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SYMBOLS AND CONVENTIONS

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

In the following tables:

— the phenomenon in question does not occur;

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

.. the value is known but is nil or less half the final digit shown.

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Economic Developments and Policies

THE WORLD ECONOMY AND INTERNATIONAL FINANCE

The international economic situation

Following a period of sustained growth in the first half of 2000, the international economic situation deteriorated from mid-year onwards. In the United States the slowdown rapidly gave way to stagnation in the last few months of the year.

A number of factors contributed to the deceleration and subsequent stagnation in economic activity in the United States: the tightening of monetary conditions by the Federal Reserve between June 1999 and May 2000, the increases in the cost of oil and other energy products, the fall in share prices, the ending of the long expansionary cycle in certain durable goods, particularly motor vehicles, and companies' difficulties in raising funds owing to the banks' reduced willingness to lend and to the fall in the prices of corporate bonds.

In January 2001 the sharper-than-expected slowdown prompted the Federal Reserve to take action that caught the markets by surprise, on account of both its timing and scale; official interest rates were reduced twice by a total of one percentage point. The programme of tax cuts that the new Administration presented to Congress may also help bolster confidence and economic activity.

In Japan the weak economic recovery came to a halt in the third quarter in a climate of financial fragility. Share prices have been falling for more than a year, and the difficulties of the banking system persist. In February the deterioration in the economic situation induced the central bank to make two small reductions in official interest rates.

In general, the emerging economies in Asia and Latin America grew very rapidly in the first half of 2000, but activity slowed towards the end of the year. Argentina and Turkey, in particular, suffered from financial instability. In the case of Turkey, the support package provided by the international community last December gave only temporary respite. On 22 February 2001 the reappearance of strong pressures in the foreign exchange and financial markets forced the authorities to abandon the crawling peg regime and to allow the Turkish lira to float. By 10 March the currency had depreciated by about 28 per cent in relation to its value on the day preceding the devaluation. The crisis did not have significant contagious effects on international financial markets; risk premiums on emerging country bonds increased only slightly.

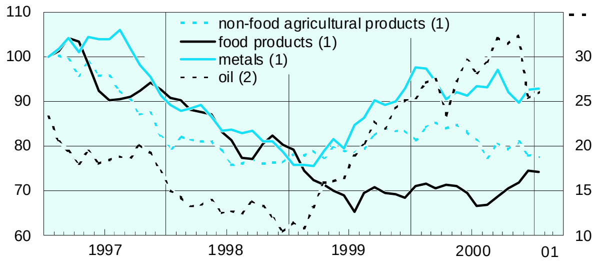
Output in the euro area increased by 3.4 per cent in 2000. Economic activity expanded rapidly in the first half of the year, fueled by foreign demand. This was followed by a slowdown in the second half, due partly to the sharp rise in the euro prices of oil. In the final quarter growth was more rapid than in the main developed areas of the world.

The picture also changed with regard to international inflation: the risk of a permanent acceleration in prices receded. Oil prices rose during 2000 to a peak of $32 a barrel in November before declining to $25 in December and stabilizing at slightly above that level in subsequent months

(Figure 1). Futures contract prices indicate expectations of a further decline of around $2 a barrel by the end of 2001. The downward correction of spot prices can be attributed mainly to the deterioration in the growth prospects of the world economy, and especially those for the United States; fears of an excessive fall in oil prices led the OPEC countries to agree on 17 January 2001 to cut oil production by 1.5 million barrels a day from 1 February onwards.

Figure 1

World prices in dollars of oil and other raw materials
(monthly averages)



Source: IMF.

(1) Indices, January 1997 = 100; left-hand scale. – (2) Dollars per barrel. Average prices for WTI, Brent and Dubai; right-hand scale.

The deterioration in the economic situation of the United States

The leading economic indicators and business confidence had already weakened in the first few months of 2000, and trend-adjusted industrial output had shown a cyclical reversal in June. In the third quarter economic activity slowed significantly; the annualized rate of output growth, which had been close to 6 per cent in the first half, fell to 2.2 per cent (Table 1), owing mainly to the sharp slowdown in private investment growth to an annual rate of 3.1 per cent, compared with 12.7 per cent in the first half; the gross profits of non-financial enterprises fell for the first time since the end of 1998. Private consumption, on the other hand, remained strong, rising at an annual rate of 4.5 per cent, not far short of the rates of 4.7 and 5.3 per cent recorded in 1998 and 1999 respectively. Households' financial wealth has been only slightly eroded so far by the correction in share prices: in 2000 the Wilshire 5,000 Equity Index, which most closely represents the composition of households' portfolios, fell by 11 per cent, but this wiped out only half of the gains made in 1999.

The economic climate deteriorated further in the last few months of the year. Industrial output continued to decline and unemployment benefit claims increased. The annualized rate of growth in output fell from 2.2 to 1.1 per cent in the final quarter. The continued expansion in private and public consumption, which both increased by approximately 2.8 per cent, more than offset the contraction in all the other components of demand; private investment fell by 1.3 per cent.

Consumer and corporate confidence deteriorated dramatically in December and January, and the index reflecting sentiment among purchasing managers in non-manufacturing firms also fell sharply. The decline in manufacturing activity became more pronounced, partly as a result of the large adjustment in stocks.

The speed and extent of the cyclical deterioration had not been foreseen. According to research by the Federal Reserve, changes in companies' inventory management procedures led to a reduction in the desired level of stocks. In the automobile sector stocks built up excessively as demand fell by more than expected. The Federal Reserve believes that both of these factors contributed to an adjustment in production that was larger and more rapid than in previous cycles.

In the summer inflation had been stimulated by the rise in oil prices, but subsequently it stabilized at a slightly lower level of around 3.4 per cent. In January it rose again to 3.7 per cent, reflecting a sharp rise in the prices of electricity and heating oil. Core inflation, which excludes more volatile items such as energy and food products, had gradually risen during the first half of the year; since August it has stood at 2.6 per cent. The indicators of future price pressures are reassuring. Inflation expectations for 2001 declined slightly between September and February.

