emergency measures that allow the banks greater scope to refinance new lending at the central bank and extend the range of corporate bonds that can be used as collateral in refinancing operations. In mid-February the Bank of Japan eased monetary conditions further by encouraging a decline in the overnight rate to 0.15 per cent and declared that it was prepared to make further reductions.

The nationalization of Long Term Credit Bank in October was followed by that of Nippon Credit Bank on 13 December. Under the law on the reform of the banking system that was approved in October, the shares of the latter will be acquired by the Deposit Insurance Corporation, which will guarantee the performance of the bank's outstanding operations until its liquidation.

In the United States economic activity remained strong in the second half of the year, confounding the fears of a slowdown that had spread from the summer onwards; GDP grew at an annual rate of 3.8 per cent between the two halves, reflecting the brisk rise in private consumption (Table 2). The strong expansion in consumer credit and the recovery in the equity market contributed to a further decline in the household saving rate. In the fourth quarter non-farm employment rose by 0.6 per cent with respect to

September and the unemployment rate fell to 4.4 per cent.

Consumer price inflation remained very low in the second half of the year; in December the twelve-month rate was 1.6 per cent, the same as the average for 1998, itself the lowest since 1965. Producer prices continued to fall in the last few months of the year, although more slowly than in the first half.

Table 2

GDP and domestic demand in the major industrial countries

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

	1997	1998 (1)	1998	
			H1	H2 (1)
United States				
GDP	3.9	3.9	4.0	3.8
Domestic demand	4.2	5.1	5.8	4.5
Japan				
GDP	1.4	−2.8	−4.0	−1.9
Domestic demand	0.1	−3.8	−4.4	−4.0
United Kingdom				
GDP	3.5	2.6	2.4	....
Domestic demand	3.8	3.8	3.4	....
Memorandum item:				
EU				
GDP	2.7	2.8	2.8	....
Domestic demand	2.3	3.4	4.3	....

Sources: IMF, Eurostat and national statistics.
(1) For Japan, the United Kingdom and the EU, IMF forecasts, December 1998.

The federal budget showed a surplus in the fiscal year ending in September, the first surplus for thirty years. According to Administration estimates, maintaining the present fiscal stance unchanged would generate a cumulative surplus of about $4 trillion over the next fifteen years. More than 60 per cent of this excess will be set aside to finance the deficit of the social security system.

In November the Federal Reserve eased monetary conditions for the third time in less than two months by reducing the federal funds rate and the discount rate by a quarter of a point to 4.75 and 4.5 per cent respectively.

In the United Kingdom the slowdown in activity spread from manufacturing to the other sectors of the economy. Growth between the second and third quarters was 1.6 per cent at an annual rate, compared with 2.4 per cent in the first half of the year. Subsequent developments regarding industrial production and consumer and business confidence suggest that the downward trend persisted in the final quarter.

The weakness of economic activity was reflected in the fall in inflation to 2.6 per cent in December, net of mortgage interest payments, compared with 3.2 per cent in May. This provided scope for a significant easing of monetary conditions; between October and February the reference rate was reduced by a total of 2 percentage points to 5.5 per cent. The Chancellor’s pre-budget report, presented to Parliament in November, forecasts a small budget surplus equal to 0.8 per cent of GDP in the financial year ending in March, compared with a deficit of 0.6 per cent in the preceding year.

Economic activity and policies in the euro area

According to estimates from Eurostat, GDP in the euro area rose at an annual rate of 2.8 per cent between the second and third quarters of 1998, essentially the same as in the first half of the year (Table 3); consumption and investment also increased apace. In the first nine months of the year GDP was 3.1 per cent higher than a year earlier, with wide differences between countries; growth was particularly vigorous in France, Spain and especially some of the smaller economies (Finland, Austria and the Netherlands), more moderate in Germany (2.8 per cent) and very weak in Italy (1.6 per cent).

In the final quarter economic activity began to be affected by the deterioration in the situation world-wide. In Germany and Italy industrial production was respectively 2.4 and 1.4 per cent lower than in the preceding quarter, but almost unchanged in France and Spain. Business confidence ebbed further in all the main countries in the area, depressed by the fall in orders from abroad (Figure 7).

Table 3

Selected economic indicators for the euro area and the main euro area countries (1)

	1996	1997	1998	1998 Q1	1998 Q2	1998 Q3
Euro area						
GDP	1.6	2.5	. . . .	3.5	2.1	2.8
Domestic demand	1.1	2.0	. . . .	6.0	0.9	1.8
Consumer prices (2)	2.2	1.6	1.1	1.2	1.4	1.2
Employment	0.2	0.3	. . . .	1.0	1.1	1.3
Unemployment rate (3)	11.6	11.7	11.1	11.3	11.1	11.0
Germany						
GDP	1.3	2.2	2.8	5.9	0.2	3.5
Domestic demand	0.7	1.4	2.6	7.4	–1.3	2.4
Consumer prices (2)	1.2	1.5	0.7	0.7	1.0	0.7
Employment	–1.2	–1.3	. . . .	–0.5	–0.2	0.3
Unemployment rate (3)	8.9	10.0	9.7	10.0	9.8	9.6
France						
GDP	1.6	2.3	3.2	3.2	3.6	1.5
Domestic demand	0.9	0.9	3.7	5.1	4.5	0.6
Consumer prices (2)	2.1	1.3	0.7	0.7	1.0	0.6
Employment (4)	. .	0.8	. . . .	1.8	1.9	2.0
Unemployment rate (3)	12.4	12.4	11.9	12.1	11.9	11.9
Italy						
GDP	0.9	1.5	1.4	–0.6	2.3	2.0
Domestic demand	0.2	2.4	2.6	3.8	1.7	–0.5
Consumer prices (2)	4.0	1.9	2.0	2.0	2.1	2.1
Employment	0.4	. .	0.5	0.6	0.1	0.6
Unemployment rate (3)	12.0	12.1	. . . .	12.1	12.3	12.3
Spain						
GDP	2.4	3.5	3.8	3.7	3.9	3.7
Domestic demand	1.6	2.9	4.9	4.9	5.1	4.7
Consumer prices (2)	3.6	1.9	1.8	1.7	1.9	2.0
Employment	3.0	3.0	. . . .	3.3	3.5	3.6
Unemployment rate (3)	22.2	20.8	18.9	19.4	19.0	18.7

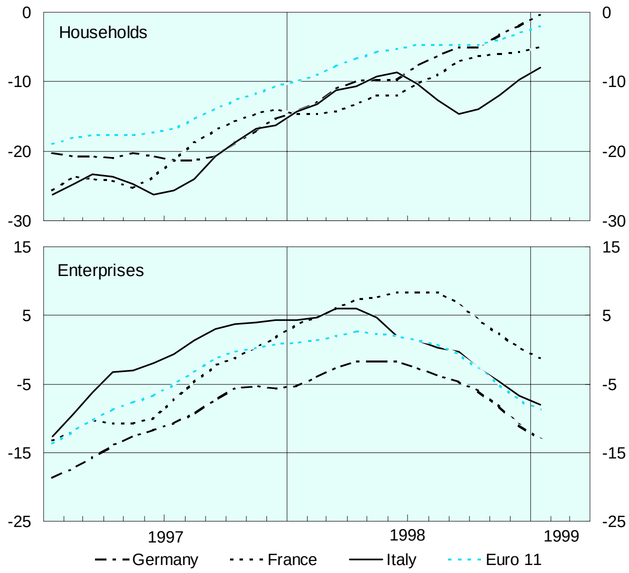
Sources: Eurostat and national statistics.

(1) For GDP and domestic demand, annualized percentage changes on preceding period; for consumer prices and employment, percentage changes on corresponding period of previous year. The quarterly data on GDP and domestic demand in Italy are based on the method of compilation in force until December 1998. – (2) Harmonized index. – (3) Standardized rate calculated by Eurostat. – (4) Non-farm sector payroll employment.

Employment continued to rise during 1998, increasing by 1.3 per cent in the third quarter by comparison with the same period of the preceding year; Eurostat's standardized unemployment rate for the area fell from 11.3 per cent in January to 10.8 per cent in December. Substantial reductions of more than 1 percentage point occurred in Ireland, the Netherlands, Portugal and Spain.

Figure 7

Confidence indicators for consumers and enterprises (1)



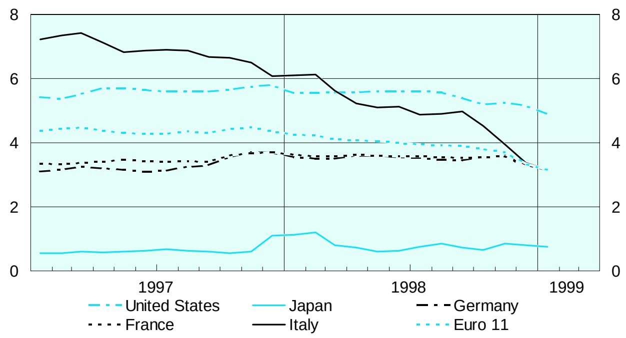
Source: Eurostat.
(1) Three-month moving averages.

Inflation diminished further in the latter part of the year owing to the fall in commodity prices and the slight reduction in unit labour costs in manufacturing industry; on the basis of the harmonized consumer price index, it came down to 0.8 per cent in December. The rate of price increase was not uniform within the area; it was lower than the average in France and Germany and higher in Spain, the Netherlands and Italy.

The average general government deficit for the euro countries is estimated to have declined from 2.5 to 2.1 per cent of GDP in 1998, thanks initially to the acceleration in growth and then to the reduction in interest rates. On a cyclically adjusted basis, there was a pause in the adjustment in the public finances. The budgetary situation continues to differ widely between countries: Ireland, Luxembourg and Finland have surpluses, while Germany, France and Italy have deficits still significantly in excess of 2 per cent of GDP.

Figure 8

Short-term interest rates (1)
(*monthly averages*)



(1) For the euro area, based on national statistics; from January 1999 onwards, 3-month Euribor. For sources and definitions, see the notes to Statistical Table a4.

In the last few months of 1998 the growth in the area's monetary aggregate M3 remained virtually unchanged at 4.7 per cent. National reference interest rates tended to converge towards the levels prevailing in the countries where they were lowest, with the consequence that money market yield differentials narrowed. On 4 December reference rates were reduced in concert to 3 per cent in all the participating countries except Italy, which initially cut the discount rate to 3.5 per cent and came into line with the other countries on 28 December. By the end of the year the area's 3-month interest rate had come down to 3.26 per cent, compared with 3.75 per cent at the end of October (Figure 8).

The Italian economy and the balance of payments

Economic activity in Italy continued to grow more slowly than productive capacity in 1998. GDP at constant prices rose by 1.4 per cent, compared with nearly 3 per cent in the euro area as a whole (Figure 9). The sluggish growth of GDP reflected the stagnation in industrial output, which hovered around the level reached at the end of 1997.

Economic activity was sustained by gross fixed capital formation, although the pickup in investment was smaller than expected; after average gains of 1.4 per cent in the two previous years, the expansion accelerated to 3.5 per cent, in line with that for the euro area. Despite continued good corporate profitability and the fall in interest rates, capital formation in Italy was checked by the progressive deterioration in the outlook for demand. Moreover, investment in construction continued to stagnate, apparently responding to the tax incentives for the renovation of residential properties only in the last few months. The gradual deterioration in demand conditions was reflected in the further substantial accumulation of stocks, which is estimated to have been responsible for more than a third of the total growth in output since the beginning of 1997.

In 1998 household consumption grew more slowly than in the euro area as a whole. Uncertainty about the future economic situation and the smallness of the increase in households' disposable income limited the growth in spending, which nevertheless recovered significantly after stagnating in the first quarter.

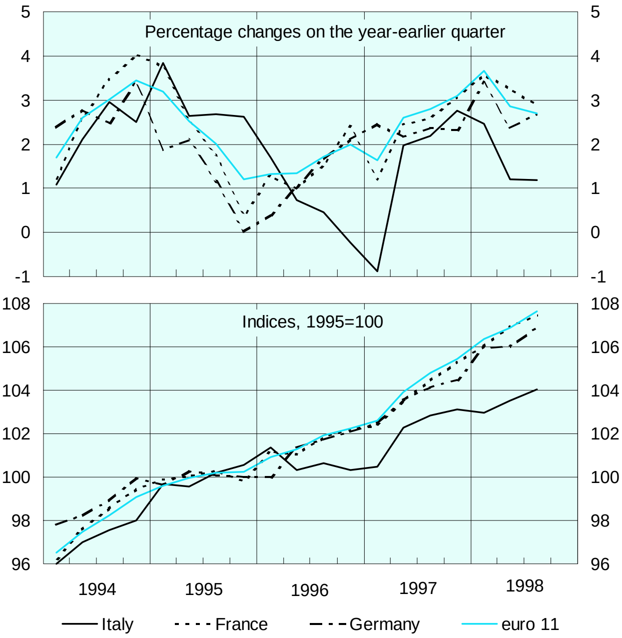
Over the year as a whole net external demand made a negative contribution to the growth in output (-1.1 percentage points). Imports benefited from reductions in the prices of goods from Asian countries and from purchases of raw materials, which were stimulated by the fall in world market prices. Export growth was much more modest, owing partly to the sharp slowdown in world trade. The exports of the euro area as a whole increased more rapidly than those of Italy alone.

Despite the weak growth in economic activity, the labour force survey showed an annual increase of 0.5 per cent in the average number of persons in employment, due mainly to a rise in female and part-time employment. The improvement in labour market conditions led to a higher participation rate, especially in the South; this increased the nationwide unemployment rate to 12.6 per cent in the October survey, compared with 12.4 per cent a year earlier.

Figure 9

GDP in Italy and the euro area

(*seasonally adjusted quarterly data at constant prices*)



Sources: Eurostat and national statistics.

The contraction in the trade surplus and an increase in the deficit on invisibles reduced the surplus on the current account of the balance of payments to 2.1 per cent of GDP. On the basis of capital movements officially recorded in the balance of payments, Italy continued to have a small net external debtor position; however, considering that the very large amount recorded in the item "errors and omissions" probably reflects unrecorded outflows of Italian capital, in reality the net external position is probably positive.

Consumption and disposable income

According to the new national accounts with a new base year and revised methods of aggregation (the changes are reported in Istat's press release of 1 March 1999), households' domestic consumption grew by 1.9 per cent at constant prices in 1998 (Table 4). According to the quarterly national accounts - still based on the methodology used through December - consumer spending stagnated in the first quarter but picked up in the second and third. This moderate growth in consumption over the year contrasts with the sharper increase in the euro area (2.3 per cent for the four largest countries; Table 5). The differences between the leading euro area countries can be attributed partly to the differing impact which the tightening of fiscal policy in 1997 had on household incomes - it was particularly severe in Italy - and partly to differences in employment trends.

Table 4

Resources and uses of income

(seasonally adjusted data; percentage changes on preceding period except where indicated otherwise)

	At 1995 prices				At 1990 prices		
	Percentage of GDP in 1998 in 1998	1997 Year	1998 Year	Contribution to the growth in GDP in 1998	1998 (1) Q1	Q2	Q3
Resources							
GDP	–	1.5	1.4	–	–0.2	0.6	0.5
Imports	24.7	9.9	6.1	–1.4	2.2	1.8	–2.1
Goods	....	....	....	....	1.5	2.6	–1.5
Services	....	....	....	....	8.4	–4.0	–7.6
Total resources	–	3.0	2.3	–	0.3	0.8	..
Uses							
Gross fixed investment	18.5	0.8	3.5	0.6	0.6	–0.3	1.1
Construction	....	....	....	....	–1.0	–1.3	0.1
Machinery. equipment and sundry products	....	....	....	....	1.4	0.8	0.8
Transport equipment	....	....	....	....	4.8	–0.6	6.1
Household consumption	62.6	2.6	1.9	1.2	0.2	0.6	0.9
Non-durables	....	....	....	....	–0.8	..	0.1
Semi-durables	....	....	....	....	1.1	1.7	1.6
Durables	....	....	....	....	1.3	1.0	1.8
Services	....	....	....	....	0.2	0.5	0.9
Other domestic uses	17.5	3.5	4.1	0.7	3.7	0.5	–4.6
Total domestic demand	98.6	2.4	2.6	2.5	0.9	0.4	–0.1
Exports	26.1	5.0	1.3	0.3	–2.0	2.2	0.3
Goods	....	....	....	....	–2.5	2.9	0.6
Services	....	....	....	....	1.2	–2.0	–1.3

Source: Based on Istat data.
(1) Data based on the system of national accounts in force until December 1998.

Table 5

GDP, the main components of demand, and imports in the leading euro area countries
(seasonally adjusted data at constant prices; percentage changes on the preceding period)

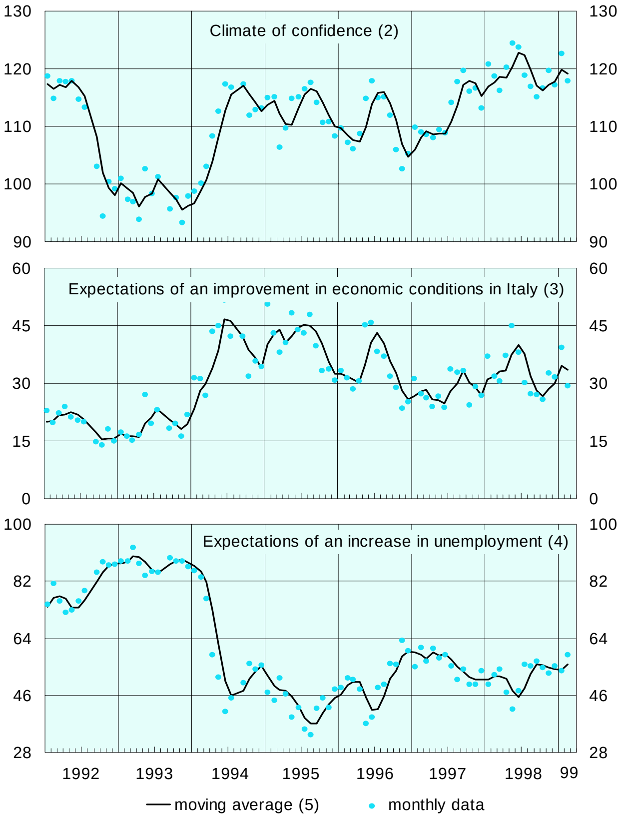
	1997	1998	1998 (1)		
	Year	Year	Q1	Q2	Q3
			GDP		
Germany	2.2	2.8	1.4	. .	0.9
France	2.3	3.2	0.7	0.8	0.5
Italy	1.5	1.4	–0.2	0.6	0.5
Spain	3.5	3.8	0.9	1.0	0.9
Euro 11	2.5	. . . .	0.9	0.5	0.7
			Household consumption		
Germany	0.5	1.7	0.8	–0.4	0.9
France	0.9	3.8	0.7	1.1	0.8
Italy	2.6	1.9	0.2	0.6	0.9
Spain	3.1	3.8	0.9	1.1	0.9
Euro 11	1.5	. . . .	0.9	0.5	0.9
			Investment		
Germany	0.1	1.1	2.7	–4.5	2.2
France	0.3	4.1	1.5	1.1	0.8
Italy	0.8	3.5	0.6	–0.3	1.1
Spain	5.1	9.0	2.1	2.0	2.5
Euro 11	1.9	. . . .	1.7	–1.2	1.7
			Exports		
Germany	11.1	5.9	0.2	2.6	0.4
France	12.6	6.3	1.1	0.4	2.7
Italy	5.0	1.3	–2.0	2.2	0.3
Spain	14.8	7.8	1.3	1.9	1.3
Euro 11	10.2	. . . .	. .	2.0	1.0
			Imports		
Germany	8.1	5.2	1.4	1.4	–0.6
France	8.0	8.0	2.7	0.9	2.0
Italy	9.9	6.1	2.2	1.8	–2.1
Spain	12.2	10.6	2.1	2.6	2.0
Euro 11	9.0	. . . .	1.7	1.3	0.4

Sources: Based on Eurostat data and national statistics.
(1) For Italy, data at 1990 prices based on the system of national accounts in force until December 1998.

In Italy the rate of increase in private consumption primarily reflected the modest growth in households' disposable income, which, based upon the quarterly national accounts, can be estimated at no more than 1 per cent in the first nine months, at constant prices and after taking account of the change in the purchasing power of net financial assets. Households' spending capacity was sustained by a slight acceleration in real terms in income from self-employment and gross wages and salaries. The rise in compensation was accompanied by a modest increase in the number of standard labour units employed (0.4 per cent in the case of employees and 0.3 per cent in that of the self-employed). Per capita employee earnings rose by 0.9 per cent at constant prices and before direct taxes and employees' social security contributions. On the other hand, the growth in disposable incomes was curbed by a further fall in households' net interest income, which was only partly offset by the reduced erosion of the purchasing power of financial assets due to the slowdown in inflation.

Figure 10

Climate of confidence among consumers and their expectations with regard to the Italian economy and unemployment (1)



Source: Based on data published by Isae (Isco until December 1998).

(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 instead of on site and the interviewee is no longer necessarily the head of the household but any adult member who contributes to its income. Since January 1998 the sample has referred to consumers instead of households. - (2) Index, 1980=100. - (3) Percentage of those interviewed who expected an improvement in economic conditions in Italy in the subsequent 12 months. - (4) Percentage of those interviewed who expected an increase in unemployment in the subsequent 12 months. - (5) For the three months ending in the reference month.

One of the factors that served to check households' spending decisions was uncertainty about the economic outlook and labour market conditions, as indicated by the high variability of the confidence index published by Isae (which took over the activities of Isco and Ispe on 4 January 1999; Figure 10). Household confidence was less volatile in the leading euro area countries; as in Italy, it showed a tendency to improve towards the end of the year.

The quarterly national accounts indicate that in the first nine months of 1998 half of the total growth in private consumption in Italy stemmed from a strong increase in purchases of semi-durable goods, which were 3.9 per cent higher than in the same period of 1997 at constant prices. Further stimulus came from purchases of durable goods and services, which rose by 4.8 and 1.6 per cent respectively, while spending on non-durable goods showed a further decline of 1.7 per cent.

The increase in purchases of consumer durables was almost entirely accounted for by the 6.4 per cent growth registered by goods other than transport equipment. Apart from the growing difficulty of further postponing the replacement of obsolete goods, contributory factors were the fall in interest rates and, in the case of data-processing and telecommunications equipment, an acceleration in price reductions, which presumably made such products affordable for an increasingly broad group of consumers.

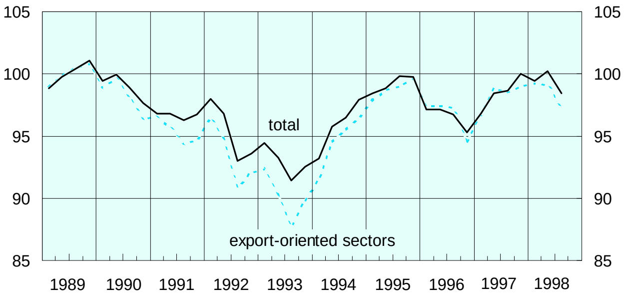
Spending on transport equipment was higher than had been forecast in the light of the expiry in July of the tax incentives for the scrapping of old motor vehicles. It was sustained by price reductions in the second half of the year, due partly to more intense competition from Asian manufacturers.

Investment and stocks

At the beginning of last year the high level of plant utilization (Figure 11), the good outlook for demand, due in part to the approaching launch of the euro, the strength of corporate profits and the fall in interest rates pointed to a pronounced expansion in productive capacity in Italy. This was confirmed by the survey the Bank of Italy conducted early in the year of the investment plans of manufacturing firms with at least 50 employees. Later, the worsening of the Asian financial crisis, which depressed world demand and significantly reduced the competitiveness of Italian firms with respect to those in Asia, clouded the outlook for the demand for Italian products (Figure 12). This apparently led firms to be cautious in making investment decisions, an attitude that was reinforced in the summer by the heightened risk of international economic instability following the spread of the financial crisis to Russia. The outcome was a lower level of capital formation than had been forecast.

Figure 11

Composite indicator
of capacity utilization in industry (1)
(indices, 1989=100)



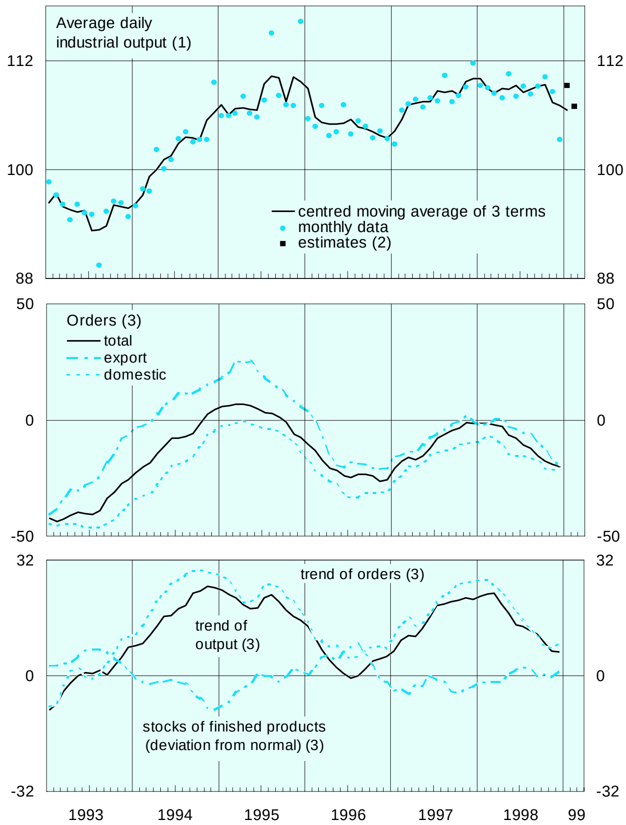
Sources: Based on data published by Istat and Isae (Isco until December 1998).
(1) Arithmetic mean of the Bank of Italy (Wharton) and Isae indicators.

Gross fixed investment grew by 3.5 per cent at constant prices in 1998. The increase was in line with the average for the euro area as a whole but fell far short of those recorded by Spain (9 per cent) and France (4.1 per cent). Germany recorded an even smaller rise of 1.1 per cent, but it should be noted that German capital formation ran at a high level in the first and third quarters and that the poor overall result largely reflected the sharp fall in construction activity in the second quarter due to particularly bad weather (Table 5).

Italian investment in equipment, machinery and transport equipment rose by 5.3 per cent in the first nine months of the year compared with the corresponding period of 1997 according to the quarterly national accounts. Spending on transport equipment, which benefited from the incentives for scrapping old vehicles until they expired in July, accounted for more than three percentage points of the increase. The growth in spending on equipment and machinery was a much more modest 2.7 per cent and slowed down over the period. The fall in the second half of the year in the index of orders compiled by the association of machine tool manufacturers suggests that the slowdown is likely to have continued in recent months.

Figure 12

Industrial output, orders and stocks



Sources: Based on data published by Istat and Isae (Isco until December 1998).
(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 Isae 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 Isae surveys. The trend figures refer to the responses for 3-4 months ahead. Seasonally adjusted except for stocks of finished products.

Investment in construction continued to stagnate in the first nine months. The fall in new residential building, which has been uninterrupted since 1993, was apparently offset by the strengthening of the recovery in public works and renovation activity. The latter benefited from the tax incentives provided for in the Finance Law for 1998, although their impact was less than had been expected, partly because the procedures for their application were not finalized until May. It can nonetheless be expected that greater advantage will be taken of the incentives this year.

Firms' favourable expectations for demand at the beginning of 1998 and their subsequent deterioration were reflected in a substantial buildup of stocks, especially in the early part of the year. The corresponding item in the national accounts, which also includes statistical discrepancies between the supply-side and demand-side estimates of GDP, accounted for 0.5 percentage points of the total growth of 1.4 per cent in output last year.

Exports and imports

In 1998 Italian imports of goods and services grew by 6.1 per cent at constant prices, much faster than exports (1.3 per cent). For the euro area as a whole the growth of imports was slightly faster and that of exports much faster (Table 5).

The growth in Italian imports was fueled by final goods, for investment and consumption. The rise in imports of consumer goods mainly reflected the growing competitiveness of the countries caught up in the Asian crisis following the depreciation of their currencies; the public incentives for the scrapping of old motor vehicles spurred imports. Purchases of intermediate goods and raw materials ran at a high level in the first half of the year, partly owing to the fall in international prices, but then subsided, coming back into line with productive activity.

The weakening of domestic demand slowed the growth in imports of goods and services. According to the quarterly national accounts they declined by 2.1 per cent at constant prices between the second and third quarters, ending the exceptional expansion that had been under way since the second quarter of 1997. Customs data indicate that the reduction in imports continued in the subsequent months.

The growth in exports of goods and services also slowed down in the second half of the year: after an upturn in the second quarter following a fall in the first, they remained basically unchanged in the third quarter (Table 4); customs data indicate a decline in the subsequent months. The stagnation of exports in 1998 reflected the severe slowdown in world trade and Italy's loss of competitiveness with respect to Asia. This was probably more pronounced than for the other EU countries in view of Italy's specialization in sectors highly exposed to the competition of Asian producers (first and foremost textiles, clothing and footwear). Another factor was the weakening of demand in the other leading European countries in the second half of the year.

Industrial production and value added by economic sector

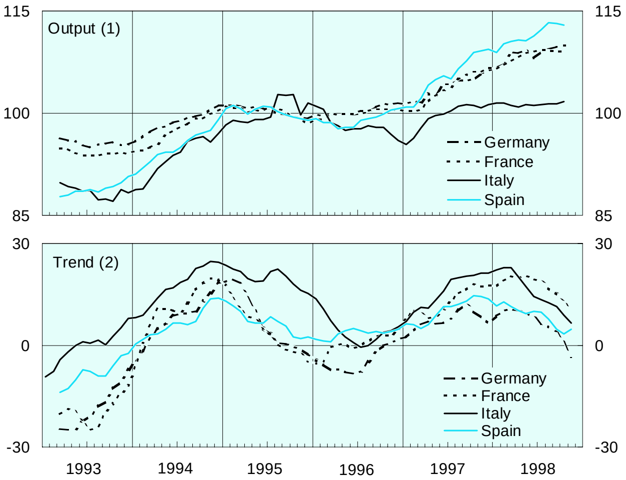
The rapid expansion in manufacturing output in 1997 was followed by a fluctuating pattern in the first nine months of 1998 with limited overall growth. Value added at constant prices in industry excluding construction declined in the first quarter and recovered in the second and third. The increase compared with the first nine months of 1997 amounted to 2.7 per cent, in part owing to the high level reached at the end of 1997.

After adjustment for the number of working days and seasonal factors, in 1998 industrial production fluctuated around an average level about one percentage point below the cyclical peak reached in the last few months of the previous year (Figure 12). The stagnation of industrial output reflected the progressive deterioration in the outlook for demand, which Isae surveys of orders and capacity utilization show to have involved both domestic and export demand and all types of goods. The year-on-year rise in the index of industrial production was 1.7 per cent on an unadjusted basis and 0.7 per cent after adjustment for the number of working days. Estimates based on cyclical indicators and electricity consumption in January and February of this year suggest that output continued to grow at a slow pace. A possible upturn was signalled by the recent improvement in the Isae indicator of industrial firms' expectations for orders three to four months ahead (Figure 12).

Demand also weakened in all the other leading euro-area countries, with a downturn in actual and expected industrial production (Figure 13) and a deterioration in the climate of confidence among firms.

Figure 13

Industrial output in the leading euro area countries



Sources: Eurostat and calculations based on data published by Eurostat and Isae (Isco until December 1998).

(1) Index, 1995=100. Moving averages for the three months ending in the reference month. Data adjusted for seasonal factors but not for the different number of working days. - (2) 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 European Commission surveys (Isae surveys for Italy). Seasonally adjusted data.

In the first nine months of 1998 the production of intermediate goods declined in Italy and that of investment goods was virtually unchanged; by contrast, the production of consumer goods increased since the expansion produced in the second and third quarters by the rise in demand for durables more than offset the contraction that occurred in the first. Within the consumer goods sector, there was a decline in the output of the car industry following the expiry of the public incentives and in that of the sectors most exposed to competition from Asian producers.

After declining in the first two quarters of 1998, the value added of the construction industry picked up in the third; in the first nine months as a whole it rose by 1 per cent. Market services recorded a similar increase. The growth of wholesale and retail trade continued at a modest pace, reflecting the limited rise in total consumption. Retail sales rose by 2.7 per cent at current prices in 1998, primarily owing to the expansion of 5.1 per cent in the sales of large stores.

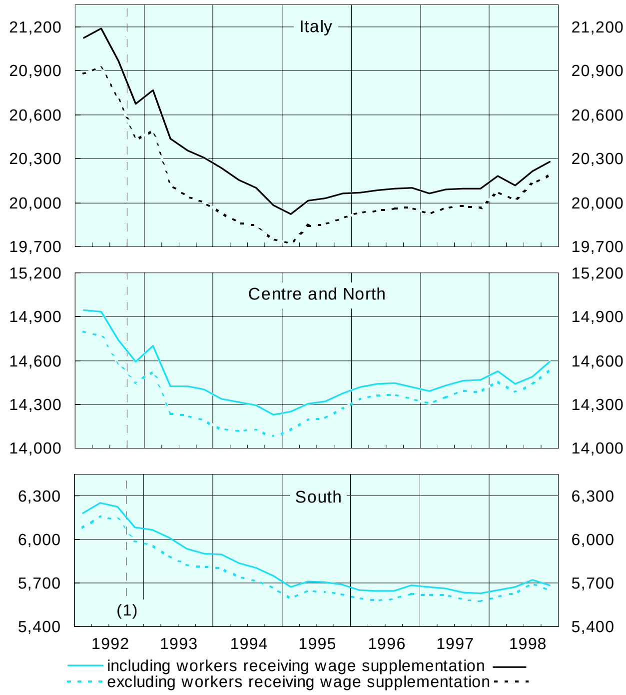
Employment

As measured by Istat's labour force survey, the average number of persons in work in 1998 rose by 0.5 per cent or 110,000 (Figure 14) and by 0.8 per cent excluding the agricultural sector, where the structural decline in employment continued. The creation of new jobs at a time of sluggish economic activity can be explained by the increase in part-time work and the growing importance of the services sector, where the employment content of a unit of value added is higher.

Figure 14

Employment

(seasonally adjusted; thousands of persons)



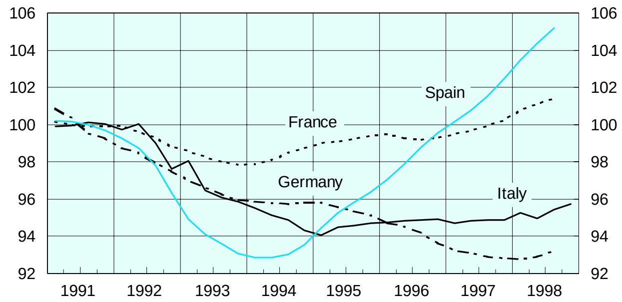
Source: Estimated on the basis of Istat data (labour force survey).

(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.

As in 1997, the increase in the number of persons in work in Italy was half that of around 1 per cent recorded in the euro area as a whole. In the first nine months Spain and France achieved large increases compared with the year-earlier period, of 3.5 and 1.4 per cent respectively, while in Germany the improvement was negligible (Figure 15).

Figure 15

Employment in the leading euro area countries
(indices, 1991=100; seasonally adjusted quarterly data)



Source: National statistics.

The changes in the structure of the Italian labour force accelerated. The net gain in employment in 1998 was entirely due to the female component, which grew by 1.9 per cent or 135,000 persons compared with 1997. Male employment remained basically unchanged since the contraction in agriculture was offset by the expansion in services and industry excluding construction.

In the non-farm sector self-employment increased by 0.7 per cent and payroll employment by 0.8 per cent. Within the latter category, the number of persons with open-ended contracts remained basically unchanged and equal to around 92 per cent of the total, while the number with fixed-term contracts rose by 10 per cent, albeit with large fluctuations during the year.

The growth in total employment was almost entirely due to the increase of 7.7 per cent in part-time jobs. The share of part-timers in total employment grew steadily over the year and rose from 6.8 per cent on average in 1997 to 7.3 per cent last year, still one of the lowest figures in Europe.

The rate of growth in employment was negligible in the Centre, in line with the national average in the South and slightly higher in the North (Table 6). In all three areas the average number of persons in employment increased in services and industry excluding construction and declined sharply in agriculture and construction. In the latter sector there was nonetheless an upturn between the July and October surveys as a result of the recovery in public works and renovation activity.

Table 6

Employment by branch of activity and geographical area in 1998 (1)
(percentage changes on corresponding period in previous year)

	Italy						North-East		North-West		Total North		Centre		South and Islans	
	Avg. % of total	Avg. (2)	Jan.	Apr.	July	Oct.	Avg. (2)	Oct.	Avg. (2)	Oct.	Avg. (2)	Oct.	Avg. (2)	Oct.	Avg. (2)	Oct.
Agriculture	6.6	−2.2	1.3	−0.7	−2.3	−0.7	−2.4	−9.3	−4.3	−12.6	−3.3	−10.8	−2.0	−5.4	−1.4	−4.8
Industry excluding construction	24.3	1.1	1.8	0.9	0.8	1.0	1.2	0.1	1.1	0.7	1.1	0.4	0.5	1.8	1.7	3.2
Construction	7.7	−2.2	..	−3.3	−3.9	−1.6	−0.7	−2.8	0.3	0.7	−0.2	−0.7	−4.7	−4.1	−3.3	−1.6
Services	61.4	1.0	0.1	0.3	1.4	2.2	−0.1	2.3	1.6	2.9	0.9	2.7	0.7	1.0	1.4	2.2
distribution	*16.6*	*0.5*	*−2.0*	*−0.2*	*1.7*	*2.4*	*−1.1*	*−0.3*	*1.0*	*2.8*	*0.1*	*1.5*	*1.6*	*5.5*	*0.1*	*1.3*
Total	**100.0**	**0.5**	**0.6**	**0.1**	**0.6**	**0.9**	**0.1**	**0.5**	**1.1**	**1.4**	**0.7**	**1.0**	**0.1**	**0.5**	**0.6**	**1.0**
Unemployment rate (3)	–	12.3	12.2	12.5	11.9	12.6	5.3	5.5	7.1	7.1	6.4	6.4	10.0	10.4	22.8	23.2

Source: Istat labour force survey.
(1) Number of persons in employment; not adjusted for workers receiving wage supplementation. – (2) Average of the surveys taken in 1998. – (3) Percentages.

Employment in industry excluding construction expanded steadily and rose on average by 1.1 per cent. The slowdown in economic activity in the second half of the year was mainly reflected in reductions in hours worked and overtime. Even though recourse to the Wage Supplementation Fund increased in the last part of the year, on the whole it was relatively limited. The number of persons employed in services rose on average by 1 per cent, the result of a marked improvement from virtually no change on the year-earlier period in January to a gain of 2.2 per cent in October.

Between 1997 and 1998 the labour force participation rate remained essentially unchanged at 49.7 per cent in the Centre and North, while it rose from 43.5 to 43.9 per cent in the South, where the large difference between labour force and employment growth raised the yearly average unemployment rate from 22.2 to 22.8 per cent (23.2 per cent in October 1998). In the Centre and North, by contrast, employment increased more than the labour force and the unemployment rate declined from 7.6 to 7.4 per cent. The unemployment gap between the two areas therefore widened, both overall and for long-term unemployment, which declined slightly in the Centre and North and increased in the South. The nationwide unemployment rate remained unchanged at 12.3 per cent on average for the year, but the developments in the South took it to 12.6 per cent in October (12.4 per cent in October 1997). By contrast, in the other leading euro area countries the unemployment rate declined between the first and third quarters: from 11.5 to 10.8 per cent in Germany, from 19.6 to 18.6 per cent in Spain and from 12.1 to 11.8 per cent in France.

The balance of payments on current account

According to provisional data, the current account of the balance of payments showed a surplus of 41.8 trillion lire in 1998, 21 trillion less than in the preceding year. The trade surplus on an *fob-fob* basis declined by about 7.5 trillion lire to 72.7 trillion; more than half of the decrease occurred in the final quarter as a result of the fall in exports. Invisibles, which showed a deficit of 30.9 trillion lire, were responsible for about 13.5 trillion of the overall deterioration in the current account balance (Table 7).

The decline in the trade surplus reflected the difference in the rates of growth of exports and imports. Exports increased by 3.6 per cent at current prices, while imports rose by 6.7 per cent; the data available for the first nine months of the year indicate a similar pattern by volume (Table 8 reports exports and imports of manufactures).

According to *cif-fob* customs data, the contraction in the trade surplus amounted to 6 trillion lire in the first eleven months of the year, almost all of the decline occurring in trade with non-EU countries (Table 9). The increase in the surplus on trade with the United States, which was fueled by the expansion in the US economy, and the contraction in the deficit with OPEC countries due to the fall in the price of oil were outweighed by the effects of the crisis in Asia. The fall in domestic demand in Japan and the emerging Asian economies, combined with the increased competitiveness of producers in these countries, caused the trade surplus with the area as a whole to fall by about 8 trillion lire.

The trade surplus with EU countries narrowed slightly. Whereas the surpluses with Spain, France and the United Kingdom increased, the balance on trade with Germany swung into deficit (Table 9) owing to weak export growth and a large increase in imports (largely of motor vehicles, it is presumed).

An increase in the net outflow on account of unrequited transfers, which data available for the first ten months show to have been due entirely to a deterioration in net transfers vis-à-vis the EU budget (in particular, a reduction in receipts from the Guarantee Section of the EAGGF and from the European Regional Development Fund), accounted for almost 10 trillion lire of the increase of 13.5 trillion in the deficit on invisibles in 1998. The deficit on “other services” worsened by more than 5 trillion lire, the bulk of the deterioration occurring in business services. The net outflow of investment income also increased, by 1.6 trillion lire, whereas the balance in respect of transportation improved by almost 4 trillion. The surplus on foreign travel decreased slightly to 22.2 trillion lire.

Table 7

Balance of payments
(balances in billions of lire)

	1997			1998		
	H1	H2	Year	H1	H2	Year
Current account	**27,181**	**35,625**	**62,806**	**18,043**	**23,786**	**41,829**
Goods	37,333	42,833	80,166	34,239	38,466	72,705
Invisibles	–10,152	–7,208	–17,360	–16,196	–14,680	–30,876
Services	1,246	2,169	3,415	–2,123	3,903	1,780
Foreign travel	10,804	11,649	22,453	9,632	12,528	22,160
Transport	–7,175	–7,846	–15,021	–7,516	–3,637	–11,153
Other	–2,383	–1,634	–4,017	–4,239	–4,988	–9,227
Income	–11,699	–7,307	–19,006	–11,294	–9,651	–20,945
Compensation of employees	162	85	247	216	–280	–64
Investment income	–11,861	–7,392	–19,253	–11,510	–9,371	–20,881
Transfers	301	–2,070	–1,769	–2,779	–8,932	–11,711
UE	*1,966*	*–729*	*1,237*	*–2,157*	....	....
Capital movements	**–12,871**	**1,213**	**–11,658**	**–364**	**–33,769**	**–34,133**
Bank capital	–17,462	29,141	11,679	–3,346	18,408	15,062
Non-bank capital	4,591	–27,928	–23,337	2,982	–52,177	–49,195
Errors and omissions	**–16,521**	**–11,787**	**–28,308**	**–32,474**	**–11,977**	**–44,451**
Change in official reserves (1)	**2,211**	**–25,051**	**–22,840**	**14,795**	**21,960**	**36,755**

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

Table 8

Exports and imports of manufactures between January and September 1998, by sector
(at constant prices; cif-fob*)*

	Exports					Imports				
	Percentage of total in 1997 (1)	Percentage changes				Percentage of total in 1997 (1)	Percentage changes			
		Q1 (2)	Q2 (2)	Q3 (2)	Jan.-Sept. (3)		Q1 (2)	Q2 (2)	Q3 (2)	Jan.-Sept. (3)
Ferrous and non-ferrous ores	3.8	–1.7	2.5	–0.8	4.2	9.0	8.1	1.9	2.1	18.4
Non–metallic minerals	3.9	1.8	–0.5	1.6	5.0	1.7	–0.2	3.7	4.1	8.3
Chemical products	8.4	–0.5	3.1	1.5	0.8	14.0	–0.7	–0.7	0.9	6.0
Metal products	6.0	–1.1	–0.5	9.7	9.9	2.2	–8.0	7.1	2.9	7.7
Agricultural and industrial machinery	18.0	2.9	–5.0	2.7	3.0	6.9	5.2	1.4	6.8	17.3
Office machines	3.0	4.1	0.0	5.1	4.7	5.0	5.9	8.6	7.5	26.0
Electrical equipment	9.4	–2.4	–0.6	6.3	10.9	10.2	5.3	–3.1	–0.5	15.0
Motor vehicles	7.1	1.3	–0.1	–3.8	10.0	10.5	0.1	4.6	1.3	10.7
Other transport equipment	2.6	30.3	1.7	4.3	49.7	1.5	16.1	–4.4	55.4	54.4
Food, beverages and tobacco products	4.1	–2.6	5.2	6.5	3.6	6.9	3.3	3.4	2.2	6.7
Textiles and clothing	11.2	–5.2	6.5	–3.0	1.6	5.4	–0.4	–0.8	3.4	8.7
Leather and footwear	5.2	–7.0	2.0	–6.8	–1.9	2.2	–3.3	0.9	–5.0	4.2
Wood and furniture	3.4	–3.9	4.7	–3.9	1.8	1.6	7.2	2.4	1.9	13.0
Paper and printing	2.2	–7.8	9.0	7.5	1.7	2.6	–3.5	4.5	–0.2	4.1
Rubber and plastic products	3.7	–0.8	9.2	–0.5	11.3	2.2	1.5	6.3	0.1	12.4
Total	**95.0**	**–0.4**	**1.1**	**1.5**	**5.3**	**83.6**	**2.7**	**1.7**	**2.9**	**12.5**

Source: Based on Istat data.

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

Table 9

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

	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)	**6.0**	**56.3**	**6.7**	**61.0**	**9,183**	**8,367**
Euro 11 (1)	**6.0**	**45.2**	**7.0**	**51.8**	**–834**	**–2,896**
Austria	3.2	2.3	9.9	2.4	1,167	707
Belgium-Luxembourg	3.3	2.7	8.6	4.8	–5,002	–5,965
Finland	6.4	0.5	31.2	0.7	–33	–512
France	8.0	12.8	4.4	13.0	2,936	4,717
Germany	3.0	16.5	10.0	18.7	3,519	–471
Ireland	11.2	0.4	14.5	1.1	–1,862	–2,179
Netherlands	3.7	2.9	5.7	6.1	–9,063	–9,786
Portugal	8.3	1.4	4.1	0.5	3,495	3,845
Spain	15.1	5.7	1.1	4.5	4,009	6,748
Denmark	4.0	0.8	6.6	0.8	414	362
Greece	5.2	2.0	–11.4	0.5	5,128	5,746
Sweden	10.3	1.1	13.1	1.5	–725	–927
United Kingdom	4.8	7.2	1.9	6.4	5,200	6,082
Non-EU countries	**0.5**	**43.7**	**4.7**	**39.0**	**40,710**	**35,497**
United States	11.1	8.5	10.6	5.1	13,583	15,162
Japan	–13.2	1.7	14.7	2.2	956	–1,013
EFTA (2)	7.1	4.1	9.7	4.5	863	556
Eastern European countries (3)	1.8	10.1	7.3	7.8	13,347	12,219
China	–17.1	0.8	12.3	2.3	–3,080	–4,610
Asian NIEs (4)	–30.0	2.7	34.4	1.9	9,773	3,672
OPEC (5)	–0.9	3.4	–16.0	5.1	–7,804	–4,586
Other countries	4.3	12.4	3.0	10.1	13,072	14,097
Total	**3.5**	**100.0**	**5.9**	**100.0**	**49,893**	**43,864**

(1) The figures on trade with EU countries refer only to firms with intra–Community purchases or 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, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

Capital movements and Italy's net external position

Capital movements in the balance of payments generated net outflows of 34.1 trillion lire in 1998, compared with 11.7 trillion the preceding year. The official reserves, calculated at monthly average exchange rates, decreased by 36.8 trillion. As the current account showed a surplus of 41.8 trillion, an outflow of 44.5 trillion was attributed to the residual item "errors and omissions", substantially above the already high levels recorded in recent years (28.3 trillion lire in 1997).