Table 1

Economic indicators for the main industrial countries

(at constant prices; unless otherwise indicated, annualized percentage changes on previous period)

	GDP	Household consumption (1)	Government consumption	Investment (2)	Changes in stocks (3) (4)	National demand	Net exports (4) (5)
United States							
1999	4.2	5.3	3.3	9.2	−0.4	5.2	−1.2
2000	5.0	5.3	2.8	9.2	0.2	5.7	−1.0
H1	5.9	6.0	2.7	12.7	−0.1	6.5	−0.9
H2	2.8	3.7	1.2	3.9	0.2	3.5	−1.0
Q3	2.2	4.5	−1.4	3.1	−0.3	3.0	−1.0
Q4	1.1	2.8	2.7	−1.3	−0.6	1.5	−0.7
Japan							
1999	0.8	1.2	4.0	−0.9	−0.2	0.9	−0.1
2000	....	....	....	....	....	....	....
H1	3.6	0.6	3.6	5.1	0.3	2.7	1.0
H2	....	....	....	....	....	....	....
Q3	−2.4	0.1	2.2	−8.7	−0.1	−2.1	−0.3
Q4	....	....	....	....	....	....	....
Euro area							
1999	2.5	2.8	1.6	5.3	..	3.1	−0.5
2000	3.4	2.6	1.6	4.6	..	2.8	0.6
H1	3.6	3.1	1.9	4.8	−0.3	2.9	0.7
H2	2.6	1.4	1.1	3.2	0.6	2.3	0.3
Q3	2.2	0.6	0.3	4.3	0.4	1.8	0.5
Q4	2.9	1.4	2.6	1.6	0.7	2.4	0.5
United Kingdom							
1999	2.3	4.4	4.0	5.4	−0.8	3.8	−1.5
2000	3.0	3.6	2.6	2.3	0.5	3.7	−0.9
H1	2.5	3.6	1.4	1.1	0.6	3.4	−1.1
H2	3.0	3.6	4.4	4.3	−0.2	3.7	−0.9
Q3	3.3	3.9	5.1	3.8	..	4.0	−1.0
Q4	1.3	2.9	0.8	4.8	−2.4	0.5	0.8

Sources: National statistics and Eurostat.

(1) Comprises consumption of resident households and non-profit institutions serving households. – (2) For the United States, private investment; public investment is included under "government consumption". – (3) For the euro area and the United Kingdom, changes in stocks and valuables. – (4) Contribution to GDP growth with respect to the previous period, at an annual rate, in percentage points.– (5) Goods and services.

The tensions in the US financial and credit markets

In the autumn the tighter conditions in the equity, bond and credit markets made it increasingly difficult for US corporations to obtain external finance; conditions in these markets deteriorated abruptly in early December, partly in response to the weakening of the real economy.

The general share indices fell from early September onwards in response to lower-than-expected profits announced by some large corporations. The decline reflected the large fall in the prices of technology stocks, which by December 2000 had lost about half the value they had reached at their peak in the spring (Table 2); by contrast, the shares of traditional companies remained broadly stable.

Heightened investor uncertainty about the prospects for profit growth led to a significant increase in risk premiums on corporate bonds, especially those of borrowers with a low credit rating. For companies with a relatively high rating (A grade), the spread over 10-year swap rates increased by almost one percentage point between February and December to 1.3 points (Figure 2), while that for lower-rated bonds (BB grade) increased by almost two points to 4.3 points. In the case of the latter the differentials are almost twice as large as in the summer of 1998 in the wake of the Russian financial crisis and the problems at the LTCM hedge fund and close to the levels reached at the beginning of 1990 on the eve of the last recession. The liquidity of such bonds has decreased; whereas normally more than half of the 3,000 high-yield bonds in circulation are traded, in the last few months of 2000 trading took place in only about are one-hundredth of the total. There was also an increase in the average default rate among issuers of this class of bonds; in December it reached 7 per cent, its highest level since 1991.

Table 2

Percentage change in the stock exchange indices of selected countries and regions as at 7 March 2001

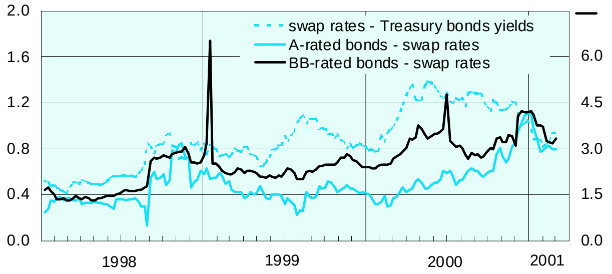
		Since 1 January 1995	Since 1 January 1997	From the peak of March-April 2000 (1)	Since 1 January 2001
United States	Wilshire 5,000	156	61	−21	−5
	S&P500	175	70	−17	−4
	Nasdaq 100	394	143	−58	−15
	Non-technology (2)	178	71	4	−4
Euro 11	Euro Stoxx	189	120	−21	−6
	Technology (3)	383	237	−54	−12
	Non-technology (2)	150	100	1	−2
Japan	Topix Composite	−21	−16	−29	−4
	Technology (3)	41	31	−57	−6
	Non-technology (2)	−20	−15	−19	−3
Asia (4) (5)	General index (6)	−18	−28	−32	2
	Technology (3)	33	27	−54	0
	Non-technology (2)	−22	−32	−21	3
Latin America (5)	General index (6)	−9	−6	−22	6
	Technology (3)	28	20	−40	4
	Non-technology (2)	−15	−9	−11	6

Source: Thomson Financial Datastream.

(1) Changes are calculated in relation to the peaks recorded by each index during March and April 2000. – (2) Thomson Financial Datastream general index, excluding the technology, media and telecommunications sector. – (3) Technology, media and telecommunications sector of the Thomson Financial Datastream index. – (4) Excluding Japan. – (5) Yields in US dollars. – (6) Thomson Financial Datastream general index.

Figure 2

Risk premia in the United States (1)
(average weekly data; percentages)



Sources: Lehman Brothers for corporate bonds with a credit rating of A and BB, Thomson Financial Datastream for swap rates and national statistics for Treasury bonds.

(1) Yield differentials between corporate bonds and 10-year swap rates and between swap rates and 10-year Treasury bonds.

In the first few months of last year the difficulties in raising capital on the equity and bond markets led US non-financial firms to turn to the banking system: the 12-month rate of growth in bank lending to enterprises rose from 4 per cent in October 1999 to 11 per cent in August 2000; it subsequently slowed down to 9 per cent in December. Lending accelerated again after the Federal Reserve cut interest rates in January. In the last few months of the year banks adopted a more cautious lending policy. The periodic survey of leading banks conducted in November by the Federal Reserve revealed a bias towards more prudent lending strategies. More than half of the sample of banks interviewed foresaw a further tightening of lending policy in subsequent months, prompted partly by the significant increase in doubtful or bad loans. Half of the banks interviewed, and especially large banks, reported that the deterioration in loan quality was greater than expected. The comparable survey conducted in January 2001 showed an even more cautious attitude towards lending.

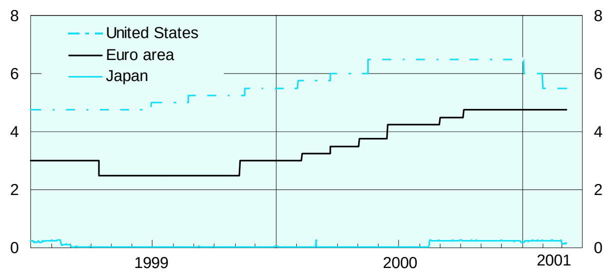
The slowdown in the economy during 2000 was reflected in a fall in long-term interest rates for prime borrowers. On 10 March 2001 rates on 10-year swaps were below 6 per cent, 2 percentage points below the peaks recorded at the beginning of last May, and those on 10-year US Treasury bonds stood at 5 per cent, 1.5 points lower.

The loosening of monetary policy and the planned tax cuts in the United States

Against this background of weak economic activity and tighter conditions in the financial markets, the Federal Reserve modified its monetary policy stance (Figure 3). The federal funds rate and the discount rate were cut twice, by 0.5 points on each occasion; the first reduction, which was announced on 3 January, caught the markets by surprise, partly because it was made between the regular meetings of the Federal Open Market Committee, but the second, on 31 January, was widely expected. The combined cut is the largest made in a single month since 1984. At the beginning of February the prices of futures contracts on 3-month dollar deposits indicated expectations of a further reduction in interest rates (Figure 4).

Figure 3

Official interest rates (1)
(daily data; percentages)



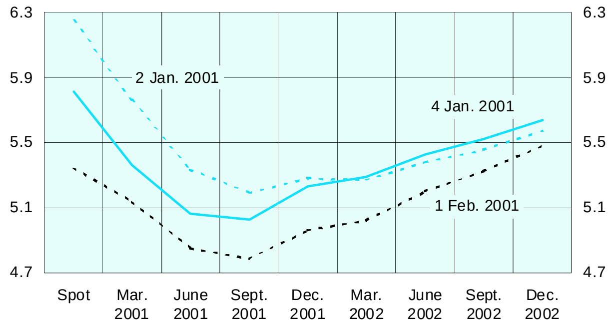
Source: National statistics.

(1) For the United States, federal funds target rate; for Japan, money market overnight rate; for the euro area, rate on main refinancing operations.

The two moves to ease monetary conditions in January initially had positive effects on all segments of the US financial markets, but only the private bond market derived lasting benefit. On 10 March risk premiums on corporate bonds of prime borrowers were around 0.8 percentage points, 0.5 points lower than the peaks recorded at the beginning of this year, while those on bonds of lower-rated borrowers ranged up to 3.3 points, a reduction of 1 point. Over the same period, however, the Wilshire 5,000 Equity Index lost 5 per cent and the Nasdaq 100 15 per cent.

Figure 4

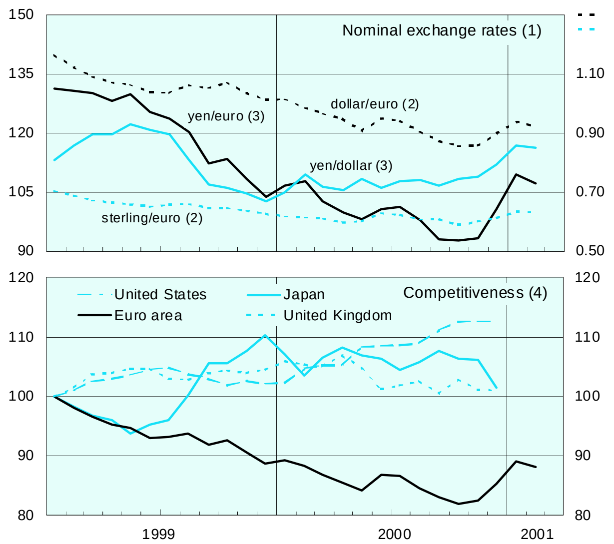
United States: forward interest rates implicit in futures prices on 3-month deposits, at various dates (1)
(percentages)



Source: Thomson Financial Datastream.
(1) Each curve relates to the contract date indicated. The horizontal axis shows the settlement dates for the futures contracts to which the yields refer.

Figure 5

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



(1) Units of the first currency per unit of the second.– (2) Right-hand scale. – (3) Left-hand scale.– (4) Indices, January 1999=100, on the basis of producer prices of manufactured goods. A rise corresponds to a loss of competitiveness.

The dollar reached a peak against the euro at the end of October and then depreciated by 13 per cent in the last two months of the year before regaining a little ground in January and February (Figure 5). It probably benefited from the markets' conviction that, if necessary, the Federal Reserve was prepared to intervene aggressively to avoid a prolonged stagnation in economic activity. The appreciation of the dollar caused the United States a loss of competitiveness of around 10 per cent during 2000.