Resident non-bank investors continued to diversify their financial portfolios by increasing their net purchases of external assets. This reallocation, a larger proportion of which was effected via non-bank financial institutions, primarily involved government securities and shares. In 1998 net portfolio investment abroad amounted to 181.6 trillion lire, an increase of more than 60 per cent by comparison with 1997 (Tables 10 and 11). According to the more highly disaggregated data that are available for the first ten months, the main recipients of such investment were the euro area countries (46.4 trillion) and the United Kingdom (40.7 trillion); net purchases of government securities, corporate bonds and shares increased by 47.1, 35.7 and 39.2 trillion lire respectively, compared with 19.5, 26.6 and 17.5

Table 10

Capital movements

(net flows in billions of lire)

	1997					1998 (1)				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Non-bank capital flows	**–13,684**	**18,275**	**–7,215**	**–20,713**	**–23,337**	**–21,683**	**24,665**	**–26,894**	**–25,283**	**–49,195**
Foreign	29,997	54,181	43,753	9,574	137,505	52,912	88,010	17,886	17,991	176,799
Investment	24,652	50,458	44,617	5,997	125,724	51,012	85,436	21,821	18,580	176,849
portfolio	*23,508*	*48,696*	*42,923*	*4,301*	*119,428*	*50,786*	*85,035*	*21,644*	*14,125*	*171,590*
Loans	–358	2,589	1,873	1,960	6,064	–527	–796	2,611	–3,658	–2,370
Trade credit	5,703	1,134	–2,737	1,617	5,717	2,427	3,370	–6,546	3,069	2,320
Italian	–43,681	–35,906	–50,968	–30,287	–160,842	–74,595	–63,345	–44,780	–43,274	–225,994
Investment	–35,286	–23,929	–44,862	–26,534	–130,611	–74,365	–59,730	–41,505	–35,001	–210,601
portfolio	*–32,916*	*–19,967*	*–37,362*	*–22,283*	*–112,528*	*–68,825*	*–48,675*	*–35,638*	*–28,440*	*–181,578*
Loans	–5,962	–9,081	–9,043	–1,924	–26,010	1,287	–951	–6,991	–5,159	–11,814
Trade credit	–2,433	–2,896	2,937	–1,829	–4,221	–1,517	–2,664	3,716	–3,114	–3,579
Bank capital flows	**24,627**	**–42,089**	**14,019**	**15,122**	**11,679**	**34,583**	**–37,929**	**7,960**	**10,448**	**15,062**
In lire	9,367	–24,769	14,137	21,840	20,575	7,766	–33,848	11,787	14,270	–25
In foreign currency	15,260	–17,320	–118	–6,718	–8,896	26,817	–4,081	–3,827	–3,822	15,087
Total	**10,943**	**–23,814**	**6,804**	**–5,591**	**–11,658**	**12,900**	**–13,264**	**–18,934**	**–14,835**	**–34,133**

(1) Provisional. The data on trade credit are partly estimated.

trillion in the same period of 1997. Among resident sectors, financial and insurance companies increased their external assets by 97.6 trillion lire, almost twice the growth recorded in 1997.

Net portfolio investment in Italy by non-residents amounted to 171.6 trillion lire last year, 52.2 trillion more than in 1997. The net inflow came mainly in the first half and was funneled largely into short-term and variable rate government securities, partly in view of the stabilization of the domestic macroeconomic situation but in the first half of the year also because of expectations that the positive differential between short-term lira interest rates and those in international markets would be eliminated with Italy's admission to the euro area. The disaggregated data for the first ten months of the year show that purchases of Treasury credit certificates more than doubled to 37.2 trillion lire (having reached 39.9 trillion in the first six months); purchases of Treasury bills increased to 51.8 trillion (35.5 trillion in the first half of the year), compared with 8.4 trillion in the first ten months of 1997; purchases of fixed rate securities (BTPs) fell to 26.4 trillion. Foreign purchases of listed Italian shares amounted to 16.7 trillion in the first ten months, slightly higher than the figure recorded a year earlier. The prospect of exchange rate stability induced a dramatic reduction in foreign demand for repos on Italian lira securities with resident banks, which have traditionally been used to hedge exchange risk. Inward portfolio investment came mainly from the United Kingdom (116 trillion lire), confirming its role as a centre for the intermediation of international capital, and from the euro area (30.4 trillion).

Net direct outward investment, which had begun to increase strongly in 1997, rose further last year to 29 trillion lire. The disaggregated data for the first ten months show that the growth was attributable partly to increasing purchases of foreign shareholdings by financial enterprises, which more than doubled to 16.2 trillion; the main destinations of the outflows were the euro area (8.6 trillion) and the United Kingdom (5.9 trillion).

Table 11

Italy's net external position
(billions of lire)

	Stocks in December 1997 (1) (a)	January-December 1998 Flows (2) (b)	Valuation adjustments (3) (c)	Change in stocks (d)=(b)+(c)	Stocks in December 1998 (1) (a)+(d)
			Agents other than resident banks		
Assets	**921,636**	**225,994**	**36,431**	**262,425**	**1,184,061**
Direct investment	236,723	29,023	17,099	46,122	282,845
Portfolio investment	498,350	181,578	20,120	201,698	700,048
Loans and trade credit (4)	186,563	15,393	−788	14,605	201,168
Liabilities	**999,002**	**176,799**	**62,735**	**239,534**	**1,238,536**
Direct investment	146,290	5,259	24,666	29,925	176,215
Portfolio investment	677,971	171,590	37,466	209,056	887,027
Government securities	*515,913*	*143,234*	*4,944*	*148,178*	*664,091*
Loans and trade credit (4)	174,741	−50	603	553	175,294
Net position of non-banks	**−77,366**	**49,195**	**−26,304**	**22,891**	**−54,475**
			Resident banks		
Assets	349,235	12,490	5,775	18,265	367,500
Liabilities	420,748	27,552	−962	26,590	447,338
Net position of banks	**−71,513**	**−15,062**	**6,737**	**−8,325**	**−79,838**
			Bank of Italy-UIC		
Net position (including gold)	**133,644**	**−36,755**	**−8,278**	**−45,033**	**88,611**
			Italy		
NET OVERALL POSITION	**−15,235**	**−2,622**	**−27,845**	**−30,467**	**−45,702**

(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 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.

Net direct inward investment came to 5.3 trillion lire last year, 1 trillion less than in 1997. In the first ten months the overall net inflow came to 1.4 trillion lire, compared with 4.5 trillion a year earlier; the net inflow from the euro area during that period amounted to 2.5 trillion, whereas investors in the United Kingdom made net disinvestments of 1.1 trillion. Investment in private firms decreased from 3.4 to 1.5 trillion lire.

Lending gave rise to a net outflow of 14.2 trillion lire, compared with 20 trillion in 1997; the major cause of the reduction was a decrease in Italian lending abroad from 26 to 11.8 trillion. On the basis of data for the first ten months of the year, this can be ascribed to a reduction in private lending, consisting largely of repurchase agreements on Italian securities between non-bank financial institutions and non-residents.

Italy's net external debt amounted to 45.7 trillion lire in December, equal to 2.3 per cent of GDP, and was thus 30.5 trillion more than at the end of 1997 (Table 11; Figure 16). Between January and December outflows of non-bank capital totaled 49.2 trillion, exceeding inflows via the banking system (15.1 trillion). If the decrease of 36.8 trillion lire in the official reserves is taken into account, net financial transactions contributed only 2.6 trillion lire to the overall deterioration in the net external position. The deterioration was due entirely to negative valuation adjustments of 27.8 trillion on the stock of assets and liabilities held by residents, particularly non-banks; those made to take account of price changes amounted to 5.7 trillion lire and related primarily to the valuation of the stock of monetary gold. In addition, the appreciation of the lira by 6 per cent against the dollar reduced the lira value of external assets, which are denominated predominantly in dollars; this led to negative exchange rate adjustments of 22.1 trillion lire.

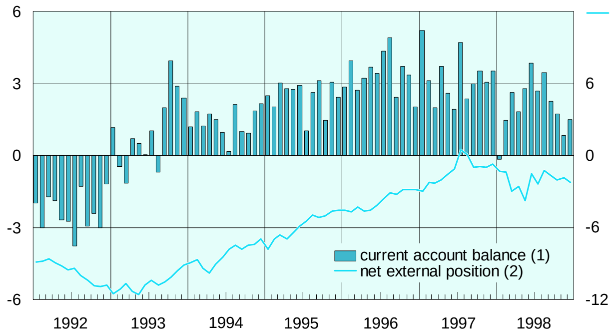
Most of the extremely large amount recorded under “errors and omissions” is presumably attributable to the non-recording of outflows of Italian capital in the form of the investment abroad of the proceeds of undeclared exports. If this adjustment item were taken into account in the figures for last year and previous years (see *Economic Bulletin* no. 27, October 1998), the net external position would have remained positive in 1998.

The banks’ net external debtor position increased to 79.8 trillion lire in December, compared with 71.5 trillion at the end of 1997; the foreign currency component amounted to 111.5 trillion (Table 12), while their position in lire was positive to the tune of 31.7 trillion. Net inflows of bank capital totaled 15.1 trillion lire during the year; inflows and outflows in lire cancelled one another out; the latter included 9.1 trillion of reverse repos on Italian securities between banks and non-residents, compared with 9.4 trillion in 1997.

The net external creditor position of the Bank of Italy-UIC stood at 88.6 trillion at the end of December, compared with 133.6 trillion a year earlier. The decrease was attributable to a fall in assets denominated in convertible currencies from 69.7 to 31.7 trillion lire, owing partly to the liquidation of foreign currency swap operations with resident banks and transfers of assets to the ECB; valuation adjustments made a negligible contribution.

Figure 16

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.

Table 12

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

	1997	1998	1998 Q1	1998 Q2	1998 Q3	1998 Q4
Stocks at current exchange rates (2)						
External position	–71,513	–79,838	–107,379	–67,196	–70,571	–79,838
In lire	31,655	31,680	23,889	57,737	45,950	31,680
In foreign currency	–103,168	–111,518	–131,268	–124,933	–116,521	–111,518
Domestic position in foreign currency	46,260	53,086	54,447	51,265	61,914	53,086
Memorandum item:						
Overall position in foreign currency (3)	–2,158	–13,457	–5,904	–5,216	8,917	–13,457
Changes at constant exchange rates (4)						
External position	–11,679	–15,062	–34,583	37,929	–7,960	–10,448
In lire	–20,575	25	–7,766	33,848	–11,787	–14,270
In foreign currency	8,896	–15,087	–26,817	4,081	3,827	3,822
Domestic position in foreign currency	–5,232	21,159	7,414	–2,747	11,319	5,173
Memorandum item:						
Overall position in foreign currency (5)	5,114	–1,003	–2,502	1,752	12,550	–12,803

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

Prices, costs and competitiveness

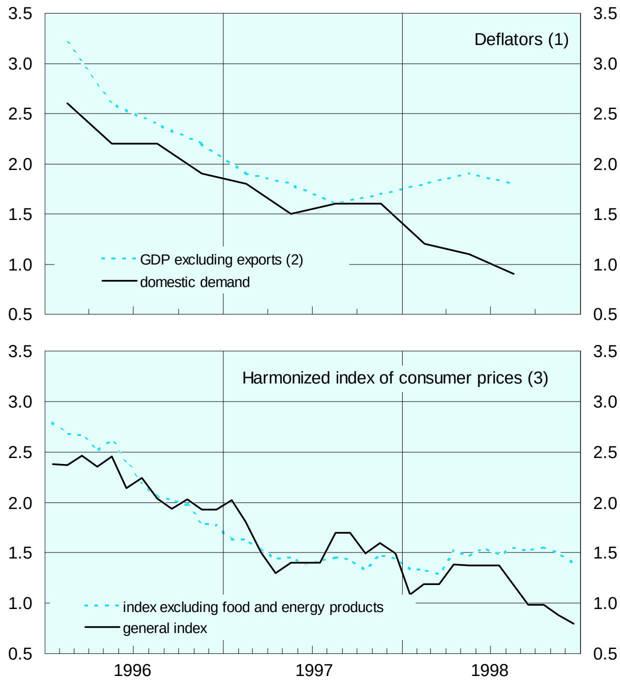
Inflation in the euro area continued to abate in 1998. The slowdown is attributable to the fall in the prices of imports; the rate of increase in the indices of underlying price trends remained broadly unchanged. Inflation due to domestic factors, which is measured by the change on the year-earlier period in the deflator of GDP excluding exports, remained above 1.5 per cent (Figure 17). The twelve-month increase in the harmonized index of consumer prices excluding the most volatile components and those most directly affected by the decline in the prices of primary commodities - food and energy products - stabilized around 1.5 per cent. Moreover, expected inflation for the area is still above 1 per cent for 1999 and 1.5 per cent for the year 2000. Thus, thanks in part to the continued strength of domestic demand and wages, in the euro area there does not appear to be any significant risk of deflation, in contrast with the situation in Japan.

After a modest increase in the first half of 1998, inflation in Italy resumed its downward path, thanks in part to the prudence with which monetary conditions were eased. However, the convergence of inflation with the average level in the euro area was hindered by the less favourable behaviour of food and energy prices in Italy and by the persistence of a higher rate of increase in unit labour costs. The latter phenomenon is attributable to the smaller increase in productivity, a consequence of the Italian economy's extremely modest rate of growth. The more moderate increase in profit margins in Italy, which nevertheless remain at a historically high level, helped contain the inflation differential.

The dispersion of inflation rates among the euro area countries increased. This development can be ascribed above all to the most variable components of the indices, whose fluctuations more than offset the gradual alignment of rates of increase in producer prices fostered by the stabilization of exchange rates. In addition, to a greater extent than in previous years, inflation differentials reflected differences in the cyclical positions of the area's economies, especially in the prices of services.

Figure 17

Inflation indicators in the euro area
(percentage changes on year-earlier period)



Sources: Based on BIS and Eurostat data.
(1) Weighted average of the countries in the euro area for which quarterly data are available: Germany, Italy, France, Spain, the Netherlands and Finland. They account for about 90 per cent of the area's GDP. - (2) Exports are estimated excluding their content of imported goods and services; for a discussion of methodology, see also Bank of England, *Inflation Report,* August 1998. - (3) Weighted average of the countries in the euro area.

Consumer prices

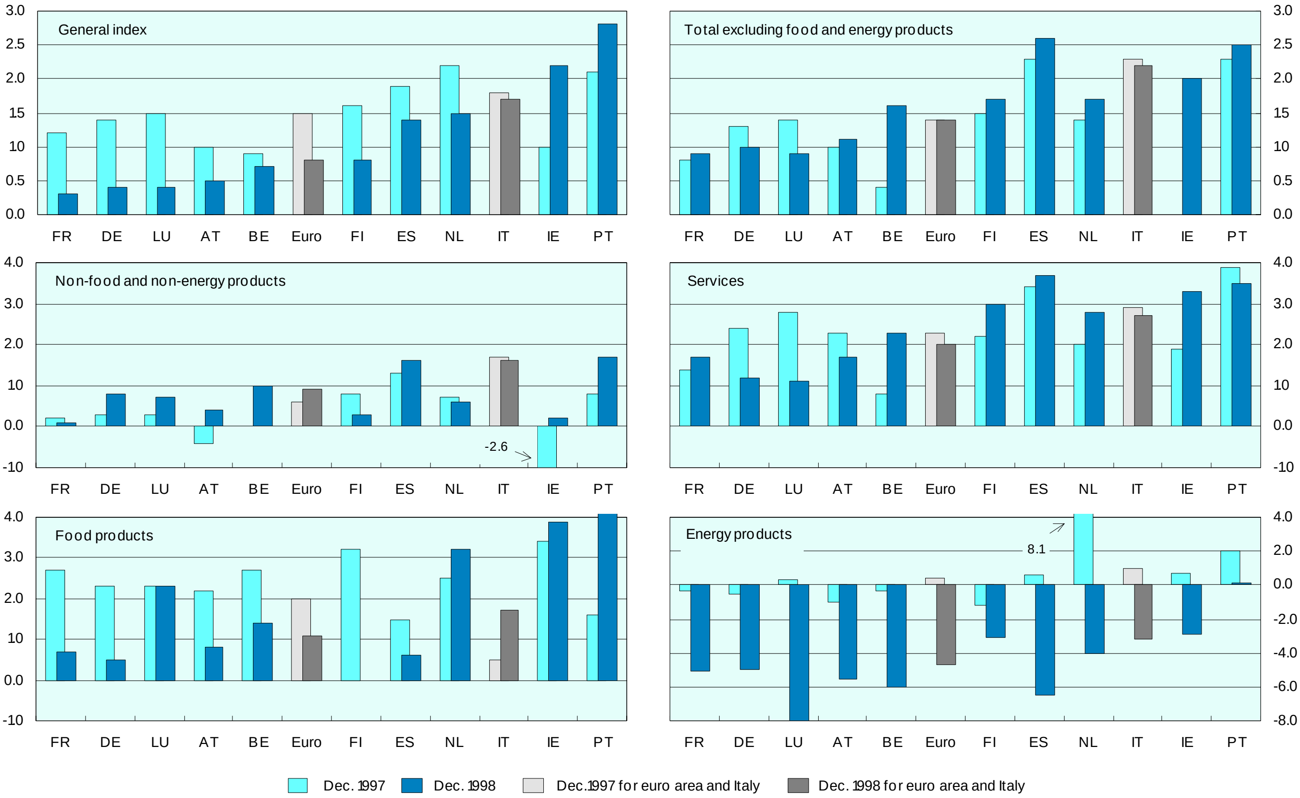
In 1998 the average annual rate of inflation, calculated on the basis of the harmonized indices of consumer prices, was 2 per cent in Italy (Table a14) and 1.1 per cent in the euro area (Table a15); in 1997 it had been 1.9 and 1.6 per cent respectively.

The dispersion of inflation rates in the euro area increased, despite the gradual convergence of the rates of increase in prices of non-food and non-energy products.

Figure 18

Harmonized indices of consumer prices in the countries of the euro area

(percentage changes on 12 months earlier) (1)



Source: Based on Eurostat data.

(1) The figure for the euro area is the weighted average of the harmonized indices of the eleven countries.

Over the course of the year, consumer price inflation in the area gradually declined; the average twelve-month rate of increase in the harmonized indices declined from 1.5 to 0.8 per cent (Figure 18). This is largely attributable to the prices of imports, especially those directly affected by the fall in the international prices of raw materials. At the end of 1998 the prices of energy products were 4.7 per cent lower than a year earlier, compared with an increase of 0.4 per cent in December 1997.

Underlying consumer price inflation, measured by the twelve-month increase in the index excluding food and energy products, remained stable at around 1.5 per cent. In particular, the rate of increase in the prices of services stabilized around 2 per cent; the impulse of domestic demand, especially in the countries further along in the economic cycle, was offset by price declines in sectors such as telecommunications where there is increasing competition.

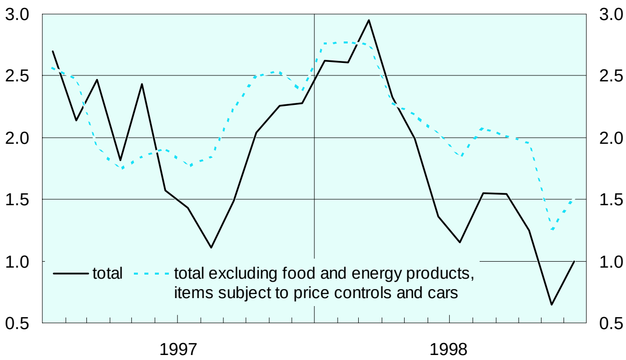
In Italy, the residual pressures on consumer prices that were still present in early 1998 subsequently subsided. In the second half of the year the twelve-month rate of change in the harmonized index began to decline again, falling to below its end-1997 level by December (1.7 per cent, compared with 1.8 per cent a year earlier). The widening of the differential with the euro area average, and above all that with Germany (from 0.4 percentage points in December 1997 to 1.3 points in December 1998) and France (from 0.6 to 1.4 points), is entirely attributable to the most volatile components of the index. The prices of energy products fell by less than the European average owing to the higher incidence of taxes in final prices and the greater stickiness of producer prices, especially downwards, for this category of good. The prices of unprocessed food products were driven up by those of Mediterranean crops, which reversed their decline of the previous year.

After rising in the first part of the year, the twelve-month rate of increase in the prices of the components of the index most closely linked to the underlying determinants of inflation turned downwards and ended the year at 2.2 per cent, compared with 2.3 per cent in December 1997. The rate remains higher than that recorded in the other euro area countries, despite the appreciably slower pace of growth in Italy.

The seasonally adjusted three-month rate of change in the general index of consumer prices fell sharply in the last part of 1998 (Figure 19), suggesting that the twelve-month rate should continue to decline in the near future.

Figure 19

General consumer price index for Italy
(annualized percentage changes on 3 months earlier; seasonally adjusted) (1)



Source: Based on Istat data.

In January of this year the twelve-month rate of increase in the harmonized index of consumer prices in Italy fell by 0.2 points from the previous month to stand at 1.5 per cent; a similar decline in Germany brought the index there to 0.2 per cent, while in France and Spain the index rose by 0.1 points to 0.4 and 1.5 per cent respectively.

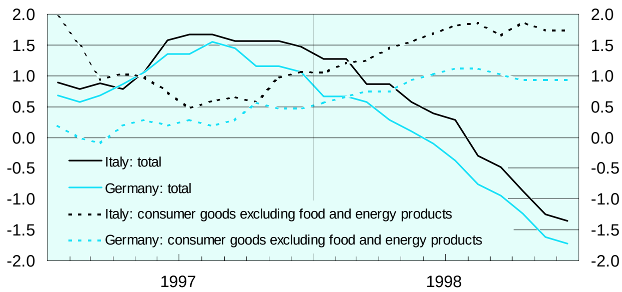
Producer prices and the export and import prices of manufactures

In Italy, the producer prices of manufactures for the domestic market remained broadly unchanged on average in 1998, compared with an increase of 1.3 per cent in 1997 (Table a16). In the countries of the euro area, whose indices are only partially comparable, they declined by an average of 0.7 per cent, compared with a rise of 1.1 per cent the previous year.

The slowdown in producer prices was virtually continuous throughout the year. In Italy, the twelve-month rate of change in the general index was -1.3 per cent in December, compared with 1.5 per cent a year earlier (Figure 20). This trend mainly reflected the behaviour of the prices of petroleum products, which fell sharply as a result of the collapse in oil prices. The twelve-month rate of change in the prices of non-energy products fell less steeply (from 1.7 per cent in December 1997 to -0.1 per cent in December last year), reflecting the decline in the cost of foreign inputs, competition from the crisis-stricken emerging-market economies and the contraction in capacity utilization (Figure 21). The latter, however, was still higher than the level recorded during the previous cyclical troughs in 1986 and 1992-94.

Figure 20

Index of the producer prices of manufactures for the domestic market in Italy and Germany
(percentage changes on 12 months earlier)

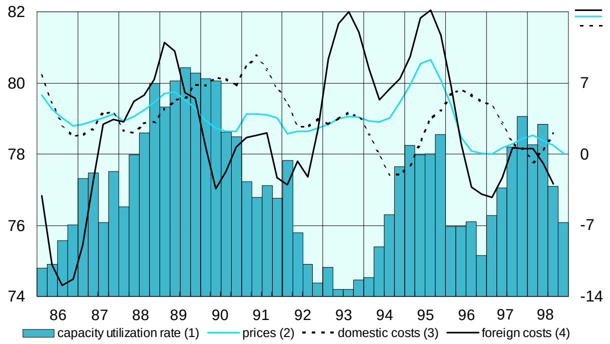


Sources: Based on Istat data and national statistics.

Among the components of the producer price index, those most closely linked to the behaviour of domestic costs continued to rise at a markedly faster pace. In particular, in December the twelve-month rate of increase in the prices of non-food and non-energy consumer goods, which have the most direct impact on the short-term trend in consumer price inflation, was 1.7 per cent, compared with 1.1 per cent in 1997. The behaviour of these prices was similar in Germany, where the twelve-montt rate was 0.9 per cent,compared with 0.5 per cent a year earlier.

Figure 21

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



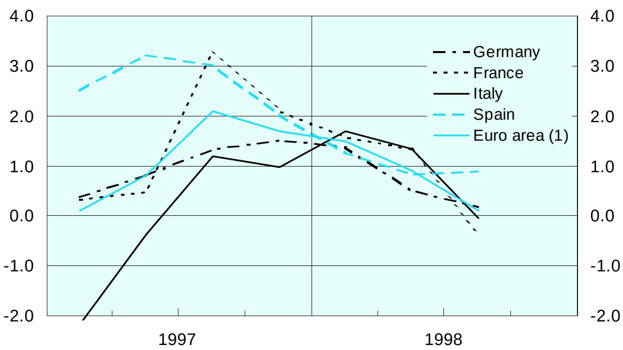
Sources: Based on Istat and Isae data.

(1) Percentage share; seasonally adjusted. Left-hand scale. - (2) Index of the producer prices of manufactures for the domestic market, excluding energy products. Right-hand scale. - (3) Domestic unit variable costs, net of intrasectoral transactions; energy products and transport equipment other than cars are excluded from the aggregate for industry. Moving averages of the reference quarter and the preceding quarter. Right-hand scale. - (4) Cost of imported inputs; includes domestically-produced energy products. Right-hand scale.

The slowdown in world trade and the depreciation of the currencies of the countries affected by crisis sharpened competition in export markets. In order to defend their market share, firms in the euro area limited the increases in their export prices. The rate of increase in the euro area countries' export deflators gradually fell to zero (Figure 22).

Figure 22

Export deflators in the euro area
(percentage changes on year-earlier quarter)



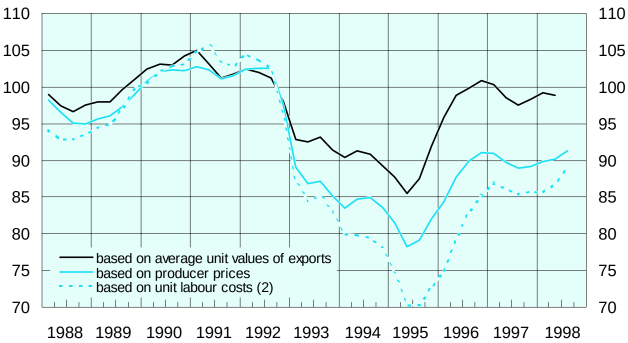
Sources: Based on Istat and BIS data.

(1) Weighted average of the countries in the euro area for which quarterly data are available: Germany, Italy, France, Spain, the Netherlands and Finland. Provisional data.

Italian industrial firms managed to contain the erosion of their competitiveness measured in terms of both the export prices and producer prices of manufactures (Figure 23). The slippage was greater when measured by industry's unit labour costs. In terms of the latter, however, industry still enjoys a gain in competitiveness both with respect to the period immediately preceding the devaluation of the lira in 1992 and in relation to 1988.

Figure 23

Indicators of Italian competitiveness (1)
(indices; 1992=100)



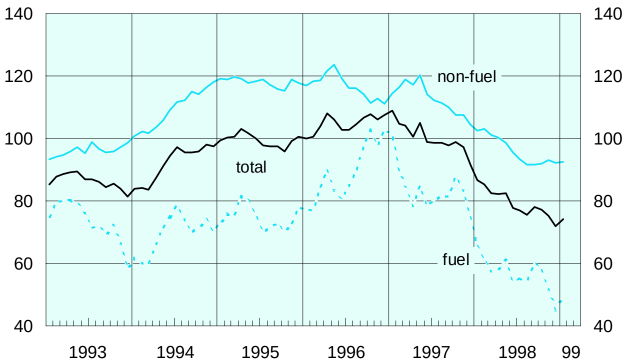
Sources: Based on Istat, OECD and IMF data and national statistics.

(1) Moving averages of the reference quarter and the preceding quarter. An increase in the index indicates a loss of competitiveness. - (2) The figures for the third quarter of 1998 are partly estimated.

In last few months of 1998, the fall in the dollar prices of raw materials accelerated, with the twelve-month decline amounting to 21.5 per cent in December, compared with 14.7 per cent at the end of 1997 (Figure 24). The prices of petroleum products plummeted by 39.6 per cent, the combined effect of the shortfall in demand in the wake of the Asian crisis and the increase in the amount of oil Iraq is allowed to produce by the United Nations. The fall in the prices of non-energy raw materials was smaller (11.7 per cent).

Figure 24

Dollar prices of internationally-traded primary commodities
(indices; 1990=100)

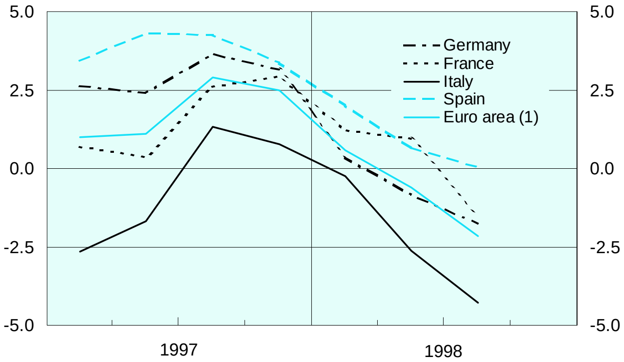


Sources: Based on IMF data.

Figure 25

Import deflators in the euro area

(percentage changes on year-earlier quarter)



Sources: Based on Istat and BIS data.

(1) Weighted average of the countries in the euro area for which quarterly data are available: Germany, Italy, France, Spain, the Netherlands and Finland. Provisional data.

The decline in the prices of raw materials and imported intermediate products caused a gradual fall in the import deflator for the euro area, which in the third quarter of 1998 was 2.1 per cent lower than in the corresponding period of the previous year (Figure 25). The deflator for Italy decreased by more than the area average (4.3 per cent); in the second half of the year the average unit values in lire of imported final goods also declined (Table a18), especially those of electronic goods and textiles from the crisis-affected emerging economies, signaling an increase in competitive pressures on domestic producers.

Firms' costs and profit margins

In the first nine months of 1998, unit labour costs in manufacturing industry in the euro area fell by 1.9 per cent with respect to the year-earlier period (Table 13), equal to the reduction recorded in 1997 as a whole. Despite a sharp deceleration, unit labour costs rose further, by 0.6 per cent, in Italy, whereas they fell by 2.7 per cent in the rest of the area.

The change in unit labour costs in the euro area as a whole was the result of an increase of 2.5 per cent in compensation per employee, appreciably less than the rise of 4.4 per cent in productivity. The significantly smaller increase in productivity in Italy (2 per cent), the consequence of the very low rate at which the economy has been growing for more than three years, is responsible for Italy's large residual disadvantage in this cost category. By contrast, the rate of increase in compensation is now in line with those in the other economies.

Table 13

Unit labour costs, per capita compensation and productivity in manufacturing in the euro area (1)

(percentage changes on year-earlier period)

	Unit labour costs		Compensation per employee (2)		Productivity		Components			
							Value added		Persons in employment	
	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998
Euro area	**–1.9**	**–1.9**	**3.2**	**2.5**	**5.2**	**4.4**	**4.2**	**5.5**	**–1.0**	**1.1**
Italy	**2.4**	**0.6**	**5.3**	**2.5**	**2.8**	**2.0**	**2.3**	**2.9**	**–0.5**	**0.9**
Excluding Italy ...	**–3.1**	**–2.7**	**2.6**	**2.5**	**5.9**	**5.1**	**4.8**	**6.2**	**–1.1**	**1.1**
of which: Germany	*–5.0*	*–4.3*	*1.7*	*2.0*	*7.3*	*6.7*	*4.3*	*8.2*	*–3.0*	*1.5*
France ..	*–2.9*	*–3.0*	*2.9*	*2.6*	*5.8*	*5.6*	*4.5*	*4.0*	*–1.3*	*–1.6*
Spain ...	*1.8*	*2.4*	*4.6*	*3.2*	*2.8*	*0.8*	*6.0*	*6.2*	*3.2*	*5.4*

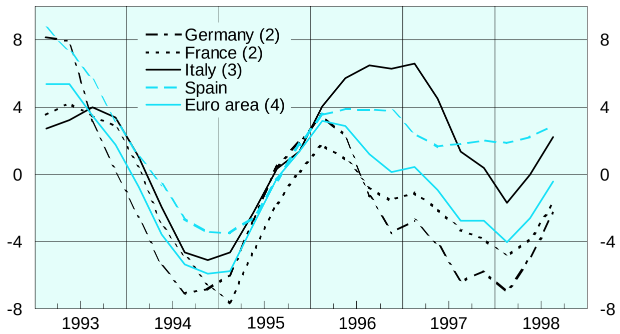
Sources: Based on Istat, BIS and Eurostat data.

(1) For 1998, the data refer to the first three quarters of the year and the countries for which quarterly national accounts data are available (Italy, Germany, France, Spain and Finland). For 1997, the data for the euro area do not include Portugal, Austria or Luxembourg. – (2) For Germany and France, gross wages and salaries.

The decline in productivity growth over the course of the year due to the slowdown in demand, especially from abroad, made the trend in unit labour costs less positive throughout the euro area. In the third quarter, unit labour costs for the area as a whole were only slightly lower than they had been a year earlier; in Italy they were 2 per cent higher (Figure 26).

Figure 26

Unit labour costs in manufacturing in the euro area
(percentage changes on year-earlier quarter) (1)



Source: Based on BIS data.

(1) Moving averages of the reference quarter and the preceding quarter. - (2) Based on gross wages and salaries. - (3) See text for a discussion of estimation of the impact of IRAP on compensation. - (4) Weighted average of the countries in the euro area for which quarterly data are available: Germany, Italy, France, Spain, the Netherlands and Finland.

The behaviour of compensation in the Italian economy in 1998 was assessed on the basis of an estimate of the impact of the regional tax on productive activities (Irap) on the cost of labour that is the equivalent of assuming that compensation rose at the same rate as wages and salaries (see *Economic Bulletin*, no. 27, October 1998). However, owing to the smaller-than-expected receipts from Irap, the increase in compensation could be about half a percentage point lower than the figure reported above. Although sharply lower than the previous year, the increase of 2.5 per cent in nominal wages and salaries was sufficient to raise real wages, given the modest pace of consumer price inflation, and net wages.

Contracts covering about half of employees in the manufacturing sector and 60 per cent of those in market services expired during the year. Renewals in a number of major sectors have run into significant difficulties: in the metal and engineering industry, over the demand for a reduction in working hours; in the banking sector, regarding the abolition of automatic length-of-service wage increases. In the transport sector, corporate restructuring has generated considerable industrial action. A specific sectoral agreement recently established a self-regulatory code for strikes that envisages arbitration.

Table 14

Unit variable costs and final prices in Italian manufacturing (1)
(percentage changes on year-earlier period)

	Percentage weights (2)	1997			1998		
		H1	H2	Year	H1	Q3	Q1-Q3
Unit variable costs	**100.0**	**1.6**	**0.5**	**1.0**	**0.3**	**0.7**	**0.4**
Domestic input costs	**74.5**	**3.0**	**0.4**	**1.7**	**0.4**	**1.8**	**0.9**
Unit labour costs	49.6	4.4	0.4	2.4	–0.1	1.8	0.6
labour costs per employee	–	6.0	4.6	5.3	2.5	2.6	2.5
of which: wages and salaries	–	*4.9*	*4.1*	*4.5*	*2.5*	*2.6*	*2.5*
productivity	–	1.5	4.2	2.8	2.6	0.8	2.0
Other costs	24.9	0.9	0.5	0.7	1.2	1.8	1.4
Foreign input costs (3)	**25.5**	**–3.3**	**0.6**	**–1.4**	**–0.2**	**–2.9**	**–1.1**
Output prices	**100.0**	**–0.4**	**1.1**	**0.4**	**1.6**	**0.8**	**1.3**

Sources: 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. – (3) The energy products component includes domestic production.

The unit variable costs of Italian manufacturing firms increased by an average of 0.4 per cent in the first three quarters of 1998 year-on-year, compared with a rise of 1.0 per cent for the whole of 1997 (Table 14). The slowdown was due to the deceleration in domestic cost components; the decline in the cost of foreign inputs was close to that recorded in 1997.

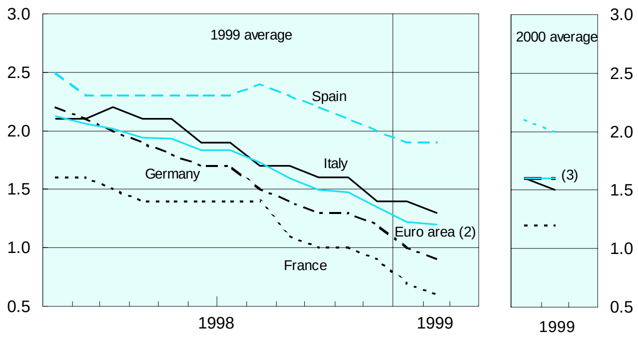
European firms increased their profit margins over the same period; the rise in Italy appears to have been smaller than the average for the other countries. Manufacturing output prices net of intrasectoral transactions outpaced costs in Italy. However, in the third quarter this divergence disappeared in conjunction with the cyclical slowdown.

Inflation expectations

In the last quarter of 1998 and early 1999 inflation expectations continued to subside in Italy and elsewhere in the euro area (Figure 27). Overall, they remained consistent with the medium-term inflation target indicated by the European Central Bank.

Figure 27

Consensus Forecasts expectations concerning average consumer price inflation in the euro area in 1999 and 2000 (1)
(percentage changes on previous year)



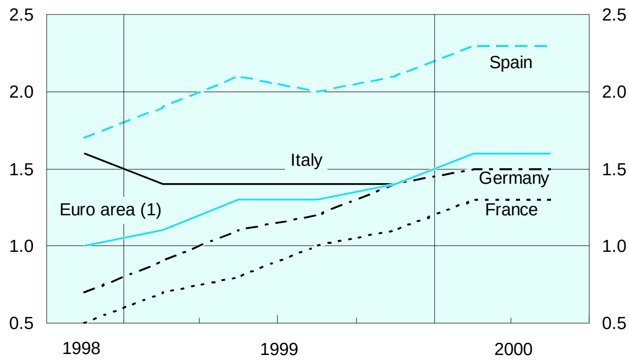
Source: Consensus Forecasts.

(1) Average annual rate of consumer price inflation. The horizontal axis shows the months in which the survey is conducted. - (2) Weighted average of the forecasts for the national consumer price indices in the countries of the euro area, excluding Luxembourg. - (3) The figure refers to Germany and the euro area; the latter is calculated as indicated in note (2).

The quarterly survey conducted in December by Consensus Forecasts showed expectations of a moderate rise in inflation from the level recorded at the end of 1998 to just over 1.5 per cent for the first half of the year 2000 (Figure 28). The rate of increase in prices in Italy is expected to hold steady at this level. The differential vis-à-vis Germany would virtually close from the end of 1999, whereas a slight differential vis-à-vis France is expected to persist.

Figure 28

Consensus Forecasts expectations concerning average consumer price inflation in the subsequent 8 quarters in the euro area
(percentage changes on year-earlier quarter; December 1998 survey)



Source: Consensus Forecasts.

(1) Weighted average of the forecasts for Germany, France, Italy, Spain and the Netherlands.

The monthly survey in February shows that inflation is expected to be lower in 1999 than in 1998 in Italy (1.3 per cent) and to remain virtually unchanged in the euro area (1.2 per cent). In the year 2000, consumer prices in Italy are expected to rise by 1.5 per cent, slightly less than the average of 1.6 per cent for the area as a whole.

For more distant time horizons, the indications provided by the financial markets are similar to those supplied by the survey with regard to the short and medium term. The one-year forward rates nine years ahead in the euro area implicit in interest rate swaps on the Euromarket (around 5 per cent) are consistent with an environment of price stability.

The public finances

With the economy performing less well than had been expected in 1998, general government net borrowing remained unchanged at 2.7 per cent of GDP. The Government's objective had been to reduce the ratio to 2.6 per cent. The outcome reflected the sharp contraction in the primary surplus from 6.6 to 4.9 per cent of GDP and the further fall in interest payments from 9.2 to 7.5 per cent of GDP brought about by the decline in interest rates (Table 15, Figure 29).

Table 15

General government net borrowing and debt
(billions of lire)

	1996	1997	1998
Net borrowing	123,090	52,266	54,330
as a percentage of GDP . .	*6.6*	*2.7*	*2.7*
Primary surplus	75,143	127,092	98,279
as a percentage of GDP	*4.0*	*6.6*	*4.9*
Interest payments	198,233	179,358	152,609
as a percentage of GDP	*10.6*	*9.2*	*7.5*
Debt as a percentage of GDP	124.6	122.4	118.7

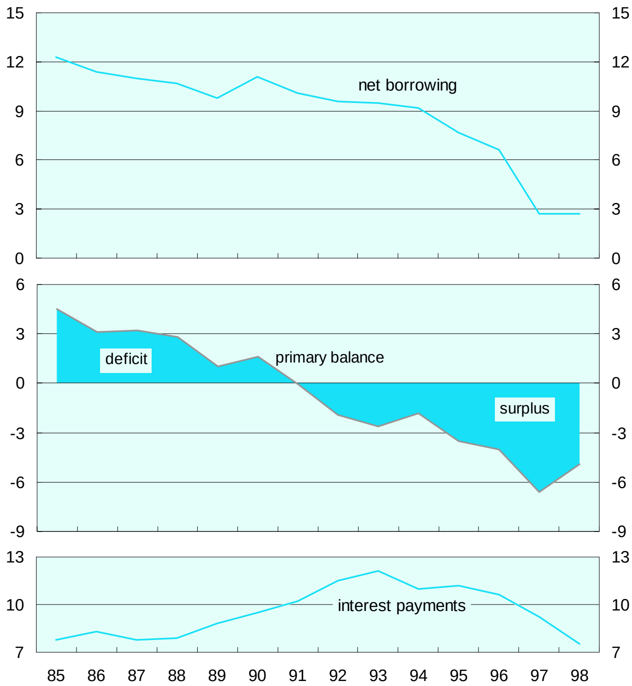
Sources: Based on Istat data; Bank of Italy for the debt.

It should be noted that some general government figures for the period 1995-97 may differ significantly from those previously published owing to the revision of the national accounts carried out by Istat on the occasion of the recent communication of data to the EU under the excessive deficit procedure.

Further progress was made in reducing public debt in relation to GDP; the ratio came down from 122.4 per cent in 1997 to 118.7 per cent, which was more than 6 percentage points below the peak recorded in 1994.

Figure 29

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



Source: Based on Istat data.
(1) Owing to the recent revision of the national accounts, the data for 1995-98 are not comparable with those for the earlier period.

Net borrowing in the euro area declined from 2.5 to 2.1 per cent of GDP in 1998. Amost all the participating countries improved their budgetary positions; the improvements were generally the result of favourable economic conditions and the fall in interest rates. The ratio of net borrowing to GDP declined by 0.1 percentage points in France, 0.6 points in Germany and 0.8 points in Spain.

Objectives and results in 1998

The Forecasting and Planning Report published in September 1997 set the objective for net borrowing in 1998 at 2.8 per cent of GDP and that for the primary surplus at 5.6 per cent, on the assumption of real GDP growth of 2 per cent. The budget, which was approved by Parliament at the end of 1997 without major amendments to the Government's original proposals, included measures officially estimated to increase the primary surplus by 25 trillion lire, or 1.2 per cent of GDP (see *Economic Bulletin*, no. 26, February 1998).

In the Report on the Borrowing Requirement published in March 1998 the Government revised the forecasts for the public finances in the light of the outturn for 1997 and especially the more favourable trend of interest rates. The objective for net borrowing was reset at 2.6 per cent of GDP and that for the primary surplus at 5.5 per cent (which was consistent with the outturn for 1997 of 6.8 per cent). These objectives were confirmed in May in the Economic and Financial Planning Document for the three years 1999-2001, which assumed GDP growth in 1998 of 2.5 per cent. They were left unchanged in the Forecasting and Planning Report published in September, despite the reduction in forecast growth to 1.8 per cent.

With the economy performing even less well (GDP grew by 1.4 per cent), net borrowing exceeded the objective by 0.1 percentage points; the overshoot was larger for the primary surplus.

The ratio of the primary surplus to GDP, after rising from 4 to 6.6 per cent between 1996 and 1997, dropped to 4.9 per cent last year as a result of the fall of 1.5 percentage points in the ratio of revenue to GDP and the rise of 0.2 points in the primary expenditure ratio.

The reduction in the ratio of revenue to GDP, from 48.5 to 47 per cent, was primarily due to the fall in receipts of the flat-rate tax on financial investment income following its reform and the decline in interest rates, the replacement of a series of taxes and contributions by the new regional tax on productive activities, and the absence of some receipts (estimated at around 0.3 per cent of GDP) of the special Europe tax, which had boosted revenue in 1997. Acting in the opposite direction were measures in the budget for 1998 that are estimated to have generated additional revenue equal to 0.6 per cent of GDP.

The ratio to GDP of direct and indirect taxes, capital taxes and social security contributions declined from 44.8 to 43.6 per cent.

The increase in primary expenditure from 42 to 42.2 per cent of GDP reflects the growth in capital outlays from 3.5 to 3.8 per cent of GDP. This was fueled by "other capital expenditure", primarily as a result of the return to paying tax refunds in securities, and by investment, which grew by 10.5 per cent, compared with 9.2 per cent in 1997, and rose from 2.3 to 2.4 per cent of GDP.

As regards current expenditure, the decline in the main items in relation to GDP more than offset the rise in production subsidies from 1 to 1.3 per cent of this aggregate. The increase followed the sharp fall of 0.4 percentage points in 1997, which had been made possible by recipients of subsidies running down the balances on their accounts with the Treasury. Social security benefits declined from 19.9 to 19.6 per cent of GDP as a result of the one-off saving produced by the switch from two-monthly to monthly payments of INPS pensions; without this change, the ratio would have remained essentially unchanged. Excluding the saving produced by the abolition of the health contributions payable by general government (which were entirely offset by payments of the regional tax on productive activities), compensation of employees declined from 11.8 to 11.7 per cent of GDP. Per capita earnings are estimated to have risen by 2 per cent on average, primarily owing to the carryover effects of the increases granted for the two years 1996-97, in view of the delay in finalizing the wage agreements for the current two-year period. General government employment diminished further.

The reduction in the ratio of net borrowing to GDP attributable to temporary measures is estimated to have been on the order of 0.6 percentage points, as against roughly 1 point in 1997. The most important measures of this kind were the above-mentioned change in the method of paying pensions and the additional levy on firms' severance pay provisions, which, like that of the previous year, will reduce revenue when the severance pay in question is disbursed.

Cyclically adjusted net borrowing remained unchanged at 2.3 per cent of GDP. This aggregate is estimated by identifying the deviations in economic activity from the medium-term trend and determining the effects they produce on the public finances through the working of so-called built-in stabilizers.

The ratio of the public debt to GDP decreased by 3.7 percentage points, as against 2.2 points in 1997, and reached 118.7 per cent. In addition to the primary surplus, the factors contributing to the reduction included privatization receipts amounting to 0.7 per cent of GDP, compared with 1.1 per cent in 1997, and the smaller volume of debt issued as a result of the large contraction in the assets held by the Treasury with the Bank of Italy, which fell from 2.9 to 2.1 per cent of GDP after remaining virtually unchanged in 1997. Acting in the opposite direction was the difference between the average cost of the debt and the growth rate of the economy, which has been positive since 1989. The effect of this difference on the ratio of debt to GDP fell from 4.4 per cent of GDP in 1997 to 2.5 per cent last year, compared with a peak of 8.4 points in 1993 (Figure 30).

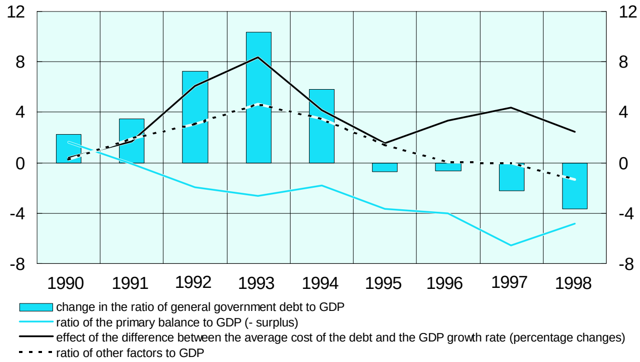
The introduction of the regional tax on productive activities significantly altered the composition of general government revenue and expenditure. Its inclusion among indirect taxes increased their relative importance, while that of direct taxes diminished following the abolition of local income tax, the tax on companies' net worth and the municipal tax on businesses and the self-employed. The importance of social security contributions also declined, owing to the abolition of health contributions. Their replacement for general government by the regional tax on productive activities resulted in an estimated reduction of around 11.5 trillion lire in "compensation of employees" and an increase in "other current expenditure".