The exceptional economic growth of the last decade has contributed to the increase in the budget surplus and the reduction in federal debt. In the 2000 fiscal year the overall surplus amounted to 2.4 per cent of GDP. Federal debt decreased to 57 per cent of GDP and the proportion held by the private sector fell to 35 per cent of GDP. The good performance of the public finances and the favourable prospects in this regard led the new Administration to propose permanent reductions in federal revenue, particularly lower rates of personal income tax.

The economic and financial situation in Japan

Economic conditions in Japan deteriorated again. The recovery in activity, which had been fueled by the expansion in public investment, came to a halt in the third quarter, when output declined at an annual rate of 2.4 per cent and investment by almost 9 per cent, mainly on account of a fall of 36 per cent in public investment. Private consumption, which had surged in the first quarter, stagnated (Table 1). Household expenditure was curtailed by a number of factors, including adverse conditions in the labour market, where unemployment remains at an historically high level (4.8 per cent), uncertainty about the trend in disposable income and the fall in the value of real estate and financial assets. With wages and salaries remaining virtually unchanged during the year, the large increases in productivity in manufacturing industry boosted profits, which rose by 37 per cent in the fourth quarter of 2000 in relation to the same period of the preceding year and by 47 per cent on an annual average basis. In the third quarter the contribution to growth from net external demand turned negative following the sharp slowdown in exports, particularly those of electronic products. Trade data for January indicate a large fall in exports, especially to the United States and the European Union.

Producer and consumer prices continue to decline, influenced by the liberalization and rationalization of supply in some sectors but also by the weakness of demand. In December consumer prices were 0.2 per cent lower than a year earlier; the average decline in the course of the year was 0.6 per cent.

The Topix Composite index has shed about 30 per cent of its value since the beginning of 2000; shares in the technology and traditional sectors were both affected.

The problems of the banking system again worsened. In 1998, when the fragility of the system was in danger of developing into a general crisis, the authorities had set aside ¥60 trillion, equal to 12 per cent of GDP, and established funds for measures to support banks and depositors. Of this amount, ¥25 trillion had been earmarked to recapitalize banks that were in difficulties but still solvent; only ¥9 trillion, equal to 1.8 per cent of GDP, was actually disbursed for that purpose. Some of the many banks nationalized in 1998 have been restructured and then sold to private investors, including foreigners.

The banking system is still burdened by a large volume of bad loans; profitability is low and capitalization insufficient. Between 1991 and 1999 the banks wrote off bad loans totalling ¥62.5 trillion, but on 31 March 2000, at the end of the 1999 financial year, they still had bad loans of ¥31.8 trillion on their books; if the banks' own estimates of doubtful loans are also included, the total was almost twice as large (¥63.4 trillion, equal to almost 14 per cent of lending), against capital and reserves of around ¥45 trillion. After two years of losses, the banks achieved profits of ¥0.9 billion in the 1999 financial year. However, this figure benefited from temporary factors: capital gains on shares in the banks' portfolios amounted to ¥3.8 trillion (against ¥0.8 billion in 1998) and provisions and write-offs in respect of bad loans came to only ¥6.1 trillion (¥13.5 trillion in 1998).

The stock market decline will adversely affect bank profitability in the 2000 financial year, which will close on 31 March 2001. From 1 April onwards, when it will become compulsory for banks to value their securities portfolios at market value, such losses will automatically be deducted from their capital. This accounting rule could also lead to losses on their holdings of government bonds, which equal 10 per cent of the banks' assets, if the yield were to rise from the current level of around 1.1 per cent.

According to the OECD, gross general government debt reached 112.3 per cent of GDP in 2000, and the budget deficit (net of the surplus of social security funds) amounted to 7.8 per cent of the same aggregate. The leeway for supporting the economy by means of fiscal policy is very limited.

The scope for monetary policy measures also appears to have been virtually exhausted: the target overnight rate was raised in August to 0.25 per cent. In February signs of a further deterioration in economic conditions and concern about the difficulties of the banking sector led the Bank of Japan to reduce official interest rates twice. On 9 February it lowered the discount rate by 0.15 percentage points to 0.35 per cent and took other measures to improve the flow of liquidity to the banks; in particular, it introduced a lombard-type "lending facility", on which banks can draw on predetermined terms in order to obtain liquidity at the discount rate, thus setting a ceiling on money market rates. In this way the authorities intended to ensure the orderly operation and stability of the financial markets. On 28 February the Bank of Japan reduced both the target rate and the discount rate by 0.1 points to 0.15 and 0.25 per cent respectively.

In the last few months of 2000 the accentuation of the difficulties in the economy and the financial system was accompanied by a depreciation of the yen against the other leading currencies; between the beginning of November and 10 March the yen fell from ¥108 to about 120 against the dollar and from ¥93 to 111 against the euro, or by 10 and 16 per cent respectively. This benefited the external competitiveness of the Japanese economy, which improved by 8 per cent during 2000 (Figure 5).

The slowdown in growth and episodes of financial instability in the emerging countries

The slowdown in economic growth in the emerging countries last year was due to both endogenous factors and the weakening of the US economy.

The rate of growth in several emerging economies in Asia eased in the second half of the year but nevertheless remained high (Table 3). Consumption and industrial output slackened in South Korea, and activity also slowed in Taiwan, Malaysia and Thailand. Signs of a deceleration were less marked in China and India, the most closed economies in the region.

In Latin America the slowdown in growth in the second half of 2000 was more pronounced in the countries with the closest trade links with the United States. In Mexico output showed no change between the third and fourth quarters, whereas it had increased by 6 per cent between the second and third. The economic situation in Argentina has deteriorated sharply since last summer, partly on account of the appreciation of the dollar, to which the peso is pegged, which caused a loss of competitiveness of 4.8 per cent during the year. Output stagnated in the third quarter; in January 2001 industrial production was 4.6 per cent less than in December. Deflationary tendencies persist. There are still no signs of a slowdown in the Brazilian economy, which is relatively less open.

Table 3

Economic indicators for selected emerging countries

(*at constant prices;unless otherwise indicated, percentage changes on year-earlier period*)

	Weights in world GNP in 1998 (1)	GDP				Domestic demand (2)			Net exports (3)		
		1999	2000	2000		1999	2000		1999	2000	
				H1	H2		H1	H2		H1	H2
Latin America											
Argentina	1.1	−3.4	. . . .	0.3	. . (4)	−4.7	0.2	−0.4 (4)	1.4	0.1	0.4 (4)
Brazil	2.9	0.8	4.2	3.7	4.7	−2.4	. . . .	. . . .	3.2	. . . .	. . . .
Mexico	1.9	3.9	6.9	7.7	6.2	3.6	9.9	9.7 (4)	0.3	−2.2	−2.4 (4)
Asia											
China	10.2	7.1	8.0	8.2	7.8	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
South Korea	1.7	10.7	. . . .	11.1	9.2 (4)	13.7	9.3	6.7 (4)	−0.8	3.1	3.5 (4)
Philippines	0.8	3.3	3.9	3.8	4.0	0.3	−1.6	−1.4	3.0	5.6	5.6
India (5)	5.4	6.4	. . . .	5.9	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Indonesia	1.3	0.5	4.8	4.0	5.5	−2.5	0.4	8.9	3.0	3.7	−3.0
Malaysia	0.5	5.8	8.5	10.0	7.2	2.0	15.1	15.2	4.1	−2.6	−5.4
Thailand	0.9	4.2	. . . .	5.7	2.6 (4)	3.4	7.7	0.3 (4)	1.3	−0.7	2.4 (4)
Taiwan	. . . .	5.4	6.0	6.7	5.3	1.9	5.9	3.0	3.5	1.0	2.4
Europe											
Poland	0.8	4.1	. . . .	5.6	3.3 (4)	5.4	. . . .	. . . .	−1.6	. . . .	. . . .
Russia	2.4	3.2	. . . .	7.5	7.9 (4)	2.9	. . . .	. . . .	0.4	. . . .	. . . .
Turkey	1.1	−5.1	. . . .	5.8	7.4 (4)	−4.0	8.6	. . . .	−0.9	−3.4	. . . .

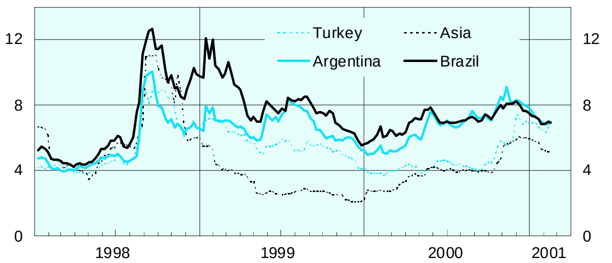
Sources: National statistics, World Bank and OECD.

(1) Valued on a PPP basis; percentages. – (2) Includes change in stocks and statistical discrepancies. – (3) Goods and services. Contribution to GDP growth in relation to the same period of the previous year. – (4) Third quarter. – (5) GDP at factor cost, financial year (April to March).

The financial markets of the emerging countries were adversely affected by events in the markets of the industrial economies. The fall in technology shares in the latter had a pronounced impact on stock markets in Asia, where this sector accounts for a larger part of the total index. On 10 March 2001 the share indices in Indonesia, South Korea and Taiwan were 40 per cent lower than the peaks recorded at the end of March 2000, and those in Thailand and Malaysia had lost 30 per cent. The increased indebtedness of firms in these countries has dented the confidence of international investors. Since last spring, and especially since the autumn, the interest rate differentials between dollar-denominated bonds issued by these countries and similar US Treasury securities have widened substantially (Figure 6).

Figure 6

Yield differentials between long-term bonds issued by selected emerging countries and regions and corresponding US Treasury bonds
(weekly averages; percentages)



Source: Thomson Financial Datastream; for Turkey, 1997-2007 10% dollar-denominated bond; for Brazil, 1997-2007 10.125% dollar-denominated bond; for Argentina, 1997-2017 11.375% dollar-denominated bond; for Asia, a basket (excluding Japan) constructed by Lehman Brothers.

In Latin America the share indices in Mexico, Argentina and Chile have fallen by between 20 and 30 per cent from the peaks reached in March 2000 and those in Brazil and Colombia have come down by between 5 and 10 per cent. In Argentina tensions in the financial markets generated by the worsening economic situation and political uncertainties widened the differential between dollar-denominated government bonds and similar US Treasury securities by about 5 percentage points between last summer and November. The increase was gradually reabsorbed in subsequent weeks, thanks partly to an IMF-coordinated financial support package worth about $40 billion that was granted after the Government had adopted a medium-term fiscal reform programme and partly to the depreciation of the dollar and the loosening of monetary conditions by the Federal Reserve in January (Figure 6).

In Turkey the markets suffered bouts of instability last autumn in the wake of the crisis in the banking system, which had serious repercussions on the share market, government bond yields and the exchange rate. The tensions eased in December, following agreement with the IMF on a package of assistance measures, but in February a sudden increase in political uncertainty triggered a currency crisis, forcing the authorities to abandon the managed exchange rate regime and, on 22 February, to allow the Turkish lira to float.

The Turkish economy is beset by profound macroeconomic imbalances. In January the twelve-month rate of inflation, albeit falling, was still 36 per cent, well above the target rate of 25 per cent. The rapid increase in prices was only partly attributable to higher oil prices, and due rather to excessive pressure from domestic demand, which grew by 7.5 per cent last year, and from labour costs, with public sector wages rising by 40 per cent. In 1999 the budget deficit was equal to 14.1 per cent of GDP; interest payments amounted to 22 per cent of the same aggregate. On the eve of the crisis the Turkish lira was 10 per cent higher in real terms than at the beginning of last year and 20 per cent higher than at the beginning of 1999. The loss of external competitiveness last year was due to the gap between actual inflation and the target rate, on which the adjustment of the par value within the crawling peg system was based. The balance of payments on current account showed a deficit equal to 5.3 per cent of GDP in 2000.