The effects of the foregoing changes on revenue were intended to be neutral. The loss of receipts from the various measures that were suppressed was to be offset by receipts of the new tax (officially estimated at 53.6 trillion lire for the private sector), residual payments of the abolished taxes and contributions (8.7 and 7.7 trillion respectively) and the increase in the yield of personal income tax following the abolition of health contributions (5.2 trillion).

Figure 30

Change in the ratio of public debt to GDP and its components (1) (2)

(percentages)



(1) The change in the debt-to-GDP ratio (*d*) can be decomposed into three components on the basis of the following equality: $d_t - d_{t-1} = pr_t + (r_t - g_t)\, d_{t-1} + re_t$, where *pr* = primary net borrowing in relation to GDP, *r* = the average cost of the debt, *g* = the rate of increase in nominal GDP, and *re* = a residual item, again expressed as a ratio to GDP. The latter comprises the discrepancy between net borrowing and the change in the debt in nominal terms (arising primarily from the issue discounts on government securities, the effects of exchange rate changes on the debt denominated in foreign currencies, privatization receipts, settlements of past debts and financial items) and the approximation inherent in using the above decomposition in discrete time when it is only exact in continuous time.

The provisional budget outturn for 1998 shows smaller-than-expected receipts of the new tax; part of the shortfall was made good, however, by larger-than-expected receipts of the abolished taxes and contributions. The overall loss of revenue was accordingly around 9 trillion lire. The regional tax on productive activities paid by the private sector amounted to around 40.5 trillion lire, including the estimated share at the end of the year, on the order of a few hundred billion lire, of the receipts awaiting classification among the different taxes and contributions affected by the new all-in-one payment procedure. The residual receipts of the abolished taxes are estimated to have amounted to around 11.3 trillion lire. It is not yet possible to make an accurate comparison between forecast and actual results for health contributions; but there are grounds for expecting receipts to have been higher than projected, since companies whose financial year did not coincide with the calendar year continued to pay contributions beyond January.

General government revenue and expenditure

The general government accounts have undergone some changes as part of Istat's revision of the national accounts. On the expenditure side the items most affected are intermediate consumption, production subsidies and interest payments; on the revenue side the most important change consists in a reallocation of receipts from other current revenue to indirect taxes.

Expenditure

General government expenditure amounted to around 1,006 trillion lire in 1998, an increase of 1.3 per cent on the previous year; as a ratio to GDP, it declined from 51.2 to 49.7 per cent. Interest payments decreased by 14.9 per cent, while other expenditure increased by 4.9 per cent and rose slightly in relation to GDP, from 42 to 42.2 per cent.

The reduction in interest payments was larger than in 1997 and amounted to 26.7 trillion lire, reflecting the decline in interest rates from 1996 onwards (the average gross rate on 3, 6 and 12-month Treasury bills in the December auction fell from 10.5 per cent in 1995, to 6.7 per cent in 1996, 4.9 per cent in 1997 and 2.9 per cent in 1998). The average cost of the debt should continue to decline this year and in the coming years as high-yielding securities are redeemed.

Social security benefits declined slightly in relation to GDP (from 19.9 to 19.6 per cent). The increase in disbursements amounted to 2.6 per cent, as against 6.6 per cent in 1997, and was largely attributable to the growth in pension outlays. The result in 1998 was influenced by: the switch from two-monthly to monthly payments of INPS pensions, which brought a one-off saving of more than 6 trillion lire after taking into account the consequent reduction in tax revenue; the decrease in the annual pension inflation adjustment from 3.8 per cent in 1997 to 1.7 per cent last year, as a result of the slowdown in inflation; and the postponement of retirement dates for new length-of-service pensions provided for in the Finance Law for 1998.

The fall of 1.5 per cent in compensation of employees was due to the abolition of the health contributions by general government, which was offset only in part by

General government revenue and expenditure
(billions of lire; percentage changes)

	1997	1998	Composition % (1)	1997 / 1996	1998 / 1997
EXPENDITURE					
Compensation of employees	229,487	226,005	22.5	5.1	–1.5
Intermediate consumption	93,962	99,375	9.9	1.4	5.8
Social security benefits	385,746	395,849	39.3	6.6	2.6
Production subsidies	20,367	26,303	2.6	–29.1	29.1
Interest payments	179,358	152,609	15.2	–9.5	–14.9
Other current expenditure	16,280	28,378	2.8	1.0	74.3
Current expenditure	**925,200**	**928,519**	**92.3**	**1.0**	**0.4**
as a percentage of GDP	*47.7*	*45.9*			
Current expenditure, net of interest payments	**745,842**	**775,910**	**77.1**	**3.9**	**4.0**
as a percentage of GDP	*38,4*	*38.3*			
Investment	44,209	48,843	4.9	9.2	10.5
Investment grants	20,010	20,947	2.1	–12.9	4.7
Other capital expenditure	3,806	7,895	0.8	–60.5	107.4
Capital expenditure	**68,025**	**77,685**	**7.7**	**–6.9**	**14.2**
Total expenditure, net of interest payments	**813,867**	**853,595**	**84.8**	**2.9**	**4.9**
as a percentage of GDP	*42.0*	*42.2*			
TOTAL EXPENDITURE	**993,225**	**1,006,204**	**100.0**	**0.4**	**1.3**
as a percentage of GDP	*51.2*	*49.7*			
REVENUE					
Direct taxes	310,257	292,611	30.7	8.8	–5.7
Indirect taxes	243,973	311,787	32.8	7.5	27.8
Social security contributions	300,905	270,922	28.5	6.4	–10.0
Other current revenue	67,250	63,689	6.7	9.2	–5.3
Current revenue	**922,385**	**939,009**	**98.6**	**7.7**	**1.8**
as a percentage of GDP	*47.5*	*46.4*			
Capital revenue	**18,574**	**12,865**	**1.4**	**90.1**	**–30.7**
TOTAL REVENUE	**940,959**	**951,874**	**100.0**	**8.7**	**1.2**
as a percentage of GDP	*48.5*	*47.0*			
Net borrowing	**52,266**	**54,330**		**–57.5**	**3.9**
as a percentage of GDP	*2.7*	*2.7*			
Primary surplus	**127,092**	**98,279**		**69.1**	**–22.7**
as a percentage of GDP	*6.6*	*4.9*			
Memorandum item:					
GDP	1,939,875	2,024,105		4.1	4.3

Source: Based on Istat data
(1) With reference to 1998.

cont.

the substantial increase in the central government payment to balance the accounts of the State Sector Employees' Social Security Institute (INPDAP). Gross per capita earnings rose by around 2 per cent, largely owing to the carryover effect, estimated at around 1.4 percentage points, of the increases granted for the two years 1996-97. Employment declined by roughly 0.5 per cent.

Intermediate consumption and investment increased quite fast, rising by 5.8 and 10.5 per cent respectively. After falling sharply in 1997, investment grants and production subsidies rose by 4.7 and 29.1 per cent respectively.

The fact that the regional tax on productive activities paid by general government is accounted for as an indirect tax expenditure caused other current expenditure to rise from 16.3 to 28.4 trillion lire. The amount of this tax is determined by applying the same rate to employee earnings as was used for the abolished health contribution. There was also a substantial increase in transfer payments to the EU.

Other capital expenditure increased from 3.8 to 7.9 trillion lire, largely owing to the increase in tax refunds paid in securities from 0.07 to 3.4 trillion.

Revenue

Total general government revenue grew by 1.2 per cent in 1998; in relation to GDP it declined by 1.5 percentage points, from 48.5 to 47 per cent.

The performance of the main revenue items was influenced by the reallocation of revenue following the introduction of the regional tax on productive activities. Indirect tax receipts rose by 27.8 per cent, while receipts of direct taxes and social security contributions fell by 5.7 and 10 per cent respectively. Excluding the redistributive effects of the new levy, indirect taxes rose by 7.4 per cent and social security contributions by around 4 per cent, while direct taxes remained essentially unchanged.

Personal income tax was the only direct tax to generate additional revenue, with an increase of 9.6 per cent. Receipts were boosted by the increase in the rate of withholding tax for the self-employed introduced in the budget for 1998 and by the growth in the tax base following the abolition of health contributions. The yield of the flat-rate tax on interest income fell from 36.5 to 17.9 trillion lire owing to the decline in interest rates and the effects of some temporary factors. In particular, the revenue arising from bank deposit interest was further reduced by the large volume of overpayments in 1997. Two other factors depressed the yield of the tax on bond interest. The first was the abolition of the withholding tax for bonds held by asset management undertakings under the reform that came into force on 1 July, such interest income was made subject to a tax on the annual result of asset management activity that will be paid in 1999. The second factor was the abolition as of 1997 of the withholding tax on bonds held by firms, which led to a shift in receipts in favour of self-assessed corporate income tax.

Indirect taxes include receipts of the regional tax on productive activities, which amounted to around 52 trillion lire. The large rise in the yield of VAT reflected the rate increases introduced in October 1997 and the growth in the tax base. The latter was the result of the revision of the rules on deductible expenses and the introduction of tax incentives for building renovation projects, which may have brought additional turnover into the net. The yield of excise taxes declined, after benefiting in 1997 from the changes made in the manner of paying the tax on methane. The revenue from gaming taxes rose considerably.

Actual social security contributions declined by 10.3 per cent, from 293.8 to 263.5 trillion lire, as a consequence of the abolition of health contributions. The contributions for private sector payroll workers are estimated to have contracted by around 7 per cent. The fall in those for public employees, estimated at around 8 per cent, was attenuated by the substantial increase in the contributions paid to the State Sector Employees' Social Security Institute (INPDAP) and the inclusion in the accounts of prior-year contributions payable by the Ministry of Education.

Capital revenue decreased by 5.7 trillion lire owing to the absence of receipts of the special Europe personal income surtax and the reduction in the yield of the levy on firms' severance pay provisions.

Excluding the redistribution effects produced by the introduction of the regional tax on productive activities, direct taxes are estimated to have remained virtually unchanged, not least because the yield of the tax on financial investment income was roughly halved. In the same way indirect taxes are estimated to have grown by around 7.4 per cent; this was more than the expansion in the relevant tax bases, primarily owing to the revision of VAT rates in the budget for 1998. Lastly, actual social security contributions are estimated to have increased by some 4 per cent, or 1 percentage point more than the total compensation of private and public sector employees.

Excluding settlements of past debts and privatization receipts, the state sector borrowing requirement rose by nearly 6 trillion lire to 58.5 trillion. When these items are included, the aggregate rose from 31.1 to 49 trillion (Table 16).

Table 16

State sector balances

(billions of lire)

	1996	1997	1998 (1)
Financial balances net of settlements of past debts and privatization receipts . . .			
Borrowing requirement	128,799	52,720	58,522
as a percentage of GDP . . .	*6.9*	*2.7*	*2.9*
Primary surplus	66,284	126,304	96,978
as a percentage of GDP . . .	*3.5*	*6.5*	*4.8*
Memorandum items:			
Settlements of past debts	13,502	–409	4,770
Privatization receipts	6,226	21,179	14,291

(1) Provisional.

Further progress was made in lengthening the average maturity of public debt, which reached 5 years for government securities alone. Issues of long-term fixed-rate securities exceeded net redemptions of other types of securities having a shorter duration, primarily BOTs and CCTs.

Objectives and forecasts in the euro area

The efforts to restore more balanced budgets in the single currency area were eased in 1998 after the substantial adjustment made in the preceding year to achieve budget balances consistent with the limits set in the Maastricht Treaty. Government finances benefited from the upturn in economic activity in the area as a whole and the decline in interest rates.

General government net borrowing amounted to 2.1 per cent of GDP, compared with 2.5 per cent in 1997; the debt ratio declined from 75.4 per cent in 1997 to 72.9 per cent last year. European Commission estimates suggest a fall in interest payments from 5.1 to 4.7 per cent of GDP (Table 17).

Among the major euro area countries, Germany and Spain achieved significant improvements in their public finances.

In Germany, where GDP growth accelerated from 2.2 per cent in 1997 to 2.8 per cent last year, the ratio of net borrowing to GDP decreased from 2.7 to 2.1 per cent; the debt ratio declined from 61.5 to 61 per cent. In Spain, the rapid expansion in economic activity (with GDP growing by 3.8 per cent, as against 3.5 per cent in 1997) contributed to the substantial improvement in the public finances: net borrowing decreased from 2.6 to 1.8 per cent of GDP and the debt ratio is estimated to have fallen by more than 1 percentage point.

In France, where growth accelerated from 2.3 to 3.2 per cent, net borrowing declined by 0.1 percentage point to 2.9 per cent of GDP and the debt rose from 58.1 to 58.5 per cent.

The public finances of the EU countries not participating in the third stage of EMU (Denmark, Greece, Sweden and the United Kingdom) showed a more marked improvement. These four countries recorded an average surplus of 0.6 per cent of GDP, compared with an average deficit of 1.7 per cent in 1997; the debt ratio declined by 3.3 percentage points to 56.8 per cent.

In the United Kingdom a significant improvement was achieved despite GDP growth slowing down. The balance on the general government accounts swung from a deficit of 1.9 per cent of GDP in 1997 to a surplus of 0.6 per cent, and the debt ratio decreased from 52.1 to 49.4 per cent.

Table 17

General government net borrowing, expenditure, revenue and debt in the euro area and the EU (1)

(as a percentage of GDP)

	1997		1998		1999		2000	
	Euro area	EU	Euro area	EU	Euro area	EU	Euro area	EU
Net borrowing								
– Outturn (2)	2.5	2.3	2.1	1.5	–	–	–	–
– Stability/convergence programme objectives (3)	2.5	2.1	2.3	1.6	1.8	1.4	1.5	1.1
– EU Commission (December 1998)	2.5	2.3	2.3	1.8	1.9	1.4	1.6	1.2
– OECD	2.5	2.4	2.3	1.9	1.9	1.7	1.6	1.4
Cyclically-adjusted net borrowing								
– EU Commission	2.0	2.0	2.1	1.8	1.8	1.4	1.7	1.3
– OCSE (4)	1.6	1.6	1.6	1.4	1.3	1.1	1.1	0.9
Revenue and expenditure								
– EU Commission								
Total expenditure (5)	49.9	49.1	49.1	48.2	48.5	47.8	47.9	47.3
Interest payments	*5.1*	*5.0*	*4.7*	*4.6*	*4.4*	*4.3*	*4.2*	*4.1*
Revenue	47.3	46.8	46.7	46.4	46.5	46.4	46.2	46.1
Debt								
– Outturn (2)	75.4	72.0	72.9	69.2	–	–	–	–
– Stability/convergence programme objectives (3)	75.2	71.6	72.9	69.0	72.8	68.6	....	....
– EU Commission (December 1998)	75.1	72.0	73.8	70.3	72.5	69.0	70.9	67.3

Sources: EU Commission, *Autumn Forecast*, December 1998 and *1999 Annual Economic Report*, January 1999; OECD, *Economic Outlook*, December 1998.
(1) Weighted averages based on nominal GDP expressed in ecus. — (2) As a percentage of potential GDP. — (3) Outturns. — (4) EU Commission forecasts (January 1999).

In 1999, according to the stability programmes presented by the Governments of the euro area countries, the ratio of general government net borrowing to GDP for the area should fall by half a percentage point. In the view of the European Commission, the improvement will be due largely to the decrease of 0.3 percentage points in the ratio of interest payments. The primary surplus should increase slightly. The debt ratio for the area is expected to remain unchanged at around 73 per cent.

The results for 1998 and the forecasts for this year indicate a slowing down in the euro area of the process of budgetary adjustments compared with the years up to 1997. This could delay the achievement of the medium-term objective set in the Stability and Growth Pact of a budget position close to balance or in surplus.

According to Commission forecasts, budgets in the EU will remain large in relation to GDP. In the period from 1998 to 2000 primary expenditure and revenue are expected to remain broadly stable in relation to GDP at a little above 43 and 46 per cent, respectively.

Monetary policy, banking and the financial markets

On 31 December the irrevocable conversion rates of the euro against the participating currencies were fixed; the rate for the lira is 1,936.27. The conversion rates were determined on the basis of the market rates of the participating currencies (equal to their respective ERM parities, in accordance with the announcement made by the European Council on 3 May 1998) and those of the Danish krone, the Greek drachma and the pound sterling, the other currencies included in the ecu basket. In this way the one-to-one ratio with the ecu provided for in the Maastricht Treaty was ensured.

With the introduction of the single European currency in eleven EU member states, monetary policy became the responsibility of the Governing Council of the European Central Bank, composed of the Governors of the national central banks and six members of the Executive Board. The objective of monetary policy is to maintain price stability throughout the euro area; it is implemented in each country by the national central bank in accordance with the principle of subsidiarity sanctioned in the Maastricht Treaty.

The Bank of Italy's aim last year was to ensure the orderly completion of the process of convergence towards the single currency. With monetary aggregates expanding rapidly until the summer, the achievement of this objective called for monetary conditions to be relaxed gradually. The careful scheduling of the measures that led to short-term interest rates falling by more than three percentage points over the year ensured economic agents' expectations and conduct were consistent with the objective of price stability, and both actual and expected inflation came down towards the levels prevailing in the euro area; it also helped to protect the exchange rate and long-term interest rates from the repercussions of both the international financial crisis and domestic tensions.

Official interest rates were brought down step by step during the year. Following the reductions in April and October, the discount rate was lowered by half a point to 3.5 per cent on 4 December, in agreement with the other members of the Eurosystem, and the rate on fixed-term advances by one point to 4.5 per cent. On 28 December the discount rate was lowered by another half-point to 3 per cent, the interest rate at which the first financing operations in euros were carried out in January this year. In a situation of modestly decelerating consumer price inflation and growth of M3 at near the reference value, the ECB Governing Council judged this rate, which is historically low for Europe, to be consistent with maintaining price stability in the euro area in the medium term.

The Council fixed the interest rate for the marginal lending facility and overnight deposits with national central banks at 4.5 and 2 per cent respectively. In order to smooth the transition to the new procedures for conducting monetary policy, these rates were set at 3.25 and 2.75 per cent respectively for the period between 4 and 21 January.

December also saw the completion of the process of bringing the reserve requirements applicable to Italian banks into line with the system envisaged under the new regime; in the last maintenance period prior to the introduction of the single currency, the maximum reserve ratio applied to the reference aggregate then in effect was lowered from 6 to 2.5 per cent.

In the last quarter of 1998 the three-month Eurolira rate declined by 1.6 percentage points to 3.2 per cent; the differential vis-à-vis the corresponding Euromark rate, which had been 1.2 percentage points at the end of September, disappeared from November on.

The decline in interest rates towards the levels prevailing in the euro area also involved the long end of the market: the differential between ten-year swap rate in lire and marks in the Euromarket was annulled and that between benchmark government securities with similar maturities, which had widened to more than 50 basis points during the period of turmoil in international markets, fell to less than 10 basis points in the last part of the year. At the end of December the yield on ten-year BTPs reached an all-time low of 3.9 per cent.

The decline in market rates allowed the Treasury to continue its policy of lengthening the average maturity of government debt, which increased by more than six months to five years, in line with France and Germany.

The interest rates practised by banks have been lowered. During 1998 the rate on short-term lira loans fell by 2.3 percentage points, to 6.7 per cent, almost eliminating the difference between the cost of bank loans in Italy and Germany. Deposit rates fell somewhat less; so that the differential with lending rates narrowed by almost half a point, to 4.4 percentage points.

After growing rapidly in the first six months, the monetary aggregates slowed down considerably, reflecting the gradual approach to the easing of monetary policy and a slowdown in the reallocation of financial portfolios. M2 grew over the year by 5.8 per cent, compared with the reference value of 5 per cent indicated by the Bank of Italy at the end of 1997.

Within the euro area the broad monetary aggregate M3, which plays a key role in the monetary policy strategy of the Eurosystem, expanded by 4.5 per cent in the twelve months ending in December, in accordance with the reference value fixed by the Governing Council of the ECB last December (see the ECB's *Monthly Bulletin*, January 1999).

After the surge of the first half of the year and the fall in the third quarter in connection with the turmoil in international markets, Italian share prices bounced back almost to the previous peaks and rose by 41 per cent over the year. Mainly as a result of this rise, which was larger than those of the major European and international stock exchanges, the ratio of the total capitalization of the stock market to GDP rose by 14 percentage points to 45 per cent, while the earnings/price ratio fell by 0.8 points to 3.8 per cent.

Faced with a modest expansion in domestic deposits, the banks financed the rapid growth in lending by increasing their foreign currency liabilities. Their securities portfolios expanded slightly, while their holdings of reserves and liquidity fell to very low levels by historical standards.

Provisional data indicate that the banks' profitability improved considerably last year, thanks to temporary factors linked to the positive performance of the financial markets. Notwithstanding the contraction in net interest income, especially in the second half of the year, gross income grew strongly as a result of the exceptionally high gains from securities trading and the increase in earnings on asset management services. The number of employees fell by nearly 2 per cent; operating costs continued to grow, albeit less rapidly as a result of the delay in renewing the industry's nation-wide labour contract. The increase in net income should produce one of the highest rates of return on equity of the decade.

Monetary policy and the exchange rate of the lira

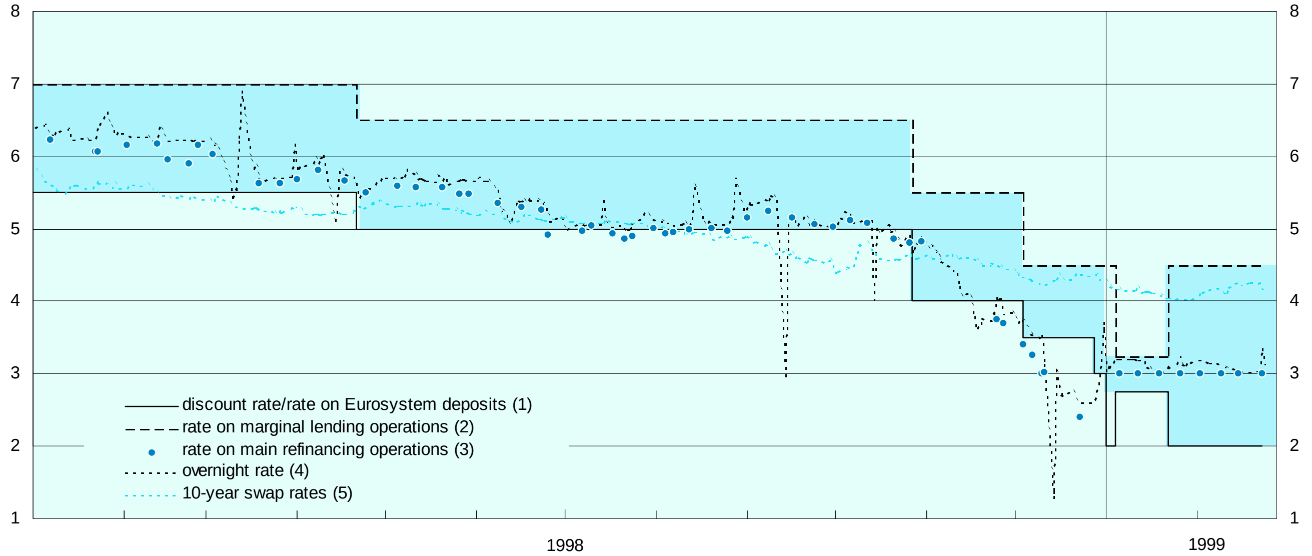
The steady decline in market rates (Figure 31) and the stability of the lira with respect to the currencies of the other euro area countries permitted an orderly changeover to the new monetary policy regime.

In the last quarter of 1998 the three-month Eurolira rate dropped from 4.8 to 3.2 per cent; the differential vis-à-vis the corresponding Euromark rate, which had been 2.3 percentage points at the beginning of the year and 1.2 points at the end of September, disappeared at the end of November (Figure 32). At the same time the slight divergence between the forward exchange rate against the mark and the corresponding central rate also disappeared.

The fall in nominal interest rates was reflected in real interest rates: the three-month Eurolira rate adjusted for actual inflation fell to 2.2 per cent in December (Figure 33), which was about half a percentage point below the corresponding rate in the four leading euro area countries and more than two points below the level prevailing in Italy twelve months earlier.

Figure 31

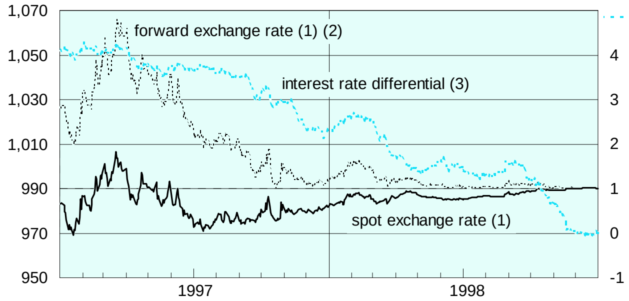
Official interest rates and money and financial market rates
(daily data; percentages)



(1) Italian official discount rate until 31 December 1998, rate on overnight deposits with the Eurosystem thereafter. - (2) Rate on fixed term advances from the Bank of Italy until 31 December 1998, rate on Eurosystem marginal lending operations thereafter. - (3) Marginal allotment rate on Bank of Italy repo operations until 31 December 1998, rate on the Eurosystem's main refinancing operations thereafter. - (4) Actual rate in the Italian interbank market until 31 December 1998, EONIA rate thereafter. - (5) Rate on Euromarket 10-year interest rate swaps, for the lira until 31 December 1998, for the euro thereafter.

Figure 32

Short-term lira/DM interest rate differential and spot and forward lira/DM exchange rates
(daily data; percentage points and lire per DM)

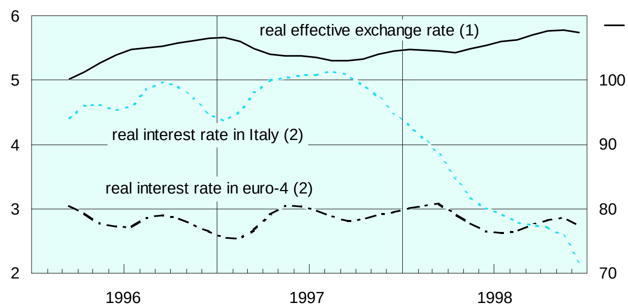


(1) Left-hand scale. - (2) Forward exchange rate at 1 January 1999, obtained on the assumption that the change in the exchange rate over the period was equal to the difference between lira and DM interest rates, calculated on the basis of Euromarket LIBOR, swap and future rates. - (3) Difference between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

Interest rates also fell at the long end of the market. The differential between ten-year swap rates in lire and marks in the Euromarket was annulled and that between benchmark government securities with similar maturities, which had already fallen to less than 10 basis points in the spring, was annulled in the last part of the year. The rate on the ten-year benchmark BTP fell from 4.4 per cent at the end of September to 3.9 per cent at the end of December; over the same period the differential with the corresponding rate on Bunds contracted from around 50 basis points to less than 10 basis points (Figure 34). The narrowing of the differential in this period, which was partly due to the increase in the supply of the German benchmark security, was followed by

Figure 33

Real effective exchange rate of the lira and real short-term interest rates in Italy and the euro area
(monthly data; percentages and index, 1993=100)

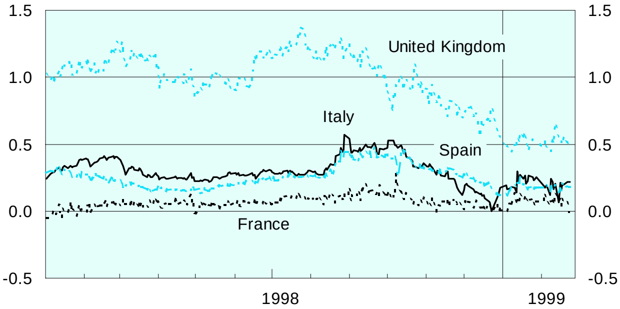


Sources: Eurostat and based on OECD data.
(1) Calculated with respect to 24 countries on the basis of the producer prices of manufactures. Moving average for the three months ending in the reference month. An increase indicates an appreciation. Right-hand scale. - (2) Three-month LIBOR rates deflated using the change in the harmonized consumer price indices in the preceding 12 months. For the euro-4 area, 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 (averages for the three years 1992-94). Moving average for the three months ending in the reference month. Left-hand scale.

Figure 34

Yield differentials on benchmark 10-year government securities in relation to Germany (1)

(daily data; percentage points)



Source: BIS.
(1) Gross yields.

a slight widening, common to all the other euro area countries, when the Brazilian crisis caused tensions to re-emerge in international markets.

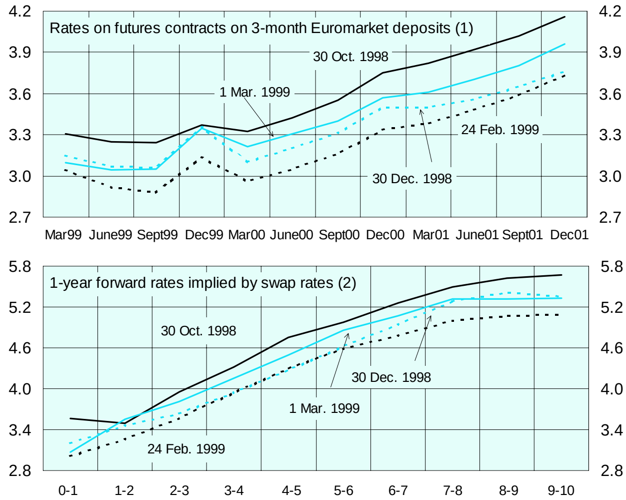
In the last part of 1998 the euro area yield curve of one-year forward interest rates, with which the corresponding lira curve had already come into line in May, recorded a downward shift that became more pronounced in the first few days of this year, when it reached around half a percentage point. The term structure of interest rates derived from the prices of futures contracts on three-month Euromarket deposits in euros shows that market participants expect money market rates to fall by around a quarter of a point by September and then to rise slightly (Figure 35). The expected decline in interest rates reflects the spread of fears of an economic slowdown in Europe. The spike in December 1999 reflects the possibility that payment system problems connected with the adaptation of computer systems to the year 2000 will result in increased demand for monetary base.

The term structure of forward interest rates and the inflation expectations measured by opinion surveys show that the real short-term interest rate in the euro area is expected to remain basically stable in 1999 (between 1.6 and 1.8 per cent) and then to fall slightly at the beginning of 2000 (to 1.5 per cent, or about one percentage point below the corresponding level in the United States; Figure 36). The real interest rate expected in Italy is slightly below the average of the four leading euro area countries for the first half of 1999, reflecting the persistence of a small inflation differential that should disappear in the second half of the year.

Figure 35

Euro yield curve in the Euromarket

(*percentages*)



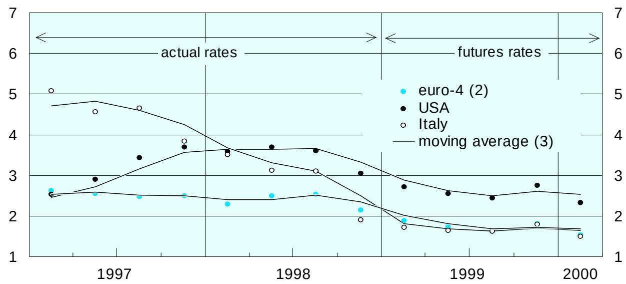
(1) The horizontal axis shows the settlement dates for the futures contracts to which the yields refer. The date on which the contract was concluded is shown beside each curve. - (2) The horizontal axis shows the period to which the yield refers, expressed in years from the contract date indicated. The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

In the last quarter of 1998 the nominal effective exchange rate of the lira weakened slightly, falling by 1.4 per cent. The yen appreciated by 17.6 per cent against the lira, which remained stable against the dollar and the other euro area currencies and strengthened against the pound sterling and the Swedish krona. Over the whole year, the nominal effective exchange rate rose slightly, by 0.5 per cent.

Figure 36

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 March 1999 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.

Monetary base contracted by 56.7 trillion lire in 1998. However, when account is taken of the 73.3 trillion of liquidity released by the reduction in the average compulsory reserve ratio, the aggregate grew by 7.9 per cent, or a little less than in 1997. The growth occurred in both currency and bank reserves, which expanded by 7.2 and 8.7 per cent respectively (Table 18). The foreign sector destroyed 37 trillion lire of liquidity, primarily in connection with the closing of currency swap refinancing positions (13.7 trillion) and payments of interest and maturities of principal on government securities denominated in foreign currency (23.2 trillion); the Treasury destroyed 27 trillion as a result of the redemption of 43.9 trillion of government securities in the Bank of Italy's portfolio, which was only offset in part by the reduction of 15.6 trillion in the balances on its accounts with the Bank. Open market operations created 1.3 trillion of monetary base (Table 19).

Table 18

Monetary variables (1)
(percentage changes)

	1997		1998 (2)	
	Oct.-Dec. (3)	Year	Oct.-Dec. (3)	Year
Monetary base (4)	6.5	8.9	8.2	7.9
Currency	7.1	7.1	7.9	7.2
Bank reserves (4)	5.8	11.2	8.9	8.7
Short-term bank deposits	5.4	9.9	7.3	7.9
Money supply (M2)				
Monthly average	3.7	9.0	0.9	5.7
Quarterly average (5)	4.1	9.7	−1.2	5.8

(1) Currency, bank reserves and monetary base are calculated as averages of daily data for the reserve maintenance period (from mid-month to mid-month, except for the last maintenance period of 1998, which ran from 15 to 31 December); bank deposits and the money supply are calculated as averages for the calendar month. – (2) Provisional. – (3) Annualized and seasonally adjusted. – (4) Adjusted for the change in the average compulsory reserve ratio. – (5) Average for the quarter ending in the last month of the reference period.

In June the annualized growth in M2, calculated on seasonally adjusted three-month average data, was 13.2 per cent; over the year as a whole the aggregate grew by 5.8 per cent (Figure 37; see also the box "The behaviour of the money supply", *Economic Bulletin* no. 27, October 1998). The expansion in M2 reflected the rapid growth in M1. The increase of 9.1 per cent in narrow money over the year, calculated on three-month average data, was partly offset by the contraction in the less liquid components of M2, which also explains the slower growth in the Italian component of M3.

Table 19

Monetary base (1)
(changes in billions of lire)

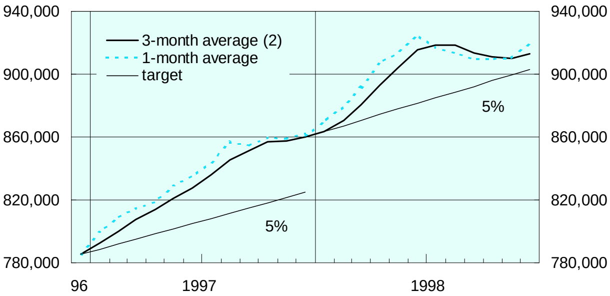
	1997		1998 (2)	
	Oct.-Dec.	Year	Oct.-Dec.	Year
Sources				
Foreign sector	**2,438**	**22,829**	**−8,519**	**−36,980**
foreign currency swaps	*–*	*−2,921*	*–*	*−13,724*
Treasury	**−12,232**	**−49,537**	**9,418**	**−27,043**
Treasury payments account	7,634	1,204	7,742	11,475
Sinking fund for redemption of government securities	−3,407	−4,224	14,131	4,103
Other BI-UIC operations with the Treasury (3)	−16,459	−46,517	−12,455	−42,622
Open market	**14,154**	**32,734**	**−30,636**	**1,303**
Repos (4)	462	−19,270	−22,707	−24,831
Outright Treasury bill operations	9,750	42,630	−1,500	19,463
Other outright transactions	3,942	9,374	−6,429	6,671
Refinancing	**1,233**	**862**	**1,007**	**−942**
Other sectors	**3,730**	**6,616**	**16,908**	**6,961**
Total	**9,323**	**13,503**	**−11,821**	**−56,699**
Uses				
Currency in circulation	**7,500**	**7,327**	**8,792**	**7,434**
Bank reserves	**1,823**	**6,176**	**−20,613**	**−64,133**
compulsory reserves (5)	*2,898*	*10,669*	*−23,444*	*−63,925*

(1) Rounding may cause discrepancies in totals. – (2) Provisional. – (3) Net redemptions of government securities in the BI-UIC portfolio and other items (see the notes to Statistical Table a25). – (4) At book value. – (5) Average reserve requirement during the reserve maintenance period (from mid-month to mid-month, except for the last maintenance period of 1998, which ran from 15 to 31 December).

Figure 37

M2 money supply (1)

(monthly data; stocks in billions of lire)



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

The total financing granted to the non-state sector increased by 6.0 per cent in 1998, compared with an increase of 5.5 per cent in 1997 as a whole (Table 20); foreign financing, in the form of loans and bond purchases, increased by 4.2 per cent (8.2 per cent in 1997). Total credit expanded by 4.1 per cent (3.6 per cent in 1997).

The total financial assets of the non-state sector (excluding shares held directly) grew by 4.8 per cent. The domestic component grew by 2.3 per cent (3.1 per cent in 1997 as a whole); the foreign component continued to surge, expanding by 26.9 per cent.

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)
Total credit	**3.6**	**4.1**	**100.0**	**100.0**
Finance to the non-state sector	*5.5*	*6.0*	*36.4*	*37.3*
banks	5.4	6.7	32.1	33.1
bonds	−9.8	−30.7	0.4	0.3
foreign finance	8.2	4.2	3.9	3.9
Financial assets of the non-state sector (2)	**5.5**	**4.8**	**100.0**	**100.0**
Domestic	3.1	2.3	89.7	87.6
liquid assets	−7.2	−9.5	46.7	39.7
of which: M2 (3)	*9.0*	*5.7*	*28.6*	*28.1*
medium and long-term securities	6.2	−10.0	31.4	26.9
investment fund units and other (4)	71.6	82.8	11.6	21.0
Foreign	33.1	26.9	10.3	12.4

(1) Provisional. – (2) Net of shares held directly. – (3) Growth rates are calculated from 1-month averages. – (4) 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

Financial assets of the non-state sector (1)

(billions of lire and percentage shares)

	Flows in 12 months ending in:		Percentage composition of stocks (2)	
	December 1997	December 1998	December 1997	December 1998
Liquid assets	**−118,727**	**−144,019**	**46.6**	**39.7**
M2	67,701	44,348	28.6	28.1
bank current accounts	*32,078*	*52,002*	*16.5*	*17.0*
short-term CDs and savings deposits	*22,199*	*−13,418*	*6.5*	*5.7*
Other liquid assets	−186,429	−188,367	18.1	11.6
Treasury bills	*−69,226*	*−103,280*	*6.3*	*3.1*
CDs for terms of 18 months or more	*−133,337*	*−63,437*	*4.1*	*2.2*
Medium and long-term securities	**59,318**	**−102,108**	**31.4**	**26.9**
Bonds	95,961	34,546	10.7	11.0
Government securities	−36,642	−136,654	20.7	15.8
Investment fund units (3)	**143,377**	**313,085**	**11.3**	**20.7**
Other domestic financial assets	**2,916**	**−446**	**0.3**	**0.3**
External financial assets	**79,146**	**90,661**	**10.3**	**12.4**
Total	**166,030**	**157,172**	**100.0**	**100.0**

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

The monetary aggregates for the euro area and its Italian components

For the purposes of implementing the single monetary policy, the Eurosystem monitors a broad range of economic indicators able to give advance warning of risks to price stability within the area; the announcement of a reference value for money supply growth accords a particularly important role to this aggregate among the indicators in question (see Monthly Bulletin of the ECB, February 1999).

The methods used to calculate the monetary aggregates for the area and the definitions of issuing and holding sectors are similar to those used by the Bank of Italy until the end of last year. The issuing sector consists of the monetary financial institutions (MFIs), that is to say the national central banks of the Eurosystem, the ECB, credit institutions and other financial institutions with monetary liabilities. The definition of money also includes the short-term liabilities of certain central government institutions that gather a substantial volume of funds in a number of countries in the area, chiefly the Post Office.

The main differences by comparison with the definition of the issuing sector previously used in Italy are the inclusion among the components of money of the liabilities of "money market funds" (funds investing exclusively in instruments with a residual term of one year or less) and holding sectors' deposits with the Eurosystem (previously, the only liability of the central bank included in the Italian definition was currency in circulation). Money market funds are of very minor importance in Italy (9.2 trillion lire in December) but significant in other countries, such as France. Deposits with the Eurosystem are modest for the whole of the area, less than 6 trillion lire. The definition of "money holding sector" broadly matches that of the non-state sector previously used by the Bank of Italy, with the conspicuous exception of investment funds other than money market funds, which were not included.

Other methodological differences lie in the methods of data collection: data relate to the end of the month, instead of being the monthly average, and they cover the entire banking system, instead of just the "Research Department sample" (which excluded small banks and mutual banks (banche di credito cooperativo) accounting for about 5 per cent of the total deposits of the Italian banking system). The data collection format adopted by the Eurosystem lays down a classification of MFI resources that does not coincide with that previously used for national statistics, nor can it

Table 1

Mapping between the euro area monetary aggregates and those for Italy

Aggregates for the area *(definitions adopted by the Governing Council of the ECB)*		**Italian aggregates** *(definition in use until 31.12.1998)*	
Current attribution	Components	Components	Previous attribution
M1	Currency in circulation	Notes and coins	M1
	Overnight deposits bank post office	Current account deposits bank (not subject to notice) post office	
		Other items	
M2	Deposits redeemable at notice up to 3 months	Ordinary post office savings certificates (1)	Liquid assets
		Postal savings deposits not subject to notice (2)	M2
		Savings deposits not subject to notice (3)	
	Deposits with agreed maturity up to 2 years	Savings deposits subject to notice (3)	
		Bank current accounts subject to notice (3)	
		Bank CDs for terms of less than 18 months	
		Bank CDs for terms of between 18 and 24 months (4)	Liquid assets
M3	Bank repurchase agreements	Bank repurchase agreements	
	Money market fund shares Money market paper	Money market fund shares (5)	Financial assets
	Debt securities up to 2 years	Bank bonds with an original maturity of 2 years (5)	
Memorandum items	Debt securities over 2 years	Bank bonds with an original maturity of more than 2 years (5)	
	Deposits with agreed maturity over 2 years	Bank CDs for terms of more than 2 years (4)	Liquid assets

(1) In the Italian monetary statistics these were classed as "Post office savings certificates" together with fixed–term post office savings certificates; the latter are not covered by the statistics reported to the ECB. – (2) In the Italian monetary statistics these were classed as "Postal savings deposits" together with postal savings deposits subject to notice; the latter are not covered by the statistics reported to the ECB. – (3) In the Italian monetary statistics the item "Savings deposits" comprised savings deposits, both subject to notice and not subject to notice, and bank current accounts subject to notice. – (4) In the Italian monetary statistics all bank CDs for terms of 18 months or more were recorded in the item "CDs with a maturity of at least 18 months". – (5) The data for these aggregates were not available in the returns submitted by Italian MFIs before the adoption of the harmonized statistical matrix for the third stage of EMU. Money market fund shares were part of "Shares of investment funds". In the case of bonds, the classification did not distinguish between those with a maturity of two years and those for longer terms; both were recorded in the item "Other bonds".

cont.

Table 2

Italian components of the euro area aggregates: residents of Italy and of the rest of the area (1)

(billions of lire; end-of-period stocks, not seasonally adjusted, and percentage changes on year-earlier period)

	Currency in circulation (2)	Overnight deposits	Total	Percentage change	Deposits with agreed maturity up to 2 years	Deposits redeemable at notice up to 3 months	Total	Percentage change	Repurchase agreements	Money market fund shares and money market paper (3)	Debt securities up to 2 years (3)	Total	Percentage change	3-month moving average (centred)
1997 – Sept.	106,313	567,958	674,271	9.5	244,561	212,575	1,131.407	−2.1	157,487	6,616	15,045	1,310,555	0.4	
Oct.	105,385	577,849	683,234	10.7	234,959	212,715	1,130.908	−1.6	158,759	6,758	16,685	1,313,109	0.0	−0.1
Nov.	110,458	564,148	674,606	8.3	226,333	212,835	1,113.773	−3.4	164,312	6,924	18,280	1,303,290	−0.6	−0.3
Dec.	116,265	618,849	735,115	7.4	219,416	220,315	1,174.845	−3.5	144,957	7,143	19,887	1,346,833	−0.4	−0.1
1998 – Jan.	110,038	597,345	707,383	9.7	211,404	219,298	1,138.085	−2.8	168,337	7,379	23,142	1,336,944	0.8	0.1
Feb.	108,871	588,684	697,555	8.4	206,505	218,729	1,122.789	−3.5	167,222	7,784	26,726	1,324,521	−0.2	0.5
Mar.	111,680	613,554	725,234	13.1	197,666	218,119	1,141.019	−1.2	152,259	8,185	30,601	1,332,063	0.9	0.6
Apr.	112,294	626,416	738,710	15.1	190,552	217,976	1,147.238	0.2	145,836	8,676	34,735	1,336,485	1.1	0.9
May	114,832	627,719	742,552	13.8	182,172	219,616	1,144.339	−0.3	148,431	9,860	37,753	1,340,383	0.7	1.3
June	114,515	658,804	773,319	15.1	179,364	218,965	1,171.649	0.9	136,433	10,700	43,345	1,362,127	2.1	1.0
July	116,809	623,270	740,079	11.1	171,195	218,057	1,129.331	−1.0	145,011	9,854	43,307	1,327,503	0.3	0.9
Aug.	112,643	610,326	722,968	7.4	167,058	219,416	1,109.442	−0.7	150,998	10,233	42,437	1,313,111	0.4	0.1
Sept.	113,179	611,521	724,699	7.5	162,974	220,369	1,108.042	−2.1	146,976	10,291	40,449	1,305,759	−0.4	0.1
Oct.	113,806	616,185	729,991	6.8	160,641	219,418	1,110.050	−1.8	161,078	10,781	36,750	1,318,660	0.4	−0.1
Nov.	115,568	613,774	729,343	8.1	163,442	220,202	1,112.987	−0.1	144,905	10,357	33,937	1,302,186	−0.1	0.2
Dec.	124,876	677,660	802,536	9.2	162,045	223,659	1,188.239	1.1	123,652	9,240	28,814	1,349,944	0.2	
Euro area components (4)	625,152	2,796,338	3,421,790		1,710,133	2,372,254	7,504,177		350,947	604,383	129,900	8,589,408		
Percentage weight Italy/ euro area (5)	18.0	24.2	23.0		9.5	9.4	15.7		35.2	1.5	17.8	15.5		

(1) All the items in the table relate to the liabilities of Italian MFIs towards the “Monetary asset holding sector” except for the items described in footnotes (2) and (3). – (2) Total of banknotes issued by the Bank of Italy and notes and coin issued by the Treasury. – (3) The item is calculated by subtracting from the total for such securities in the liabilities of Italian MFIs the amount held by Italian MFIs themselves. As the amount in the portfolio of the MFIs of the rest of the area and in that of “Central government” is not available in the returns to the ECB, it is not possible to calculate the amount held by the “Monetary asset holding sector” at national level. – (4) Data for the latest month available. – (5) Calculated from the sum of the national aggregates, which for the items described in footnotes (2) and (3) and the totals is slightly higher than the corresponding area aggregate. The weights obtained in this way for the 11 countries in the area sum to 100.

always be reproduced exactly on the basis of even the most highly disaggregated series available in the past. The series corresponding to the new definition of the monetary aggregates are available only from September 1997 onwards on the basis of data consistent with the harmonized statistical format.

The Governing Council of the ECB adopted three definitions of the money supply - M1, M2 and M3 - as it realized that the introduction of the single currency could be accompanied by instability in the relationship between the monetary aggregates and other important macroeconomic variables. The reference value has been set in terms of the growth in the broadest aggregate, M3, which consists of the following liabilities: currency in circulation and sight deposits (the sum of which amounts to M1), deposits “with agreed maturity up to 2 years” and deposits” redeemable at notice up to 3 months” (added to M1, this gives M2), repurchase agreements, debt securities up to 2 years, money market fund shares and money market paper (which together with M2 constitute M3). In order to make it easier to identify instability in the reference aggregate due to portfolio reallocation, other less liquid assets that are not included in M3 are also monitored. Table 1 illustrates the linkage between the definitions of the aggregates applied in Italy until 1998 and those used by the Eurosystem. The main differences are as follows: the new M2 aggregate includes bank CDs with terms of up to 24 months, whereas the corresponding Italian aggregate covered only those with terms of less than 18 months; M3, an aggregate that was not used in Italy, includes repurchase agreements (which were previously classified among liquid assets), 2-year bank bonds and money market fund shares, previously included among financial assets.

The national components of the monetary aggregates for the area may have lost their role as reference variables for monetary policy, but they will continue to perform an

cont.

important informative function; analysis of their behaviour, over time and in comparison with that of their counterparts in other countries of the area, can provide useful indications both at national level (for example, for understanding portfolio reallocation) and at area level, permitting a better interpretation of the behaviour of the European aggregates and their implications in terms of inflationary pressures.

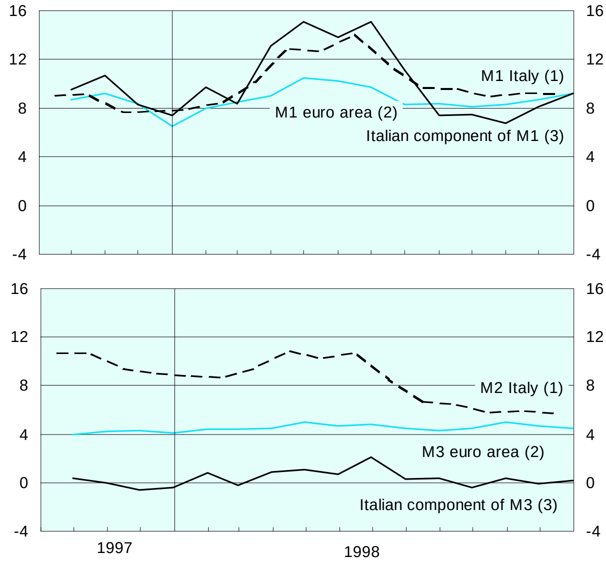
The national components can be defined in two ways: by aggregating the liabilities of the MFIs located in a given country that are held only by residents in that country - the criterion traditionally applied by the Bank of Italy - or those that are held by residents of all countries in the area. In the case of Italy, adopting one criterion rather than the other currently gives rise to only small differences.

Table 2 shows the Italian components of the European aggregates on the basis of the second definition. They are not labelled M1, M2 or M3, partly in order to signal the break in interpretation and partly because the statistical system of the ESCB does not have a suitable sectoral breakdown of data, so that for some items (currency in circulation, bonds, money market paper and money market fund shares) the sum of the national components differs from the corresponding area aggregate. The methods adopted for the present in order to get around these difficulties mean that the Italian component of the European aggregates, so defined, is "overweight": the sum of the national components is slightly larger than the corresponding area aggregate. Although the discrepancy is large in absolute terms (67.4 billion euros for M3 in December 1998, about 130 trillion lire), it is modest in relative terms (1.5 per cent of the M3 aggregate for the area).

The Italian component makes up 23 per cent of the area's narrowest aggregate M1, because of the substantial volume of current account deposits in Italy, and 16 per cent of M2 and M3, reflecting the smaller proportion of deposits with agreed maturity or redeemable at notice. Money market investment funds are less common than in other countries of the area, while repurchase agreements and 2-year bank bonds are more widely used, despite a recent decline in the former.

In 1998 the behaviour of the Bank of Italy's M2 aggregate diverged significantly from that of the Italian component of M3 for the euro area; whereas the former increased rapidly, especially in the first half of the year, the latter remained basically stable (see the Figure). The discrepancy can be attributed only partly to the switch from the "Research Department sample" to coverage of the full banking system; rather, it reflects mainly changes in the less liquid components included in M3 but excluded from the Italian definition of M2: the sharp contraction in CDs for terms of between 18 and 24 months and in repurchase agreements was only partially offset by the strong growth in 2-year bank bonds and the more modest increase in money market fund shares. By contrast, during the first half of the year the Bank of Italy's M1 money supply aggregate and the Italian component of the corresponding euro area aggregate, the definitions of which are essentially the same, showed very sustained growth above the rate for M1 for the area.

Monetary aggregates for the euro area and for Italy
(monthly data; percentage changes on year-earlier period)



(1) Aggregates used by the Bank of Italy until December 1998; monthly averages. - (2) End-of-period data. - (3) Held by residents in Italy and in the rest of the area; end-of-period data.

The counterparts of money constructed by the Eurosystem do not diverge conceptually from those used in the statistics of the Bank of Italy, but there are nonetheless important methodological differences. The most obvious lies in the greater detail of the items: non-monetary liabilities, which in the Italian counterparts were recorded under the residual "Other items", are subdivided according to instrument and counterparty. In addition, both assets and liabilities towards the external sector (that is to say, countries outside the area) are shown instead of the net position. By contrast, the external position of the Eurosystem is not distinguished from that of other MFIs, unlike the treatment in the statistics of the Bank of Italy, where the official reserves and the net external position of the banking system appeared separately.

Finally, the methodology adopted by the Eurosystem for the banking statistics differs from that previously used in Italy; apart from the above-mentioned use of end-of-period data and coverage of the entire banking system, it includes repurchase agreements among deposits and bad debts and reverse repurchase agreements with loans.

Households and firms continued to reallocate their portfolios, although the shifts were less pronounced in the second half of the year. Net purchases of investment fund units accelerated (Table 21), amounting to 313 trillion lire, or more than twice the figure for 1997. Holdings of government securities and CDs with a maturity of eighteen months or more contracted further, falling by 63.4 and 240 trillion lire respectively.

Banking

Bank lending increased by 6 per cent in nominal terms in 1998, compared with 5.4 per cent in 1997 (Table 22), and outpaced GDP. Analysis of the data by geographic area shows that the growth was faster in the Centre and North (8.3 per cent) than in the South (2.4 per cent).

Banks fostered the expansion in lending by setting easier terms for borrowers. In the fourth quarter, the average interest rate on short-term loans came down more than the relaxation of monetary conditions and the performance of the main macroeconomic variables might have led to expect on the basis of past experience. Banks were also more liberal in granting credit: during the year, the ratio of credit drawn to that granted for lira overdraft facilities declined from 46 to 44.2 per cent.

Table 22

Main items in the banks' balance sheets (1)

(percentage changes on corresponding period of previous year; billions of lire; end-of-period data)

	1996	1997	1998				Stocks December 1998
			March	June	September	December	
Assets							
Securities	8.9	–10.5	–10.3	–2.1	1.0	0.8	346,324
government securities	*10.8*	*–11.3*	*–13.0*	*–6.1*	*–2.7*	*–3.1*	*287,406*
Loans (2) (3)	2.4	5.4	6.3	5.1	5.7	6.0	1,230,170
short-term	0.9	5.5	5.9	5.0	6.0	5.7	623,755
medium and long-term (3)	4.0	5.3	6.6	5.3	5.3	6.4	606,416
Bad debts	11.7	–2.5	3.8	5.2	7.1	2.3	122,720
External assets in lire (4)	53.0	3.2	13.0	10.1	10.5	3.3	197,737
External assets in foreign currency (2) (4)	11.5	1.8	8.6	6.1	5.5	3.9	169,763
Liabilities							
Domestic deposits and bonds (averages) (5)	8.3	2.3	2.7	4.4	2.4	4.1	1,260,183
Deposits	2.9	–7.8	–6.6	–3.8	–4.9	–0.9	824,865
current accounts	*6.0*	*9.3*	*12.4*	*17.4*	*11.9*	*13.5*	*562,647*
short-term CDs	*12.3*	*27.5*	*12.9*	*2.2*	*–7.2*	*–13.3*	*74,943*
medium and long-term CDs	*–1.5*	*–49.0*	*–52.3*	*–55.3*	*–52.2*	*–45.4*	*75,663*
Bonds	30.2	34.8	29.9	26.1	20.0	15.2	435,318
External liabilities in lire (4)	34.2	19.9	31.4	22.1	19.3	3.9	166,057
External liabilities in foreign currency (2) (4)	–0.6	–2.6	5.5	9.7	7.9	8.2	281,281
Repos with resident non-banks	–5.5	10.6	–6.4	–14.7	–7.8	–18.0	108,655

(1) The figures for December 1998 are provisional. The adjustments described in notes 2 and 3 relate only to the percentage changes. – (2) The foreign currency component is net of exchange rate adjustments. – (3) Adjusted for the effects of the transactions in January 1997 between Banco di Napoli and the non-bank company SGA. – (4) Source: UIC. — (5) For deposits, monthly averages of daily data; for bonds, end-of-period data.

Table 23

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

(percentages)

	General govern-ment (2)	Finance and insurance compa-nies (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					
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	8.6	6.4	–2.7	7.1	9.3	0.1	7.3	9.8	1.2	5.1
1998 – December ..	–4.3	10.5	5.5	–3.4	6.3	6.2	–0.2	8.6	12.6	4.1	6.0
						12-month percentage changes in bad debts					
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)	–60.8	37.6	4.0	–14.6	4.7	0.6	5.9	5.9	10.7	4.5	5.5
	–56.9	*32.5*	*6.3*	*–9.8*	*6.9*	*1.3*	*9.9*	*7.1*	*13.3*	*4.8*	*7.9*
1998 – December ..	–92.8	–2.1	0.5	–12.9	1.0	–6.4	6.9	3.1	8.4	3.8	2.3
						Ratio of bad debts to total lending (6)					
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	10.0	4.9	10.3	6.3	21.7	9.7	11.5	16.2	9.6
1998 – December ..	0.0	1.8	9.3	4.2	9.7	5.8	21.7	9.2	11.1	15.9	9.1
						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
1998 – September .	6.77	5.52	7.52	5.49	7.62	7.02	9.25	7.94	9.56	9.80	7.58
						Percentage composition of lending					
1997 – December ..	9.5	9.9	52.0	4.1	47.9	22.9	6.0	18.1	15.9	12.7	100.0
1998 – December ..	8.5	10.3	51.8	3.7	48.1	23.0	5.6	18.5	16.9	12.5	100.0

(1) The figures from June 1998 onwards 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 growth of 6.6 per cent in lira lending (6.4 per cent in 1997), was fueled primarily by the increase of 7.4 per cent in medium and long-term loans, while short-term loans increased by 5.7 per cent. Confirming the trend of recent years, foreign currency lending contracted by 0.5 per cent net of exchange rate adjustments.

Lending to general government fell by 4.3 per cent over the year as a result of the repayment of the loans the State Railways had contracted before December 1992. Although the growth in loans to financial and insurance companies decelerated over the year, from 25.2 to 10.5 per cent, it was higher than the average growth in lending. There was also a very rapid expansion in credit to consumer households (12.6 per cent), especially at medium and long term (14.2 per cent). The growth in loans to non-financial companies amounted to 6.3 per cent, with lending to the construction industry basically stagnant (-0.2 per cent) and an increase of 8.6 per cent in loans to the services sector (Table 23).

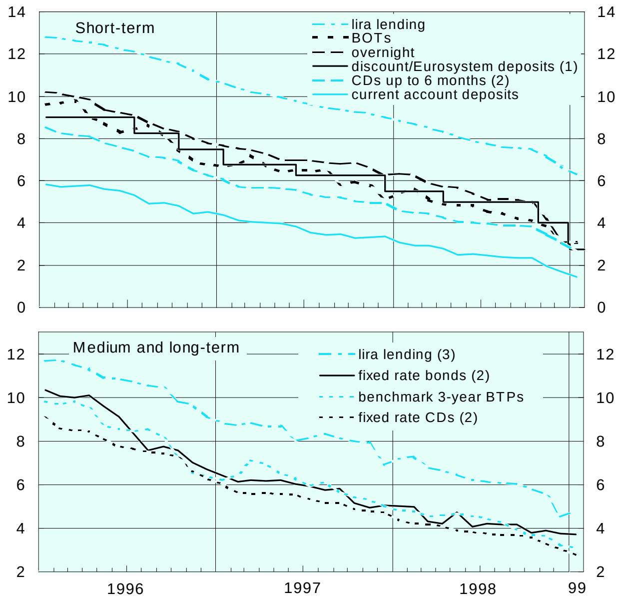
Bad debts grew by 2.3 per cent (7.1 per cent in 1997) but fell from 9.4 to 9.1 per cent of total loans. In December the estimated realizable value of bad debts was 71.7 trillion lire, equivalent to 58.4 per cent of their nominal value, 5.8 per cent of total loans and 34.3 per cent of capital as defined for supervisory purposes.

The sharp fall in money market rates during the year was paralleled by a large decrease in the cost of bank credit: the average rate on medium and long-term lira loans declined from 7.4 to 5.1 per cent and that on short-term lira loans from 9 to 6.7 per cent (Figure 38). The spread between lending and deposit rates narrowed by nearly 0.5 percentage points, to 4.4 points. The reduction in interest rates was much the same for all sectors (Table 23).

Convergence between the cost of bank credit in Italy and Germany has essentially been completed. In the third quarter of 1998, the latest period for which Central Credit Register data are available, the arithmetic mean of the interest rates on individual overdrafts of between 1 and 5 billion lire was 8.35 per cent in Italy, 0.7 percentage points higher than the corresponding figure for Germany (Table 24). In the fourth quarter the average rate on short-term lira loans declined by around half a point, while the rate on loans in Germany remained stable.

Figure 38

Bank interest rates



(1) Italian official discount rate until 31 December 1998, rate on overnight deposits with the Eurosystem thereafter. - (2) Average rate on issues during the month. - (3) Average rate on loans disbursed during the month to resident firms.

On the funding side, the rate on current accounts fell during the course of 1998 from 3.4 to 1.7 per cent, which was below the corresponding German rate (2 per cent). In December the yield on issues of fixed rate bonds was 3.7 per cent, just over that offered by German banks.

Banks' total borrowed funds increased by 4.1 per cent, compared with 2.3 per cent in 1997. The growth was fueled by that in the short-term component (7.9 per cent), above all current accounts (13.5 per cent); by contrast, the medium and long-term component declined by 1 per cent after contracting by 6.5 per cent in 1997.

The growth in loans exceeded that in borrowed funds and was financed through stepped-up borrowing abroad. Banks' net foreign liabilities rose by 15.1 trillion lire before adjustment for exchange rate variations, compared with 11.7 trillion in 1997; foreign currency transactions accounted for almost all of the growth, with liabilities increasing by 21.3 trillion lire and assets by 6.2 trillion. The net external position in lire remained stable as a result of an increase of 6.3 trillion lire in fund-raising, prevalently on interbank markets, and a comparable increase in lending.

Table 24

Bank interest rates in Italy and Germany (1)

(percentages)

	Lending rates								Deposits rates				Bond yields	
	Short term			Medium and long term					Current accounts		CDs up to 6 months	3-month deposits		
				Firms		Households								
	Italy	Italy (2)	Germany (3)	Italy	Germany (4)	Italy	Germany (5)	Germany (6)	Italy	Germany (7)	Italy	Germany (8)	Italy (9)	Germany (10)
1997 – Jan.														
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	8.35	7.65	6.01	5.83	7.24	5.63	5.19	2.37	2.00	3.86	2.96	4.17	3.88
Oct.	7.48	–	7.58	5.81	5.72	6.92	5.49	5.02	2.36	1.98	3.83	2.98	3.80	3.69
Nov.	7.16	–	7.57	5.57	5.69	6.68	5.48	4.99	1.97	1.99	3.47	3.00	3.89	3.64
Dec.	6.70	....	7.56	4.53	5.50	6.17	5.29	4.80	1.70	1.98	3.11	2.90	3.74	3.49

(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 *Deutsche 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 overdrafts of between DM 1 and 5 million. – (4) Average interest rate on long-term fixed rate loans of between DM 1 and 10 million for terms of more than 4 years to enterprises and self-employed workers (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 4-year fixed rate issues.

Table 25

Bank fund-raising and lending in the euro area (1)

(harmonized definitions; trillions of lire and percentage changes on corresponding period of previous year)

	Deposits										Bonds (3)		Loans (4)	
			of which: excluding central government											
			At sight		With agreed maturity		Redeemable at notice		Repurchase agreements					
	Stocks	% change	Stocks	% change	Stocks	% change	Stocks	% change	Stocks	% change	Stocks	% change	Stocks	% change
							Euro area (5)							
1997 – Sept.	8,957.0		2,208.6		3,674.4		2,487.6		400.8		3,692.1		10,464.3	
Oct.	8,987.2		2,209.8		3,693.5		2,490.8		400.5		3,704.5		10,519.4	
Nov.	9,032.7		2,264.0		3,684.0		2,496.0		417.5		3,725.1		10,603.0	
Dec.	9,224.8		2,377.1		3,684.2		2,568.2		397.6		3,727.5		10,707.7	
1998 – Jan.	9,201.6		2,280.9		3,716.2		2,598.4		421.0		3,765.1		10,700.8	
Feb.	9,223.8		2,284.4		3,725.4		2,604.6		418.9		3,810.2		10,749.2	
Mar.	9,215.3		2,340.6		3,676.8		2,607.2		411.0		3,843.8		10,807.1	
Apr.	9,269.3		2,368.4		3,706.3		2,606.4		400.0		3,871.4		10,876.0	
May	9,288.6		2,401.0		3,703.7		2,610.1		403.1		3,895.9		10,889.1	
June	9,341.2		2,493.8		3,663.9		2,607.6		393.9		3,952.3		11,001.3	
July	9,292.0		2,417.4		3,672.0		2,606.4		417.3		3,992.2		11,082.3	
Aug.	9,290.4		2,400.4		3,692.4		2,609.7		403.1		4,013.1		11,075.3	
Sept.	9,296.3	3.8	2,440.9	10.5	3,659.0	−0.4	2,607.9	4.8	402.1	0.3	4,017.3	8.8	11,174.4	6.8
Oct.	9,331.3	3.8	2,450.8	10.9	3,655.8	−1.0	2,614.1	4.9	422.7	5.6	4,023.0	8.6	11,252.1	7.0
Nov.	9,377.1	3.8	2,528.7	11.7	3,655.0	−0.8	2,619.3	4.9	384.0	−8.0	4,053.9	8.8	11,351.3	7.1
Dec.	9,582.2	3.9	2,663.4	12.0	3,690.8	0.2	2,679.2	4.3	350.9	−11.7	4,048.3	8.6	11,461.6	7.0
							Italy (6)							
1997 – Sept.	1,134.0		550.9		300.6		115.3		156.8		368.8		1,307.0	
Oct.	1,131.5		560.9		287.8		115.0		158.1		379.8		1,307.3	
Nov.	1,112.5		548.4		276.6		114.4		163.9		388.4		1,317.7	
Dec.	1,142.0		600.7		266.9		119.2		144.5		396.4		1,364.5	
1998 – Jan.	1,131.1		577.8		257.0		117.5		167.9		400.4		1,357.9	
Feb.	1,115.1		573.7		248.5		115.8		166.8		408.3		1,358.3	
Mar.	1,115.9		599.1		238.6		115.7		151.7		418.2		1,368.2	
Apr.	1,112.6		612.3		229.5		115.2		145.2		423.6		1,372.1	
May	1,107.2		613.3		220.2		116.1		148.0		433.4		1,363.5	
June	1,120.5		646.4		211.5		115.1		136.2		456.9		1,400.3	
July	1,084.6		608.1		206.7		114.3		144.7		458.6		1,404.7	
Aug.	1,076.7		597.5		202.0		115.0		150.5		464.3		1,387.1	
Sept.	1,075.6	−5.2	600.8	9.1	200.7	−33.2	115.7	0.4	146.1	−6.8	467.9	26.9	1,392.1	6.5
Oct.	1,091.6	−3.5	605.1	7.9	198.2	−31.1	114.6	−0.3	160.5	1.5	472.5	24.4	1,390.8	6.4
Nov.	1,072.5	−3.6	603.7	10.1	195.5	−29.3	114.9	0.5	144.1	−12.1	479.7	23.5	1,421.9	7.9
Dec.	1,114.9	−2.4	665.9	10.8	192.7	−27.8	117.7	−1.2	123.1	−14.8	484.5	22.2	1,456.2	6.7

(1) End-of-period data; percentage changes are not corrected for exchange rate adjustments. The data are consistent with those in Table 2.2 of the *Monthly Bulletin* of the ECB. – (2) Denominated in euros and other currencies. – (3) Total value of debt securities; by convention they are attributed entirely to residents in the reporting country. – (4) Including bad debts and repos. – (5) Fund-raising and loans of the monetary financial institutions (MFIs) of the euro area countries (excluding the Eurosystem), from and to non-MFI customers residing in the area. The figures have been obtained by applying the bilateral exchange rates set on 31 December 1998 to the values in national currency. – (6) Fund-raising and deposits of Italian MFIs (excluding the Bank of Italy) from and to non-MFI customers resident in Italy.

The securities portfolio grew slightly, by 0.8 per cent, whereas it had contracted by 10.5 per cent in 1997. Owing to the reduction in the reserve requirement and the lively pace of lending, the ratio of banks' liquid assets (defined as the sum of reserves, BOTs, CCTs and CTZs) to total assets fell over the year from 10.3 to 7.8 per cent.

The statistics compiled by the European System of Central Banks make it possible to compare the main balance sheet items of banks in the euro area (Table 25). In December, the stock of funds that Italian banks had raised from residents represented 11.9 per cent of the corresponding aggregate for euro area banks as whole, compared with shares of 44 and 17.4 per cent for German and French banks respectively; the ratio of such funds to GDP was 80 per cent, compared with 162 per cent in Germany and 95 per cent in France.

Deposits accounted for 70 per cent of borrowed funds both in Italy and in the euro area as a whole, although their composition differed: sight deposits represented 59 per cent of the total in Italy, more than double the figure for the euro area, which reflects the low ratio of sight deposits in France and Germany (25 and 20 per cent respectively). In 1998 borrowed funds increased at a rate of 5.2 per cent in the euro area as a result of much faster growth in Germany (7.6 per cent) than in Italy and France (4 and 0.6 per cent respectively). Bond issues showed an even greater dispersion: they expanded by 22.2 and 12 per cent respectively in Italy and Germany and by 8.6 per cent in the euro area as a whole, but contracted by 4.2 per cent in France.

In December the shares of Italy, France and Germany in total bank loans to euro area residents were 12.9, 17.3 and 43.2 per cent respectively. Such loans were equal to 73 per cent of GDP in Italy, 80 per cent in France and 134 per cent in Germany, compared with a euro area average of 103 per cent. The twelve-month rate of growth in this aggregate was 6.7 per cent in Italy, broadly in line with the euro area average of 7 per cent.

Managed savings products, which are overwhelmingly sold through bank branches, continued to expand strongly in 1998. Securities on deposit belonging to banks' portfolio management services or to investment funds rose by 339.2 trillion lire, or 60 per cent (49.9 per cent in 1997), and produced a large increase in banks' income from services.

According to preliminary data on banks' profit and loss accounts for 1998, gross income grew by around 7 per cent, compared with a contraction of 0.5 per cent in 1997. This result is attributable to the exceptional profits earned on securities trading and the increase in commissions on the sale of investment fund units. Net interest income recorded a decline of close to 2 per cent, on top of that of 5.5 per cent in 1997, with an especially sharp contraction in the second half of the year. Staff costs diminished by more than 5 per cent following the elimination of national health service contributions in connection with the introduction of the regional tax on productive activities, while other operating costs appear to have increased slightly. Excluding health contributions from the calculation, labour costs are estimated to have remained virtually unchanged and net income to have increased by some 15 per cent.

The bond and Eurolira market

The Treasury's issuance policy continued to aim at lengthening maturities and was facilitated by the reduction in long-term yields as a result of the fall in inflation and the achievement of convergence. Almost 60 per cent of the debt falling due was renewed with medium or long-term fixed rate issues; the share of short-term and floating rate paper (BOTs and CCTs) in the total debt fell by 4.6 percentage points to 38 per cent, compared with 50 per cent at the end of 1997. Issues of 10 and 30-year BTPs made a decisive contribution to lengthening the residual maturity of the debt and accounted for more than 40 per cent of gross issues, compared with 22 per cent in 1997; the share of BTPs in total government securities outstanding increased from 37.5 to 43.5 per cent (Table 26). The Treasury's net fund-raising in international markets declined with respect to 1997; as a proportion of the total debt, the stock of such funds remained unchanged at 4.9 per cent. In January this year, owing to the redenomination in euros of government securities originally issued in currencies of other euro area countries, the share of the debt denominated in foreign currency declined to 4.2 per cent.

Table 26

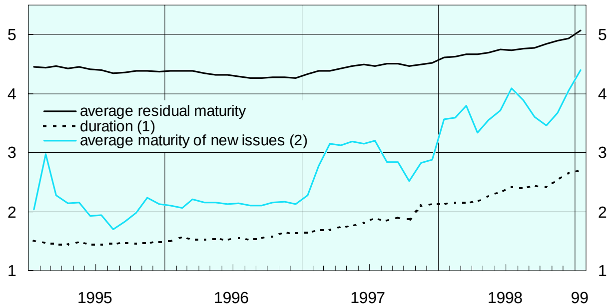
Issues of government securities and composition of stocks (1)

	1995	1996	1997	1998
	Gross issues (2) (*billions of lire*)			
BOTs	714,250	665,023	506,000	425,768
CTZs	47,217	59,924	105,905	97,779
CCTs (3)	122,810	105,945	64,404	42,502
BTPs	118,484	148,917	190,596	261,441
Other	9,934	14,308	162	0
Republic of Italy issues	19,091	17,982	12,481	17,949
Total government securities	**1,031,785**	**1,012,099**	**879,457**	**845,438**
	Net issues (*billions of lire*)			
BOTs	–1,500	–27,453	–82,310	–35,482
CTZs	38,299	51,515	41,484	6,598
CCTs (3)	–28,870	30,460	7,982	–42,097
BTPs	95,925	57,652	68,590	149,343
Other	–15,744	–14,520	–24,115	–38,128
Republic of Italy issues	16,927	14,480	6,291	3,454
Total government securities	**105,036**	**112,135**	**17,921**	**43,668**
	Stocks (2) (*percentage composition at end of period*)			
BOTs	21.7	19.1	14.8	12.8
CTZs	2.5	5.3	7.8	8.2
CCTs (3)	27.9	27.8	27.7	25.1
BTPs	33.7	34.7	37.5	43.5
Other	10.1	8.7	7.4	5.5
Republic of Italy issues	4.1	4.3	4.9	4.9
Total government securities	**100.0**	**100.0**	**100.0**	**100.0**
Memorandum item:				
Total government securities (billions of lire) (2)	**1,901,293**	**2,010,420**	**2,047,479**	**2,089,360**
Buybacks of government securities (billions of lire) (2)	**5,530**	**9,203**	**24,400**	**14,016**

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

Figure 39

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



(1) Calculated with reference to securities listed on MTS. - (2) Moving average for the three months ending in the month indicated.

The strategy of lengthening the maturities of new issues had a significant impact on the average residual maturity of the public debt, which increased by more than 6 months to reach 5 years (Figure 39). This increase, unparalleled in the other countries of the euro area, resulted in the average life of Italy's public debt being longer than those of Spain and Belgium and comparable with those of France and Germany.

The duration of Italian government securities also increased by a little less than 6 months, reaching 2 years and 6 months (3 years and 6 months including the unlisted component of the debt). It has doubled over the last three years and, on the basis of available

Table 27

Stocks and net purchases of securities (1)
(billions of lire and percentage shares)

	Government securities						Corporate bonds	Total government securities and corporate bonds	Italian listed shares (*)
	BOTs	CTZs	CCTs	BTPs	Other (2)	Total			
					Stocks *(billions of lire)*				
December 1998									
BI-UIC	230	815	11,690	29,089	76,381	118,205	402	118,607	11,309
Banks	46,571	21,535	131,119	80,327	10,556	290,108	60,291	350,399	6,574
Investment funds	30,534	64,802	75,899	175,408	12,646	359,289	7,623	366,912	76,855
Non-residents (3)	79,447	27,411	117,183	346,948	114,900	685,889	. .	685,889	131,871
Other investors (4)	109,986	57,410	189,512	276,736	14,336	647,980	398,272	1,046,252	683,438
Total	**266,768**	**171,973**	**525,403**	**908,508**	**228,819**	**2,101,471**	**466,588**	**2,568,059**	**910,047**
					(percentage shares)				
BI-UIC	0.1	0.5	2.2	3.2	33.4	5.6	0.1	4.6	1.2
Banks	17.5	12.5	25.0	8.8	4.6	13.8	12.9	13.6	0.7
Investment funds	11.4	37.7	14.4	19.3	5.5	17.1	1.6	14.3	8.4
Non-residents (3)	29.8	15.9	22.3	38.2	50.2	32.6	0.0	26.7	14.5
Other investors (4)	41.2	33.4	36.1	30.5	6.3	30.9	85.4	40.8	75.2
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-December 1998									
BI-UIC	−14,134	487	4,435	−20,474	−743	−30,429	−62	−30,491	3,735
Banks	13,052	1,570	−16,455	−3,173	−2,853	−7,859	10,961	3,102	353
Investment funds	13,559	−532	34,887	122,414	11,110	181,438	2,172	183,610	16,709
Non-residents (3)	52,535	21,798	30,347	42,540	−3,986	143,234	. .	143,234	16,739
Other investors (4)	−100,494	−16,725	−95,311	8,036	−42,234	−246,728	43,198	−203,530	−23,888
Total	**−35,482**	**6,598**	**−42,097**	**149,343**	**−38,706**	**39,656**	**56,269**	**95,925**	**13,648**

(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, the attribution of which is partly estimated. – (3) For CTZs, partly estimated; CCTs comprise all Treasury credit certificates, including fixed rate issues. – (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. (*) Data updated to the end of October 1998.

information, can be estimated to have nearly matched the duration of French and German government securities. The responsiveness of the unit cost of the Italian government debt to variations in market rates is therefore similar to that of French and German debt.

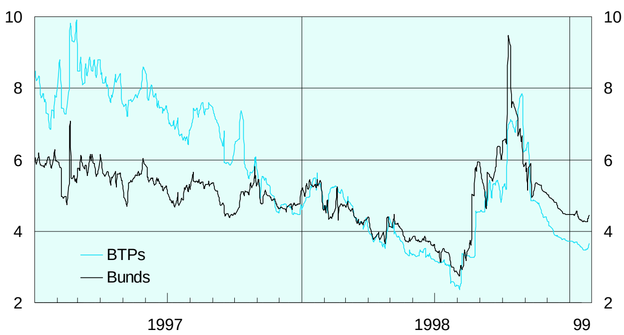
The demand for government securities remained high throughout 1998. The first half of the year saw very large purchases by Italian investment funds and portfolio management services and by foreign investors, while households and firms continued to diversify their portfolios by not rolling over expiring paper.

In the second half of the year, foreign investors sharply cut back their net purchases of Italian government securities, which totaled 22 trillion lire, compared with 122 trillion in the first half (Table 27); this contraction occurred as the yield differential with German government securities became negligible. During the same period, net purchases by Italian institutional investors compensated for disposals by households and banks, while net disposals by other investors came almost to a halt.

Eurolira market issues amounted to 25.1 trillion lire in the first half of the year and 15 trillion in the third quarter and all but ceased in the fourth. There was an overall contraction of 25 per cent with respect to 1997, comparable to that recorded in the Euromark and Eurofranc markets. The phenomenon reflects both the sharp drop in issues by the countries

Figure 40

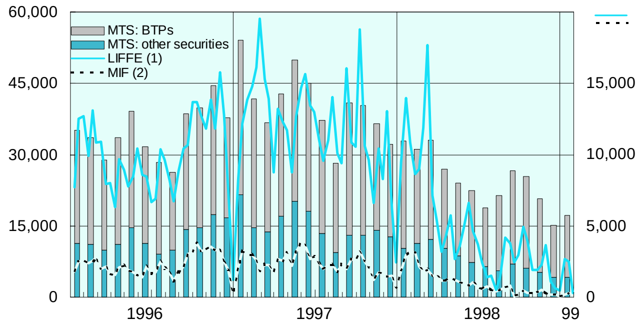
Implied volatility of BTPs and Bunds listed on LIFFE (1)
(*percentage points on an annual basis*)



(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.

Figure 41

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

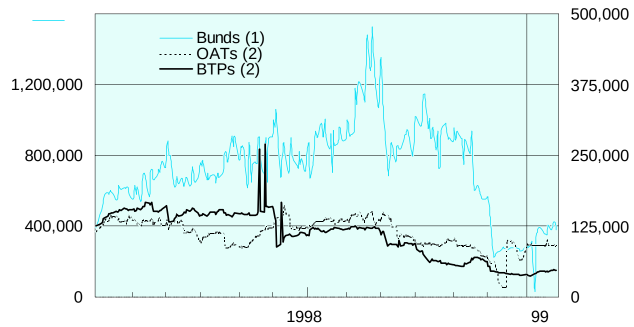


(1) Turnover in futures contracts on 10-year BTPs. Right-hand scale. - (2) Turnover in futures contracts on 5 and 10-year BTPs. Right-hand scale.

of the euro area, since the introduction of the single currency brings an end to the currency diversification effect, and the drying up of issues by emerging-market countries, owing to the surge in yields caused by the financial crisis in Russia.

Figure 42

Open interest in the main euro area markets
(*daily data; number of contracts*)



(1) Left-hand scale. (2) Right-hand scale.

During the fourth quarter the lira yield curve returned to a more usual shape, with a positive slope for maturities beyond one year. After increasing in the third quarter, the implied volatility of the yield of 10-year BTPs began to fall towards the average level of the first half of the year and reached it in concomitance with the launch of the single currency (Figure 40). Turnover in 10-year BTPs on the spot and futures markets retreated from the summer peaks (Figure 41): total turnover on the screen-based market was 22.6 per cent lower in the second half than in the first. The decline in the volume of futures trading affected the German and French long bonds as well as BTPs (Figure 42) and appears to have been partly due to the reorganization of markets' operations as they adapted to the introduction of the euro.

The share market and professional asset management

Following large gains in the first half of the year and a sharp slump in the third quarter, Italian share prices rallied strongly in the fourth quarter, although they did not match their earlier peaks. The rise of 23 per cent from mid-October to the end of December brought the Italian stock market's gain for the year to 41 per cent, outstripping those recorded by the leading exchanges abroad (31 per cent in New York and Paris, 15 per cent in Frankfurt, 11 per cent in London).

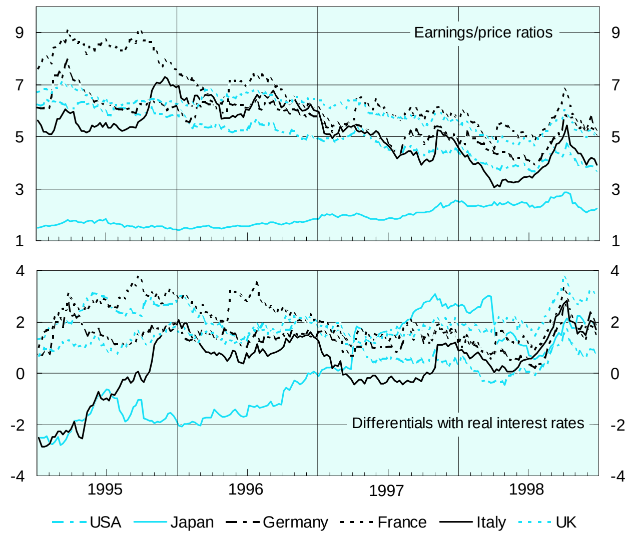
The rise in Italian share prices caused the earnings/price ratio to fall over the year from 4.6 to 3.8 per cent, a value similar to that in the United States and lower than those of the other principal markets with the exception of Japan (5 and 5.2 per cent in France and Germany, respectively; Figure 43). In the fourth quarter the ratio fell by 1.5 percentage points, compared with a decline of 0.5 points in the real yield on 10-year government securities. The narrowing of this differential appears to have been the result of an upward revision of expected profits and a reduction in the equity premium, which appear to be in contrast with the spread of fears of a slowdown in economic growth and the volatility of share markets.

In 1998 the Italian market's capitalization increased to 909 trillion lire and rose from 31 to 45 per cent of GDP. The increase was due primarily to the rise in prices; the listing of 24 new companies and share issues by already listed companies made a modest contribution (42 and 14 trillion lire, respectively). Privatizations imparted significant impetus to the supply of shares. Placements amounted to 23.2 trillion lire, compared with more than 38 trillion in 1997.

The Italian stock market's capitalization in relation to the size of the economy is comparable to that of the German market (48 per cent of GDP) but smaller than that of the French market (65 per cent); in absolute terms it ranks fourth in the euro area, after the French, German and Dutch markets.

Figure 43

Expected earnings/price ratios and differentials with respect to real 10-year interest rates on the main international stock exchanges
(*percentages and percentage points*)



Source: Datastream.

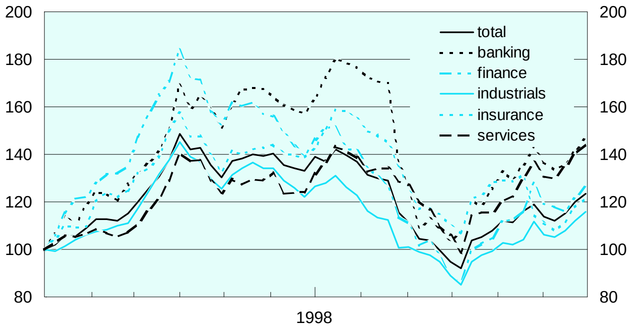
Banks and services were the best-performing sectors of the Italian share market, with gains of 47 and 44 per cent, respectively, in the course of the year (Figure 44). Insurance shares rose in line with the general index, while industrial and holding companies underperformed. These results differ from those recorded by the euro area as a whole, where the main bank shares underperformed on average (Figure 45), while insurance and industrial shares outperformed the market.

Average daily turnover on the Italian stock exchange remained high in the second half and amounted to 2.5 trillion lire, an increase of almost 50 per cent compared with the second half of 1997 (Figure 46). Turnover for the year totaled 819 trillion lire, an increase of 143 per cent.

Trading on the futures and options market in the second half continued at the high level of the first; turnover for the year more than doubled, fueled by investors seeking protection from the risk of price fluctuations, with peaks during the periods of greatest market turbulence (in April and September).

Figure 44

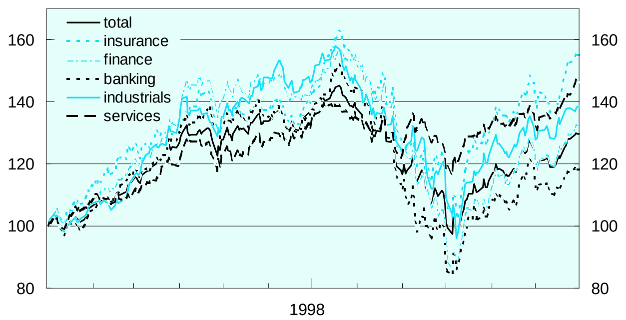
Italian stock exchange:
indices of total return according to sector
(weekly data; 31 December 1997=100)



The volatility of share prices implied by the price of options rose abruptly in September as international tension heightened, reaching a three-year peak of almost 70 per cent before falling back in mid-November to its previous level. It rose again in the closing days of the year when trading grew thin owing, among other things, to the impact of the launch of the euro on the organization of intermediaries' operations.

Figure 45

Euro area stock exchanges:
indices of total return according to sector (1)
(daily data; 31 December 1997=100)

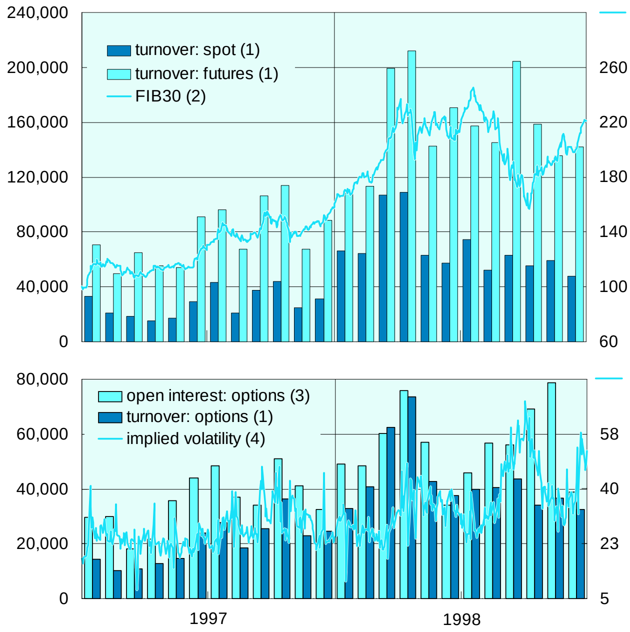


(1) Dow-Jones Euro Stoxx indices.

Net fund-raising by investment funds declined significantly from August onwards: in the last five months of the year the monthly flow fell to 14.3 trillion lire, compared with 34.5 trillion in the first seven months of the year, when it more than trebled with respect to the average for 1997. The deceleration was most substantial for bond funds; the decline of nearly one third in their net fund-raising was almost equally divided between funds specializing in Italian securities and those specializing in foreign securities.

Figure 46

Italian stock exchange: spot and futures markets



(1) Monthly turnover in billions of lire; left-hand scale. - (2) Index, 31 December 1997=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.

The slowdown in fund-raising was reflected only in part in the net purchases of securities by investment funds, which reduced their holdings of liquidity by 14 trillion lire. However, the composition of portfolio flows changed to the benefit of Italian securities; net purchases of Italian shares rose to 1.3 trillion lire in the fourth quarter, compared with net disposals of 1.6 trillion in the third, whereas net purchases of foreign securities declined from 21 to 13 trillion lire.

Italian investment funds' net assets rose over the year from 368 to 720 trillion lire; the proportion invested in shares rose from one tenth to around one fifth and that invested in foreign securities from one fifth to around one third. Investment fund units rose from 10.8 to 19 per cent of the financial assets of households and firms. The ratio of investment funds' net assets to GDP is 39 per cent and higher than in German and the United Kingdom (31 and 29 per cent respectively) but lower than in France and the United States (42 and 65 per cent respectively). Bond and money market funds account for more than 70 per cent of Italian investment funds' net assets, a ratio similar to that for French funds; this compares with 81 per cent for German funds and 11 per cent for UK funds.

The inflow of funds to portfolio management services declined from 90 trillion lire in the first half of the year to 33.7 trillion in the third quarter, a slowdown commensurate with that recorded by investment funds. Around half of the inflow was invested in investment fund units, which rose to 34.8 per cent of assets under management. The latter amounted to 509 trillion lire at the end of September.

Short-term economic prospects

The international situation

International demand gradually weakened in 1998. Despite the continued and unexpectedly brisk expansion of the US economy and the signs of recovery in some South-East Asian countries, estimates of global GDP growth in 1999 have been revised downwards.

According to the scenario published by the IMF in December, the expansion of world trade will accelerate slightly, from 3.3 to 4.4 per cent. In a context marked by a gradual easing of international tensions, the growth in the industrial countries' GDP is expected to slow from 2.3 per cent in 1998 to 1.7 per cent this year (Table 28). The crisis that erupted in Brazil in January has increased the uncertainty surrounding this scenario.

In Japan the bottom of the cycle has been reached, but it is not yet clear when the recovery will come or how strong it will be. The yen rose significantly between August and January; the effects of the expansionary budgetary policy are not yet visible; the deflationary phase is tending to persist; a start has been made on radical structural reforms in the banking sector. The scope for further reductions in short-term interest rates has been exhausted; long-term interest rates have risen, driven up by the growing public sector borrowing requirement. In view of the low level reached by economic activity at the end of last year, the leading international organizations foresee another small contraction in GDP for the year as a whole; the return to positive, albeit modest, rates of growth should come in 2000.

The GDP of the Asian economies hit by the crisis of 1997 is expected to decrease further, albeit to a limited extent. According to official estimates, the Chinese economy will continue to grow at a rapid pace of 6.6 per cent. Growth in Latin America is expected to fall to 1.5 per cent. In Russia the conditions for a turnaround do not appear to exist.

The effects on the world's financial markets of the crisis that exploded in Brazil with the devaluation of the Real and the fall in stock prices have been limited. There remains the risk of contagion, not least because of the uncertain outlook for the country's public finances. The situation in Brazil has exacerbated the difficulties faced by emerging markets in obtaining finance; the spreads on sovereign loans have tended to widen again after narrowing to some extent in the last part of 1998.

Under the impetus of domestic demand, the US economy has continued to expand briskly . The IMF forecasts published in December envisaged the growth in economic activity slowing to 2 per cent in 1999. In the light of current trends, this figure appears to be considerably underestimated and will have to be revised upwards. Some imbalances are clouding the outlook for the economy: the further fall in households' propensity to save and the private sector's growing indebtedness; the large external current account deficit; and the exceptionally high level of stock market prices.

If some of the risks facing the international economy were to materialize, the slowdown in world output would probably be more pronounced. Economic activity in the developed economies would decelerate more sharply and the rate of growth of the developing countries would be halved.

The current account imbalances between the United States on the one hand and Europe and Japan on the other will continue to be substantial, possibly leading to exchange rate tensions.

The stance of monetary policy remains expansionary in most of the industrial countries and especially in Japan. In the United States the prices of financial assets reveal the build-up in recent months of expectations of a rise in short-term interest rates,

Table 28

Actual and forecast performance of selected international macroeconomic variables

(percentage changes on previous year)

	1998 IMF (1)	1999 IMF	1999 Private forecasts (2) (a)	(b)	(c)
GDP (3)					
Industrial countries	2.3	1.7	–	–	–
United States	*3.9*	*1.8*	*3.1*	*2.3*	*2.7*
Japan	*–2.8*	*–0.5*	*–1.1*	*0.0*	*–0.6*
United Kingdom	*2.6*	*0.9*	*0.5*	*–0.2*	*0.4*
Euro area	*2.9*	*2.4*	*2.2*	*1.7*	*2.0*
Germany	*2.8*	*2.0*	*1.8*	*1.4*	*1.7*
France	*3.2*	*2.6*	*2.2*	*1.6*	*2.1*
Developing countries (4)	2.8	3.5	–	–	–
ASEAN-4 (5)	*–10.6*	*–1.4*	*–1.0*	*–0.2*	*–0.7*
China	*7.2*	*6.6*	*7.3*	*6.5*	*8.2*
Latin America (6)	*2.5*	*1.5*	*–1.2*	*–2.0*	*0.5*
Central and Eastern Europe and former USSR	–0.8	–1.9	–	–	–
Consumer prices					
Industrial countries	1.4	1.5	–	–	–
United States	*1.6*	*2.2*	*2.0*	*2.2*	*2.0*
Japan	*0.6*	*–0.7*	*–0.4*	*–0.4*	*–0.9*
United Kingdom (7)	*2.7*	*2.5*	*2.3*	–	*2.3*
Euro area	*1.3*	*1.4*	*1.1*	*0.9*	*1.0*
Germany	*1.0*	*1.2*	*0.9*	*0.6*	*0.9*
France	*0.7*	*0.9*	*0.6*	*0.5*	*0.5*
Developing countries (4)	10.2	8.4	–	–	–
ASEAN-4 (5)	*31.2*	*15.0*	*12.4*	*11.8*	*14.4*
Latin America (6)	*10.3*	*8.3*	–	*9.5*	*6.6*
Central and Eastern Europe and former USSR	21.0	30.2	–	–	–
World trade (8)	**3.3**	**4.4**	**–**	**–**	**–**
Current account balances (9)					
Industrial countries	–15	–57	–	–	–
United States	*–231*	*–288*	*–279*	*–294*	*–280.5*
Japan	*128*	*139*	*137*	*122*	*152*
United Kingdom	*–7*	*–10*	*–10.2*	–	*–13*
Euro area	*103*	*102*	*105*	*100*	*97.5*
Germany	*3*	*4*	*0.4*	–	*–2*
France	*31*	*25*	*36.2*	–	*38.6*
ASEAN-4 (5)	–	–	6.4	4.0	–
Latin America (6)	–87	–70	–69	–52	–65.3
Budget balances (10)					
United States	1.1	1.1	–	0.9	1.5
Japan (11)	–6.2	–8.5	–	–9.2	–10.3
Germany	–2.1	–2.3	–	–2.5	–2.7

Sources: IMF, *World Economic Outlook, Interim Assessment*, December 1998; Consensus Economics, *Consensus Forecasts*, February 1999; J.P. Morgan, *World Financial Markets,* January 1999, and Goldman Sachs, *The International Economics Analyst,* January 1999.