The bouts of instability in Argentina and Turkey did not spread to other countries. In the days following the devaluation of the Turkish lira the differentials on bonds issued by most of the emerging countries showed only modest increases; no strains were evident in the financial markets of Russia, which still has a heavy burden of foreign debt.

ECONOMIC DEVELOPMENTS IN THE EURO AREA AND IN ITALY

The euro-area economy maintained a relatively fast rate of growth estimated at 2.6 per cent in the second half of last year. The slowdown with respect to the 3.6 per cent pace of the first half, due in part to the rise in oil prices, was significantly less pronounced than that registered in the United States. Economic activity in the euro area benefited from the lagged effect of the protracted depreciation of the euro, which came to an end in the autumn just as the halt to US growth was taking shape.

The year-on-year expansion of GDP was 3.4 per cent in 2000, about one point higher than in 1999 (Table 4). Given that the increase in domestic demand was roughly unchanged, the acceleration in output was sustained by net exports, which contributed 0.6 points to the overall growth. The rise in the euro price of oil widened the balance-of-payments deficit on current account from €5.8 billion to €28.3 billion.

The rapid expansion of productive activity fostered employment growth. The number of jobless fell to a ten-year low, with virtually uniform improvement throughout the area; the unemployment rate declined from 10.0 to 9.1 per cent. The rate of inflation, as measured by the harmonized CPI, was 2.3 per cent, which was higher than the stability threshold set by the Eurosystem. Core inflation (net of the most volatile components, energy and unprocessed foods) was much more moderate (1.2 per cent). The price impulse imparted by oil and the depreciation of the euro was offset by accelerating productivity gains and wage moderation.

Cyclical developments were broadly uniform throughout the area. In Italy too the acceleration in GDP growth from 1.6 to 2.9 per cent (Table 4) was due to net external demand, which made a positive contribution of 0.6 points compared with the negative impact of 1.3 points in 1999.

The revision of the national accounts statistics for 1997-1999 shows that Italian GDP growth was faster than was indicated by the old series. Average annual growth over the three years was revised upwards from 1.6 to 1.8 per cent. The average annual rise in consumption was modified very significantly, from 2.3 to 2.9 per cent, putting it above the euro-area rate of 2.5 per cent.

Household expenditure rose by 2.9 per cent last year (2.3 per cent in 1999), more than in France or Germany and less than in Spain. In the first half, when world growth expectations were still strongly positive, Italian firms intensified investment, thanks in part to good financial conditions. Subsequently there was a slowdown, which was especially abrupt in the construction industry. Increased drawings on stocks after three years of inventory accumulation curbed the expansion of domestic demand, which rose last year by 0.7 points less than in 1999.

Italy’s imports of goods and services increased substantially for the year as a whole, fueled by the rapid growth of output in the industries most dependent on foreign inputs, but exports grew faster still, powered by large gains in price competitiveness in markets outside the euro area. Nonetheless, export growth was slower than the expansion of world trade and the exports of the other main euro-area countries, whose market shares regained their 1997 levels. Italian exports to the rest of the European Union were slack, especially those to Germany, which is Italy’s main outlet market. Presumably Italian exporters specialize in products that are vulnerable to competition from the countries of eastern Europe.

Table 4

GDP, the main components of demand, and imports of the leading euro-area countries

(at constant prices; annualized percentage changes on previous period)

	1997	1998	1999	2000	2000 (1)			
	Year	Year	Year	Year	Q1	Q2	Q3	Q4
				GDP				
Germany	1.4	2.1	1.6	3.0	3.9	4.8	1.1	0.8
France	1.9	3.3	3.2	3.0	2.2	2.8	2.4	3.9
Italy (2)	2.0	1.8	1.6	2.9	4.4	1.0	2.4	. . . .
Spain	3.9	4.3	4.0	4.1	5.6	3.1	3.1	2.9
Euro area	2.3	2.8	2.5	3.4	3.7	3.1	2.2	2.9
				Imports				
Germany	8.4	8.6	8.1	10.2	8.9	13.2	10.6	24.0
France	6.9	11.2	4.6	14.2	17.5	14.5	19.7	12.7
Italy (2)	10.1	9.0	5.1	8.3	1.6	18.1	11.6	. . . .
Spain	13.3	13.4	11.9	10.4	4.7	7.4	12.0	2.2
Euro area	9.0	9.5	6.7	10.4	9.1	9.5	10.9	13.3
				Exports				
Germany	11.3	7.0	5.1	13.2	18.9	11.7	11.5	19.1
France	11.8	7.8	4.2	13.0	15.1	17.1	11.0	15.7
Italy (2)	6.4	3.6	. .	10.2	10.4	5.3	22.0	. . . .
Spain	15.3	8.3	6.6	10.8	4.5	14.9	10.6	15.1
Euro area	10.4	7.0	4.7	11.7	12.4	8.3	11.6	13.9
				Household consumption (3)				
Germany	0.7	2.0	2.6	1.6	0.6	6.2	−1.5	0.2
France	0.2	3.6	2.6	2.4	3.1	0.4	2.2	1.5
Italy (2)	3.2	3.1	2.3	2.9	4.0	1.3	0.8	. . . .
Spain	3.1	4.5	4.7	4.0	6.8	2.6	0.7	0.5
Euro area	1.6	3.1	2.8	2.6	3.2	3.0	0.6	1.4
				Gross fixed capital formation				
Germany	0.6	3.0	3.3	2.4	6.8	−0.2	3.2	−0.4
France	0.0	6.6	7.4	6.5	7.8	6.1	8.0	10.1
Italy (2)	2.1	4.3	4.6	6.1	8.7	6.3	2.1	. . . .
Spain	5.0	9.7	8.9	5.9	7.1	−0.1	10.4	−7.9
Euro area	2.4	4.8	5.3	4.6	7.2	2.4	4.3	1.6
				Domestic demand				
Germany	0.6	2.4	2.4	2.0	0.9	5.2	0.7	1.9
France	0.7	4.0	3.3	3.1	2.5	1.9	4.4	2.8
Italy (2)	2.7	3.1	3.0	2.3	2.0	4.2	−0.5	. . . .
Spain	3.4	5.6	5.5	4.1	5.6	1.2	3.6	−0.8
Euro area	1.7	3.4	3.1	2.8	2.5	3.4	1.8	2.4

Sources: Based on Eurostat and national statistics.
(1) Seasonally adjusted. – (2) The quarterly data for 2000 are provisional and not necessarily consistent with the annual data, as they were not revised on the release of the latter. – (3) Comprises consumption of resident households and non-profit institutions serving households.