(1) Partly estimated. – (2) (a): Consensus Economics; (b): J.P. Morgan; (c): Goldman Sachs.– (3) At constant prices. – (4) Excludes NIEs. – (5) Philippines, Indonesia, Malaysia and Thailand. – (6) Central and South America for the IMF. – (7) Excludes mortgage interest. – (8) Goods and services. – (9) Billions of dollars. – (10) As a percentage of GDP. – (11) The fiscal year for Goldman Sachs, excluding the balance of social security institutions.

apparently in connection with the continued rapid growth of the economy. This has led to a rise in longer-term interest rates, parallelling that in Japan.

Real long-term interest rates in the leading industrial countries nonetheless remain at their lowest level since the early eighties.

In the euro area, following the reductions in official rates in many participating countries in December, money market rates are close to 3 per cent; the Governing Council of the ECB deems this level to be consistent with the state of the economy and the objective of maintaining price stability in the medium term.

The euro area

The GDP of the area grew faster in 1998 than in the previous year and government finances benefited accordingly, although on a cyclically adjusted basis primary balances did not improve significantly in relation to GDP. Overall budget positions also benefited from the decline in interest rates.

Growth lost momentum in the second half of the year, even in countries such as France where it had been brisk, primarily owing to the contraction in foreign demand and heightened uncertainty about the world economic outlook.

Orders and business sentiment deteriorated progressively throughout the area. By contrast, the climate of confidence of households improved. In December there were signs in industry of a slight upturn in the trend of orders, especially from abroad.

In Germany, the decline in industrial production and export orders towards the end of the year limit the scope for growth this year. In addition, there is the uncertainty regarding the contents of the tax and social security reforms the Government announced last autumn. GDP will grow by less than 2 per cent in 1999. Although economic activity will slow down in France, it is expected to expand faster than in Germany. A survey of French industrial firms indicates a deceleration in investment in 1999.

The modest pace of growth in the euro area, around 2 per cent, will not permit an appreciable improvement in the unemployment rate, which, despite the slight decline in 1998, is set to remain near its historical peak.

National budgetary policies for 1999 appear to be directed to reconciling the objective of deficit reduction with that of sustaining economic activity and employment. In the years to come it will be necessary to ensure budget positions close to balance or in surplus in order to provide adequate leeway for counter-cyclical policies.

Even without the effect of the decline in commodity prices in 1998, the outlook is for price stability in 1999, with an inflation rate of just over 1 per cent. Among the factors contributing to this result are the absence of significant increases in labour costs and the persistence of a sizable output gap.

Today’s monetary and financial conditions are deemed to be consistent, if appropriate budgetary and structural policies are adopted, with sustained growth in output and employment in the area. The recent appreciation of the dollar against the euro also provides a stimulus to demand.

The threat of less favourable international developments and a sharper slowdown in economic activity does not appear to have abated entirely. Until the last few days of February the prices of futures on euro deposits revealed expectations of a further reduction of around a quarter of a point in three-month interest rates within six months; these expectations have now unwound in view of the persistent weakness of the euro.

The Italian economy

In 1998 economic growth in Italy was again slower than in the other euro area countries. GDP expanded by 1.4 per cent, depressed by the contraction of more than one percentage point in net exports and buoyed up by substantial stockbuilding. Industrial production stagnated for most of the year; in the last two months it recorded a sharp fall, followed, according to preliminary estimates, by a recovery in January and another fall in February.

Investment in machinery and transport equipment was initially fueled by the high rate of capacity utilization and the decline in the cost of credit. Its pace gradually slowed down as firms became more cautious, primarily in response to the deterioration in the international outlook. Reflecting the gradual improvement in household confidence, consumer spending staged a modest recovery, fueled mainly by the long-deferred replacement of durable goods and the fall in interest rates.

Despite the weakening of economic activity in 1998, general government net borrowing overshot the target set last March in the Report on the Borrowing Requirement by only 0.1 per cent of GDP. This achievement was partly due to one-off measures amounting to around 0.3 per cent of GDP that supplemented those of the same order of magnitude included in the budget.

The ratio of government debt to GDP fell by 3.7 percentage points to 118.7 per cent at the end of December. The official plans for 1999-2001 envisage a further reduction of 11 points over the three years. Together with the significant lengthening of the average residual maturity of the debt, this will limit the repercussions on the public finances of any future increases in interest rates.

The stability programme that the Government submitted to the EU in December confirmed the main objectives set in the Economic and Financial Planning Document for 1999-2001: to reduce net borrowing to 2 per cent of GDP in 1999, 1.5 per cent in 2000 and 1 per cent in 2001 and to stabilize the primary surplus during these three years at 5.5 per cent of GDP, the objective set for 1998. The deficit reduction is to be the result of the fall in interest payments, most of which will be produced by the average cost of the debt converging on the lower rates on new issues.

In order to achieve the objectives for 1999, the Government planned a budget adjustment that would reduce net borrowing on a current programmes by 8 trillion lire. The saving of 18.6 trillion lire produced by deficit-cutting measures is partially offset by 10.6 trillion of revenue reductions and expenditure increases aimed at sustaining economic growth, providing support for particular groups of disadvantaged persons and repaying part of the special Europe tax.

The implementing provisions of the 1999 budget

The overall impact of the 1999 budget on general government net borrowing was not altered during the passage of the measures through Parliament;(1) the projected reduction in net borrowing remained 8 trillion lire (see the box "The budget for 1999" *in* Economic Bulletin, *no. 27, October 1998).*

The composition of the measures was amended only slightly; they should generate net additional revenue of about 3 trillion lire, compared with almost 2.8 trillion provided for in the bill submitted originally by the Government, and net spending cuts of about 5 trillion, compared with 5.2 trillion.

As a result of the quantification of the effects of the carbon tax package - the revenue from which is to be used essentially to finance policies to support economic activity - and the introduction of certain additional measures, the allocations for social policies and economic development are estimated at 10.25 trillion lire (compared with 8.5 trillion in the bill). The total budget adjustment, taking into account additional expenditure of 350 billion lire, therefore amounts to about 18.6 trillion (compared with 14.7 trillion in the bill).

Effects of the budget on the consolitated general government income statement (1)
(billions of lire)

REVENUE	
Increase in revenue	**8,000**
Accelerated collection of INPS receivables	5,300
Carbon tax	1,550
Telecommunication licence fees	1,000
Sales of real estate	100
Other increases in revenue	50
Social and development policies	**–5,050**
Partial refund of the Europe tax	–3,000
Business incentives	–1,450
Relief for taxes on housing	–150
Relief for taxes on pensions	–350
Other reductions in revenue	–100
TOTAL REVENUE (net increase)	**2,950**
EXPENDITURE	
Reduction in expenditure	**10,600**
Budget and Finance Law	3,050
Accompanying measures	*7,550*
Public employment	*450*
Local finances	*2,200*
Public utilities	*1,200*
Health care, pensions and welfare benefit	*800*
Other	*2,900*
Social and development policies	**–5,200**
Support for investment and reconstruction	–2,500
Sectoral policies	–1,000
Increase in social pensions and welfare benefits	–600
Abolition of the fixed portion of health charges	–450
Allowances for families with three or more children	–400
Free provision of school textbooks	–200
Other	–50
Other expenditure	**–350**
TOTAL EXPENDITURE (net reduction in expenditure)	**5,050**
TOTAL REDUCTION IN NET PRIMARY BORROWING	**8,000**

(1) Based on official estimates.

Revenue

The net increase in projected revenue by comparison with the figures stated in the bill presented last September can be ascribed mainly to the decision not to abolish the tax for the issuance and annual validation of passports and the tax on nautical licences (about 150 billion). The other amendments, which will have almost no effect on net revenue, relate mainly to development policies.

Development policies: tax reliefs *- Parliament introduced additional business incentives over and above those contained in the original bill. They provide for: (i) the abolition of social security contributions for compulsory insurance against tuberculosis and to finance assistance for the orphans of Italian workers and the provision of crèches; (ii) an amendment to the flat-rate contributions introduced in the 1998 budget in respect of workers already employed; (iii) the introduction of total contribution relief in respect of newly hired workers in some areas of the South; (iv) the allocation of resources to the Employment Fund to cover contribution relief granted in respect of schemes to reduce working hours; (v) the granting of 50 per cent relief on pension contributions for three years to persons of less than 32 years of age registering for the first time with the INPS pension fund for artisans and professionals.*

cont.

The reduction in revenue as a result of these measures, which is officially estimated at about 1.45 trillion lire, should be offset by the yield from the carbon tax.

Carbon tax *- The 'environment tax package' differs from the original proposal in the following respects: (i) a change in the rate of some duties on mineral oils due to come into effect by 1 January 2005; (ii) extension of the tax on coal consumption by large combustion plants to cover petroleum coke and naturally occurring bitumen emulsified with water.*

Other provisions *- Both the reference aggregate for taxation of the annual telecommunications licence fee and the size of the planned payment on account were amended. The expected yield for 1999, put at about 1 trillion lire, should not be affected.*

Fuel distributors will be able to make a flat-rate deduction from their business income for the tax year to 31 December 1998 and the two subsequent years. In addition, the annual licence fee for the sale of alcoholic beverages was abolished, the consumption tax on cigarettes was increased and the rates of excise duty on cigars and cigarettes were standardized.

As regards the decentralization of taxation, the article abolishing transfers of revenue to the regions as of 1 January 1999 and replacing them with a scheme for sharing revenue from VAT and excise duty on petrol was deleted; the question will be addressed in subsequent legislation.

Expenditure

The net expenditure savings are 150 billion lire less than envisaged in the Government's bill; this reflects an increase of about 700 billion in allocations for social policies and other expenditure, which is not fully offset by increased spending cuts.

Reduction in expenditure *- The Budget Law and the Finance Law provide for expenditure cuts totaling more than 3 trillion lire, about 650 billion more than originally estimated. The amendments to the accompanying legislation, on the other hand, eliminated about 100 billion of proposed cuts.*

Social policies *- The accompanying legislation provides for allocations of about 350 billion lire over and above those originally proposed; they are earmarked to finance the following measures:*

(i) An increase in social pensions and welfare benefits of 100,000 lire a month, instead of 80,000 lire as originally proposed; the increase will also be paid to blind persons aged 65 or more, while INPS benefits in place of civil disability pensions or benefits for deaf-mutes will be increased so as to bring recipients' incomes up to the level of the social pension. The total cost is estimated at about 600 billion lire, compared with an original estimate of 450 billion.

(ii) Free provision of school textbooks for compulsory schooling and free usage of textbooks by upper secondary school pupils from low-income families. A sum not exceeding 200 billion lire was allocated for this purpose.

(iii) Payment of maternity benefit to women in households with an income below a certain level. It will consist of five monthly payments of 200,000 lire each for children born after 1 July 1999 and 300,000 lire each for those born after 1 July 2000. The cost of the measure is estimated at 25 billion lire.

Other expenditure *- Parliament made provision for other expenditure of about 350 billion lire, relating mainly to the continuation of the peace mission in Bosnia, financed by the expected proceeds of the increase in the excise duty on unleaded petrol (200 billion), and the payment of pensions to persons still in employment if they have a contribution record of at least 40 years (35 billion).*

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(1) The measures consist of three laws passed on 23 December 1998, namely the Budget Law (Law 454), the Finance Law (Law 449) and the accompanying legislation entitled "Public finance measures for stabilization and growth" *(Law 448). The other bills accompanying the Finance Law (the* "Provisions on tax equalization, rationalization and decentralization" *and the legislation relating to investment, employment and social security and labour policies) are still before Parliament.*

The measures adopted risk proving insufficient to reduce the deficit to 2 per cent of GDP in 1999. The effects of the factors making for an increase in the deficit - a prospective shortfall in economic growth compared with the original forecast, the size of the one-off measures enacted in 1998 and last year's overshoot - could outweigh the benefits of a faster fall in interest rates than the Government assumed in its plans.

In 1999 the Italian economy, no longer burdened by the restrictive impact of the severe and protracted action to consolidate the public finances, would have tended to achieve faster growth. However, the sluggishness of the recovery in world demand, and in particular the slowdown forecast for the other economies of the euro area, together with reduced stockbuilding, will limit growth to around 1.5 per cent. The gap with the other euro area countries will narrow.

The contribution of net exports to output growth is expected to be negligible: the surplus on the external current account should be about the same as in 1998 in relation to GDP.

The growth in domestic demand is likely to be sustained by rising household consumption, which will be stimulated by the full effects of the expansionary factors already at work last year. Spending capacity should be fueled by a large increase in disposable income adjusted for the loss of purchasing power on net financial assets.

Professional forecasters expect inflation to decline to just above 1 per cent, in line with the forecast for the euro area as a whole.

Domestic demand may also be boosted by fixed capital formation. Construction investment is likely to benefit from the subsidies for the renovation of residential properties. Considerable progress is being made in the planning of new investment in public works, especially in the South, and the construction of those already planned. Corporate investment may be sustained by the tax incentives recently announced for purchases of capital goods financed out of profits, for a potential total of about 4 trillion lire in 1999 and 2000 together.

The latter measures are part of the Social Pact for Growth and Employment signed in December by the Government, trade unions, employers' organizations and local government bodies. The Pact sets out a broad range of interventions to stimulate growth and employment.

The foreseeable increase in employment in 1999 does not appear to be substantial. It could be larger if all the measures to adapt labour market conditions to the specific needs of local economies and individual firms are implemented swiftly and effectively.

A large number of collective bargaining agreements await renewal, representing about half the total wage bill in manufacturing and more than 60 per cent in market services. Wage restraint must be maintained and extended to the services sector, where there were some serious labour conflicts in 1998.

In the engineering industry, the key issues still to be settled are those connected with the shortening of working hours. In banking, the positions of the two sides are far apart on the restructuring of the industry and salary scales. The substantial improvement in the profitability of the banking system in 1998 was largely due to exceptional earnings in connection with the good performance of the financial markets, which is unlikely to be repeated. The action aimed at bringing costs into line with productivity must be continued, so that they converge in relation to revenues towards a level comparable to that prevailing in the other European countries. This is the indispensable condition for safeguarding the competitiveness of the Italian banking system.

Appropriate policies, necessarily directed in the short term towards stimulating demand, can increase the growth in GDP to close to 2 per cent.

It is necessary to strengthen the action aimed at sustaining public and private investment, by providing more attractive subsidies for the renovation of residential buildings, eliminating the uncertainty about the size of the tax incentives for capital spending and speeding up the procedures for implementing planned public investment, especially in the South. A clearer definition of some of the objectives identified in the Social Pact can contribute to the expansion of economic activity.

In a broader prospective, it is possible to return to a faster growth path with the resources available. Economic policy can enhance their potential by increasing confidence in the future of the Italian economy.

In the first place it is necessary to consolidate and complete the adjustment of the public finances. In the coming years the reduction in government debt will need to proceed as planned. To this end, it is essential that the primary surplus be kept close to the objective of 5.5 per cent of GDP indicated in the Economic and Financial Planning Document for 1999-2001 and reaffirmed in the stability programme, and that the privatizations already planned be carried out.

Together with the restoration of sound public finances, determined action to reduce the level of expenditure and revenue is indispensable if a solid basis is to be created for economic growth.

In order to reduce the tax burden and increase investment in physical and human capital, it is necessary to correct the trends of non-interest current expenditure by re-examining the functions assigned to the various spending bodies, using the resources allocated to them more efficiently and modifying some of the parameters of the social security system so as to curb the ratio of pension expenditure to GDP from the middle of the next decade onwards.

These are the conditions for steady, rapid growth in employment.

The Social Pact for Growth and Employment

In mid-January Parliament approved a resolution adopting the Social Pact for Growth and Employment agreed to on 22 December by the Government and 32 organizations representing workers, employers and local governments. The signing of the Pact formally reaffirms the practice of concertation initiated with the incomes policy agreements of the early nineties, in which business and labour organizations were assigned an advisory role in determining the objectives and the implementation procedures for Government economic policy. Agreements of this kind, in which fostering employment and economic growth takes its place as an objective alongside that of curbing inflation, are now viewed with favour both by other European countries and by the EU Commission and the OECD.

The protocols on incomes policy signed in July 1992 and July 1993 were intended above all to moderate wage growth and inflation, thereby facilitating reduction of the budget deficit and recovery from recession. This was to be achieved through wage bargaining at two levels: a) at the industrywide level, with wage increases linked to the Government's target inflation rate and also taking account of changes in the terms of trade; and b) at the company or local level, with variable increments depending on companies' economic performance. The protocols also set out three further lines for policy action: 1) extending the "social shock absorbers" for coping with employment crises; 2) adopting policies to enhance flexibility in employment contracts and relations, with the introduction of temporary employment agencies and the reform of apprenticeship; and 3) the definition of policies of financial support for the productive economy, for research and development, and for the creation of infrastructure, especially in the South.

The principal objective, wage moderation, was attained, but progress on the other fronts proved less easy. Some headway was nevertheless made in reforming the labour market: the public monopoly on job placement services was ended, the so-called Treu Package of June 1997 introduced temporary employment contracts and agencies, apprenticeship was reformed, and the range of fixed-term contracts was extended. These innovations are moving into the system very slowly, however.

The new Pact provides that the signatories be involved in attaining the overall objectives agreed at European level. It envisages coordination with the initiatives begun by the extraordinary meeting of the European Council in Luxembourg November 1997 on covergence in employment policies and by the Council meeting in Vienna in September 1998. Specifically, the Pact indicates the role of concertation in drafting the national plan of action for employment, which has still to be officially discussed with the social partners.

The Pact establishes formal rules for the decision-making process connected with policy concertation. The Government undertakes to present the measures agreed to in Parliament and to translate them into action. The two annual incomes policy sessions provided for under the 1993 protocol are retained: one in the spring, in concomitance with the drafting of the Economic and Financial Planning Document and the presentation of the National Action Plan for Employment to the European Union, and one in the autumn in concomitance with the discussion of the budget for the next year. The Pact places greater emphasis

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than its predecessors on verification. It also institutes, under the Office of the Prime Minister, an official body assigned to check the state of implementation of the undertakings of the parties and the results of the agreements.

The Pact does not modify the two-level collective bargaining arrangements. Despite the spread of variable wage increments in recent years, even to small and medium-sized enterprises, the creation of adequate wage differentials between firms and areas with different productivity trends is proceeding extremely slowly. The only innovation affecting wage bargaining is the inclusion of the European inflation rate among the incomes policy parameters.

The Pact outlines action for growth and employment, renewed investment and improved education and vocational training. The key point is the use of fiscal instruments and incentives both to stimulate investment and to curb the cost of labour. Most of the measures in this regard were already incorporated in the Finance Law for 1999 and its accompanying legislation. The Pact sets these measures in a medium-to-long-term framework.

The Pact underscores the excessive tax burden on labour, which is accompanied by legislative and administrative constraints that are out of line with European practices. The narrowing of the tax wedge will be achieved by eliminating the improper charges still levied on payroll employment, defraying maternity benefits and family allowances out of general revenue, and reducing the tax rate for the lower income brackets in line with gains against tax evasion. As for the taxation of entrepreneurial income, for the medium term the document calls for a progressive enhancement of the relief introduced with the Dual Income Tax under the recent tax reform.

To stimulate productive activity in the South, the Finance Law provides for the extension of social contribution relief through 2001 and a three-year exemption from contributions in respect of newly hired workers that increase the firm's employment level compared with 31 December 1998. There are also reliefs for young people undertaking a self-employment activity and tax credits for small and medium-sized enterprises hiring new employees. The draft accompanying legislation contains enabling acts, not yet approved by Parliament, for the reordering of incentives for employment and the reduction of working hours, for the reform of social shock absorbers, for the revision of the rules on socially useful jobs and for the modification of the rules on workplace accident and occupational illness insurance. The Government also pledges to continue the action undertaken in recent years with the introduction of "territorial pacts" and "area contracts" and to implement the reform of public employment services.

The Social Pact, while incorporating explict undertakings on the part of the Government, establishes no corresponding commitments on the part of business and labour organizations. It leaves the revision of bargaining mechanisms, the modification of the rules governing employment relations and dismissals, the rationalization of social shock absorbers and the overall reordering of the welfare system to future agreements.

New developments in the statistical information disseminated by the Bank of Italy

The content and procedures for publishing the main monetary, financial and balance-of-payments statistics prepared by the Bank of Italy and the UIC will be modified in the course of this year. The innovations planned reflect both the adoption of harmonized definitions within the monetary union and the increased attention that a number of international organizations are now paying to the publication of accurate and timely macroeconomic indicators.

The principal changes will affect the Statistical Bulletin *of the UIC and the* Supplements to the Statistical Bulletin *of the Bank of Italy.*

The supplements Monetary Base *and* Monetary and Credit Aggregates *will be terminated as soon as the data for December 1998 are published. They will be replaced by a monthly release reporting the main items of the Bank of Italy's balance sheet, comparable with those of the aggregate balance sheet of the Eurosystem published in the ECB's* Monthly Bulletin, *as well as the national components of the monetary aggregates of the euro area and their counterparts, in accordance with the new harmonized definitions.*

The supplement Banks *will include a new section dedicated to the main items of the balance sheet of "other monetary financial institutions" in accordance with the definition adopted for ESCB statistics. These are the institutions that, together with the central bank sector, issue monetary liabilities; in line with the definition agreed at ESCB level they comprise banks, money market funds and a small group of other intermediaries that do not operate in Italy. In the new tables, the bank component of the balance sheet will cover the entire banking system rather than just the "Research Department sample", to which the information previously published by the Bank of Italy referred. The main balance sheet items will be shown by economic sector of counterparty, with separate figures for residents of Italy and the other euro area countries and for the various forms of fund-raising and lending denominated in euros and the other euro area currencies.*

The structure of the information contained the Financial Accounts *and* Balance of Payments *supplements and in the UIC's* Statistical Bulletin *will be overhauled following the adjustment of statistical methods and itemization to conform with the new international standards.*

The financial accounts will reflect the introduction of the new definitions for institutional sectors and financial instruments established in the 1995 version of the European System of Accounts (ESA95), which will also soon be adopted for the national economic accounts; the adjustment to the ESA95 methodologies will be completed in the year 2000, as envisaged in Community provisions. The publication of quarterly financial accounts, which has

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been halted temporarily, will resume following the publication of the data for 1998 in the Annual Report*.*

The layout of the balance of payments will be brought into line with that proposed by the IMF in the fifth edition of its balance-of-payments manual and adopted by the ECB. The change will involve the separate identification of capital transfers, which are now included in the current account, thereby permitting in principle full reconciliation with the national accounts. Capital movements, which will now in a section called the "financial account", will first be classified according to function (direct investment, portfolio investment, derivatives, other). Portfolio investment and "other" will be subdivided according to type of financial instrument or investment and resident sector. For the main items of the financial account separate figures will be shown for transactions with the euro area and those with the rest of the world.

In addition, a new supplement entitled Public Finance Statistics in the European Union Countries *will begin publication.*

Changes of minor importance, intended to improve the organization of information and the uniformity of definitions, will be made to the other supplements.

The new statistical publications will show values expressed in lire and in euros. The dual reporting will be offered both in printed publications and on the CD-ROM containing the Bank of Italy's entire public information base. Time series in euros will be available from 1997; conversions will be made using the irrevocable conversion rate set at the launch of Stage Three. Pre-1997 data will only be available in lire. As in the past, the CD-ROM will contain time series stretching as far back as available information allows, while printed publications will only publish retrospective data for more recent years. Printed publications and the CD-ROM will be supplemented by the dissemination of statistical information through the Bank of Italy's Internet site (www.bancaditalia.it), with partial service beginning in March and full service in April.

The release of information concerning the main categories of macroeconomic indicators will follow an announced timetable and calendar, in accordance with the recommendations of the IMF regarding statistical data dissemination standards. The IMF itself will make the calendar available via the Internet on the Dissemination Standard Bulletin Board (dsbb.imf.org). With regard to the monthly data on money and credit, the figures for Italy will be released immediately after the ECB publishes those on the corresponding aggregates for the euro area. All the statistical information in all formats will shortly be available in English.

Based on information available at 2 March.

Articles

Summary of the second survey of the compliance of Italian banks' information systems with euro and Year 2000 requirements (*)

This document summarizes the results of the survey conducted with banks in the third quarter of 1998. The distribution of the questionnaire was accompanied by numerous direct meetings with banks, which made it possible to supplement the quantitative data with qualitative assessments. The data refer to the situation in July and August 1998. The complete results of the survey were transmitted to the banks in January 1999. A report on the first survey, conducted in December 1997, was published in Economic Bulletin *no. 26, February 1998, and is also available on the Bank's Internet site (www.bancaditalia.it).*

The second survey questionnaire was sent to all banks established in Italy, irrespective of institutional type, size, type of operations or organization of information systems. Its main objectives were:

- *to check the state of completion of the projects;*
- *to identify any problem areas or delays for individual intermediaries and the banking system as a whole;*
- *to collect detailed information on the final phases of the adjustment project (testing, release of applications into production, planning of contingency measures in the event of malfunction).*

The results are presented separately for banks with in-house EDP centres and outsourcing banks. The former are defined as the 99 banks (including all major and large banks, 80 per cent of medium-sized institutions, 16 per cent of small banks excluding mutual banks, and around 20 per cent of branches of foreign banks) that reported they had an independent EDP department. The latter comprise the 810 banks that reported they outsourced all or most of the development and maintenance of their information systems. This group consists of nearly all mutual banks and other small or medium-sized institutions.

1. Overview

The major efforts undertaken by Italian banks in the second half of 1998 to convert the procedures necessary for corporate operations during the transition period to the euro caused the final phases of Year 2000 adjustment projects to be postponed in many cases.

At the survey date the banking system as a whole (taking due account of the different types of bank involved) was around midway in modifying its information processing procedures and adjusting its technological infrastructure, with appreciable

(*) *Prepared by the Banking Supervision Department.*

differences between banks, while it had only just begun the testing and release phases.

The financial costs of the euro and Year 2000 projects amounted to 3.4 trillion lire. This increase of 35 per cent from the previous survey was due partly to the reporting of costs by banks that had not been able to provide estimates in the first survey and partly to budget revisions during project implementation.

Owing to the considerable resources consumed by the adjustment of systems and procedures, banks have not yet made a detailed, comprehensive assessment of the risks not directly associated with modifying their information systems.[1]

In fact, deficiencies can be observed in the assessment of operational, legal and credit risks, in the planning of comprehensive testing that also covers systems' outside connections, in the preparation of contingency plans to ensure the continuity of critical operations, and in disclosure on the projects under way.

In 1999 Italian banks are therefore called upon to make a significant effort in order to complete the necessary actions to resolve the problem of Year 2000 compliance on schedule, making best use of the time that remains.

As shown by the experience of countries that were not directly involved in the changeover to the euro, whose projects for the Year 2000 are therefore nearer completion, achieving good results requires careful monitoring of project implementation on the part of management and the full involvement of all corporate structures, particularly those responsible for technical operations, organization and risk control.

Banks will have to pay the utmost attention to internal testing of the components that have been modified or replaced and of the integrated functioning of the procedures in the operating environment. Internal testing should be completed by the first half of 1999, at least for those applications that are vital for corporate operations.

Planning the completion of in-house testing by June 1999 makes it possible to set aside the second half of the year for removing any remaining errors, fine-tuning the systems and defining contingency procedures to ensure operational continuity in the event of serious malfunction.

The Banking Supervision Department is following the adjustment process closely, conducting periodic surveys of the whole system, assessing the preparations of individual banks and adopting measures in respect of banks that are lagging behind or whose projects are not satisfactory.

2. Organization of projects

According to the survey results, 87 per cent of banks (98 per cent of those with an in-house EDP centre and 86 per cent of outsourcing banks) had identified the applications and systems that needed to be adjusted to handle the date change in the Year 2000, while a full 98 per cent (99 per cent of those with in-house EDP centres and 98 per cent of outsourcing banks) had done so for the changeover to the euro.

Of banks with an in-house EDP centre, 13 per cent did not report a date on which top management had approved the Year 2000 compliance plan, a figure that rises to 29 per cent for outsourcing banks. A number of these banks believe their systems are already compliant and therefore do not feel there is a need to assess the impact of the date change on the overall information system, postponing any such evaluation until after the start of the euro transition period; in the case of outsourcing banks, the result may be due to a lack of information on the plans of their EDP outsourcers.

In the planning of adjustments, no clear preference emerges between carrying out euro and Year 2000 modifications jointly or separately.

Internal systems for monitoring the progress of Year 2000 efforts envisaged formal reporting requirements in 80 per cent of banks with in-house EDP centres and 50 per cent of outsourcing banks and the involvement of internal or external auditors in 40 per cent of cases.

The lesser strategic importance attributed to Year 2000 preparations compared with euro adjustments is confirmed by the organizational level to which information on the state of progress is transmitted, with Year 2000 reports generally being sent to intermediate coordination bodies (interdepartmental committees, working groups, etc.) charged with general systems maintenance, rather than to top management (Table 1).

Table 1

Banks with formalized reporting to top management
(percentage values)

	Year 2000	Euro
In-house EDP	59	78
Outsourcing	46	72

Banks with an in-house EDP centre classified the adjustments as maintenance, whereas 50 per cent of outsourcing banks reported they were planning to overhaul their information systems.[2] The major commitment required for the euro and the year 2000 prompted 38 banks to outsource their information systems, which had previously been maintained in-house, or to switch outsourcer. Banks with in-house EDP centres also made increasing recourse to applications packages developed by external suppliers for strategic procedures.

3. State of progress

The banks were asked to provide an indication in percentage terms of the state of completion of the different phases of their Year 2000 projects, namely impact analysis, adjustment, testing and release of applications into production.

Table 2

Release of Year 2000 compliant procedures by applications category
(*percentage values*)

		State of completion of adjustments (1)		Banks that have completed adjustments	
		at June 1998	projected at December 1998	at June	projected at December 1998
		Bank procedures			
Branch (current acct., deposits)	In-house EDP	30	76	11	42
	Outsourcing	77	93	55	69
Other fund-raising / lending	In-house EDP	37	73	14	45
	Outsourcing	71	87	49	69
Finance/securities	In-house EDP	32	77	17	51
	Outsourcing	60	96	43	80
Foreign	In-house EDP	33	80	18	62
	Outsourcing	52	88	47	78
Bilateral interbank relations	In-house EDP	22	80	12	58
	Outsourcing	61	94	40	71
		Internal control procedures			
Accounting, balance sheet	In-house EDP	35	75	21	61
	Outsourcing	76	95	59	81
Management control	In-house EDP	37	68	28	51
	Outsourcing	63	90	60	75
Supervisory reports	In-house EDP	50	77	33	59
	Outsourcing	84	95	63	83
		Payment system procedures			
Interbank procedures (2)	In-house EDP	38	82	18	56
	Outsourcing	77	94	56	79
Relations with Bank of Italy	In-house EDP	37	83	24	65
(BI-REL, CAT, auctions)	Outsourcing	53	88	50	87
Transaction settlement	In-house EDP	29	85	18	72
with markets (RRG)	Outsourcing	35	83	33	67

(1) Excluding banks that have already completed adjustments. – (2) Credit transfers, collection orders, check truncation, etc.

At the survey date, Italian banks had largely completed impact analysis and were about midway through the procedure adjustment phase. Testing and release of applications had just begun (Table 2).

Nevertheless, there are appreciable differences between types of application and between groups of banks. Outsourcing banks had made the most progress, while the applications closest to completion were those linking banks to the payment system (the interbank network, links with the Bank of Italy, procedures for settlement of transactions with markets). This can be explained both by the greater complexity of large banks' information systems, and the deadlines established for system testing in the interbank payments sector, which have accelerated the pace of adjustment.

The procedures in which the least progress has been made were those involved in bilateral contacts between banks, on-line branch applications and those in the finance and securities area.

Projections for the state of completion in December 1998 showed considerable progress being made, given that a large number of banks planned to have completed euro-related modifications by that date.

In addition to reporting on the state of completion of modifications to applications software, banks were also asked to indicate the components of their technological infrastructure included in their adjustment projects and the percentage of modifications completed.

The most affected components were operating systems, followed by central IT hardware, PCs, auxiliary devices (form and cheque readers, time clocks, security systems and telephone switchboards) and networks (Table 3).

Most of the modifications to systems and equipment were being made to ensure Year 2000 compliance; some infrastructure adjustments were brought forward by the need for euro-specific changes (such as upgrading central hardware to meet greater processing loads and the modification of POS devices to handle the new currency).

Table 3

Adjustment of systems and devices for the Year 2000
(percentage values)

		Banks planning adjustments (a)	Banks that have completed the project (of those in (a))	State of completion at banks that have not completed the project (average)
Central hardware	In-house EDP .	79	29	61
	Outsourcing . . .	81	57	69
PCs	In-house EDP .	78	20	51
	Outsourcing . . .	72	46	59
Operating systems and other basic software	In-house EDP .	87	20	56
	Outsourcing . . .	84	50	53
Networks	In-house EDP .	60	28	54
	Outsourcing . . .	53	45	68
ATMs and POS units	In-house EDP .	62	4	30
	Outsourcing . . .	81	10	42
Auxiliary devices	In-house EDP .	78	7	41
	Outsourcing . . .	64	12	54

Table 4

Cost of euro and Year 2000 adjustments by size and type of bank
(millions of lire)

Size by total assets	Banks with in-house EDP centre		Outsourcing banks		Total
	Total cost	Average	Total cost	Average	Total cost
Less than 1 trillion lire	3,723	745	332,874	546	336,597
1-5 trillion	157,540	5,432	326,445	3,400	483,985
5-10 trillion	220,458	18,372	86,177	7,834	306,635
10-30 trillion	789,132	27,211	45,530	11,383	834,662
More than 30 trillion	1,400,537	82,385	30,000	30,000	1,430,537
Total	**2,571,390**	**27,950**	**821,026**	**1,137**	**3,392,416**

4. Costs

As in the December 1997 survey, banks were asked to provide an estimate of the total costs of the euro-Year 2000 project for the period between 1997 and 2001, including all current spending and investment (whether already incurred or budgeted).[3]

Although many banks said that they had encountered difficulties in disaggregating euro and Year 2000 costs from those relating to general information system overhauls, 90 per cent provided an estimate of costs (compared with 63 per cent in the previous survey). These banks account for 89 per cent of the total assets of the banking system.

Total reported costs amounted to about 3.4 trillion lire, with the largest banks spending proportionately more (Table 4).

Spending by banks had increased by 35 per cent in comparison with the previous survey, owing partly to the reporting of costs by banks that had not been able to provide an estimate before and partly to budget revisions made during the course of the projects.

The banks continued to divide spending between euro and Year 2000 adjustments in the same proportions they had indicated in the previous survey, with about 60 per cent of total planned spending allocated to adjustments for the euro and 20 per cent each to the Year 2000 and new functions (Table 5).

Table 5

Allocation of costs by objective
(percentage values)

	Euro	Year 2000	New functions
In-house EDP	62	19	19
Outsourcing	50	26	24
Total	**59**	**20**	**21**

The small incidence of Year 2000 spending is probably due to the fact that at the survey date many banks were absorbed in preparing their information systems for the imminent launch of the single currency and had not yet revised their cost estimates for the Year 2000 problem. Such costs could therefore be revised sharply upwards.

The breakdown of spending by purpose has also remained the same: the lion's share has been allocated to adjusting applications internally or externally or to the purchase of applications packages (76 per cent), while infrastructure modifications and non-EDP spending account for a virtually equal share of the remaining costs (Table 6).

Table 6

Allocation of euro and Year 2000 costs by purpose
(percentage values)

	Infrastructure modifications	Internal resources	Purchase of applications packages	Purchase of services	Other
In-house EDP	10	21	17	39	13
Outsourcing . .	22	15	26	27	10
Total . . .	**12**	**20**	**19**	**37**	**12**

The most costly operational phase of applications adjustment was the modification of programs (47 per cent), followed by testing (30 per cent) and impact analysis (23 per cent).

5. Testing

The survey data on testing confirm that most Italian banks had not yet defined the details of their plans for testing the Year 2000 compliance of applications and systems.

This picture also emerges from the large percentage of negative replies (especially among outsourcing banks) to questions on the involvement of administrative staff in the testing, on reporting results to management, on documenting the various phases of testing, and on external testing with other banks, correspondents and customers (Table 7).

Banks with in-house EDP centres appear to be more attentive in planning tests: 91 per cent planned to test procedures that they felt were already compliant or applications packages certified as compliant by their suppliers. The same percentage planned to carry out non-regression tests, simulation tests (mainly on critical dates for the Year 2000) or integrated tests.[4]

Banks with in-house EDP centres that had planned to conduct integrated tests had scheduled them for the period between March 1998 and December 1999. Only a small number planned to begin such testing in the last quarter of 1998, while a larger percentage had scheduled the start of testing for the early part of 1999.

Table 7

Planning of Year 2000 testing
(percentage values)

	Involvement of administrative staff	Reports to top management	Documentation of test phases	External testing with correspondents	External testing with customers
In-house EDP	61	84	58	66	51
Outsourcing	59	69	34	56	66

Among outsourcing banks, 23 per cent did not plan to participate in the testing conducted by suppliers or to use test environments provided by them, while 16 per cent had not made provision for acceptance tests to ensure that modified systems and procedures functioned properly once installed.

6. Risk assessment

Banks with in-house EDP centres are generally well aware of the difficulties involved in adjusting internal procedures, with 85 per cent reporting modifications and delays in work plans caused by overlapping with other information system development projects (96 per cent) or shortages of qualified staff (45 per cent).

Of banks with in-house EDP centres, 79 per cent reported having problems with external suppliers, whereas only 29 per cent of outsourcing banks reported such difficulties. The most common problems involved delays in the delivery of products (71 per cent of banks with EDP centres, 21 per cent of outsourcing banks), a lack of transparency in communicating release dates for updated versions (34 and 9 per cent respectively) and shortcomings in the modifications (29 and 10 per cent respectively).

Despite their perception of these difficulties, Italian banks had not yet conducted a detailed analysis of the risk of malfunctions or delays in adjusting their information systems. About a quarter of banks with in-house EDP centres and a fifth of outsourcing banks had not conducted an assessment of the risks associated with the links between their information systems and those of their customers, other banks, correspondents, markets and suppliers of telecommunications services (Table 8).

Table 8

Banks that have analyzed Year 2000 risks stemming from links between their information systems and selected counterparties
(percentage values)

	Customers	Banks	Markets	Service providers	No assessment
In-house EDP . .	45	53	46	65	21
Outsourcing	53	59	48	39	26

Legal risk has also been neglected, and any attention paid has primarily focused on issues related to the euro changeover: 61 per cent of banks had begun to revise contracts with customers and suppliers, 13 per cent had prepared documentation on projects under way in order to support their position in the case of disputes and only 4 per cent had reviewed insurance policies covering information system risks.

Very few banks had assessed the Year 2000 problem in terms of the potential credit risk stemming from difficulties in borrowers' information systems that might cause liquidity problems for the latter or, in the worst cases, threaten their solvency. Only 13 per cent of banks with in-house EDP centres and 6 per cent of outsourcing banks were considering the possibility of default by borrowers caused by major malfunctions in their information systems.

Little attention has been paid to reputation risk and action to disseminate information on the state of progress of Year 2000 projects: only 53 per cent of banks with in-house EDP centres and 43 per cent of outsourcing banks plan to issue communications or disclose information in their financial statements.[5]

7. Contingency plans

Banks were asked if they had prepared plans to manage emergency situations and to ensure business continuity in the event of delays in adjustment projects or malfunctions in critical procedures.[6]

The responses (Table 9) confirm that the banks had not yet prepared emergency measures to ensure business continuity at the turn of the millennium.

Table 9

Elements provided for in banks' Year 2000 emergency plans
(percentage values)

	Staff information	Monitoring of systems on critical dates	Creation of rapid response groups of technicians	Preparation of alternative procedures	Emergency plans with suppliers
In-house EDP	70	90	59	42	23
Outsourcing	80	70	59	24	19

Very few banks had prepared alternative procedures to ensure the continuity of operations, even if only for a short period of time and with possible recourse to manual procedures and reduced performance levels. More than half of banks had not made such plans, relying exclusively on the timely completion of their adjustment projects.

An equally serious shortcoming concerned contacts with suppliers on emergency measures: three-quarters of banks had not made plans for any type of action. The situation is better with regard to the elements of disaster recovery plans and change management systems (rapid response task forces, checking the release of new or modified applications, monitoring the operation of modified systems, etc.).

[1] In the rest of this article this expression will be used to denote the set of technological infrastructure, information processing procedures and databases that enable banks to carry on their activity, regardless of the specific architecture chosen or the use of in-house or outside hardware.

[2] The information systems of outsourcing banks are generally less complex than those of larger banks and consist of procedures with a common original design, meaning that they are closely integrated. By contrast, in addition to having to cope with greater operational complexity (and therefore more complex applications), banks with in-house EDP centres must often ensure that procedures developed internally and externally are adjusted in step. Banks with their own EDP centres accordingly devote more resources to the maintenance and integration of existing components than to renewing their information systems, especially in periods of heavy operational loads such as that examined here.

[3] Spending included all costs incurred by the bank (EDP departments and otherwise), including those associated with the use of internal and outside personnel (consulting, analysis, programming) and with the introduction of new functions and improvements concurrently with the euro-Year 2000 adjustments, even if not strictly related to the project itself.

[4] This expression denotes tests that have been configured for the specific applications and technological architecture of each bank to ensure that no errors arise in connections between applications adjusted at different times and between applications and databases or infrastructure components, which may themselves have undergone modification.

[5] In October 1998, Consob issued a recommendation governing the information on the Year 2000 problem that companies issuing securities listed on regulated markets must provide in their financial statements.

[6] Emergency plans may be technological in nature, but they more frequently involve organizational measures, such as the establishment of task forces that will be on alert on critical dates, the communication of the names of persons and departments (including those available through external suppliers) that employees should contact in the event of specific, identified malfunctions, the limitation of operations at greatest risk, channeling certain operations to specific branches or sectors, the opening of additional lines of credit to handle any increased demand for liquidity by customers, and the consideration of alternatives for the provision of telecommunications services.

Speeches

The world economy and finance in 1999

Address by the Governor, Antonio Fazio, to the Conference organized by AIOTE, ASSOBAT, ATIC, FOREX, AIAF

Verona, 30 January 1999

The effects of the collapse of the Asian currencies in 1997 spilled over to the world economy in 1998; the crisis spread to Russia and other East European countries and to Latin America.

The crisis in Asia followed the sharp decline in domestic demand in Japan. The sudden change in expectations generated rapid capital outflows and currency depreciations that exceeded 50 per cent in Korea and Thailand and 40 per cent in Malaysia and the Philippines. In 1998 the Korean and Thai currencies recouped half the value they had lost. The Indonesian rupiah lost half its value in 1997 and another 20 per cent of its initial value in 1998.

The economies of Latin America withstood the wave of instability from Asia in 1997 but in 1998 were caught up in the crisis following the devaluation of the ruble. The currencies of Brazil, Mexico, Venezuela and Chile came under strong downward pressure. The speculative attack of mid-January 1999 initially focused on the Brazilian Real.

Argentina has stuck to the exchange rate fixed with the dollar under the institutional arrangement adopted for the peso. Since the devaluation of 1994, China has maintained a close link with the US currency.

The swings in share prices in the countries hit by the crisis have paralleled those in exchange rates but have generally been more pronounced.

In Japan, the stock market fell by a quarter in the last two years and has fallen further in the last few weeks; the yen first weakened then strengthened considerably in the last part of 1998. Last year the Korean stock exchange gained as much as it had lost in 1997.

The falls in the currencies and stock exchanges of Asia have been mirrored by rises in the US and European currencies and stock markets, fueled in part by the outflow of funds from Asia. Despite its high initial level, the S&P index rose by 60 per cent in the two years 1997-98. The gains on some European exchanges were even larger.

1. The crisis in Latin America

All the major countries of Latin America continued to run large current account deficits in 1998. Brazil's deficit grew to 4.2 per cent of GDP; the pattern in Mexico, Argentina and Chile was similar, with the deficit rising to 3.5, 4.5 and 6.8 per cent of GDP, respectively.

The ratio of Brazil's net external debt to GDP is on the order of 25 per cent. In Mexico, Venezuela and Chile the ratio is close to 40 per cent, in Argentina to 30 per cent. The debts are mainly denominated in dollars.

In the last few years these economies were marked by rapid rates of growth and lower inflation than in earlier decades. In several cases budget deficits were substantial.

In some respects there was a repeat of the experience of the Asian countries. A prolonged period of growth was financed with imports of foreign capital, mostly at short term.

In Asia the capital inflows had financed investment that in many cases exceeded 30 per cent of GDP in 1997. In Latin America, by contrast, foreign capital also financed the current expenditure of the private and public sectors; investment fell to around 20 per cent of GDP.

In the summer of 1998 the stock markets of Brazil, Mexico, Argentina and Chile had already turned bearish. Interest rates were raised steeply to defend exchange rates.

The tensions subsequently abated, thanks in part to the reduction in US official interest rates and the approval of the stabilization plan agreed by Brazil and the International Monetary Fund. It was possible for interest rates to come down and shares recouped some of the earlier losses.

Confidence in the exchange rates and stock markets of Latin America and some Asian and East European countries was undermined in 1998 by the uncertainty surrounding the solution of Russia's financial problems and the effectiveness of Brazil's stabilization policies.

The sharp fall on the stock market at the beginning of this year and the collapse of the Real following the decision to allow it to float halved the dollar value of Brazilian shares. In the days that followed their prices rebounded, rising by 30 per cent in a single day; subsequently, however, there have been further falls in the exchange rate and share prices have gyrated.

2. The world economy

The slowdown in effective demand that began in Asia in mid-1997 gradually affected the rest of the world.

The Japanese economy, which had been recovering in 1996, grew by only 1.4 per cent in 1997. Growth remained rapid in North America and the United Kingdom and satisfactory in the continental European countries. It was particularly slow in Italy: 0.7 per cent in 1996 and 1.5 per cent in 1997.

The crisis that struck in Asia in the middle of 1997 did not prevent an appreciable increase in consumption, investment and GDP in the area for the year as a whole; the exception was Thailand, where strains in the external accounts had already emerged at the end of 1996. Growth in Latin America continued at a very rapid pace in 1997: 8.6 per cent in Argentina and 7 per cent in Mexico. In Brazil the loss of competitiveness and subsequently the tensions in the financial and foreign exchange markets slowed down growth.

In 1997 world exports recorded a particularly large increase of 9.9 per cent, compared with 7 per cent the previous year. The demand of the emerging economies, still buoyant, sustained the cycle in the Anglo-Saxon countries and continental Europe.

The full force of the crisis was felt in 1998. The expansion in world trade fell to 3.3 per cent.

Growth turned sharply negative in Asia, with GDP contracting by 7 per cent in Korea, 7.5 per cent in Malaysia and 8 per cent in Thailand. The fall in imports and to a lesser extent the rise in exports inverted the sign of external current account balances for the first time in many years and generated sizable surpluses.

The crisis took on political and institutional overtones in Indonesia, where GDP is estimated to have contracted by 15 per cent. On the basis of the data available, the Chinese economy appears to have suffered only a slowdown in growth; the deceleration in the Philippines was more pronounced. Throughout the area economic activity tended to stagnate.

Partly owing to the depressed conditions in the rest of Asia, the performance of the Japanese economy continued to deteriorate in 1998. Investment contracted further, by more than 10 per cent. Signs of deflation became increasingly evident in prices, domestic demand and business expectations.

In Latin America, too, domestic demand and economic activity gradually slowed down during 1998.

The problems afflicting the Asian, Latin American and Russian economies and the improvement in their competitiveness as a result of currency devaluations adversely affected demand in the industrial countries.

The impact on domestic demand and growth was already visible in the exports of the G-7 and euro area countries.

Effective demand remained high in the United States, where the increase in domestic spending was easily financed with growing imports of saving from the rest of the world and the supply of dollars on the international market. US demand for goods helped to attenuate the crisis in Asia; it has so far prevented the economies of Latin America from declining faster.

Business confidence nonetheless waned; after rising by 20 per cent in the first quarter and 13 per cent in the second, investment slowed down further in the second half of the year.

In Japan expectations regarding the economy had already turned down in the middle of 1997.

In continental Europe business expectations deteriorated steadily in 1998. The recovery of investment that had begun in the second quarter of 1997 continued until the early months of last year; it was brought to a halt in the spring by the persistence of the crisis in Asia and its propagation to the East European transition economies and Latin America. The growth in GDP also slowed sharply before recovering slightly.

The climate of households' confidence was less negative.

According to the IMF, output in Germany, France and Italy was well below its potential level from 1993 onwards.

The current account of the balance of payments of the euro area continued to show a surplus of 0.8 per cent of the area's GDP. After rising substantially in 1997, the volume of exports slowed sharply during 1998; the volume of imports also declined markedly.

The cyclical recovery expected in the second part of this year still appears uncertain.

The low level of interest rates does not appear sufficient to trigger a widespread increase in investment. There are still no signs in the area of expectations of a vigorous and sustained recovery in economic activity in the medium term.

The uncertainty surrounding the recovery of international trade in 1999 is related to the prospect of only modest growth or even continued recession in the Asian countries affected by the crisis, the possibility of mounting difficulties in the transition economies and the halt in growth in Latin America.

Notwithstanding the sharp deceleration in economic growth in some regions, the international trade imbalances that have contributed to the abnormal increase in world finance and to the recurrent crises of recent years have not yet been corrected.

The decline in demand and economic activity in 1998 means that many Asian countries risk performing poorly again in 1999. They will continue to record large surpluses on their external current accounts. Growth in Latin America will continue, but much more slowly than last year; current accounts will remain in deficit.

The euro area still has a current account surplus; the US deficit and the Japanese surplus are still growing.

The slowdown of the world economy is stretching into 1999.

Unemployment in Japan, although extremely low in comparison with that of other industrial countries, is rising sharply. Economic activity was still weak at the end of 1998. The support provided by monetary policy ceased to be effective a good while ago. Monetary expansion is nonetheless providing the liquidity needed by the banking system, where the quality of credit continues to decline. The rescue operation prepared by the Government provides an assurance of solvency.

It is essential that the planned massive reflation by means of budgetary policy revive domestic demand and set the economy back on a growth path this year.

It is essential, as indicated by the G-7 finance ministers and central bank governors at their meeting in Washington last October, that the growth in the United States be accompanied by a substantial recovery of domestic demand in Europe.

It was emphasized that, in order to create expectations favourable to a recovery of investment, far-reaching structural reforms are needed in the labour market and public expenditure.

The United States and Canada, Europe and Japan produce approximately half of gross world output. They have the resources, or can attract them from the rest of the world, to sustain domestic demand and strengthen economic activity. There are clear signs of a deficiency of demand, especially for investment goods, in Europe and Japan.

Only a faster rate of economic expansion in the industrial countries can prevent the world economy from stagnating and ensure a return to growth.

3. The growth of money and world finance

In the mid-eighties the bonds circulating in the G-10 countries, issued almost entirely by governments, amounted to $6.3 trillion, or 70 per cent of these countries' domestic product. In 1996 the stock of bonds had tripled to reach $21.7 trillion; output at current prices had doubled; the ratio had risen to 105 per cent.

The stock of shares increased faster; the value of bonds and shares rose from 116 per cent of GDP in 1985 to 220 per cent in 1996.

The growth in the quantity of money also exceeded that in output; the reduction in the income velocity of circulation was concentrated in the second half of the eighties. The rigorous monetary policies of the nineties have kept the ratio of the quantity of money to GDP in the G-10 countries unchanged at close to 60 per cent.

The picture changes, with a larger increase in liquidity, if account is taken of cross-border bank deposits. Interbank deposits and those held by non-banks grew at an annual rate of 11 per cent. According to data reported to the Bank for International Settlements, the former amounted to 21 per cent of world GDP in 1996 and the latter to 6 per cent.

Derivative products have made a decisive contribution to the increase in the liquidity of the world economy since the early nineties, when the growth in the quantity of money was brought under tighter control. Their notional value rose from 25 per cent of world output in 1990 to more than 100 per cent in 1996.

The use of derivatives increases the volume of transactions in financial assets that can be carried out with the existing money balances: the demand for and supply of securities increases by a multiple of the available liquidity. Derivatives permit more efficient risk management; but, used improperly, they entail the risk of instability for market participants.

One fundamental reason for the increase in the market value of shares has been the growth in the actual and potential liquidity of national and international financial markets.

The reduction in long-term interest rates, fostered by low inflation and the curbing of budget deficits, can also be traced to the same cause.

The abundant supply of liquidity in the markets is the consequence of the US balance-of-payments deficit and the monetary expansion in Japan, which accelerated in mid-1995 in the wake of the Mexican crisis. Following the Asian crisis large liquid balances were channeled into dollar-denominated instruments and into the European markets.

4. The Italian economy

The exports of the United States, Japan and the United Kingdom declined in the first half of 1998. Those of the euro area countries continued to rise, although this was largely due to France and Germany, which recorded annualized increases of respectively 3.4 and 2.8 per cent compared with the second half of 1997.

In Italy, the volume of exports contracted in late 1997 and the first few months of 1998, followed by a temporary recovery. The trend at the end of the year appears to have been downward again. Imports did not decline until the second half of the year; prices fell significantly.

The surplus on the current account of the balance of payments was equal to 2.2 per cent of GDP, as against 3.2 per cent in 1997.

The recovery in investment that had begun in the spring of 1997 faltered in 1998. Investment in construction has continued its downward trend. The pick-up in household consumption has proceeded regularly but at a pace that remains modest.

Industrial production remained broadly unchanged for most of the year. Preliminary estimates for January 1999 indicate that output will be at about the same level as in January 1998.

Firms' expectations of new orders deteriorated steadily for most of last year. Households' confidence, though lower in the second half than in the first, remains relatively high.

Thanks to the introduction and extension of forms of flexibility in labour practices, employment has staged a recovery; the number of part-time and fixed-term contracts has increased considerably. On the basis of labour force survey data, the number of persons employed increased by 0.5 per cent on average for the year in the Centre-North and by 0.6 per cent in the South. The increase was accounted for mainly by the weakest groups, women and young people.

Given Italy's low participation rate, however, the number of job seekers has also increased. The unemployment rate in the Centre and North declined marginally in the twelve months to October, from 7.7 to 7.6 per cent. In the South, unhappily, it increased further, from 22.6 to 23.2 per cent; youth unemployment in the region rose to a new peak.

5. The use of saving

Saving is the raw material of investment and growth. The large quantity generated is not all put to use domestically; it is necessary to create the conditions for it to be turned into investment to the benefit of employment in Italy.

Analysis of the balance between the formation and use of saving, in a period marked by high unemployment and sluggish investment, highlights the lack of domestic demand and, indirectly, the shortfall in competitiveness.

A succession of current account surpluses in the six years from 1993 to 1998 enabled Italy to bring its net external position into balance. A high level of foreign debt is inappropriate for an advanced industrial economy and the primary cause of continuous weakening of the exchange rate and inflation.

The achievement of a sound external position was a necessary condition for stabilizing the exchange rate and consolidating the value of the currency.

In the private sector the flow of saving declined further in relation to disposable income in 1998; its use in the domestic economy to the benefit of growth and employment remained inadequate.

The external current account surplus amounted to 45 trillion lire in 1998; in absolute terms it was in line with the figure for 1995; it was one third less than in 1996 and 1997.

A substantial part of the surplus is regularly reinvested abroad, without passing through Italy's financial accounts.

The "errors and omissions" item of the balance of payments resulted in about half the current account surplus recorded in 1996 and 1997 not appearing in the national accounts. In 1998 revenues not officially brought into the country or not recorded in the financial accounts amounted to around 50 trillion lire; they cancelled out the entire current account surplus.

Analysis of officially recorded cross-border capital movements also highlights a reduction in the surplus and the progressive emergence in 1998 of a deficit of foreign investment in the Italian financial market.

Inward investment in Italian bonds and shares amounted to 61.5 trillion lire in 1995; in 1996, owing mainly to the increased liquidity of the international market, the inflow of funds rose to 125 trillion lire. It remained at about that level in 1997 and then rose to 165 trillion last year.

Funds were attracted from abroad by the steady improvement in inflation and the consequent expectation of lower interest rates. These factors were consolidated and reinforced in 1998, *inter alia* by Italy's imminent adoption of the single currency.

Italian portfolio investment abroad has increased more rapidly. Portfolio investment outflows were substantially less than inflows in both 1995 and 1996. With the reduction in official and market interest rates, investment abroad increased; owing to the less favourable outlook for profits, inward investment tended to slow down. In 1997 there was still a net inflow of 7 trillion lire, but in 1998 there was a net outflow of 18 trillion.

The proportion of foreign securities in Italians' investment portfolios is still smaller than in other countries. The process of diversification is bound to continue.

The volume of listed shares in the Italian market is comparatively small. The alignment of Italian interest rates with those prevailing abroad is beneficial for its effects on the real economy but tends to reduce the attractiveness of the national financial market for Italian and foreign investors alike.

The presence of a large number of foreign intermediaries in Italy is highly positive considering the benefits they bring for Italian saving and their role in modernizing the market. Accordingly, we have taken a favourable view of the entry of foreign intermediaries and the additional intensification of competition within Italy. However, in the absence of profitable domestic investment opportunities, the export of saving is also facilitated. The relative weakness from which the Italian banking system still suffers in terms of size and range of business is a handicap.

In the context of the single currency the abundance of saving, which for many decades was one of the great strengths of the Italian economy, loses part of its value as a comparative advantage in fostering growth.

The new situation created by greater openness to cross-border financial flows calls in the first place for a strengthening of the efficiency and competitiveness of the banking system.

The response must be prompt and adequate in order to grasp the opportunities for growth and to finance profitable projects in Italy. We have encouraged the privatization of the banking system and the formation of groups large enough to compete more effectively in Europe.

The competition for saving at the global level depends ultimately on the growth and efficiency of the economy.

Foreign direct investment in Italy amounted to respectively 5.5 and 6.3 trillion lire in 1996 and 1997; in 1998 it rose to 6.9 trillion. Direct outward investment by Italian firms was 10 trillion lire in 1996 and rose to 18 trillion in 1997. In 1998 it amounted to 30 trillion. The Italian economy attracts considerably less foreign direct investment than France, Spain or the United Kingdom. Only Germany is more or less on a par with Italy in this respect.

In a developed economy, exports of capital by firms investing abroad are normal. In Italy, however, there are still large parts of the country where development is insufficient and unemployment very high.

Some 10 per cent of all the employment generated by Italian industry is created outside the country.

Together with the weakness of investment activity, the situation of Italy's external accounts I have described and, in particular, the balance on foreign direct investment all point to the necessity of improving the competitiveness of Italy's productive system within the global and especially the European economy.

6. Competitiveness

With the complete international opening of trade and capital movements and the adoption of the single currency, competitiveness is directly reflected in employment and growth.

In the new international and European context, the advantage of banking and financial systems, their ability to contribute to growth, are in large part the result of the efficient use of the funds they raise.

In an open system, however, what ultimately counts is the demand for funds; this in turn depends crucially on the conditions of employment of the factors of production, above all the profitability of the corporate sector.

In Italy, high taxation and the high level of labour costs relative to productivity in some areas hold back growth in investment and employment; they contribute to the expansion of the black economy, which harms the public finances and the efficiency of the productive system, distorts competition and has pernicious effects on the orderly life of the community.

Between 1990 and 1997 the ratio of total general government revenue to GDP rose by 6 percentage points. In 1997 the tax burden in Italy was almost one point above the European average; it was 13 and 14.5 points higher than in the United States and Japan, respectively. In 1998 the tax burden decreased by one percentage point as the result of the expiry of some temporary measures and the reduction in the yield from taxes on financial income owing to the fall in interest rates.

Public investment fell from 3.3 to 2.4 per cent of GDP between 1990 and 1997.

In a medium-term perspective, there are reforms, many of which have been initiated, that remain to be completed in order to curb current spending, above all on pensions and welfare, and to enhance the effectiveness of expenditure, especially for education and health care.

The efficiency of public services and the stock of infrastructure are not as high in Italy as they are in the industrial economies with which we compare ourselves.

It is estimated that 9 per cent of the workers in manufacturing industry are in an irregular position with respect to tax, social security and job-safety rules. In the building industry the ratio rises to 34 per cent. Irregular employment is much more widespread in the South, where in some sectors it reaches 50 per cent.

At the root of the grey economy are insufficient differentials in labour costs between areas and firms with very different levels of productivity and profitability; the phenomenon also leads to the evasion of taxes and social security contributions. Through the black economy the market tends to achieve a *de facto* closer alignment between labour costs and productivity.

The improvement of competitiveness is to be pursued by increasing the efficiency of the public sector. It is important to proceed with the full operational implementation of the legislative reforms enacted.

Frequently, the limited project development capability of local authorities and the lack of coordination with central government are far from secondary causes of the slowdown in expenditure on public investment and the failure to use the funds and resources available.

7. The outlook

At the root of the instability and recurrent crises of the world economy is the very rapid, at times chaotic, growth of finance, inconsistent with the growth in productive activity. This has consequences for the stability of exchange rates, the purchasing power of currencies, interest rates and securities prices. It has adverse effects on the financial position of banks and intermediaries, the business cycle and employment.

The development of the international monetary system and its current configuration are the product of market forces. The institutional context does not permit quantitative limits to be set on the growth of flows. Transparent and widely accepted prudential rules for the management of intermediaries are not always applied.

The liberalization of capital movements and finance has greatly contributed to the growth of worldwide investment and saving.

The gains from the liberalization of trade in goods and services are certain at the global level and not distributed too unevenly, thanks to the operation of relative prices in response to the availability of factors. With the expansion of purely fiduciary money, there are no binding limits to quantities; monetary and financial expansion can be very uneven across the world and create tension and instability.

Monetary and financial instability is detrimental to the efficient allocation of saving and the regular growth of economic activity. It gives rise to inflation, sometimes to recessions. It can lead to an excessive concentration of financial resources in some countries and areas and an inequitable distribution of wealth, possibly producing tension and political conflict.

The experience of the decades since the collapse of the gold-exchange standard has no precedent in history.

The free circulation of capital under the gold standard took place in a context in which the growth of money and finance had an ultimate reference, a quantitative anchor in the gold reserves of governments and central banks.

The Bretton Woods system, based on the reserve currency role of the dollar, considerably increased the scope for monetary expansion and multiplication. An ultimate quantitative limit still existed. Flows of bank capital were subject to rigid rules; the International Monetary Fund adopted forms of control designed to ensure compliance with equilibrium conditions by each national monetary system.

The absence from 1971 onwards of the link between gold and the international reserve currency and the elimination, partly in response to the ideology of liberalization and the interests of multinational firms and banks, of every rule concerning the transnational expansion of credit and the transnational circulation of money meant that the growth of money and credit became theoretically unlimited. Initially, during the seventies, this resulted in a long period of rapid inflation worldwide and high interest rates and, ultimately, in a severe slowdown in the industrial economies.

The return to tighter monetary control in the eighties, first in the leading industrial economy and then in the others, led to a gradual reduction in inflation, but at the cost of a further rise in interest rates and a prolonged drag on economic growth.

International liquidity expansion continued, partly as a result of the progressive liberalization of short-term capital movements.

It was only in the nineties that more vigorous and coordinated monetary control efforts by all the industrial countries made it possible to rein in the expansion of money, at the international as well as the national level, and curb inflation.

The growth in the supply of securities continued, however; the complete liberalization of capital flows encouraged the illusion of unlimited scope for financing public sector deficits and countries' external imbalances. The market reacted to the monetary restriction by developing derivative products, which in practice act as an additional multiplier of the liquidity created by banking systems.

Financial globalization is not a zero-sum game; it brings major benefits for world economic development but it can also generate instability and substantial losses for smaller and weaker economies.

It is necessary to proceed resolutely with the action initiated by the International Monetary Fund and the World Bank to relieve the heavily indebted poor countries of a burden contracted years ago in conditions of extreme need.

The conditions exist for this relief to be completed by the end of the year 2000, fulfilling the hope expressed by the Roman Catholic Church, international organizations and prominent political personalities.

On several occasions we have insisted in the appropriate official fora on the need for the activity of the International Monetary Fund to be refocused on the prevention of crises, over and above its valid performance of crisis management, albeit in the midst of difficulties and with some failures.

Even though the external constraint is less immediately binding, in view of the greater scope for raising finance offered by the global market, it is necessary to place renewed emphasis on the external equilibrium of each country and each monetary system. The macroeconomic surveillance carried out by the International Monetary Fund under the gold exchange standard must be revived in the new institutional and market conditions.

The main causes of the crisis in Asia in 1997 and of the more recent events in Latin America were the failure to satisfy the conditions of external equilibrium and excessively rigid exchange rates of local currencies.

The crisis cannot be overcome without a recovery in the growth of the world economy supported by the domestic demand of the developed countries, as called for by the Group of Seven at its meeting last October.

In that forum a start was also made on studies and actions aimed at reforming the working of the international monetary system.

The creation of a European currency that is common to eleven countries is a major event for the stability of world finance.

The ground was prepared for the single European currency by the stabilization the participating countries carried out in the nineties. Inflation was tamed but the rigidities and competitive weaknesses of Europe's economies also emerged clearly.

The monetary stability that has been regained can and must provide the basis for a new phase of growth; appropriate economic policies and consistent behaviour by employers and workers can produce new confidence in the ability of Europe's economies to achieve rapid and sustainable growth.

Structural policies are required in all the countries of the area to reduce the rigidity of public expenditure on current account, allow an easing of the tax burden and introduce elements of flexibility in a labour market that still responds to the logic of closed economies.

The measures are needed in order to bring down the high rate of unemployment and to give, through the vigour of the productive economy, greater force to the single European currency.

Money is largely the product of credit granted to private productive activity. Its strength depends not only on the prudent management of interest rates and quantities but also on the prosperity of the economy and the quality of lending.

Where currencies are firmly anchored to productive activity, the setting of objectives for exchange rates appears logically extraneous to the system.

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The halt in the growth of the emerging economies and financial instability have led to a worldwide slowdown in economic activity that is tending to carry over into 1999.

In Italy the structural problems of the public finances, the large public debt and the level of the competitiveness of the financial system and the economy influence investment and employment.

The adjustment of the public finances, intensified from 1993 onwards, the cooperation between employers and the unions, and the restrictive stance of monetary policy from 1995 to 1997 made it possible to recoup the serious fall in the value of the lira and to root out both expectations of inflation and inflation.

Italy's re-entry into the ERM and the restrictive fiscal policy of the last two years have consolidated the results of the stabilization.

Partly owing to the efforts required to reduce the budget deficit, the Italian economy grew at an annual average rate of 1.2 per cent in the period 1996-98, or about half as fast as the German and French economies. The problems in the world economy contributed to growth in 1998 being much slower than expected. There is the risk that the trends of demand and output in the last part of the year will lead to unsatisfactory results for 1999.

The large volume of saving available, of which a part flows abroad in the absence of profitable investment opportunities within Italy, and the unemployed labour force reveal the plentiful availability of resources for a return to rapid growth.

Expectations must be modified, the climate of confidence improved.

Determined progress must be made, by means of extraordinary measures where necessary, in the reform of the working of the machinery of government by improving the efficiency and efficacy of the procedures. The plans for reviving investment in the South must be implemented, construction sites must be opened. The level of transport and water supply infrastructure must be raised. The funds and credit available at Community level must be utilized to the full. The process will gain from improvements in the project development and decision-making capability of local authorities, in part as a result of advances along the federalist-oriented path indicated in the proposed reforms of the Constitution.

The medium-term policy of achieving equilibrium in the size and composition of the budget must be perceived by the market and business as a certainty. Tax competition is bound to intensify in Europe in the coming years; it will result in investment tending to be concentrated where the tax regime and the social environment conditions are most favourable and the cost of labour lowest.

In the context of Europe and the global economy, flexibility in the conditions governing the supply of labour is necessary in order to enhance competitiveness; it can help to support and increase employment both in large firms and in small and medium-sized enterprises.

The broad consensus on the two sides of industry on the definition of the recently signed social pact can provide the foundation for a new incomes policy, for a lasting reduction in unit labour costs where unemployment is highest and illegal work most common, to the point of becoming the norm. If flexibility brings increased and more stable employment, the dignity of workers is defended and the participation in productive activity widened.

The lofty issues concerning the orientation and development of society lie within the sphere of politics. What is needed is an underlying stability in the country’s institutions and in society based on convictions that are shared by all. The objective of more rapid growth, increased employment and better prospects for the young is universally accepted. It can serve as a reference point, without detracting from the debate that is inherent to democracy, for strengthening the social and political fabric.

The Italian economy. Trends and prospects

Statement by the Governor, Antonio Fazio, to the Budget, Treasury and Planning Committee of the Chamber of Deputies

Rome, 24 February 1999

The international crisis that exploded in Asia in the middle of 1997 and spread last year first to Russia and later to Brazil and other South American countries is now producing its full effects on economic activity in Europe and Italy.

Economic growth in Europe was brisk in the first half of 1998, but weakened in the second half. In the euro area the annualized rate of growth in the first six months compared with the second half of 1997 was 2.9 per cent; in Germany GDP expanded by 3.3 per cent and in France by 3.1 per cent; in Italy the annualized rate was only 0.6 per cent. In the third quarter Germany and France continued to record a satisfactory growth rate and in Italy the increase was 2 per cent. The figures for the fourth quarter signal a marked slowdown in aggregate demand and economic activity in several countries.

World trade grew by nearly 10 per cent in 1997, despite the Asian crisis; in 1998 it grew by 3.3 per cent, with the growth slowing down during the year.

Businesses recorded a markedly falling trend in expected orders in all the industrial countries in the second half of 1998.

In the United States output continued to expand last year at a brisk pace and only slightly less fast than in the two previous years. The crisis revealed its full severity in Japan, where industrial output was 7 per cent lower than one year earlier.

Industrial output declined sharply in the last quarter of 1998 in Germany. The strong growth recorded up to July was followed first by a slowdown and then by a rapid contraction in subsequent months; the slowdown was less marked in France.

In Italy industrial output stagnated for most of 1998 and declined significantly in the last two months of the year. It picked up at the beginning of this year but the future is still uncertain.

The fallout from the difficulties faced by the international economy has been more intense in Italy; medium-technology sectors have been badly affected by their loss of competitiveness vis-à-vis the Asian countries.

In my testimony to this Committee on the Finance Bill last October, I warned that GDP growth in Italy would be lower than forecast. The official estimates will become available in a few days, but preliminary estimates prepared by the Research Department of the Bank of Italy indicate an increase in GDP of just under 1.5 per cent in real terms for 1998.

One positive aspect of the present economic situation is the increase in the number of persons with a job, which is largely linked to the development of more flexible forms of employment. The climate of household confidence appears to be reacting positively to the stability of prices; the low level of interest rates will have a favourable impact on the demand for consumer durables and investment in housing. Demand for non-durables should also continue to rise gradually.

Nonetheless, the trend in output, the modest growth in consumption, the still uncertain pattern of investment and the outlook for the international economy may lead, unless appropriate policies are implemented, to the Italian economy performing poorly again in 1999.

1. Macroeconomic adjustment and the public finances

Over the last six years, since 1993, budgetary consolidation, incomes policy and the firmness of monetary policy enabled the Italian economy to make significant progress on several fronts.

The budget deficit was brought back below 3 per cent of GDP. The accumulation of external current account surpluses in the last few years made it possible to reabsorb the net external debt, thereby laying the foundations for the return to a firm exchange rate. Both expected and actual inflation were brought down towards the levels prevailing in the rest of Europe. Market interest rates came down close to those of economies with more firmly established traditions of stability.

The adjustment of the public finances and the checking of inflation called for determined action. Structural reform measures for the key items of expenditure were introduced from 1992 onwards.

The average annual increase in GDP declined from about 3 per cent in the eighties to 1.3 per cent in the nineties. The rest of Europe also suffered from a slowdown, but it was less severe.

Between 1990 and 1997 general government net borrowing was brought down from 11.1 to 2.7 per cent of GDP; last year it remained close to the latter level, thanks to a further reduction in interest payments. The bulk of the consolidation was achieved in the three years from 1995 to 1997.

The primary balance swung from a deficit of 1.7 per cent of GDP in 1990 to a surplus of 6.8 per cent in 1997; last year the surplus fell to just over 5 per cent of GDP.

The progress on the inflation front and the formation of a substantial primary surplus made it possible for interest rates to decline; they reached low levels in all the principal markets in connection with the abundance of international liquidity. Italy's public finances benefited last year to the tune of 1.5 per cent of GDP; compared with the peak of 1993, interest payments fell by 4 percentage points.

The corrective measures implemented in recent years relied primarily on increases in revenue; between 1990 and 1997 the ratio of tax and social security receipts to GDP rose from 39.6 to 44.3 per cent, almost one point above the European average and more than 12 points above the level in the United States. In 1998 the ratio fell by about one percentage point on account of the expiry of the provisional measures introduced in 1997, the decline in the withholding tax on interest income and the smaller-than-expected yield of the new regional tax on productive activities.

A high tax burden reduces international competitiveness and fosters the growth of a substantial underground economy. The high level of tax evasion pushes the tax burden of contributors who comply fully with their obligations above average levels.

The partial success of some budget measures and the frequent failure of economic activity to fulfill expectations necessitated supplementary action on several occasions. This consisted either of stop-gap measures, mainly on the revenue side and of a duration not easily quantifiable in advance, or of reductions in transfers to non-state public bodies. In the absence of a clear definition of these bodies' tasks, the effect of the reductions was primarily to penalize capital expenditure.

The adjustment to expenditure other than interest payments mainly concerned public investment, which declined in relation to GDP from 3.3 to 2.4 per cent between 1990 and 1997.

The curbing of public sector investment interrupted the process of making good the shortfall in Italian infrastructure compared with that of other European countries. The comparative disadvantage is most marked in the South, where in many respects public capital is inadequate.

2. Pensions

Since 1992 substantial reforms have been introduced in the pension system, whose structural foundations were laid in the fifties and sixties.

Spending on pensions and annuities was equal to 5 per cent of GDP in 1960. It rose to 7.4 per cent in 1970, 10.2 per cent in 1980 and 13.8 per cent in 1990. Until the early nineties the trend was one of unsustainable expansion.

The reform launched in 1992 has had a marked curbing effect on the expansionary tendency of expenditure. Almost one third of the discounted value of future spending commitments has been eliminated. Much of this saving has been achieved by indexing pensions to prices, rather than to wages and gradually basing new benefits on retirees' entire working lives, rather than the years immediately preceding retirement.

The reforms of 1995 have forged a closer link between contributions and benefits, especially for the younger generations; they have cut back the redistributive effects of the system and fostered a longer working life. At the same time the legal framework has been put in place for the establishment of supplementary pension schemes alongside the public system and provision made for some severance pay allocations to be paid into such schemes.

Notwithstanding these measures the ratio of expenditure for pensions and annuities to GDP reached 16 per cent in 1997. According to official estimates, which take into account the additional measures introduced in the budget for 1998, the ratio is expected to rise further, albeit slowly, in the coming years.

The pension system these reforms are designed to shape has a number of positive aspects. Of particular merit is the two-tier arrangement comprising a basic scheme run by the state on a pay-as-you-go basis, with benefits proportional to the amount paid in, and a privately-run supplementary funded scheme.

The public scheme provides for workers with a long contribution record to receive a very large proportion of their final earnings, in some cases close to 100 per cent. This means that there is room for adjustments to future benefits with a view to curbing, in the medium and long term, the equilibrium contribution rate, which for employees would amount to around 40 per cent of gross earnings, even when the cost of welfare measures charged to general tax revenue is excluded. Such an adjustment would permit a more favourable indexation of pensions than the one currently envisaged, which is based exclusively on prices.

In order not to lower the standard of living of future pensioners, the measures to curb expenditure must not aim at reducing the size of per capita benefits. It is necessary to limit the rise in the ratio between the numbers of pensions and persons in employment.

The reform of 1995 will enable workers to retire between the ages of 57 and 65, with large differences in benefits in relation to the age of retirement. In 2001 the numbers of workers included in this age range will be small; a much longer period will be required before the new limits are fully phased in. The choice afforded workers is undoubtedly a positive factor. The retirement window nonetheless needs to be adapted to take into account the future age structure of the population resulting from increased longevity, the large rise in the ratio of the elderly to the young and, finally, the improvement in the working ability of older persons.

Any increase in the average age of retirement calls for a structure of earnings that rewards only effective working capabilities.

The overall flexibility of the system needs to be enhanced; the implicit reward for those who put off their retirement should be increased; and workers should have greater freedom of choice, with matching penalties and rewards.

The necessary measures, to be taken over an appropriate span of time, will have to avoid disappointing the expectations and rights of workers nearing retirement. The key factor is not so much the amount saved in the next few years as the present value of more distant future payments. In other words, the curve of the ratio of pension outlays to GDP should cease to rise from the middle of the next decade and then show a clear downward trend.

The curbing of public pension benefits must be accompanied by rapid growth in the supplementary pension schemes for which the regulatory framework has already been created.

3 . The use of saving and competitiveness

In Italy unemployment and the sluggishness of investment reflect the inadequacy of domestic demand and, indirectly, deficient competitiveness.

Saving is the basic ingredient of investment and growth. Its amount is large in relation to income in our country; not all of it is invested at home.

It is necessary to create conditions of labour costs and competitiveness in the economy such that a larger share of saving is translated into investment, to the benefit of growth and employment.

The surplus on the external current account amounted to 42 trillion lire in 1998, one third less than in 1996 and 1997. A considerable part of the excess of receipts over payments is systematically reinvested abroad, without passing through Italy’s financial accounts.

The “errors and omissions” item of the balance of payments absorbed around half of the current account surplus in 1996 and 1997. In 1998 receipts that were not officially repatriated or not recorded in the financial accounts are estimated to have been on the order of 45 trillion lire and to have annulled the overall surplus on current account.

Moreover, an examination of the officially recorded capital inflows and outflows shows the surplus on portfolio investment contracting and being replaced by a growing deficit in 1998.

Foreign investment in Italian bonds and shares totaled 61.5 trillion lire in 1995. In 1996 the inflow grew to 125 trillion, primarily in connection with the increase in liquidity in the international market. It remained at much the same level in 1997 and then rose to 170 trillion last year.

Outward portfolio investment has risen more rapidly in the past few years. The outflow was far smaller than the inflow in 1995 and again in 1996. With the reduction in official and market interest rates in Italy, outward portfolio investment increased; the less attractive outlook for gains tended to slow down the growth in the inflow. In 1997 there was still a surplus of 7 trillion lire; last year the balance turned negative to the tune of 10 trillion.

The proportion of foreign securities in savers’ portfolios is still smaller in Italy than in other leading countries; it is destined to grow as diversification continues.

In addition to the reduction in the attractiveness of the Italian market owing to the disappearance of the interest rate differential on bonds and government securities, there are the problems connected with the still relatively underdeveloped state of the Italian share market, in both qualitative and quantitative terms.

The presence of many foreign intermediaries in Italy is highly positive for the role they perform to the benefit of savers and firms, as a stimulus for the modernization of the market and greater competition. However, in the absence of profitable domestic investment opportunities, they also make it easier for domestic saving to be invested abroad. The process of increasing the potential of the Italian banking system, in terms of the scale and scope of operations, must be carried forward. To this end, we have encouraged the privatization of the banks in the public sector and consolidation among the major institutions. The projects under way must be completed without delay.

The direction of the flows of saving at the global level ultimately depends on the expansion, growth prospects, efficiency and competitiveness of the productive system.

Direct investment of foreign capital in Italy amounted to 5.5 trillion lire in 1996 and 6.3 trillion in 1997; in 1998 it was equal to 5.3 trillion. Direct investment abroad by Italian firms amounted to 10 trillion lire in 1996 and rose to 18 trillion in 1997; in 1998 it reached 30 trillion. The Italian economy attracts much less direct investment than France, Spain and the United Kingdom. Only Germany is in a situation comparable to Italy's.

The exporting of capital by firms for direct investment is normal in a developed economy.

Around 10 per cent of the jobs created by Italian industry during the nineties are located beyond the nation's borders.

Together with weak investment, the situation regarding the external accounts, and especially the balance on direct investment, indicates the need to raise the competitiveness of the Italian economy in the global and, particularly, the European setting.

There are still large areas in Italy that are underdeveloped and with high unemployment. They do not attract sufficient investment from firms located in the more developed regions and abroad.

The high cost of labour relative to productivity in some areas, together with the heavy tax burden, holds back investment and employment; it contributes to the rise in unreported work, which harms the public finances and the efficiency of the productive system, distorts competition and is detrimental to the orderly life of the community.

It is estimated that 9 per cent of the workers in Italy in industry excluding construction are employed in conditions contravening tax, social security and workplace safety rules. In construction the proportion rises to 34 per cent. The phenomenon is much more widespread in the South, where its incidence reaches 50 per cent in some sectors.

An insufficient differentiation of labour costs between areas and firms that differ widely in terms of productivity is at the root of the grey economy; it also gives rise to the evasion of taxes and social security contributions. Through unreported work, the market tends to achieve a closer *de facto* alignment between labour costs and productivity.

Increased competitiveness must be pursued through a gradual reduction in the tax burden and an incomes policy defined by the social partners within the framework of the Pact for Growth and Employment; the policy must aim at closer correlation between labour costs and productivity at the regional, sectoral and company levels.

Enhancing the efficiency of government bodies will yield gains in competitiveness. In many cases the limited project-development capability of local authorities and the lack of coordination with central government departments contribute significantly to the slowdown in public investment spending and the failure to utilize available funds and resources.

It is important to proceed in fully implementing the legislation that has already been passed and to complete the reform process, *inter alia* with a view to federalist decentralization.

4. Employment and prospects

The sluggish economic growth from 1992 to 1995 was accompanied by the loss of about one million jobs in Italy. Sweeping restructuring was carried out, not only in industry, continuing the process initiated in the eighties, but also in services. Heightened international competition and the weakness of domestic demand made it indispensable to preserve and improve the competitiveness of Italian production, finance and distribution.

In 1996 and 1997 employment remained essentially unchanged; in 1998, as I mentioned earlier, it staged a recovery.

Average employment increased last year by 0.5 per cent, or around 110,000 persons. The largest increases came in non-farm employment, among women, and in part-time jobs. In industry the demand for labour was met through fixed-term hiring, especially short-term contracts, with the greater flexibility it offers.

The growth in employment brought a pronounced increase in the labour force participation rate, especially in the southern regions, thereby causing a rise in the unemployment rate, which reached 23.2 per cent in the South in October. The gap between the South and the rest of Italy widened further to more than 15 percentage points.

Nationwide, the unemployment rate rose to 12.6 per cent, compared with 12.4 per cent in October 1997.

In the other large European countries the faster economic growth in the nineties led to an increase in employment. In France, Spain and the United Kingdom the number of persons in work rose between 1993 and 1998 by respectively 700,000, 1.4 million and 1.6 million. Germany followed a similar path to Italy, owing in part to the difficulties inherent in the country's unification. In 1998 employment grew significantly in all the European countries except Germany.

As I recalled earlier, the information now available indicates that Italian GDP grew by slightly less than 1.5 per cent in 1998.

The expansion was fueled by steady if not buoyant growth in consumption, estimated at around 1.7 per cent, and an increase of 2.6 per cent in investment, although the pace slowed during the year. Investment in construction diminished slightly. Effective demand was sustained by a high level of stockbuilding, which came on top of the substantial buildup recorded in 1997.

A significant proportion of the domestic demand for investment, consumption and stockbuilding was met by imports, which grew by 8 per cent in comparison with 1997, owing in part to lower prices for commodities and the products of the newly industrialized economies.

Italian exports increased by 3.6 per cent in real terms, compared with 6.3 per cent in 1997; exports to non-EU countries have been contracting since the summer.

General government net borrowing remained basically unchanged last year in relation to GDP.

Containing the budget deficit was made easier by a one-off reduction of some 6 trillion lire in expenditure by INPS as a result of the transition from two-monthly to monthly payments of pensions. The consequent decrease in net expenditure on pensions partially offset the loss of revenue caused by slower-than-expected economic growth and the rise in expenditure, which was faster than expected in some sectors. Overall, temporary budget deficit-reduction measures amounted to 0.6 per cent of GDP.

This year the world economy will continue to be affected by the persistence of crises in important emerging countries and more generally of slow growth in world trade. The OECD has revised its 1999 growth forecast for the industrial countries down to 1.7 per cent; the IMF has also revised its forecast downwards to 1.7 per cent, compared with 2.4 per cent last May. For the countries participating in the Monetary Union, growth is currently estimated at about 2 per cent.

World trade is now expected to grow by 4.4 per cent; this forecast may still be overly optimistic. In the worst scenario considered so far, where a worsening of the Brazilian crisis and the contagion of the other emerging economies is associated with falls in the leading stock markets, the growth rate for the industrial economies as a whole is seen as declining in 1999 to well below the level of 2.2 per cent recorded last year.

In Italy, investment continues to be held back by the poor outlook for demand.

In the absence of profound changes in firms' operating environment and competitiveness, productive investment will continue to expand slowly.

A temporary stimulus to investment growth will be provided in 1999 and 2000 by the recent measures granting tax relief for reinvested profits amounting to around 2 trillion lire a year.

The construction industry should receive a boost, albeit delayed and less powerful than originally expected, from the tax incentives for residential building work and the recovery of public works that began in 1998. The reduction in interest rates will encourage households' investment in housing and purchases of durable goods.

Households' confidence is improving. Disposable income appears to be rising. There is evidence suggesting that the growth in consumer spending could accelerate to just over 2.5 per cent.

Given current trends and assuming constant interest rates and exchange rates, it is possible to forecast that GDP will grow by between 1.5 and 2 per cent in 1999.

In subsequent years, taking into account the economic policy measures already announced, the rate of growth in GDP could rise to 2.5 per cent.

Budget revenue will be affected not only by a lower starting level but also by the slower-than-expected growth in economic activity in 1998 and the foreseeable shortfall in 1999 compared with the original forecasts.

The budgetary position has benefited from the substantial savings on interest expenditure brought by the fall in interest rates, which, from the second half of 1998 onwards, has been much larger than had been assumed at the time the estimates were made. For future years the magnitude of such savings appears less certain; once the world economy overcomes its present difficulties and returns to growth, market rates may tend to rise again.

All things considered, the factors making for an increase in the budget deficit may prevail over those working for a reduction. The borrowing requirement needs to be carefully and regularly monitored this year and in the years to come.

According to Bank of Italy estimates, the expansion of employment, though modest at first, should be quite appreciable in the medium term. Taking into account the results achieved last year, nearly 400,000 new jobs could be created in the private sector in the four years from 1998 to 2001; total employment would grow markedly less, however, primarily owing to continued labour shedding in agriculture.

If more jobs are to be created, the economy must be made to grow faster.

The conditions for achieving this exist: abundant saving, some of which flows abroad in the absence of profitable domestic investment opportunities; the availability of labour resources; and considerable technical and occupational skills. Moreover, large parts of the population and the country still have significant needs to be satisfied.

A major effort is being made to foster the recovery of public investment in the South by coordinating the action of central government and local authorities.

Achieving faster growth will require determined action to reform the public finances, revise the structure of employment relationships and implement the economic policy measures already planned.

Faster growth in economic activity further increases the formation and availability of saving.

Lightening the tax burden, albeit in a medium-run perspective, creating basic infrastructure and making the most of human capital, above all in the most disadvantaged regions of the South, will enhance the productivity and competitiveness of the economy, thereby laying the basis for a period of renewed growth.

The Social Pact must be given substance.

The search for greater flexibility in the use of productive factors, by streamlining the rules governing economic activity and the labour market, can make a major contribution to achieving the objective of faster growth.

The extensive pockets of social malaise must be eliminated, Italian and foreign investors and firms offered attractive prospects, and the expansion of economic activity strengthened.

Italy has the saving, the labour resources and the necessary entrepreneurial skills to achieve faster growth.

We must build confidence in the future of the Italian economy and in the determination of the country’s political forces to take appropriate action. Confidence, in a framework of stability, is the indispensable foundation for increasing the propensity to invest, creating employment and ensuring proper jobs and a better future for our young people.

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

Industrial production

(percentage changes on previous period; seasonally adjusted data)

	US	Japan	Germany	France	Italy	UK	Canada
1993	3.5	–3.9	–7.5	–3.8	–2.4	2.2	4.6
1994	5.4	0.9	3.5	3.8	5.2	5.4	6.4
1995	4.9	3.4	1.0	2.2	5.4	1.7	4.7
1996	4.4	2.3	0.4	0.2	–1.7	1.1	1.3
1997	6.0	3.6	3.6	3.8	2.2	0.8	5.2
1998	3.7	–6.9	4.5	....	....	....	....
1996 – 4th qtr.	0.9	2.1	0.2	–0.1	–2.1	0.2	0.3
1997 – 1st qtr.	1.6	2.0	0.6	..	1.8	0.3	1.5
2nd "	1.5	–0.3	1.5	2.9	1.7	..	2.0
3rd "	1.8	0.2	1.5	2.2	0.6	0.6	1.7
4th "	1.6	–2.5	0.9	1.0	1.4	–0.7	0.2
1998 – 1st qtr.	0.4	–1.2	2.3	0.9	–0.1	–0.1	0.3
2nd "	0.7	–5.1	0.1	1.2	0.2	1.3	0.2
3rd "	0.3	..	1.8	..	0.3	..	–0.4
4th "	0.6	–0.4	–2.4	....	....	....	....
1998 – Jan.	..	2.0	1.1	–0.7	..	–0.2	–1.8
Feb.	–0.1	–3.5	–0.1	0.7	–0.6	–0.1	2.2
Mar.	0.4	–2.3	1.4	1.4	–0.3	0.8	1.0
Apr.	0.5	–1.6	–1.1	–0.3	–0.3	1.2	–0.9
May	0.5	–2.0	1.0	0.4	2.6	–1.1	–0.4
June	–1.0	1.7	–1.0	0.4	–2.6	1.2	–0.1
July	–0.1	–0.6	3.4	–0.1	1.5	0.1	–1.6
Aug.	1.5	–1.3	–0.5	..	–0.9	–0.4	2.2
Sept.	–0.4	3.3	–2.8	–0.7	0.8	–0.7	–0.2
Oct.	0.4	–1.1	1.1	0.7	1.3	..	–0.1
Nov.	–0.1	–2.1	–2.2	1.0	–1.0	–0.1	....
Dec.	0.2	1.3	0.2	....	....	....	....
1999 – Jan.	..	....	....	....	....	....	....