As in the rest of the euro area, increased outlays for net fuel imports (which rose from 1.2 per cent of GDP in 1999 to 2.3 per cent in 2000) worsened Italy’s balance of trade, the surplus narrowing to 22.6 trillion lire, or 1.0 per cent of GDP. The simultaneous widening of the deficit on invisibles resulted in a deficit on current account of 0.4 per cent of GDP, the first since 1993.

The strengthening of economic activity and the availability of flexible employment contracts fostered the rapid expansion of employment in Italy, bringing the work force back up to the high levels of the early nineties. All economic sectors and geographical areas benefited, in particular services and the South. The unemployment rate continued to fall, edging below 10.0 per cent in October, or one point lower than twelve months earlier.

Italian consumer price inflation averaged 2.6 per cent for the year. As elsewhere, the upward pressure stemming from higher oil prices and the depreciation of the euro was contained by wage moderation and productivity gains. Industrial profit margins remained broadly unchanged. The inflation differential vis-à-vis the other economies of the euro area was temporarily eliminated in the autumn. However, Italian core inflation was still half a percentage point higher, so that the gap was only slightly narrower than in 1999.

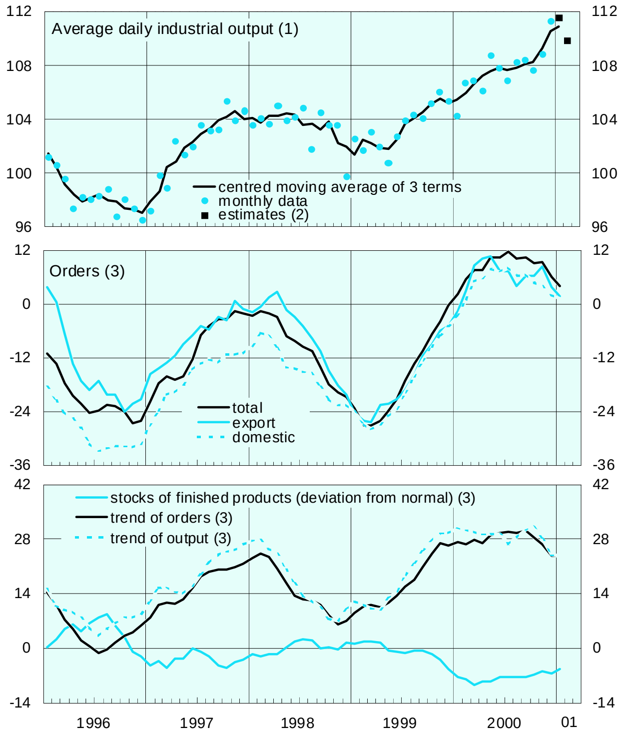
Production, demand and the balance of payments

Economic activity

In 2000 the international expansion and the gains in competitiveness resulting from the depreciation of the euro boosted growth in all the main European economies and most notably in Germany and Italy, which had been lagging behind in the return to satisfactory rates of expansion and are markedly export-oriented. Growth rates in both countries almost doubled, narrowing the gap with the rest of the euro area (Table 4).

Figure 7

Italy: industrial output, orders and stocks
(monthly data)



Sources: Based on Istat and ISAE data.

(1) Index, 1995=100. Seasonally adjusted and adjusted for the different number of working days in the month. – (2) Based on electricity consumption and ISAE indicators. – (3) Moving averages for the three months ending in the reference month of the difference between the percentage of positive replies (“high”, “increasing”) and that of negative replies (“low”, “decreasing”) to ISAE surveys, not weighted by size of firm. The trend figures refer to the responses for 3-4 months ahead. Seasonally adjusted except for export orders and stocks of finished products.

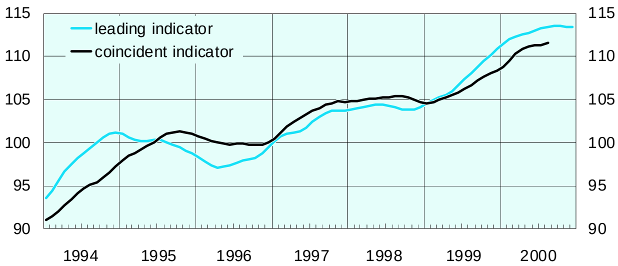
In Italy, GDP growth of 2.9 per cent was led by the service sector; the contribution of industry and, especially, construction was smaller, and that of agriculture negative. The performance of the economy displayed regional differences.

Industrial production grew by 3.2 per cent, or by 4.8 per cent on a calendar-adjusted basis. The slowdown in the middle of the year (Figure 7) reflected the weakening of cyclical conditions during the summer. In the last two months of 2000 industrial activity picked up, regaining rates of increase like those of the spring; presumably, the backlog of orders that built up during the flooding in northern Italy in October and early November contributed to the strength of activity late in the year.

Estimates of industrial output based on electricity consumption appear to indicate that the rate of growth was slower in first two months of 2001 than in the two preceding months, reflecting the easing of export demand and the appreciation of the euro. For some time now the ISAE indicators of current and expected orders have been signaling a cyclical deterioration.