Table a2

Consumer prices

(percentage changes on corresponding period)

	US	Japan	Germany	France	Italy	UK	Canada
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
1998	1.6	0.6	1.0	0.7	2.0	2.7	1.0
1996 – 4th qtr.	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	−0.2	0.8	0.7	2.0	2.6	0.9
4th ”	1.5	0.5	0.6	0.3	1.7	2.6	1.1
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	−0.2	0.8	0.5	2.0	2.5	0.7
Oct.	1.5	0.2	0.7	0.4	1.9	2.5	1.0
Nov.	1.5	0.8	0.7	0.3	1.7	2.5	1.2
Dec.	1.6	0.6	0.5	0.3	1.7	2.6	1.0
1999 – Jan.	1.7	....	....	....	....	2.6	0.6

Table a3

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	2.8	0.5
1993	1.4	−1.7	0.1	−0.5	4.0	3.1	3.6
1994	1.4	−1.8	0.7	0.8	3.6	2.1	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	2.3	0.4
1997	0.3	0.7	0.7	−0.3	0.7	0.5	0.8
1996 – 3rd qtr.	1.0	−1.7	−0.2	−2.0	1.1	1.8	0.1
4th ”	2.1	−1.6	0.1	−2.3	1.3	1.4	. .
1997 – 1st qtr.	1.9	−0.9	0.3	−1.3	0.6	0.7	0.5
2nd ”	−0.3	1.3	0.6	−0.5	0.5	0.4	1.2
3rd ”	0.1	1.3	1.1	0.3	0.9	0.5	0.7
4th ”	−0.4	1.1	0.9	0.3	0.8	0.5	0.8
1998 – 1st qtr.	−2.6	0.5	0.6	−0.1	1.3	0.5	. .
2nd ”	−1.3	−1.9	0.2	−0.3	1.2	0.5	−0.6
3rd ”	−2.1	−1.9	−0.3	−0.9	0.8	0.5	. .
1997 – Nov.	0.2	1.1	1.0	. . . .	0.9	0.4	1.3
Dec.	−1.8	0.9	0.8	. . . .	1.0	0.6	0.6
1998 – Jan.	−3.4	0.9	0.6	. . . .	1.1	0.5	0.7
Feb.	−2.8	0.4	0.6	. . . .	1.3	0.5	0.3
Mar.	−1.7	0.1	0.6	. . . .	1.4	0.6	−0.9
Apr.	−1.1	−2.0	0.4	. . . .	1.3	0.5	−0.8
May	−1.2	−1.9	0.3	. . . .	1.1	0.4	−0.8
June	−1.6	−1.9	. .	. . . .	1.0	0.6	−0.2
July	−1.4	−1.9	. .	. . . .	1.0	0.6	0.3
Aug.	−2.2	−1.9	−0.5	. . . .	0.8	0.5	0.1
Sept.	−2.7	−2.0	−0.6	. . . .	0.5	0.4	−0.3
Oct.	−3.0	−2.0	−0.8	. . . .	0.3	0.2	0.7
Nov.	−3.5	−2.1	−1.0	. . . .	0.1	0.2	0.3

Table a4

Short-term interest rates

	US	Japan	Germany	France	Italy	UK	Canada
				Official reference rates *(end-of-period data)*			
1994	5.50	1.75	4.85	5.00	7.50	6.25	7.43
1995	5.50	0.50	3.75	4.45	9.00	6.50	5.79
1996	5.25	0.50	3.00	3.15	7.50	6.00	3.25
1997	5.50	0.50	3.30	3.30	5.50	7.25	4.50
1998 – Jan.	5.50	0.50	3.30	3.30	5.50	7.25	4.50
Feb.	5.50	0.50	3.30	3.30	5.50	7.25	5.00
Mar.	5.50	0.50	3.30	3.30	5.50	7.25	5.00
Apr.	5.50	0.50	3.30	3.30	5.00	7.25	5.00
May	5.50	0.50	3.30	3.30	5.00	7.25	5.00
June	5.50	0.50	3.30	3.30	5.00	7.50	5.00
July	5.50	0.50	3.30	3.30	5.00	7.50	5.00
Aug.	5.50	0.50	3.30	3.30	5.00	7.50	6.00
Sept.	5.25	0.50	3.30	3.30	5.00	7.50	5.75
Oct.	5.00	0.50	3.30	3.30	4.00	7.25	5.50
Nov.	4.75	0.50	3.30	3.30	4.00	6.75	5.25
Dec.	4.75	0.50	3.00	3.00	3.00	6.25	5.25
1999 – Jan.	4.75	0.50	3.00	3.00	3.00	6.00	5.25
				Money market rates *(period averages)*			
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
1998	5.47	0.81	3.52	3.56	4.99	7.34	5.07
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
Oct.	5.21	0.66	3.54	3.56	4.53	7.14	5.28
Nov.	5.24	0.84	3.61	3.59	3.95	6.89	5.15
Dec.	5.14	0.79	3.36	3.32	3.38	6.38	5.00
1999 – Jan.	4.90	0.70	3.14	3.14	3.14	5.81	5.01

Table a5

Long-term interest rates and share price indices

(period averages)

	US	Japan	Germany	France	Italy	UK	Canada
				Bond rates			
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
1998	5.26	1.29	4.57	4.64	4.88	5.60	5.28
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	5.16	5.25
Oct.	4.53	0.82	4.06	4.17	4.49	4.99	4.91
Nov.	4.83	0.89	4.12	4.18	4.38	4.93	5.17
Dec.	4.64	1.39	3.86	3.91	3.99	4.54	4.87
1999 – Dec.	4.72	1.79	3.70	3.77	3.92	4.20	4.95
				Share price indices			
1995	203.93	64.67	164.56	149.78	118.81	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
1998	408.63	55.28	334.70	295.81	262.10	281.81	204.58
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
Oct.	388.67	48.01	289.28	264.50	224.15	251.02	187.96
Nov.	430.81	52.21	320.86	295.84	253.95	276.11	192.06
Dec.	447.99	51.99	317.61	301.33	265.95	278.34	196.36
1999 – Jan.	470.09	50.73	341.28	331.36	286.58	291.49	203.73

Table a6

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**				
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
1998	5.43	0.30	3.43	4.88	7.28	5.42	0.31	3.60	4.23	7.12
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	3.36	4.86	7.34	5.17	0.20	3.47	3.97	6.99
Oct.	5.13	0.06	3.44	4.44	7.07	4.69	0.07	3.38	3.66	6.54
Nov.	5.19	−0.09	3.50	3.90	6.82	4.93	0.01	3.41	3.50	6.29
Dec.	5.09	0.17	3.22	3.33	6.28	4.92	0.19	3.11	3.15	5.67
1999 – Jan.	4.87	0.20	3.14	3.14	5.72	4.94	0.21	3.07	3.07	5.30
	3-month US dollar premium (–) / discount (+)					**12-month US dollar premium (–) / discount (+)**				
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
1998		5.13	2.00	0.55	−1.85		5.11	1.82	1.19	−1.70
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
Oct.		5.07	1.69	0.69	−1.94		4.62	1.31	1.03	−1.85
Nov.		5.28	1.69	1.29	−1.63		4.92	1.52	1.43	−1.36
Dec.		4.92	1.87	1.76	−1.19		4.73	1.81	1.77	−0.75
1999 – Jan.		4.67	1.73	1.73	−0.85		4.73	1.87	1.87	−0.36

Table a7

Ecu/euro exchange rates and the price of gold

	Ecu/euro per unit of currency								Gold (dollars per ounce)
	US dollar	Japanese yen	Canadian dollar	Pound sterling	Danish krone	Greek dracma	Swedish krone	Swiss franc	
1993	1.170	129.97	1.509	0.7790	7.580	268.06	9.105	1.728	390.65
1994	1.186	120.96	1.620	0.7738	7.523	187.16	9.136	1.617	383.25
1995	1.293	121.42	1.775	0.8194	7.245	299.53	9.234	1.528	386.75
1996	1.253	136.20	1.708	0.8030	7.261	301.46	8.400	1.547	369.25
1997	1.130	136.62	1.564	0.6903	7.461	308.47	8.627	1.639	290.20
1998	1.123	146.77	1.667	0.6776	7.513	331.54	8.927	1.625	287.80
1996 – 4th qtr.	1.256	141.60	1.696	0.7684	7.366	302.75	8.386	1.614	369.25
1997 – 1st qtr.	1.172	141.84	1.591	0.7184	7.405	304.66	8.627	1.682	348.10
2nd "	1.139	136.11	1.578	0.6962	7.432	309.62	8.770	1.645	334.55
3rd "	1.090	128.42	1.508	0.6702	7.492	309.06	8.527	1.621	332.10
4th "	1.124	140.51	1.582	0.6779	7.514	310.38	8.586	1.611	290.20
1998 – 1st qtr.	1.087	139.19	1.554	0.6605	7.537	319.31	8.718	1.605	301.00
2nd "	1.102	149.64	1.594	0.6664	7.530	340.27	8.606	1.644	296.30
3rd "	1.119	156.49	1.693	0.6771	7.511	333.15	8.958	1.644	293.85
4th "	1.183	141.25	1.823	0.7055	7.477	333.11	9.414	1.608	287.80
1998 – Jan.	1.088	140.61	1.566	0.6648	7.523	312.19	8.714	1.604	304.85
Feb.	1.088	136.76	1.561	0.6636	7.525	312.25	8.792	1.592	297.40
Mar.	1.086	140.11	1.538	0.6537	7.561	332.21	8.654	1.616	301.00
Apr.	1.092	144.37	1.561	0.6534	7.559	345.43	8.549	1.645	310.70
May	1.110	149.84	1.604	0.6783	7.505	340.48	8.543	1.641	293.60
June	1.103	154.49	1.615	0.6681	7.523	335.16	8.719	1.647	296.30
July	1.099	154.55	1.632	0.6686	7.529	329.12	8.779	1.663	288.85
Aug.	1.103	159.62	1.690	0.6754	7.513	332.13	8.971	1.648	273.40
Sept.	1.156	155.51	1.759	0.6876	7.490	338.35	9.133	1.620	293.85
Oct.	1.202	145.18	1.855	0.7095	7.491	338.89	9.432	1.607	292.30
Nov.	1.169	140.67	1.800	0.7035	7.474	330.44	9.342	1.618	294.70
Dec.	1.176	137.72	1.813	0.7032	7.467	329.73	9.468	1.598	287.80
1999 – Jan.	1.161	131.35	1.765	0.7029	7.441	323.56	9.083	1.605	285.40

Table a8

Indicators of competitiveness

(period averages; indices, 1993=100)

	US	Japan	Germany	France	Italy	UK	Canada	Switzerland
1992	98.0	86.1	98.7	99.7	116.3	108.1	103.8	98.5
1993	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1994	98.2	103.7	99.2	99.8	97.8	100.7	98.1	104.4
1995	96.4	104.1	103.7	101.3	93.2	97.0	100.2	108.4
1996	100.3	87.5	100.6	99.0	104.0	100.5	101.0	104.0
1997	105.8	83.1	95.4	94.3	104.0	115.9	101.6	96.0
1996 – 3rd qtr.	100.2	87.1	100.7	98.7	105.3	99.8	100.7	104.6
4th "	101.3	83.7	99.3	97.4	106.6	106.2	101.7	99.7
1997 – 1st qtr.	105.5	80.3	97.1	95.7	104.9	112.3	102.1	94.4
2nd "	104.3	84.2	95.7	94.5	103.8	115.0	101.9	95.7
3rd "	105.5	86.4	93.4	92.6	103.0	117.4	102.0	95.9
4th "	108.0	81.6	95.4	94.3	104.4	118.9	100.5	98.2
1998 – 1st qtr.	109.9	83.2	95.4	94.2	104.5	123.0	100.9	98.2
2nd "	110.7	76.8	96.4	94.7	105.4	123.3	99.9	96.1
3rd "	112.3	74.4	97.7	95.7	106.9	123.0	96.6	97.0
1997 – Nov.	107.7	80.5	95.5	94.2	104.6	119.5	100.0	98.9
Dec.	110.2	81.2	95.9	94.8	104.9	121.3	100.5	99.2
1998 – Jan.	111.0	83.2	95.8	93.9	104.8	122.4	100.6	98.8
Feb.	109.3	84.4	95.5	94.4	104.2	122.1	100.9	98.5
Mar.	109.3	82.0	95.0	94.4	104.3	124.5	101.2	97.3
Apr.	109.5	79.1	95.3	94.3	104.3	125.0	100.8	95.7
May	110.4	76.9	96.9	94.9	105.8	121.2	99.7	96.2
June	112.1	74.4	96.9	94.9	106.1	123.8	99.3	96.5
July	112.4	73.9	96.9	94.2	106.0	123.7	97.8	95.4
Aug.	113.6	72.4	97.6	95.6	106.7	123.1	96.1	96.6
Sept.	110.7	76.7	98.6	97.4	108.0	122.2	95.8	99.0
Oct.	106.8	83.5	99.2	98.0	107.9	119.0	93.9	100.4
Nov.	106.7	84.5	98.3	97.3	107.3	118.7	94.8	98.4

Table a9

External position of the Italian banking system (1)

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

	1998 Q2	1998 Q3	1998 Q4
Developed countries	367,831	341,404	(337,234)
PVS	37,297	34,403	(35,227)
Latin America	*22,313*	*21,375*	*(21,593)*
Africa	*3,825*	*3,164*	*(3,255)*
Asia	*6,649*	*6,082*	*(6,492)*
Middle East	*4,510*	*3,782*	*(3,887)*
East European countries	11,472	10,803	(10,590)
Offshore centres	22,080	19,506	(19,474)
International organizations	12,061	10,226	(10,597)
Total	450,740	**416,342**	**(413,122)**
Memorandum items:			
Algeria	2,127	1,716	(1,800)
Argentina	6,882	6,758	(6,140)
Brazil	6,588	6,205	(6,394)
Chile	859	810	(963)
China	2,391	2,230	(2,429)
Colombia	521	518	(615)
Czech Republic	198	203	(323)
Hungary	1,827	1,802	(1,673)
India	427	371	(390)
Indonesia	244	248	(229)
Iran	1,629	1,464	(1,452)
Israel	285	258	(282)
Malaysia	207	188	(147)
Mexico	3,530	3,360	(3,449)
Morocco	277	286	(299)
Peru	1,565	1,464	(1,768)
Philippines	169	142	(142)
Poland	753	849	(1,000)
Russia	7,564	6,892	(6,648)
Saudi Arabia	492	450	(479)
South Africa	475	432	(495)
South Korea	1,009	1,043	(953)
Taiwan	864	729	(888)
Thailand	711	663	(870)
Uruguay	609	581	(583)
Venezuela	1,170	1,143	(1,162)

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

Table a10

Industrial production and business opinion indicators

(seasonally adjusted data)

	Industrial production				Isae 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	8.8	–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	7.6	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	97.4	98.6	–28.2	–34.7	–27.4	9.6	9.7
2nd "	98.8	99.2	95.9	99.2	–28.2	–32.7	–27.9	11.0	9.7
3rd "	98.9	99.9	95.3	99.7	–26.6	–30.2	–25.0	12.8	8.3
4th "	99.9	101.9	94.8	100.0	–27.2	–28.4	–26.5	11.3	6.3
1992 – 1st qtr.	101.2	103.0	95.1	101.8	–24.7	–30.3	–23.8	10.8	11.3
2nd "	100.9	102.3	93.9	101.7	–27.5	–39.0	–29.3	8.5	11.0
3rd "	95.9	98.4	88.6	98.2	–34.1	–38.1	–35.0	–3.5	5.3
4th "	97.4	100.9	90.8	97.2	–41.9	–40.2	–40.0	–8.3	1.0
1993 – 1st qtr.	98.8	102.4	93.2	98.7	–44.7	–34.1	–42.6	–2.7	3.3
2nd "	96.6	98.2	89.5	97.6	–46.4	–28.1	–40.4	–0.2	7.0
3rd "	94.4	97.0	86.1	96.1	–44.8	–18.2	–33.8	3.6	6.7
4th "	96.2	97.1	86.8	98.3	–36.6	–6.4	–25.7	10.7	1.3
1994 – 1st qtr.	97.5	100.9	86.4	99.2	–31.3	–1.0	–18.6	17.8	–2.3
2nd "	101.1	104.6	92.2	102.1	–20.2	8.5	–7.9	25.2	–1.0
3rd "	103.2	105.9	94.4	104.5	–15.6	11.6	–5.7	29.0	–4.7
4th "	104.2	104.8	95.8	106.2	–4.6	16.3	4.6	28.4	–9.3
1995 – 1st qtr.	104.7	106.4	97.3	106.1	–1.4	25.3	6.7	23.5	–4.7
2nd "	105.2	107.3	99.9	106.0	–2.5	21.2	4.9	21.5	0.3
3rd "	109.3	109.3	108.9	109.0	–5.1	13.8	1.3	24.6	–1.7
4th "	108.7	108.0	114.0	107.7	–13.6	6.1	–7.5	17.8	1.3
1996 – 1st qtr.	105.8	105.3	107.5	105.6	–23.9	–7.6	–17.5	9.8	5.0
2nd "	105.3	106.1	107.3	104.5	–32.3	–20.5	–24.2	5.8	6.3
3rd "	106.0	107.3	105.7	105.4	–31.3	–19.0	–23.4	6.9	5.7
4th "	103.7	106.0	102.1	103.0	–30.9	–20.6	–25.7	7.6	–2.0
1997 – 1st qtr.	105.5	108.1	102.7	105.2	–19.9	–13.9	–16.0	16.1	–5.0
2nd "	107.3	108.9	103.5	107.4	–15.5	–7.9	–12.0	16.8	. .
3rd "	107.9	110.7	100.9	109.4	–13.0	–2.0	–4.4	23.5	–4.3
4th "	109.4	109.6	102.1	110.8	–9.9	–0.2	–1.4	26.2	–3.0
1998 – 1st qtr.	109.3	107.4	102.2	111.7	–7.7	0.4	–2.1	24.9	–1.7
2nd "	109.4	109.0	102.6	111.4	–15.5	–3.8	–7.9	17.7	1.7
3rd "	109.8	112.2	101.9	111.1	–17.6	–9.9	–15.3	10.8	. .

Table a11

Labour force, employment and unemployment

(thousands of persons 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
1998	1,339	4,910	1,557	12,391	20,197	2,837	23,033	12.3	40.4
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
4th "	1,345	4,968	1,583	12,414	20,309	2,916	23,225	12.6	40.8

Table a12

General index of consumer prices (1)

(percentage changes 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		Services	Total excluding food and energy products and items subject to price controls	Food products			Energy products	Total	Goods (3)	Utility charges		Rents	Total	
		excluding cars			Processed	Not processed	Total					*energy*			
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*
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	8.9	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	1.3	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	3.2	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	4.7	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
1998	1.9	1.8	2.8	2.3	0.8	1.6	1.2	–2.5	1.8	4.5	0.9	–0.1	5.2	2.6	2.0
1997 – 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
Sept.	2.0	1.9	2.7	2.4	1.0	2.1	1.5	–2.8	1.9	5.1	0.2	–0.7	5.2	2.3	2.0
Oct.	1.7	1.8	2.6	2.1	1.0	2.1	1.5	–3.3	1.8	5.1	0.0	–1.1	4.5	2.1	1.9
Nov.	1.4	1.5	2.7	2.0	0.9	1.8	1.3	–3.9	1.6	5.0	–0.2	–2.2	4.5	2.0	1.7
Dec.	1.4	1.5	2.7	2.0	0.9	1.8	1.3	–4.1	1.6	5.0	0.0	–2.1	4.5	2.1	1.7

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 a13

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

(percentage changes 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		Ser-vices	Total exclud-ing food and en-ergy prod-ucts and items subject to price con-trols	Food products			Energy prod-ucts	Total	Goods (3)	Utility charges		Rents	Total	
		exclud-ing cars			Proces-sed	Not pro-cessed	Total					*energy*			
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*
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
1998	1.8	1.6	2.7	2.1	0.7	1.4	1.0	–2.4	1.7	3.8	0.9	0.1	5.2	2.2	1.8
1997 – 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	1.6	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	1.8	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	1.8	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
Oct. .	1.6	1.7	2.7	2.1	0.8	2.2	1.5	–3.1	1.7	4.7	0.3	–0.9	4.4	1.8	1.7
Nov.	1.3	1.4	2.7	1.9	0.8	2.1	1.4	–4.0	1.5	4.5	0.2	–1.9	4.4	1.7	1.5
Dec.	1.4	1.4	2.6	1.8	0.8	2.0	1.4	–4.2	1.5	4.5	0.4	–1.9	4.4	1.8	1.5

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.

Table a14

Harmonized index of consumer prices

(percentage changes 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
1998	2.1	2.0	2.8	2.5	2.4	0.7	1.6	5.4	1.5	–1.4	2.0
1997 – 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
Sept. .	2.3	2.1	2.7	2.5	2.5	0.9	2.1	5.5	1.9	–1.9	2.1
Oct. . .	2.0	2.1	2.5	2.3	2.2	0.8	2.1	5.5	1.9	–2.3	1.9
Nov. . .	1.7	1.7	2.6	2.4	2.1	0.7	1.8	5.5	1.7	–3.1	1.7
Dec. . .	1.6	1.7	2.7	2.6	2.2	0.8	1.8	5.5	1.7	–3.2	1.7

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.

Harmonized index of consumer prices: euro area (1)

(percentage changes on year-earlier period)

	Non-food and non-energy products	*excluding cars*	Services	*excluding rents*	Total net of food and energy products	Food products: Processed	Food products: Not processed	Food products: Tobacco products	Food products	Energy products	Total
Weights (1)	*34.2*	*28.5*	*34.4*	*28.0*	*68.6*	*11.2*	*9.6*	*2.3*	*23.1*	*8.3*	*100.0*
1996	1.5	1.5	3.1	2.9	2.3	1.8	1.9	3.1	2.0	2.3	2.2
1997	0.5	0.8	2.4	2.4	1.5	0.7	1.5	5.5	1.5	2.5	1.6
1998	0.9	0.8	2.0	2.0	1.5	0.9	2.0	3.9	1.7	−2.7	1.1
1997 – Jan.	0.8	1.0	2.5	2.4	1.6	0.9	2.7	5.0	2.0	5.2	2.0
Feb.	0.7	1.0	2.6	2.5	1.6	0.7	1.4	4.8	1.4	4.5	1.8
Mar.	0.5	0.9	2.6	2.5	1.5	0.5	−0.1	6.0	0.8	3.5	1.5
Apr.	0.5	0.8	2.4	2.3	1.4	0.4	−0.1	6.0	0.7	1.8	1.3
May	0.4	0.7	2.5	2.4	1.5	0.4	0.4	6.0	0.9	1.8	1.4
June	04.	0.7	2.4	2.4	1.4	0.5	0.6	6.0	1.1	2.2	1.4
July	0.3	0.6	2.5	2.5	1.4	0.6	0.8	6.0	1.2	2.4	1.4
Aug.	0.4	0.6	2.5	2.5	1.5	0.7	1.5	5.5	1.5	4.1	1.7
Sept.	0.5	0.7	2.4	2.3	1.4	0.7	2.3	6.3	1.9	2.3	1.7
Oct.	0.4	0.7	2.3	2.2	1.3	0.7	2.5	6.3	2.0	1.2	1.5
Nov.	0.6	0.8	2.3	2.3	1.5	0.8	3.2	4.7	2.2	1.1	1.6
Dec.	0.6	0.8	2.3	2.2	1.4	0.9	3.0	3.6	2.0	0.4	1.5
1998 – Jan.	0.6	0.6	2.1	2.1	1.3	0.9	1.8	3.2	1.5	−1.5	1.1
Feb.	0.7	0.6	2.0	2.0	1.3	0.9	2.2	3.4	1.7	−1.6	1.2
Mar.	0.7	0.6	1.9	1.9	1.3	1.1	2.7	2.9	1.9	−1.8	1.2
Apr.	0.9	0.8	2.1	2.1	1.5	1.2	3.1	2.9	2.1	−1.1	1.4
May	1.0	0.8	2.0	2.0	1.5	1.1	2.7	4.7	2.2	−1.5	1.4
June	1.0	0.9	2.0	2.0	1.6	1.0	2.8	4.6	2.1	−1.7	1.4
July	1.0	0.8	2.0	2.0	1.5	0.9	2.4	4.6	1.9	−1.9	1.4
Aug.	1.0	0.8	2.1	2.1	1.5	0.9	2.3	4.6	1.8	−4.0	1.2
Sept.	1.0	0.9	2.0	2.0	1.5	0.8	1.5	3.8	1.4	−3.9	1.0
Oct.	1.0	0.9	2.1	2.2	1.6	0.7	1.0	4.0	1.2	−4.1	1.0
Nov.	0.9	0.8	2.1	2.1	1.5	0.7	0.6	4.1	1.0	−4.4	0.9
Dec.	0.9	0.8	2.0	2.0	1.4	0.6	0.9	4.0	1.1	−4.7	0.8

Source: Based on Eurostat data.

(1) Weighted average of the harmonized indices of the euro-area countries.

Table a16

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

(percentage changes on corresponding 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	*excluding cars*	*Food products*	Total						
Weights (2)	*18.5*	*16.4*	*12.3*	*30.8*	*9.5*	*41.0*	*4.1*	*85.4*	*14.6*	*100.0*
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
1998	1.5	1.4	1.4	1.4	1.8	0.2	3.5	1.0	–5.1	0.1
1997 – 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.	1.7	1.4	1.1	1.5	1.8	–0.2	3.6	0.8	–6.1	–0.3
Sept.	1.5	1.2	0.8	1.3	1.7	–0.7	3.6	0.5	–6.4	–0.5
Oct.	1.8	1.5	0.5	1.2	1.8	–1.3	3.7	0.2	–7.4	–0.9
Nov.	1.6	1.5	0.2	1.0	1.8	–1.5	3.7	0.0	–8.7	–1.3
Dec.	1.6	1.4	0.2	1.0	1.8	–1.8	3.7	–0.1	–8.5	–1.3

Source: Based on Istat data.

(1) Sundry bases. For 1996 the comparison with the 1990-based index, with the average for 1995 set equal 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 a17

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	*excluding cars*	Food products	Total						
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
June	–2.3	–2.2	3.3	–1.7	9.8	1.3	34.1	2.6	–6.4	2.2
July	–1.6	–1.6	1.2	–1.3	5.2	–0.3	12.9	0.6	–8.1	0.1
Aug.	1.0	1.2	1.8	0.6	–4.6	1.3	–15.2	–0.3	–11.8	–0.9
Sept.	0.4	0.4	0.3	0.3	1.4	1.3	–11.2	1.0	–14.0	0.3

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 a18

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	–3.0	7.1	–1.0	–12.7	–2.6
June	3.5	1.3	–2.8	2.0	–3.6	–3.0	8.7	–1.0	–14.9	–3.3
July	0.0	–3.3	–4.0	–1.0	–5.5	–1.8	1.5	–1.7	–14.7	–3.1
Aug.	–2.3	–6.7	–5.4	–3.3	4.4	–4.1	2.8	–1.5	–24.6	–5.9
Sept.	–1.6	–6.1	–6.0	–2.7	–7.2	–5.4	4.5	–4.0	–18.0	–5.7

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 a19

Unit variable costs and output prices in manufacturing (1)

(percentage changes on corresponding period)

	Unit variable costs											Output prices		
	Domestic components						Foreign components				Total	Domestic	Foreign	Total
	Inputs		Unit labour costs			Total								
			Components											
		services	Labour costs (3)	Produc-tivity			*Industrial raw materials*	*Semi-finished goods*	*Energy products (4)*	Total				
Weights (2)	*24.9*	*18.7*	*–*	*–*	*49.6*	*74.5*	*5.0*	*10.4*	*5.1*	*25.5*	*100.0*	*72.0*	*28.0*	*100.0*
1989	5.4	5.6	9.7	3.1	6.4	6.0	12.2	5.9	12.6	8.1	6.5	5.2	6.2	5.5
1990	7.4	8.3	8.6	1.4	7.0	7.1	–12.9	–1.9	17.3	–0.9	5.3	2.8	1.6	2.5
1991	7.4	8.0	9.7	1.4	8.3	7.9	–6.7	0.3	7.1	0.8	6.4	2.8	2.4	2.7
1992	3.3	3.8	7.2	4.1	3.0	3.1	–4.7	–0.9	–1.1	–0.9	2.3	2.7	2.0	2.5
1993	4.0	4.7	5.0	1.6	3.3	3.6	12.1	14.8	7.0	12.0	5.2	3.6	11.5	5.8
1994	3.0	2.7	2.2	6.0	–3.5	–1.1	11.9	3.3	4.3	6.9	0.5	3.6	3.1	3.4
1995	7.9	7.3	5.5	6.0	–0.5	2.7	20.5	11.6	8.5	12.2	4.8	7.3	8.9	7.8
1996	5.3	5.4	5.5	–0.5	6.0	5.7	–9.4	–0.2	5.1	0.0	4.4	1.9	2.3	2.0
1997	0.7	1.6	5.3	2.8	2.4	1.7	–1.3	–1.7	2.4	–1.4	1.0	0.8	–0.7	0.4
1997 – Jan. ...	1.8	2.3	–	–	–	–	–16.3	–8.3	7.7	–5.5	–	0.2	–4.0	–1.1
Feb. ...	1.4	2.0	–	–	–	–	–12.0	–4.4	6.4	–3.3	–	0.1	–2.9	–0.8
Mar. ...	0.7	1.5	5.9	–1.7	7.7	5.1	–9.2	–4.1	3.8	–3.9	2.9	0.2	–2.9	–0.7
Apr.	0.2	1.0	–	–	–	–	–5.3	–2.9	1.9	–3.5	–	0.4	–0.7	0.1
May ...	0.6	1.5	–	–	–	–	–1.6	–1.2	1.6	–1.9	–	0.6	–1.3	0.1
June ...	0.7	1.6	6.0	4.7	1.3	1.0	–0.9	–1.3	2.9	–1.6	0.2	0.8	–1.0	0.3
July ...	0.7	1.7	–	–	–	–	0.5	–0.4	4.6	–0.1	–	0.8	–0.4	0.4
Aug. ...	0.8	1.6	–	–	–	–	4.5	0.0	4.1	0.8	–	0.9	0.2	0.7
Sept. ..	0.5	1.3	5.2	3.7	1.5	1.1	7.1	0.7	2.0	1.3	1.0	1.1	1.0	1.1
Oct. ...	0.2	1.0	–	–	–	–	9.0	0.4	–0.7	0.6	–	1.3	1.1	1.2
Nov. ...	0.5	1.4	–	–	–	–	8.5	0.1	–1.9	0.4	–	1.5	2.0	1.7
Dec. ...	0.5	1.8	3.9	4.6	–0.7	–0.3	5.2	1.8	–3.2	0.5	–0.1	1.6	1.4	1.6
1998 – Jan. ...	0.7	2.1	–	–	–	–	6.9	3.1	–4.8	1.0	–	1.8	2.4	2.0
Feb. ...	0.9	2.5	–	–	–	–	5.5	2.1	–4.3	0.9	–	1.9	0.5	1.5
Mar. ...	1.3	2.9	1.5	4.2	–2.7	–1.2	0.7	0.8	–3.2	–0.3	–0.9	1.7	1.7	1.7
Apr.	1.5	3.3	–	–	–	–	–0.3	2.1	–2.9	0.1	–	1.5	1.2	1.4
May ...	1.3	3.2	–	–	–	–	–3.2	–0.6	–3.2	–1.5	–	1.3	1.3	1.3
June ...	1.5	3.4	3.6	1.0	2.6	2.1	–4.4	0.5	–3.7	–1.4	1.5	1.2	2.7	1.6
July ...	1.8	3.6	–	–	–	–	–4.0	1.0	–4.7	–1.5	–	1.1	0.8	1.0
Aug. ...	1.7	3.7	–	–	–	–	–8.5	–1.4	–5.5	–3.3	–	0.9	–0.2	0.6
Sept. ..	1.8	3.8	2.6	0.8	1.8	1.8	–10.1	–1.8	–5.7	–4.1	0.7	0.6	1.1	0.8
Oct. ...	1.7	3.7	–	–	–	–	–	–	–	–	–	0.4	–	–
Nov. ...	–	3.7	–	–	–	–	–	–	–	–	–	0.2	–	–
Dec. ...	–	3.7	–	–	–	–	–	–	–	–	–	0.2	–	–

Sources: Based on ENI, Istat and OECD 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. – (3) See text for a discussion of the impact on labour costs of the regional tax on productive activities (Irap). – (4) Includes domestically-produced energy products.

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						
1996	93,736	3,076	−23,123	−10,335	63,354	37,475	−47,394	−9,919	−32,838	−20,597
1997	80,166	3,415	−19,006	−1,769	62,806	(−23,337)	11,679	(−11,658)	(−28,308)	−22,840
1998	*72,705*	*1,780*	*−20,945*	*−11,711*	*41,829*	(−49,195)	(15,062)	(−34,133)	*−44,451*	(36,755)
1996 – 4th qtr. . .	23,741	−671	−5,183	−3,964	13,923	32,427	−40,538	−8,111	−8,470	2,658
1997 – 1st qtr. . .	17,331	−345	−5,265	3,169	14,890	−13,684	24,627	10,943	−26,329	496
2nd " . .	20,002	1,591	−6,434	−2,868	12,291	18,275	−42,089	−23,814	9,808	1,715
3rd " . .	23,587	2,585	−4,290	−1,928	19,954	−7,215	14,019	(6,804)	−4,156	−22,602
4th " . .	19,246	−416	−3,017	−142	15,671	(−20,713)	15,122	(−5,591)	−7,631	−2,449
1998 – 1st qtr. . .	13,937	−3,563	−5,608	−270	4,496	(−21,683)	34,583	(12,900)	(−18,700)	1,304
2nd " . .	20,302	1,440	−5,686	−2,509	13,547	(24,665)	−37,929	(−13,264)	(−13,774)	13,491
3rd " . .	22,402	4,736	−5,107	−3,488	18,543	(−26,894)	7,960	(−18,934)	(−14,744)	15,135
4th " . .	*16,064*	*−833*	*−4,544*	*−5,444*	*5,243*	(−25,283)	(10,448)	(−14,835)	*2,767*	(6,825)
1996 – Dec.	5,795	−98	−2,488	−1,339	1,870	17,529	−24,072	−6,543	161	4,512
1997 – Jan.	4,458	−54	−1,647	4,418	7,175	−11,662	20,639	8,977	−10,778	−5,374
Feb.	6,562	−96	−1,136	−806	4,524	1,059	937	1,996	−8,483	1,963
Mar.	6,311	−195	−2,482	−443	3,191	−3,081	3,051	−30	−7,068	3,907
Apr.	6,147	−51	−1,816	−296	3,984	−3,092	−4,371	−7,463	1,333	2,146
May	7,266	328	−1,961	−1,132	4,501	14,181	−17,061	−2,880	−50	−1,571
June	6,589	1,314	−2,657	−1,440	3,806	7,186	−20,657	−13,471	8,525	1,140
July	14,082	1,512	−1,087	5	14,512	−6,868	−647	−7,515	5,127	−12,124
Aug.	6,022	160	−1,224	−1,410	3,548	−9,487	11,963	2,476	−1,225	−4,799
Sept.	3,483	913	−1,979	−523	1,894	9,140	2,703	11,843	−8,058	−5,679
Oct.	8,282	316	−1,640	−795	6,163	−5,721	656	−5,065	−3,497	2,399
Nov.	6,004	−411	−904	−122	4,567	(−13,024)	16,613	(3,589)	(−7,325)	−831
Dec.	4,960	−321	−473	775	4,941	(−1,968)	−2,147	(−4,115)	(3,191)	−4,017
1998 – Jan.	2,890	−2,413	−3,224	−1,332	−4,079	(−12,092)	14,900	(2,808)	(−3,245)	4,516
Feb.	4,273	−472	−684	−389	2,728	(2,949)	2,932	(5,881)	(−4,648)	−3,961
Mar.	6,774	−678	−1,700	1,451	5,847	(−12,540)	16,751	(4,211)	(−10,807)	749
Apr.	5,318	−467	−2,465	−1,132	1,254	(1,827)	2,126	(3,953)	(−8,170)	2,963
May	7,923	62	−2,055	−714	5,216	(12,289)	−9,795	(2,494)	(−13,424)	5,714
June	7,061	1,845	−1,166	−663	7,077	(10,549)	−30,260	(−19,711)	(7,820)	4,814
July	12,664	2,422	−2,290	−530	12,266	(−27,991)	14,124	(−13,867)	(−5,192)	6,793
Aug.	6,418	920	−1,330	−1,339	4,669	(6,752)	−11,039	(−4,287)	(455)	−837
Sept.	3,320	1,394	−1,487	−1,619	1,608	(−5,655)	4,875	(−780)	(−10,007)	9,179
Oct.	7,039	432	−2,946	−1,518	3,007	(−9,302)	10,994	(1,692)	(−5,533)	834
Nov.	*4,040*	*10*	*−1,474*	*−1,625*	*951*	(−4,991)	(−3,996)	(−8,987)	*6,385*	(1,651)
Dec.	*4,985*	*−1,275*	*−124*	*−2,301*	*1,285*	(−10,990)	(3,450)	(−7,540)	*1,915*	(4,340)

Table a21

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	*foreign securities*				
						(billions of lire)					
1995 – Dec. . . .	38,377	9,377	. .	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 – 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 . . .	45,603	16,614	183	62,400	243	5,687	4,841	1,639	6,578	35,584	108,367
Aug. . . .	46,227	16,667	198	63,092	309	5,952	5,077	1,648	6,617	35,584	109,288
Sept. . .	34,704	16,623	141	51,468	213	6,243	5,345	1,595	6,688	34,881	97,472
Oct. . . .	35,517	14,275	125	49,917	198	6,496	5,588	1,617	6,780	34,878	96,256
Nov. . . .	31,765	14,264	183	46,212	214	9,112	8,206	1,632	6,819	34,878	95,175
Dec. . . .	31,686	. .	183	31,869	91	10,381	9,475	1,635	7,158	40,929	88,611
						(millions of dollars)					
1995 – Dec. . . .	24,217	5,917	. .	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 – 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 . . .	25,988	9,468	104	35,560	138	3,241	2,759	934	3,749	19,563	61,040
Aug. . . .	26,440	9,533	113	36,086	177	3,404	2,904	943	3,785	19,563	61,718
Sept. . .	20,960	10,040	85	31,085	129	3,771	3,228	963	4,039	19,770	57,573
Oct. . . .	21,732	8,735	76	30,543	121	3,975	3,419	989	4,149	19,769	57,325
Nov. . . .	18,867	8,472	109	27,448	127	5,412	4,874	969	4,050	19,769	55,583
Dec. . . .	19,168	. .	111	19,278	55	6,280	5,732	989	4,330	24,711	53,555

Table a22

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							
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	621,510	599,773	21,737	–48,355	–5,905	1,391	–31,131	409	21,179	–52,720
1998	597,359	665,522	–68,163	24,256	–6,214	1,120	–49,001	–4,770	14,291	–58,522
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 ”	210,292	207,347	2,945	15,115	–1,642	1,179	17,596	2,280	16,513	–1,197
1998 – 1st qtr. . . .	117,830	115,046	2,784	–28,734	73	7	–25,870	3,599	–94	–29,375
2nd ”	114,151	181,529	–67,378	41,896	–2,396	426	–27,451	–3,121	–5,541	–18,788
3rd ”	174,203	161,111	13,092	–11,388	–1,560	14	157	–2,845	13,787	–10,784
4th ”	191,176	207,837	–16,661	22,483	–2,332	673	4,163	–2,402	6,139	425
1998 – Jan.	44,185	37,874	6,311	–1,110	757	–	5,958	4,501	–94	1,551
Feb.	36,425	28,806	7,619	–16,580	–441	–	–9,402	–379	–	–9,023
Mar.	37,220	48,366	–11,146	–11,044	–243	7	–22,426	–523	–	–21,903
Apr.	37,777	72,306	–34,529	12,811	–806	252	–22,272	–540	–1,500	–20,232
May	16,905	41,375	–24,470	8,375	–724	–	–16,819	–352	–	–16,467
June	59,469	67,848	–8,379	20,711	–866	175	11,640	–2,229	–4,042	17,910
July	84,318	59,519	24,799	–9,549	–338	–	14,911	–2,039	13,782	3,169
Aug.	56,693	51,729	4,964	89	–517	–	4,537	–420	1	4,956
Sept.	33,192	49,863	–16,671	–1,928	–705	14	–19,291	–386	4	–18,909
Oct.	36,957	64,696	–27,739	8,456	–780	274	–19,789	–1,563	–	–18,226
Nov.	49,699	47,706	1,993	–8,945	–928	–	–7,880	–462	2	–7,420
Dec.	104,520	95,435	9,084	22,972	–623	398	31,832	–377	6,137	26,071

Table a23

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				
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
1998	79,251	–35,483	15,578	339	5,772	–10,855	–5,602	49,001
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	762	–2,705	438	25,870
2nd "	34,264	–2,500	–1,913	110	–187	1,204	–3,527	27,451
3rd "	26,935	–4,733	–16,023	219	1,403	–7,115	–843	–157
4th "	–14,532	–11,500	21,873	111	3,793	–2,239	–1,669	–4,163
1998 – Jan.	866	–5,750	844	158	1,008	–3,409	325	–5,958
Feb.	20,859	–6,500	–5,349	–303	–106	714	86	9,402
Mar.	10,859	–4,500	16,146	43	–140	–9	27	22,426
Apr.	9,493	–	13,390	226	–205	–220	–412	22,272
May	22,552	–500	–7,328	–1,054	1,202	3,032	–1,085	16,819
June	2,219	–2,000	–7,976	939	–1,183	–1,608	–2,030	–11,640
July	5,922	–1,500	–13,007	284	–221	–5,846	–544	–14,911
Aug.	9,391	–1,500	–14,708	–16	1,322	1,427	–452	–4,537
Sept.	11,622	–1,733	11,692	–49	302	–2,696	153	19,291
Oct.	–4,870	–1,000	23,703	–323	663	2,070	–453	19,789
Nov.	6,788	–2,000	3,121	476	189	–404	–289	7,880
Dec.	–16,449	–8,500	–4,950	–41	2,941	–3,905	–928	–31,832

Table a24

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 domes-tic debt	Debt issued abroad	Borrowing from BI-UIC (1)	Total (EU definition)	Claims on BI-UIC	Total	*Memorandum item:* state sector debt
1992	805,338	393,827	105,308	93,878	3,458	64,575	167,385	1,633,770	−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	−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	−65,754	1,981,410	1,931,738
1995	1,204,460	407,144	151,759	111,333	3,844	119,274	204,061	2,201,876	−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	123,003	201,391	2,305,896	−73,849	2,232,048	2,172,861
4th "	1,367,009	381,599	164,988	108,521	3,994	125,623	171,018	2,322,752	−56,459	2,266,293	2,205,040
1997 – 1st qtr.	1,409,505	352,612	169,426	108,597	4,054	132,412	181,625	2,358,231	−56,367	2,301,864	2,243,582
2nd "	1,448,947	328,822	171,276	111,771	4,101	139,452	172,665	2,377,032	−62,962	2,314,070	2,251,592
3rd "	1,492,391	309,972	173,606	109,079	4,170	142,258	158,672	2,390,148	−63,005	2,327,143	2,266,450
4th "	1,500,908	287,195	176,623	110,214	4,133	140,793	154,834	2,374,701	−58,997	2,315,704	2,248,726
1998 – Jan.	1,502,728	280,068	177,631	108,569	4,188	139,749	154,601	2,367,534	−57,975	2,309,559	2,244,754
Feb.	1,522,326	278,771	177,526	108,514	4,225	140,555	149,329	2,381,245	−63,637	2,317,608	2,252,371
Mar.	1,541,510	272,027	177,386	108,329	4,263	140,734	143,453	2,387,702	−47,441	2,340,261	2,274,798
Apr.	1,549,613	275,580	177,180	107,995	4,302	138,545	139,596	2,392,812	−33,808	2,359,004	2,293,385
May	1,572,387	276,055	178,382	108,827	4,357	139,608	138,265	2,417,882	−42,215	2,375,668	2,308,397
June	1,576,732	275,726	177,199	103,283	4,401	139,335	135,467	2,412,143	−49,251	2,362,892	2,297,960
July	1,611,370	274,662	176,978	100,361	4,464	131,336	105,657	2,404,828	−62,027	2,342,801	2,280,043
Aug.	1,618,720	269,474	178,300	100,107	4,465	133,074	109,518	2,413,657	−76,711	2,336,947	2,274,516
Sept.	1,631,516	265,678	178,602	102,680	4,529	128,945	110,197	2,422,147	−65,047	2,357,100	2,292,089
Oct.	1,624,869	273,505	179,265	102,255	4,530	133,518	101,482	2,419,424	−41,671	2,377,752	2,312,428
Nov.	1,625,174	274,109	179,454	102,900	4,552	133,796	105,589	2,425,573	−38,142	2,387,431	2,320,890
Dec.	1,593,907	265,927	182,395	104,928	4,564	130,184	120,996	2,402,900	−43,076	2,359,824	2,290,040

(1) The figure for December 1998 refers exclusively to the balance sheet of the Bank of Italy and not to the consolidated BI-UIC balance sheet since the transfer to the Bank of the reserves held by the UIC was completed in that month in accordance with Legislative Decrees 43/1998 and 319/1998. The amount due to the UIC at 31 December 1998 is estimated to have been around 2.3 trillion lire.

Table a25

Monetary base

(flows in billions of lire)

	Sources								Uses				
	Foreign sector		Treasury accounts	Other BI-UIC operations with the Treasury	Open market	Refi-nancing	Other sectors	Total	Currency in circulation	Bank reserves			
		currency swaps								Deposits with the Bank of Italy	*compulsory reserves*	Other	Total
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
1998	–36,980	–13,724	15,578	–42,622	1,303	–942	6,961	–56,699	7,434	–65,084	–63,925	951	–64,133
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	–10,522	–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	–1,598	–3,866	107	2,973	–15,174	–780	–14,830	–24,798	437	–14,394
July .	–5,331	. .	–13,007	–1,455	21,602	–12	–7,887	–6,089	1,816	–8,425	–329	520	–7,905
Aug. .	842	. .	–14,709	–1,650	9,629	–438	–385	–25,968	–4,264	–21,747	–22,104	43	–21,704
Sept.	–9,188	–6,726	11,693	–5,064	–3,762	–442	–926	–7,689	832	–8,234	–2,945	–287	–8,521
Oct. .	–839	. .	23,703	(–7,461)	–15,896	45	2	(–448)	(747)	–1,073	–350	–122	–1,195
Nov. .	–1,078	. .	3,121	(–835)	11,845	–28	1,062	(14,087)	(220)	11,722	1,286	2,145	13,867
Dec. .	(–6,603)	. .	(–4,950)	(–4,159)	(–26,585)	(991)	(15,845)	(–25,460)	(7,825)	(–33,969)	(–24,380)	(683)	(–33,285)

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				
1996	136,074	14,356	–35,575	–65,985	–40,066	–127,271	–15,268	–142,539	17,370	–23,834
1997	31,131	49,861	–17,471	–77,684	–27,891	–73,184	–7,485	–80,669	–3,020	–46,517
1998	49,001	2,685	41,004	–158,503	27,119	–87,695	11,651	–76,044	15,578	–42,622
1998 – Jan. . .	–5,958	3,599	–3,806	–11,292	12,451	952	2,105	3,057	844	–3,745
Feb. . .	9,402	1,080	–1,506	–21,164	1,724	–19,867	–675	–20,542	–5,349	–5,790
Mar. . .	22,426	1,279	5,117	–8,471	–7,815	–9,890	150	–9,740	16,146	–3,460
Apr. . .	22,272	–3,294	3,780	–14,114	327	–13,300	877	–12,423	13,390	–3,541
May . .	16,819	–1,964	4,033	–22,585	–4,377	–24,894	–3,117	–28,010	–7,328	–3,864
June .	–11,640	795	1,888	–11,435	5,964	–2,788	4,854	2,066	–7,976	–1,598
July . .	–14,911	–64	2,930	–12,370	3,297	–6,207	6,657	450	–13,007	–1,455
Aug. . .	–4,537	–4	4,661	–13,742	–446	–9,530	–2,293	–11,823	–14,709	–1,650
Sept. .	19,291	–2,247	5,412	–14,738	–3,369	–14,942	–2,291	–12,662	11,693	–5,064
Oct. . .	19,789	–5,893	5,450	–11,939	11,114	–1,268	–2,280	–3,548	23,703	(–7,461)
Nov. . .	7,880	901	5,633	–10,222	–2,411	–6,099	504	–5,595	3,121	(–835)
Dec. . .	–31,832	8,497	7,413	–6,432	10,660	20,138	2,584	22,722	–4,950	(–4,159)

Table a26

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	*excess reserves*	Vault cash	Undrawn overdraft facilities	Total	Percentage changes (over 12 months)
1996 – Dec.	101,768	72,202	244	6,494	359	79,056	2.0
1997 – 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.	107,092	42,485	340	6,344	214	49,042	9.5
Oct.	107,695	42,179	382	6,288	422	48,889	8.9
Nov.	109,653	43,738	657	6,623	697	51,058	7.8
Dec.	118,204	20,321	1,620	7,207	..	27,528	8.7

Table a26

		BI operations							
		Temporary operations				Fixed-term advances	Total	
		Securities			Foreign currency purchases			
Total	Percentage changes (over 12 months)	Purchases	Sales	Total				
180,823	2.6	23,853	571	23,282	14,933	. .	38,214	. . . . Dec. – 1996
199,577	8.9	20,679	1,417	19,261	13,817	76	33,154	. . . . Dec. – 1997
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.
156,134	8.1	13,955	124	13,831	3,564	. .	17,395	. . . . Sept.
156,584	8.4	4,825	918	3,908	. .	. .	3,908	. . . . Oct.
160,712	6.5	17,947	568	17,379	. .	. .	17,379	. . . . Nov.
145,732	7.9	13,848	. .	13,848	. .	150	13,998	. . . . Dec.

Table a27

Monetary base

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

	Sources										
	Foreign sector	*currency swaps*	Govern-ment securities	Treasury overdraft with BI	Treasury payments account	Sinking fund for govern-ment securities	Other	*coins in circulation*	Credits & debits from temporary operations	Refi-nancing	Other sectors
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	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	3,964	2,374	38,952	30,919	–83,555
July . .	109,821	7,019	102,102	–	–60,656	–407	4,296	2,421	51,762	67,215	–90,138
Aug. . .	110,747	6,994	105,982	–	–75,364	–407	4,285	2,426	36,615	66,777	–90,607
Sept. .	98,922	. .	106,951	–	–49,814	–14,265	4,273	2,464	26,831	66,335	–88,895
Oct. . .	97,707	. .	98,074	–	–36,728	–3,648	(3,950)	(2,464)	12,674	66,380	–88,518
Nov. . .	96,629	. .	102,518	–	–37,006	–249	(4,426)	(2,464)	26,216	58,900	–87,456
Dec. . .	(90,027)	. .	(120,225)	–	(–42,072)	(–134)	(5,078)	(2,464)	4,124	(32,881)	(–71,631)

	Uses					
	Currency in circulation	Bank reserves				Total monetary base
		Deposits with the Bank of Italy	*compulsory reserves*	Other	Total	
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	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	6,451	94,434	200,072
May	108,472	90,334	92,321	6,453	96,787	205,258
June	107,691	75,504	67,523	6,889	82,393	190,084
July	109,507	67,079	67,194	7,409	74,488	183,996
Aug.	105,243	45,332	45,090	7,452	52,785	158,028
Sept.	106,075	37,098	42,145	7,165	44,264	150,339
Oct.	(106,822)	36,026	41,795	7,044	43,069	(149,891)
Nov.	(107,042)	47,477	43,081	9,189	56,936	(163,978)
Dec.	(114,867)	(13,779)	(18,701)	(9,872)	(23,651)	(138,518)

Table a28

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				
1997	96	47,186	–47,090	52,004	4,914	–15,078	–4,191	–19,270	–14,356
1998	(145)	(44,070)	(–43,926)	(25,816)	(–18,110)	–29,621	4,789	–24,831	(–42,623)
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.	. .	5,052	–5,052	6,621	969	–9,799	16	–9,783	–8,814
Oct.	. .	7,138	–7,138	–1,738	–8,876	–13,942	–216	–14,158	–23,034
Nov.	. .	1,311	–1,311	–1,397	–3,008	13,671	–129	13,542	10,534
Dec.	. .	(4,811)	(–4,811)	(–4,493)	(–9,304)	–22,530	438	–22,092	(–31,396)
					of which: ***Treasury bills (BOTs)***				
1997	. .	32,447	–32,447	45,102	12,654	–6,748	. .	–6,748	5,906
1998	. .	(32,797)	(–32,797)	(18,680)	(–14,117)	–2,357	. .	–2,357	(–16,474)
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	5,998	2,019	42	. .	42	2,061
Oct.	. .	6,893	–6,893	–1,808	–8,700	–4,662	. .	–4,662	–13,362
Nov.	. .	1,099	–1,099	–1,505	–2,604	2,986	. .	2,986	382
Dec.	. .	(3)	(–3)	(–400)	(–403)	–4,678	. .	–4,678	(–5,081)

cont.

Table a28 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)***					
1997	12	2,167	−2,156	2,096	−70	−3,850	144	−3,706	−3,779
1998	(108)	(1,202)	(−1,094)	(−17)	(−1,111)	−6,042	45	−5,997	(−7,108)
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.	. .	201	−201	11	−190	−3,359	19	−3,340	−3,530
Oct.	. .	164	−164	11	−152	−2,463	31	−2,432	−2,584
Nov.	. .	210	−210	−85	−295	2,782	. .	2,782	2,487
Dec.	. .	(53)	(−53)	(−828)	(−881)	−4,556	. .	−4,556	(−5,437)
				of which: ***Treasury bonds (BTPs)***					
1997	84	7,111	−7,027	3,785	−3,241	−2,875	−4,335	−7,210	10,452
1998	(34)	(9,194)	(−9,160)	(6,588)	(−2,572)	−15,531	4,744	−10,787	(−13,041)
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.	. .	872	−872	12	−860	−3,743	−3	−3,746	−4,606
Oct.	. .	58	−58	58	. .	−7,399	−247	−7,646	−7,646
Nov.	. .	2	−2	−107	−109	7,192	−128	7,064	6,955
Dec.	. .	(4,755)	(−4,755)	(−3,245)	(−8,000)	−10,121	438	−9,683	(−17,683)

Table a29

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					
1998 – 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
end- ”	–	–	–	–	–	–	–	–	–	–
mid-Nov.	9,000	. .	9,000	9,000	91	14,417	9,000	98.99	. . . .	4.16
end- ”	–	–	–	–	–	–	–	–	. . . .	–
mid-Dec.	7,500	. .	7,500	7,000	90	21,825	7,000	99.23	. . . .	3.18
end- ”	–	–	–	–	–	–	–	–	–	–
1999 – mid-Jan.	9,500	. .	9,500	11,618	90	24,368	11,618	99.23	. . . .	3.14
end- ”	–	–	–	–	–	–	–	–	–	–
mid-Feb.	9,000	. .	9,000	8,713	88	34,963	8,713	99.27	. . . .	3.04
					6-month					
1998 – 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.	–	–	–	–	–	–	–	–	–	–
end- ”	10,208	3,792	14,000	14,000	182	28,853	14,000	98.09	. . . .	3.94
mid-Nov.	–	–	–	–	–	–	–	–	–	–
end- ”	11,032	468	11,500	10,000	182	31,975	10,000	98.22	. . . .	3.67
mid-Dec.	–	–	–	–	–	–	–	–	–	–
end- ”	12,000	. .	12,000	8,000	182	17,789	8,000	98.61	. . . .	2.85
1999 – mid-Jan.	–	–	–	–	–	–	–	–	–	–
end- ”	13,380	120	13,500	13,554	182	46,313	13,554	98.53	. . . .	2.97
mid-Feb.	–	–	–	–	–	–	–	–	–	–

cont.

Table a29 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					
1998 – 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	365	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
end- ”	–	–	–	–	–	–	–	–	–	–
mid-Nov.	12,869	631	13,500	13,000	364	20,619	13,000	96.35	. . . .	3.80
end- ”	–	–	–	–	–	–	–	–	–	–
mid-Dec.	13,897	103	14,000	10,000	365	19,313	10,000	96.94	. . . .	3.16
end- ”	–	–	–	–	–	–	–	–	–	–
1999 – mid-Jan.	17,450	50	17,500	18,395	364	29,025	18,395	96.96	. . . .	3.10
end- ”	–	–	–	–	–	–	–	–	–	–
mid-Feb.	16,440	60	16,500	15,490	365	42,397	15,490	97.03	. . . .	3.02
					Total					
1998 – 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
end- ”	10,208	3,792	14,000	14,000	–	28,853	14,000	–	. . . .	3.94
mid-Nov.	21,869	631	22,500	22,000	–	35,036	22,000	–	. . . .	3.95
end- ”	11,032	468	11,500	10,000	–	31,975	10,000	–	. . . .	3.67
mid-Dec.	21,397	103	21,500	17,000	–	41,138	17,000	–	. . . .	3.17
end- ”	12,000	. .	12,000	8,000	–	17,789	8,000	–	. . . .	2.85
1999 – mid-Jan.	29,950	50	27,000	30,012	–	53,393	30,012	–	. . . .	3.12
end- ”	13,380	120	13,500	13,554	–	46,313	13,554	–	. . . .	2.97
mid-Feb.	25,440	60	25,500	24,203	–	77,359	24,203	–	. . . .	3.03

Table a30

Bank of Italy repurchase agreements

DATE OF AUCTION	Amount		Maturity (days)		Allotment rates	
	offered	taken up	minimum	maximum	marginal	weighted average
			Purchases			
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
1998 – Oct. 30	4,500	4,500	3	3	4.82	4.83
1998 – Nov. 25	17,000	17,000	6	6	3.76	3.80
1998 – Nov. 27	8,000	8,000	17	17	3.70	3.75
1998 – Dec. 4	17,000	14,480	11	11	3.41	3.58
1998 – Dec. 7	8,000	8,000	8	8	3.26	3.38
1998 – Dec. 10	13,000	11,824	20	20	3.00	3.12
1998 – Dec. 11	4,500	4,500	4	4	3.03	3.11
1998 – Dec. 23	11,000	11,000	7	7	2.40	2.51
			Sales			
1996 – Oct. 7	10,000	10,000	1	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	2,300	1	1	6.50	6.04
1998 – Nov. 11	4,000	4,200	5	5	4.44	4.44
1998 – Nov. 13	2,000	2,000	3	3	4.08	4.08

Table a31

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 a32

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
2 November	−1,500	−7,720	−1,500	14	14	4.69	4.69

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
Dec. 4	3.50	3.50	1.00	4.50
Dec. 28	3.00	3.50	1.00	4.50

Table a34

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				
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
1998	3.00	4.50	5.24	5.26	5.09	5.14	5.38	5.15	4.96	4.59	4.37	4.59
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
Oct. .	4.00	5.50	–	–	4.94	4.97	–	–	4.65	3.94	3.91	4.11
Nov. .	4.00	5.50	–	–	3.73	3.78	4.26	4.26	4.16	3.67	3.80	3.86
Dec. .	3.00	4.50	–	–	3.02	3.14	–	–	3.18	2.85	3.16	3.07

Table a35

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 – 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.	2.38	2.97	4.57	5.49	3.86	3.68	6.02	4.18
Sept.	2.37	2.93	4.57	5.40	3.86	3.68	5.90	4.17
Oct.	2.36	2.89	4.56	5.30	3.83	3.58	5.83	3.80
Nov.	1.97	2.55	4.12	5.18	3.47	3.30	5.73	3.89
Dec.	(1.70)	(2.29)	(3.72)	(5.05)	(3.11)	(3.05)	(5.57)	(3.73)

Table a36

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 – 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	9.52	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
Sept.	4.85	7.55	8.11	8.04	6.01	7.24	7.88
Oct.	4.77	7.48	8.08	7.93	5.81	6.92	7.25
Nov.	4.41	7.16	7.78	7.77	5.57	6.68	6.88
Dec.	(3.80)	(6.70)	(7.35)	(7.50)	(4.53)	(6.17)	(6.38)

Table a37

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 – 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
Sept. .	43,535	1,173,102	353,161	4,420	71,239	37,352	125,678	162,145	329,464	67,970
Oct. . .	42,344	1,168,063	363,564	4,023	76,504	42,967	126,224	168,203	335,164	70,963
Nov. . .	56,156	1,200,882	357,562	4,077	76,537	46,376	122,210	161,700	340,858	72,727
Dec. . .	(22,264)	(1,230,170)	(346,324)	(4,631)	(77,244)	(42,370)	(122,720)	(193,186)	(320,276)	(71,707)

	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 – 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	. . . .
Sept. .	815,152	423,931	2,041	899	181,557	173,558	281,881	399,886	21,193	214,261
Oct. . .	819,231	427,716	2,109	962	187,677	174,655	285,660	413,269	15,777	. . . .
Nov. . .	814,468	431,424	2,106	924	182,681	167,796	281,267	418,845	66,849	. . . .
Dec. . .	(877,204)	(435,318)	(1,970)	(2,068)	(143,946)	(198,207)	(280,930)	(391,613)	(27,930)	(208,974)

Table a38

Banks: loan and securities portfolios

(billions of lire)

	Loans to residents						Loans to non-residents
	Short-term		Medium and long-term		Total		
		in lire		*in lire*		*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 – 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
Sept. ..	587,847	524,661	585,255	559,148	1,173,102	1,083,809	23,794
Oct. ...	578,667	513,159	589,396	564,476	1,168,063	1,077,636	22,418
Nov. ...	604,263	538,492	596,620	569,888	1,200,882	1,108,381	26,521
Dec. ...	(623,755)	(561,253)	(606,416)	(580,702)	(1,230,170)	(1,141,955)	(27,301)

	Securities							
	Government securities					Other		Total
		BOTs and BTEs	*CTZs*	*CCTs*	*BTPs*		*bonds issued by banks*	
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 – 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
Sept.	297,653	44,142	24,511	137,252	88,957	55,508	52,192	353,161
Oct.	307,412	40,919	26,710	139,480	96,155	56,152	52,324	363,564
Nov.	299,969	42,898	23,379	136,391	93,290	57,593	53,630	357,562
Dec.	(287,406)	(45,284)	(20,231)	(134,969)	(83,047)	(58,918)	(54,486)	(346,324)

Table a39

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 – 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
Sept.	544,070	111,398	75,520	84,164	159,684	815,152	26,426	13,990
Oct.	552,518	111,031	75,248	80,433	155,682	819,231	28,153	13,453
Nov.	551,017	111,293	74,308	77,849	152,157	814,468	27,860	15,759
Dec.	(613,436)	(114,116)	(73,764)	(75,888)	(149,652)	(877,204)	(25,984)	(14,884)

	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 – 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	. . . .	. . . .
Sept.	530,962	76,672	83,903	160,575	803,537	182,753	241,178
Oct.	541,908	75,809	81,266	157,074	810,300	. . . .	. . . .
Nov.	548,453	75,513	78,258	153,771	814,134	. . . .	. . . .
Dec.	(562,647)	(74,943)	(75,663)	(150,606)	(824,865)	(185,718)	(249,600)

Table a40

Supervisory capital and capital adequacy (1)

(billions of lire)

	Core capital	Supplementary capital	Supplementary capital: *subordinated liabilities*	Supervisory capital	Solvency ratio	Excess capital	Capital shortfalls: Number of banks	Capital shortfalls: Amount	Capital shortfalls: Share of loan market
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	163,446	36,551	20,845	193,969	12.5	71,498	7	1,444	10.1
Banks in the South	15,765	2,892	2,065	18,301	14.6	8,411	8	138	0.5
Total	**179,212**	**39,443**	**22,910**	**212,270**	**12.7**	**79,908**	**15**	**1,582**	**10.7**
June 1998									
Banks in the Centre and North	178,336	45,784	29,204	218,316	13.4	88,795	8	994	10.1
Banks in the South	16,464	2,754	1,923	18,888	14.2	8,340	4	115	0.3
Total	**194,801**	**48,538**	**31,127**	**237,204**	**13.4**	**97,135**	**12**	**1,109**	**10.4**
September 1997									
Banks in the Centre and North	160,400	35,291	19,283	189,677	12.9	72,760	5	728	7.2
Banks in the South	13,865	2,932	1,980	16,453	13.3	7,329	8	808	3.0
Total	**174,264**	**38,223**	**21,264**	**206,130**	**12.9**	**80,090**	**13**	**1,537**	**10.2**
September 1998									
Banks in the Centre and North	178,928	46,480	29,966	219,654	13.5	90,572	11	731	4.7
Banks in the South	16,500	2,721	1,899	18,901	13.9	8,222	3	181	2.7
Total	**195,428**	**49,201**	**31,864**	**238,555**	**13.6**	**98,795**	**14**	**912**	**7.4**

(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 a41

Italian investment funds: securities portfolios and net assets

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

	Lira securities							
	Government securities					Bonds	Shares	Total
		BOTs	*CTZs*	*BTPs*	*CCTs*			
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
1998	368,207	29,845	61,231	193,648	76,601	8,062	76,325	452,595
1996 – 4th qtr. . .	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	101,248	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 ” . .	329,374	24,880	64,022	159,017	72,236	7,314	59,923	396,611
4th ” . .	368,207	29,845	61,231	193,648	76,601	8,062	76,325	452,595
1997 – 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	7,223	80,023	393,600
Aug.	308,079	25,623	61,775	146,009	67,157	7,530	68,002	383,611
Sept.	329,374	24,880	64,022	159,017	72,236	7,314	59,923	396,611
Oct.	340,583	28,923	60,572	170,834	73,870	7,340	62,299	410,222
Nov.	361,771	30,684	65,557	183,129	75,533	7,550	72,140	441,460
Dec.	368,207	29,845	61,231	193,648	76,601	8,062	76,325	452,595

Table a41

Foreign currency securities		Other financial assets	Total portfolio	Net assets	*Memorandum item:*		
	shares				Gross sales	Net sales	
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
214,055	84,068	215	666,864	720,823	631,523	313,085	 1998
30,967	15,707	980	180,251	197,544	46,242	26,478	...... 4th qtr. – 1996
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
186,730	75,991	191	562,118	607,287	201,497	107,334	...... 2nd "
185,505	65,508	186	582,618	647,925	139,350	63,570	...... 3rd "
214,055	84,068	215	666,864	720,823	116,255	38,525	...... 4th "
91,539	38,974	161	330,683	368,432	25,798	12,465	.... Dec.– 1997
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	67,324	194	491,773	539,895	87,835	44,296	.... Apr.
175,200	70,518	189	532,977	581,000	59,979	35,807	.... May
186,730	75,991	191	562,118	607,287	53,683	27,231	.... June
196,496	80,171	205	590,301	643,698	59,487	30,719	.... July
190,758	69,183	184	574,553	645,736	41,344	21,830	.... Aug.
185,505	65,508	186	582,301	647,925	38,519	11,021	.... Sept.
192,529	72,561	195	602,946	667,596	41,688	11,846	.... Oct.
208,276	81,038	234	649,970	698,962	35,600	11,828	.... Nov.
214,055	84,068	215	666,864	720,823	38,967	14,851	.... Dec.

Table a42

Italian securities investment funds

(billions of lire)

	Lira securities				
	Government securities				
		BOTs	CTZs	BTPs	CCTs
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
1998	179,382	13,559	–532	122,414	34,887
1996 – 4th qtr.	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 ”	31,553	–3,013	–3,906	22,202	11,417
4th ”	48,158	4,721	–4	38,206	4,199
1997 – 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.	19,856	–859	2,065	11,701	5,255
Oct.	11,094	3,971	–7,712	12,607	1,638
Nov.	19,054	1,700	4,875	10,533	1,493
Dec.	18,010	–950	2,833	15,067	1,068

Table a42

Bonds	Shares	Total	Foreign currency securities		Other financial assets	Total portfolio	
				shares			
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
2,116	17,649	199,147	122,099	41,733	9	321,255	 1998
381	762	24,186	1,340	–565	–40	25,486	. . . . . . 4th qtr. – 1996
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	41,527	15,669	18	106,793	. . . . . . 2nd ”
–23	–1,610	29,920	20,968	6,985	31	50,919	. . . . . . 3rd ”
623	1,327	50,108	11,952	4,232	–44	62,016	. . . . . . 4th ”
166	1,902	14,374	4,221	1,621	–6	18,589	. . . . . . Dec. – 1997
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	4,449	–3	37,987	. . . . . . May
147	1,182	21,661	9,516	3,988	1	31,178	. . . . . . June
2	84	11,186	11,065	4,533	31	22,282	. . . . . . July
155	–1,316	–565	8,697	2,017	–6	8,126	. . . . . . Aug.
–179	–379	19,298	1,206	435	6	20,510	. . . . . . Sept.
–3	–967	10,124	2,077	1,928	–44	12,157	. . . . . . Oct.
149	294	19,497	6,280	1,446	33	25,810	. . . . . . Nov.
477	2,000	20,487	3,595	858	–33	24,049	. . . . . . Dec.

Table a43

Portfolio management services (1)

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

		Government securities			Bonds		Shares	
		BOTs	*BTPs*	*CCTs*	Italian	Foreign	Italian	Foreign
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	147,236	7,693	64,078	48,258	11,068	20,723	15,495	1,558
Securities firms	54,769	2,657	35,524	9,826	8,135	14,246	10,624	6,760
Total	**202,005**	**10,350**	**99,602**	**58,084**	**19,203**	**34,969**	**26,119**	**8,318**
1998 - 3rd qtr. (2)								
Banks	156,269	6,884	70,107	51,816	10,868	22,727	13,807	2,222
Securities firms	59,384	2,451	37,935	11,696	8,141	13,458	8,289	4,710
Total	**215,653**	**9,335**	**108,042**	**63,512**	**19,009**	**36,185**	**22,096**	**6,932**

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

Table a43

Investment fund units: Italian	Investment fund units: Foreign	Other financial assets	Total portfolio	Total managed funds	Memorandum items: Gross fund-raising	Memorandum items: Net fund-raising	
							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)
105,253	4,011	447	305,791	326,942	76,161	30,252	. . . . Banks
45,768	5,318	413	146,033	153,341	31,247	19,035	. . . . . Securities firms
151,021	**9,329**	**860**	**451,824**	**480,283**	**107,408**	**49,287**	. . . **Total**
							1998 - 3rd qtr. (2)
118,654	6,568	141	331,256	354,179	56,121	28,764	. . . . Banks
47,169	6,529	322	148,002	154,348	17,774	4,979	. . . . . Securities firms
165,823	**13,097**	**463**	**479,258**	**508,527**	**73,895**	**33,743**	. . . **Total**

Table a44

Net issues of securities

(billions of lire)

	Issuers			Total bonds and government securities	Investors				Shares
	Public sector	Banks	Non-financial companies and supranational institutions		BI-UIC	Banks	Investment funds	Other	
1993	181,356	27,340	–2,341	206,355	11,557	26,183	17,489	151,126	15,230
1994	246,316	21,276	–2,070	265,523	108,187	35,325	12,551	109,460	12,999
1995	103,786	–521	–2,492	100,773	–1,702	–31,161	11,457	122,179	8,515
1996	115,334	64,715	1,205	181,254	–30,407	29,659	68,081	113,921	5,790
1997	18,572	97,228	723	116,522	–13,085	–38,673	71,423	96,857	7,145
1998	(39,656)	(57,282)	(–1,013)	(95,925)	–30,491	(3,102)	183,610	(–60,296)	13,648
1996 – 4th qtr.	10,929	35,575	–426	46,079	–27,908	16,046	23,484	34,457	1,539
1997 – 1st qtr.	21,373	24,957	1,203	47,533	10,468	5,561	18,338	13,166	546
2nd ”	3,070	24,301	–1,483	25,888	–7,287	–28,670	6,415	55,430	619
3rd ”	12,599	23,730	134	36,464	–13,536	–10,992	18,172	42,820	350
4th ”	–18,471	24,241	869	6,639	–2,730	–4,572	28,499	–14,558	5,631
1998 – 1st qtr.	(14,463)	(18,628)	(–2)	(33,089)	–12,296	(5,304)	43,357	(–3,276)	4,736
2nd ”	(32,650)	(19,042)	(–739)	(50,953)	–7,980	(4,801)	60,825	(–6,693)	7,173
3rd ”	(15,037)	(8,300)	(–514)	(22,824)	–24,505	(399)	31,070	(15,860)	1,694
4th ”	(–22,495)	(11,312)	(242)	(–10,941)	14,289	(–7,402)	48,358	(–66,186)	45
1997 – Dec.	–17,855	6,840	–14	–11,029	–1,456	–8,144	12,532	–13,961	4,404
1998 – Jan.	(–7,534)	(3,116)	(–1)	(–4,419)	–1,017	(7,242)	11,761	(–22,405)	151
Feb.	(15,632)	(5,521)	(–1)	(21,153)	–5,593	(–3,884)	17,414	(13,216)	4,585
Mar.	(6,365)	(9,991)	(. .)	(16,355)	–5,686	(1,947)	14,182	(5,912)	. .
Apr.	(8,226)	(4,226)	(. .)	(12,452)	–3,884	(6,928)	18,690	(–9,282)	1,338
May	(25,718)	(9,069)	(–739)	(34,048)	–1,360	(6,529)	21,386	(7,493)	. .
June	(–1,293)	(5,747)	(. .)	(4,453)	–2,735	(–8,655)	20,748	(–4,905)	5,834
July	(–304)	(–285)	(–12)	(–601)	–29,310	(2,757)	11,442	(14,510)	1,676
Aug.	(8,011)	(4,509)	(–501)	(12,020)	3,829	(–9,044)	735	(16,500)	18
Sept.	(7,330)	(4,075)	(. .)	(11,404)	976	(6,686)	18,894	(–15,152)	. .
Oct.	(–5,249)	(3,758)	(. .)	(–1,491)	–8,907	(10,213)	11,170	(–13,967)	37
Nov.	(6,239)	(3,684)	(250)	(10,173)	4,445	(–5,792)	18,966	(–7,446)	. .
Dec.	(–23,485)	(3,870)	(–8)	(–19,623)	18,751	(–11,824)	18,222	(–44,772)	8

Table a45

Issue conditions of Treasury bonds (BTPs)

CODE	Date of maturity	Date of issue	Price at issue	Gross yield at issue	Amount take up (lire billion)	Gross coupon
122430	1.5.2008	4.5.1998	98.70	5.23	6,600	2.500
122085	15.4.2001	5.5.1998	99.65	4.67	3,850	2.250
122428	1.5.2003	5.5.1998	99.64	4.88	5,500	2.375
122085	15.4.2001	19.5.1998	99.82	4.60	3,066	2.250
122428	1.5.2003	19.5.1998	99.98	4.80	3,000	2.375
122430	1.5.2008	1.6.1998	99.50	5.12	5,331	2.500
122085	15.4.2001	2.6.1998	100.05	4.52	3,300	2.250
122428	1.5.2003	2.6.1998	100.24	4.74	3,300	2.375
122085	15.4.2001	17.6.1998	100.27	4.43	2,000	2.250
122428	1.5.2003	17.6.1998	100.77	4.62	2,500	2.375
122430	1.5.2008	24.6.1998	100.35	5.01	2,000	2.500
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
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
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
124463	15.7.2003	18.9.1998	102.20	4.03	3,828	2.250
126080	1.9.2001	19.9.1998	100.63	3.80	4,175	2.000
122430	1.5.2008	1.10.1998	105.10	4.39	5,500	2.500
126080	1.9.2001	2.10.1998	100.85	3.71	3,804	2.000
126384	1.10.2003	2.10.1998	100.71	3.88	4,950	2.000
126080	1.9.2001	19.10.1998	100.95	3.67	4,061	2.000
126384	1.10.2003	19.10.1998	100.35	3.96	4,297	2.000
127336	1.5.2009	2.11.1998	100.45	4.49	8,468	2.250
126080	1.9.2001	3.11.1998	101.26	3.55	4,025	2.000
126384	1.10.2003	3.11.1998	100.83	3.85	3,585	2.000
126384	1.10.2003	18.11.1998	100.86	3.84	1,650	2.000
127850	1.11.2001	18.11.1998	99.85	3.58	3,111	1.750
127851	1.11.2029	18.11.1998	99.70	5.33	3,125	2.625
127336	1.5.2009	1.12.1998	103.80	4.08	3,300	2.250
127851	1.11.2029	18.12.1998	108.40	4.78	3,000	2.625
127336	1.5.2009	4.1.1999	104.40	4.01	6,777	2.250
127850	1.11.2001	4.1.1999	100.85	3.20	5,809	1.750
126384	1.10.2003	7.1.1999	103.25	3.28	6,033	2.000
126384	1.10.2003	18.1.1999	103.26	3.27	5,061	2.000
127850	1.11.2001	18.1.1999	101.32	3.02	5,102	1.750
127851	1.11.2029	18.1.1999	107.15	4.86	6,181	2.625
127336	1.5.2009	1.2.1999	105.85	3.84	7,455	2.250
127850	1.11.2001	2.2.1999	101.53	2.94	3,873	1.750
130545	1.2.2004	2.2.1999	100.61	3.14	6,084	1.625

cont.

Table a45

Issue conditions of Treasury credit certificates (CCTs)

CODE	Date of maturity	Date of issue	Price at issue	Gross yield at issue	Amount taken up (lire billion)	Spread	First gross coupon
114537	1.9.2004	1.9.1997	99.75	6.85	3,300	0.15	3.350
114537	1.9.2004	1.10.1997	100.50	6.04	2,000	0.15	3.350
114537	1.9.2004	3.11.1997	100.40	6.15	1,500	0.15	3.350
114537	1.9.2004	2.1.1998	100.40	5.23	3,791	0.15	3.350
114537	1.9.2004	2.2.1998	100.40	5.92	1,500	0.15	3.350
114537	1.9.2004	2.3.1998	100.64	5.96	3,787	0.15	3.350
114537	1.9.2004	1.4.1998	101.25	5.18	3,500	0.15	3.350
122427	1.5.2005	4.5.1998	101.12	5.06	5,326	0.15	2.600
122427	1.5.2005	1.6.1998	101.21	4.95	3,300	0.15	2.600
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
126385	1.10.2005	2.11.1998	100.79	4.12	3,629	0.15	2.200
126385	1.10.2005	4.1.1999	100.95	3.01	3,873	0.15	2.200
126385	1.10.2005	1.2.1999	101.01	3.18	4,260	0.15	2.200

Issue conditions of zero-coupon Treasury certificates (CTZs)

CODE	Date of maturity	Date of issue	Price at issue	Gross yield at issue	Amount taken up (lire billion)
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
124416	31.1.2000	15.10.1998	95.30	3.78	2,000
126340	16.10.2000	15.10.1998	92.75	3.82	3,500
126340	16.10.2000	30.10.1998	93.30	3.59	2,749
126894	28.4.2000	30.10.1998	94.92	3.55	3,435
126340	16.10.2000	16.11.1998	93.37	3.64	2,500
126894	28.4.2000	16.11.1998	94.97	3.63	2,500
126894	28.4.2000	30.11.1998	95.41	3.39	1,000
126894	28.4.2000	15.1.1999	96.25	3.02	5,325
130092	15.1.2001	15.1.1999	94.15	3.06	6,225
130092	15.1.2001	29.1.1999	94.56	2.89	1,996
130094	31.7.2000	29.1.1999	95.86	2.85	4,575
130092	15.1.2001	15.2.1999	94.49	3.00	1,971
130094	31.7.2000	15.2.1999	95.83	2.97	3,088

Table a46

Securities market: yield to maturity and total return indices

	Gross yield to maturity						Total return indices (gross)					
	BOTs	CTZs	CCTs	CTEs	BTPs	Bank bonds	BOTs	CTZs	CCTs	CTEs	BTPs	Investment funds
1993	–	–	11.77	7.81	11.32	11.28	142.72	–	154.01	181.23	168.51	287.95
1994	–	–	9.97	7.64	10.68	10.14	155.04	–	166.83	183.53	166.05	280.92
1995	–	11.40	11.60	8.82	11.94	11.58	171.46	111.47	188.74	223.20	193.53	299.98
1996	8.61	8.49	9.01	6.33	9.06	9.20	187.77	125.81	209.85	229.84	233.33	328.00
1997	6.60	6.45	6.81	5.42	6.76	7.41	200.22	135.40	224.74	242.48	263.33	366.70
1998	4.88	4.58	4.89	4.87	4.92	5.45	210.98	143.15	237.50	255.57	293.13	401.00
1996 4th qtr. . .	7.49	7.07	7.57	5.87	7.55	7.94	187.77	125.81	209.85	229.84	233.33	328.00
1997 – 1st qtr. . .	7.08	7.01	7.12	5.49	7.30	7.73	190.40	126.66	211.93	233.41	231.11	334.66
2nd " . .	6.84	6.79	7.13	5.26	7.29	7.75	193.95	130.09	215.93	234.80	244.54	349.88
3rd " . .	6.42	6.29	6.87	5.26	6.53	7.11	197.05	132.80	220.51	236.74	254.33	362.23
4th " . .	6.05	5.69	6.11	5.66	5.94	7.03	200.22	135.40	224.74	242.48	263.33	366.70
1998 – 1st qtr. . .	5.75	5.25	5.71	5.23	5.32	6.32	202.78	137.07	228.65	248.34	270.70	396.55
2nd " . .	5.17	4.85	5.06	5.48	5.12	5.59	205.29	138.81	231.95	249.07	275.31	393.90
3rd " . .	4.73	4.48	4.75	4.74	4.80	5.20	207.76	140.90	234.32	253.06	285.07	381.10
4th " . .	3.87	3.73	4.06	4.04	4.43	4.67	210.98	143.15	237.50	255.57	293.13	401.00
1998 – Jan.	5.70	5.26	5.60	5.12	5.44	6.35	200.72	135.51	225.43	244.76	265.64	374.71
Feb.	5.93	5.45	5.98	5.00	5.37	6.52	201.53	136.12	226.91	245.90	267.95	380.77
Mar.	5.62	5.03	5.54	5.57	5.17	6.10	202.78	137.07	228.65	248.34	270.70	396.55
Apr.	5.33	4.90	5.17	5.63	5.13	5.68	203.73	137.73	230.00	249.02	271.05	390.58
May	5.10	4.80	5.04	5.51	5.17	5.56	204.42	138.23	231.04	247.71	273.49	394.67
June	5.09	4.83	4.98	5.30	5.07	5.52	205.29	138.81	231.95	249.07	275.31	393.90
July	4.80	4.57	4.89	5.00	4.97	5.26	206.24	139.50	233.29	250.32	277.84	398.67
Aug.	4.72	4.50	4.72	4.73	4.81	5.21	206.91	140.07	233.89	252.19	280.80	386.53
Sept.	4.67	4.37	4.65	4.48	4.62	5.14	207.76	140.90	234.32	253.06	285.07	381.10
Oct.	4.38	4.06	4.39	4.08	4.59	4.78	208.83	141.63	235.25	254.27	285.37	385.80
Nov.	3.97	3.78	4.13	4.09	4.52	4.69	209.75	142.31	236.74	255.57	289.60	397.04
Dec.	3.25	3.33	3.66	3.95	4.18	4.56	210.98	143.15	237.50	–	293.13	401.00
1999 – Jan.	2.94	3.12	3.13	4.12	4.02	4.31	–	–	–	–	–	–

Table a47

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 – 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	(6,017)	(9,278)	(636,545)	88,299
Mar.	105,030	539,121	(5,326)	(9,614)	(659,092)	87,753
Apr.	105,638	549,898	(4,744)	(10,208)	(670,488)	86,301
May	108,472	553,907	(5,487)	(9,884)	(677,750)	85,396
June . . .	107,691	573,771	(3,964)	(13,534)	(698,960)	85,821
July	109,507	543,242	(3,309)	(10,765)	(666,824)	84,483
Aug.	105,243	536,986	(3,621)	(8,345)	(654,195)	83,181
Sept. . . .	106,075	541,414	(3,042)	(9,222)	(659,753)	82,476
Oct.	(106,822)	545,997	(2,599)	(7,067)	(662,484)	83,043
Nov.	(107,042)	546,985	(1,591)	(7,528)	(663,145)	81,800
Dec.	(114,867)	590,105	(1,664)	(11,104)	(717,740)	81,646

Table a47

			Average data			
Savings deposits	Postal savings deposits	Total: M2 (net of CDs with a maturity of at least 18 month)	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
114,361	44,314	(803,104)	(562,121)	(783,210)	(800,020)	. . . . Nov. – 1996
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)	(647,578)	(907,660)	(924,605)	. . . . Jan. – 1998
121,198	(53,075)	(899,117)	(626,618)	(884,528)	(901,776)	. . . . Feb.
118,370	(53,402)	(918,616)	(635,888)	(892,396)	(909,661)	. . . . Mar.
117,465	(53,584)	(927,837)	(653,435)	(907,358)	(924,574)	. . . . Apr.
116,533	(53,874)	(933,554)	(665,409)	(917,156)	(933,761)	. . . . May
115,808	(53,886)	(954,476)	(666,232)	(915,285)	(929,839)	. . . . June
114,365	(53,626)	(919,297)	(663,629)	(910,361)	(923,903)	. . . . July
115,210	(54,772)	(907,358)	(648,192)	(894,184)	(907,463)	. . . . Aug.
114,520	(55,133)	(911,882)	(646,277)	(892,682)	(905,781)	. . . . Sept.
114,930	(55,697)	(916,153)	(655,723)	(901,834)	(916,044)	. . . . Oct.
114,878	(56,311)	(916,133)	(660,471)	(907,289)	(921,944)	. . . . Nov.
117,618	(58,334)	(975,339)	*(677,725)*	*(925,214)*	*(938,653)*	. . . . Dec.

Table a48

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 – 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	*(241)*	*(1,519,195)*
1998 – Jan.	(905,100)	126,072	146,268	(117,877)	194,098	*(257)*	*(1,489,674)*
Feb.	(899,117)	118,214	145,995	(118,174)	186,674	*(257)*	*(1,468,430)*
Mar.	(918,616)	112,905	129,478	(118,410)	175,933	*(246)*	*(1,455,589)*
Apr.	(927,837)	105,649	122,237	(118,593)	161,546	*(240)*	*(1,436,102)*
May	(933,554)	99,026	122,575	(118,802)	149,604	*(228)*	*(1,423,789)*
June	(954,476)	93,336	112,289	(118,956)	134,182	*(140)*	*(1,413,379)*
July	(919,297)	89,113	119,425	(119,201)	127,835	*(143)*	*(1,375,014)*
Aug.	(907,358)	85,404	121,188	(119,709)	118,878	*(121)*	*(1,352,658)*
Sept.	(911,882)	83,161	117,485	(120,181)	113,932	*(115)*	*(1,346,757)*
Oct.	(916,153)	79,453	126,755	(120,761)	114,766	*(146)*	*(1,358,034)*
Nov.	(916,133)	76,836	118,742	(121,253)	*(116,975)*	*(134)*	*(1,350,074)*
Dec.	(975,339)	74,759	100,565	(121,653)	*(107,177)*	*(120)*	*(1,379,613)*

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 – 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	(243,838)	219,985	6,658	*(2,781,036)*	*(3,033,445)*
Feb.	*(1,602,189)*	689,544	17,419	(252,795)	234,226	*(6,802)*	*(2,802,973)*	*(3,068,095)*
Mar.	*(1,588,052)*	693,700	17,420	(258,789)	239,243	*(7,004)*	*(2,804,207)*	*(3,080,215)*
Apr.	*(1,583,927)*	694,050	17,499	(268,961)	247,480	*(7,057)*	*(2,818,974)*	*(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	(291,721)	291,563	*(7,951)*	*(2,869,038)*	*(3,178,908)*
Aug.	*(1,538,749)*	700,778	17,331	(299,199)	300,994	*(8,323)*	*(2,865,373)*	*(3,180,613)*
Sept.	*(1,530,029)*	692,023	17,320	(309,703)	321,233	*(8,956)*	*(2,879,264)*	*(3,195,756)*
Oct.	*(1,515,228)*	692,235	17,257	(318,391)	333,053	*(9,148)*	*(2,885,312)*	*(3,212,304)*
Nov.	*(1,496,766)*	684,696	17,347	(326,035)	348,452	*(9,166)*	*(2,882,462)*	*(3,216,560)*
Dec.	*(1,519,195)*	673,957	17,335	(332,039)	368,432	*(9,077)*	*(2,920,035)*	*(3,257,110)*
1998 – Jan.	*(1,489,674)*	664,812	(17,281)	(333,981)	407,719	*(9,117)*	*(2,922,584)*	*(3,268,994)*
Feb.	*(1,468,430)*	655,659	(17,018)	(336,500)	445,506	*(10,949)*	*(2,934,062)*	*(3,289,024)*
Mar.	*(1,455,589)*	649,655	(16,724)	(343,227)	503,915	*(11,818)*	*(2,980,929)*	*(3,344,827)*
Apr.	*(1,436,102)*	625,912	(15,700)	*(347,689)*	539,895	*(11,675)*	*(2,976,972)*	*(3,353,888)*
May	*(1,423,789)*	608,478	*(14,526)*	*(352,359)*	581,000	(12,207)	*(2,992,359)*	*(3,378,240)*
June	*(1,413,379)*	597,250	*(12,761)*	*(355,575)*	607,287	*(8,956)*	*(2,995,207)*	*(3,384,212)*
July	*(1,375,014)*	629,809	*(11,106)*	*(356,928)*	643,698	*(8,971)*	*(3,025,527)*	*(3,426,675)*
Aug.	*(1,352,658)*	628,890	*(11,124)*	*(360,320)*	645,736	*(8,967)*	*(3,007,695)*	*(3,415,884)*
Sept.	*(1,346,757)*	611,195	*(11,161)*	*(364,432)*	647,925	*(8,994)*	*(2,990,464)*	*(3,403,144)*
Oct.	*(1,358,034)*	595,198	*(10,983)*	*(367,868)*	667,596	*(8,995)*	*(3,008,673)*	*(3,428,321)*
Nov.	*(1,350,074)*	*(575,750)*	*(10,988)*	*(369,957)*	698,962	*(9,016)*	*(3,014,747)*	*(3,438,630)*
Dec.	*(1,379,613)*	*(550,151)*	*(10,996)*	*(372,489)*	720,823	*(9,029)*	*(3,043,100)*	*(3,475,356)*

Table a50

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 – 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	(17,773)	(1,084,462)	(126,692)
Mar.	547,224	512,075	(17,418)	(1,076,716)	(125,842)
Apr.	545,851	514,072	(17,629)	(1,077,552)	(126,551)
May	545,227	517,336	(16,741)	(1,079,303)	(127,515)
June	562,202	524,430	(14,307)	(1,100,939)	(128,476)
July	571,826	523,293	(14,566)	(1,109,685)	(132,218)
Aug.	554,995	522,447	(14,620)	(1,092,062)	(132,657)
Sept.	554,559	526,424	(14,732)	(1,095,714)	(132,116)
Oct.	551,172	529,362	(15,115)	(1,095,649)	(135,199)
Nov.	554,976	534,970	(15,457)	(1,105,404)	(135,694)
Dec.	590,209	543,957	(15,786)	(1,149,953)	(136,029)
1998 – Jan.	582,151	(540,954)	(13,547)	(1,136,651)	(140,286)
Feb.	578,612	(544,544)	(13,290)	(1,136,447)	(140,124)
Mar.	582,479	(548,573)	(12,704)	(1,143,756)	(142,245)
Apr.	582,645	(552,161)	*(12,584)*	*(1,147,389)*	*(141,404)*
May	572,550	(555,385)	*(11,663)*	*(1,139,598)*	*(141,653)*
June	591,773	(560,927)	*(11,514)*	*(1,164,213)*	*(142,151)*
July	598,287	(560,396)	*(11,480)*	*(1,170,163)*	*(142,892)*
Aug.	586,580	(560,533)	*(10,831)*	*(1,157,943)*	*(143,530)*
Sept.	587,267	(563,415)	*(10,578)*	*(1,161,260)*	*(144,720)*
Oct.	578,277	(567,819)	*(10,554)*	*(1,156,650)*	*(146,088)*
Nov.	603,733	(575,494)	*(10,474)*	*(1,189,700)*	*(145,529)*
Dec.	623,251	(586,203)	*(10,805)*	*(1,220,260)*	*(141,916)*

Table a50

Total finance	State sector debt	State sector debt: *domestic*	Credit: Total domestic	Credit: 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
1,170,996	2,206,909	2,084,678	3,134,184	3,377,906	. . . . Nov.– 1996
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	(3,163,282)	(3,415,868)	. . . . Jan.– 1997
(1,211,154)	2,218,854	2,087,155	(3,171,618)	(3,430,008)	. . . . Feb.
(1,202,558)	2,243,582	2,111,481	(3,188,197)	(3,446,140)	. . . . Mar.
(1,204,103)	2,262,469	2,130,465	(3,208,016)	(3,466,573)	. . . . 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)	(3,481,007)	. . . . June
(1,241,903)	2,247,944	2,104,547	(3,214,232)	(3,489,848)	. . . . July
(1,224,719)	2,247,717	2,105,855	(3,197,917)	(3,472,436)	. . . . Aug.
(1,227,830)	2,266,450	2,126,646	(3,222,360)	(3,494,280)	. . . . Sept.
(1,230,848)	2,281,669	2,142,960	(3,238,609)	(3,512,517)	. . . . Oct.
(1,241,097)	2,271,788	2,133,247	(3,238,651)	(3,512,885)	. . . . Nov.
(1,285,982)	2,248,726	2,111,446	(3,261,399)	(3,534,709)	. . . . Dec.
(1,276,937)	(2,244,754)	(2,108,514)	(3,245,165)	(3,521,691)	. . . . Jan.– 1998
(1,276,571)	(2,252,371)	(2,115,599)	(3,252,045)	(3,528,941)	. . . . Feb.
(1,286,001)	(2,274,798)	(2,137,863)	(3,281,619)	(3,560,799)	. . . . Mar.
(1,288,793)	(2,293,385)	(2,158,616)	*(3,306,006)*	*(3,582,178)*	. . . . Apr.
(1,281,251)	(2,308,397)	(2,172,559)	*(3,312,157)*	*(3,589,647)*	. . . . May
(1,306,365)	(2,297,960)	(2,162,797)	*(3,327,011)*	*(3,604,325)*	. . . . June
(1,313,055)	(2,280,043)	(2,152,850)	*(3,323,013)*	*(3,593,098)*	. . . . July
(1,301,474)	(2,274,516)	(2,145,573)	*(3,303,516)*	*(3,575,990)*	. . . . Aug.
(1,305,980)	(2,292,089)	(2,167,230)	*(3,328,490)*	*(3,598,069)*	. . . . Sept.
(1,302,738)	(2,312,428)	(2,182,987)	*(3,339,638)*	*(3,615,166)*	. . . . Oct.
(1,335,229)	(2,320,890)	(2,191,193)	*(3,380,893)*	*(3,656,119)*	. . . . Nov.
(1,362,176)	(2,290,040)	(2,163,834)	*(3,384,094)*	*(3,652,216)*	. . . . Dec.

Table a51

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)
1998	(44,348)	(–36,980)	(–15,062)	(82,743)	(–30,767)	(44,414)
1996 – 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)	(8,811)	(–6,010)
Feb.	(–5,983)	3,815	–2,932	(348)	(–17,867)	(10,653)
Mar.	(19,500)	–751	–16,751	(7,747)	(9,545)	(19,710)
Apr.	(9,221)	–2,957	–2,126	(6,371)	(15,569)	(–7,637)
May	(5,717)	–5,715	9,795	(–2,344)	(–6,852)	(10,832)
June	(20,922)	–4,814	30,260	(26,130)	(–25,102)	(–5,552)
July	(–35,178)	–5,331	–14,124	(4,291)	(–37,561)	(17,546)
Aug.	(–11,939)	842	11,039	(–13,597)	(–20,332)	(10,109)
Sept.	(4,524)	–9,188	–4,875	(7,566)	(19,887)	(–8,866)
Oct.	(4,271)	–839	–10,994	(–5,700)	(21,721)	(82)
Nov.	(–20)	–1,078	(3,996)	(29,885)	(–769)	(–32,054)
Dec.	(59,205)	(–6,603)	(–3,450)	(31,476)	(2,182)	(35,600)

Notes to the statistical tables

Table a1

Sources: Istat and national statistics.

For Italy, see the notes to Table a10.

Table a2

Sources: Istat and national statistics.

For Italy, the consumer price index; see the notes to Table a12.

For the United Kingdom, consumer prices excluding mortgage interest.

Table a3

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 a4

Source: National statistics.

Official reference rates. For the United States, federal funds target rate; for France, intervention rate; for Germany, repo rate; for the United Kingdom, base rate; for Canada, official bank rate; for all the other countries, discount rate. As of January 1999, the official reference rate for the euro-area countries is the rate for the ESCB's main refinancing operations, fixed by the Governing Council.

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. As of January 1999, for the euro-area countries, 3-month euribor.

Table a5

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 on 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, FTSE All-Share; for Canada, composite index of the Toronto stock exchange (closing prices).

Table a6

Source: National statistics.

As of January 1999, for the euro-area countries, 3-month and 12-month euribor. 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 a7

Source: IMF for the prices of gold.

Until 31 December 1998, the exchange rates are with respect to the ecu. Period averages except for gold prices, which are end-of-period values.

Table a8

Sources: Based on IMF and OECD data and national statistics.

The table shows real effective exchange rates 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 a9

As of *Economic Bulletin* no. 28, February 1999, the list of individual countries included has been revised. The selection was made from among the main international debtor countries according to the statistics compiled by the BIS on developing countries and transition economies.

The method of calculating the total exposure of the Italian banking system has also been modified with improvements made to the cancelling out of intragroup positions - introduced in *Economic Bulletin* no. 27, October 1998 - on the basis of information available for the data from June 1998 onwards. This may result in breaks in the series, especially for the offshore centres, some developed countries and Latin America.

Table a10

Sources: Based on data published by Istat and Isae (Isco until December 1998).

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 a11

Source: Istat.

The participation rate is calculated with reference to the whole population.

Table a13

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 a16

Source: Istat.

The table reflects the introduction of the new base (1995=100), which replaces that previously used by Istat (1990=100).

Table a17

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 a18

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 a20

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 a21

The dollar balances may not coincide with the sum of the component items owing to rounding.

Table a22

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 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 determined on a cash basis.

The additional borrowing of “ANAS, Forests and other bodies” include the net funds they raised directly in the market. The items “Settlements of past debts” and “Privatization receipts” permit the reconciliation of the effective funding requirement and the definition of the borrowing requirement currently used to determine the objectives for fiscal policy. The figures for the last year are provisional.

Table a23

The table shows the financing of the state sector borrowing requirement (for the definition of the state sector, see the notes to Table a22). “Foreign loans” comprise only those raised abroad directly; 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 (see Law 483/1993) and the sinking fund for the redemption of government securities (see Laws 432/1993 and 110/1997). 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 cost borne by the government. The figures for the last year are provisional.

Table a24

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 cost borne by the government. The December 1998 figure for “Borrowing from BI-UIC” refers only to the accounts of the Bank of Italy, and not to the consolidated BI-UIC accounts, since that month saw the completion of the transfer to the Bank of Italy of the reserves held by the UIC in conformity with Legislative Decrees 43/1998 and 319/1998. Accordingly, UIC’s securities portfolio is included under “Medium and long-term securities excluding BI-UIC”. The figures for the last year are provisional.

Table a25

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; the ratio was subsequently reduced to 6 per cent as of the 15 August-14 September 1998 maintenance period with an order issued on 17 July 1998 and to 2.5 per cent as of the 15-31 December 1998 maintenance period with an order issued on 3 December 1998. “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”. The financing of the gross state sector borrowing requirement is obtained by subtracting the “Treasury accounts” and the “Other BI-UIC operations with the Treasury” from the “Non-monetary financing”.

“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.

The December 1998 figures refer only to the accounts of the Bank of Italy, and not to the consolidated BI-UIC accounts, since that month saw the completion of the transfer to the Bank of Italy of the reserves held by the UIC in conformity with Legislative Decrees 43/1998 and 319/1998.

Table a26

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 December 1998 refer to the maintenance period 15-31 December.

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 a25), collateral for banker’s drafts and free deposits, including the deposits of banks not subject to the compulsory reserve requirement.

The item “Undrawn overdraft facilities” for the last maintenance period of 1998 is equal to zero since all outstanding overdrafts were extinguished on 15 December 1998.

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 a27

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 BI-UIC; 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 a25.

The December 1998 figures refer only to the accounts of the Bank of Italy, and not to the consolidated BI-UIC accounts, since that month saw the completion of the transfer to the Bank of Italy of the reserves held by the UIC in conformity with Legislative Decrees 43/1998 and 319/1998.

Table a28

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.

The December 1998 figures refer only to the accounts of the Bank of Italy, and not to the consolidated BI-UIC accounts, since that month saw the completion of the transfer to the Bank of Italy of the reserves held by the UIC in conformity with Legislative Decrees 43/1998 and 319/1998.

Table a29

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.

For 3, 6 and 12-month Treasury bills only one auction per month has been held since January, April and October 1998, respectively.

Since 1 January 1999 rates of return have been calculated with reference to a 360-day year rather than a 365-day year, using the formula formulas:

Ys=(100/P-1)*(A/dd)*100

Yc=(100/P)**(A/dd-1)*100

where:

P is the average allotment price;

A is the length of the year in days (as of 1 January 1999, A=360);

dd is the maturity in days;

Ys is the simple yield;

Yc is the compound yield.

Table a30

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 a31

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 a32

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 a33

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. For the changes introduced as of 1 January 1999, see the notes to Table a29.

Tables a35 and a36

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 a37

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 a38

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 a39

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 a40

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 envisage 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 a41

"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 a42

"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 a43

"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 a44

Investors' portfolios are not affected by repo sales and purchases.

The issues made by the public sector include Republic of Italy loans; those made 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 a45

The gross yield at issue of CCTs is the yield to maturity 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 a46

The yields to maturity of CCTs assume no change in interest rates. Those of CTEs refer to an investment in ecus and are therefore not comparable with the rates of return expected on lira investments.

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 a47

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 currency with the foreign branches of Italian banks.

Table a48

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 a49

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 a50

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 a48).

"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 a51

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
Isae	—	*Istituto di studi e analisi economica* Institute for Economic Research and Analysis
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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