Figure 8

Indicators of the Italian business cycle (1)
(indices, 1995=100)



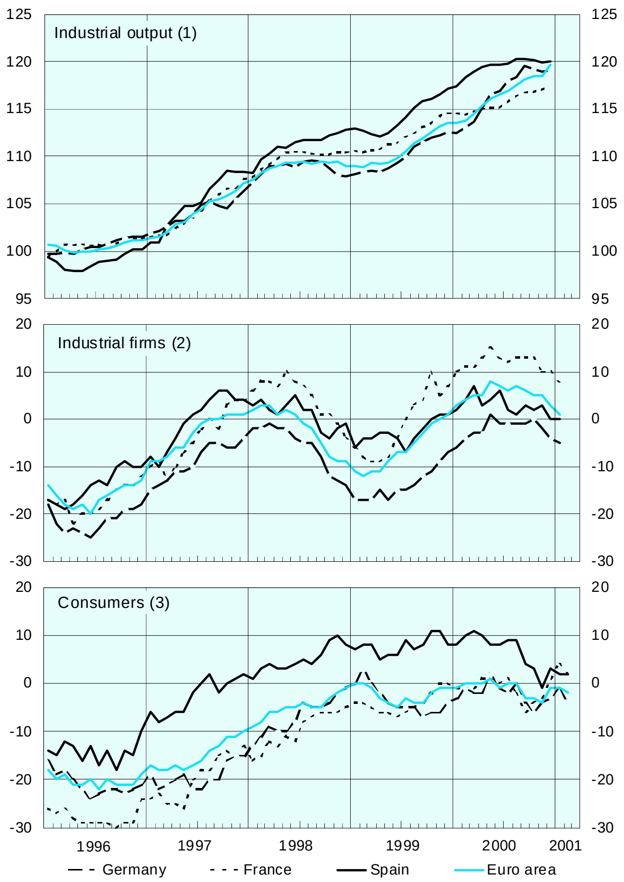
Sources: Based on Istat, ISAE and Bank of Italy data.

(1) The method of constructing the two indicators is described in F. Altissimo, D.J. Marchetti and G.P. Oneto, “The Italian Business Cycle: Coincident and leading indicators and some stylized facts”, *Temi di Discussione del Servizio Studi della Banca d’Italia*, No. 377.

This appears to be corroborated by the composite leading indicator prepared by the Bank of Italy and the ISAE, which started to flatten last autumn (Figure 8).

Figure 9

Industrial output and the climate of confidence among firms and consumers in the euro area and selected euro-area countries
(monthly data)



Sources: Based on national statistics and European Commission data.
(1) Index, 1995=100. Moving averages for the three months ending in the reference month. Seasonally adjusted and adjusted for the different number of working days in the month. – (2) Climate of confidence calculated by the European Commission as the average of the seasonally adjusted percentage balances of the responses to questions regarding assessments of demand, expectations for output and stocks of finished products. – (3) Climate of confidence calculated by the European Commission as the average of the seasonally adjusted weighted percentage balances of the responses to five questions concerning consumers' opinions and expectations regarding the economic situation, both general and personal, and the advisability of purchasing durable goods.

Surveys of economic agents in the rest of the euro area also point to a slowdown in activity in the short term, with varying intensity from country to country (Figure 9). In Germany, in particular, the abrupt worsening in business expectations surveyed by the IFO appears to signal a continuation of the slowdown recorded in the final quarter of last year. In France, by contrast, robust domestic demand and the appreciable improvement in employment should continue to support growth.

Consumption and disposable income

The rate of growth in resident households' consumption in Italy rose appreciably in 2000, from 2.3 to 2.9 per cent at constant prices (Table 5). The real disposable income of the private sector increased by around 2 per cent. In the euro area the largest increase in consumption was recorded in Spain, where domestic demand continued to be the mainstay of growth. According to the quarterly data now available, which have not yet been made consistent with the revised annual series, Italian households' consumption cooled off in the second and third quarters of 2000; in the fourth quarter the tax reductions introduced by the Government appear to have produced a slight recovery.

Spending on durable goods was by far the fastest-growing component of consumption, accelerating with respect to 1999 and confirming the ISAE survey results regarding intended purchases. Strong support came from spending on motor vehicles: thanks in part to the need to bring the car fleet into line with the European standards on toxic gas emission, new car registrations surpassed the record levels of 1997, when incentives for car scrapping were in effect. Smaller increases were recorded for expenditure on services and, above all, on non-durable goods.

In both the euro area as a whole and Italy, the indicators of consumer demand show a better economic situation in the first few months of the year than the picture gleaned from the supply side (Figures 9 and 10). The positive signs are particularly robust in Germany and France, where household confidence appears to have been bolstered by the recent introduction of tax measures to support consumers' income.

Table 5

Italy: resources and uses of income

(at constant prices; percentage changes unless otherwise indicated)

	As a percentage of GDP in 2000	1997	1998	1999	2000	Contribution to GDP growth in 2000 (1)
Resources						
GDP	–	2.0	1.8	1.6	2.9	–
Imports of goods and services	28.5	10.1	9.0	5.1	8.3	–2.2
Total resources	–	3.5	3.2	2.3	4.1	–
Uses						
Gross fixed capital formation	20.5	2.1	4.3	4.6	6.1	1.2
Construction	8.2	–2.0	–0.2	2.8	3.6	0.3
Machinery, equipment and sundry products	9.9	6.5	5.8	5.4	7.3	0.7
Transport equipment	2.4	0.8	17.7	8.4	9.9	0.2
Consumption of households (2)	60.2	3.2	3.1	2.3	2.9	1.7
Non-durable goods	27.0	2.1	2.7	1.4	1.8	0.5
Durable goods	7.7	16.4	4.8	4.9	9.7	0.7
Services	26.7	1.5	2.6	2.3	3.2	0.9
Consumption of general government and non-profit institutions serving households	17.5	0.3	0.4	1.6	1.7	0.3
Change in stocks and valuables (3)	0.2	0.3	0.3	0.4	–1.0	–1.0
Total national demand	98.4	2.7	3.1	3.0	2.3	2.3
Exports of goods and services	30.1	6.4	3.6	. .	10.2	2.9
Net exports (3)	–	–0.6	–1.2	–1.3	0.6	0.6

Source: Based on Istat data.
(1) Percentage points. – (2) Comprises spending in Italy by resident households and non-residents. – (3) Contribution in percentage points to the growth in GDP.

Investment and stocks

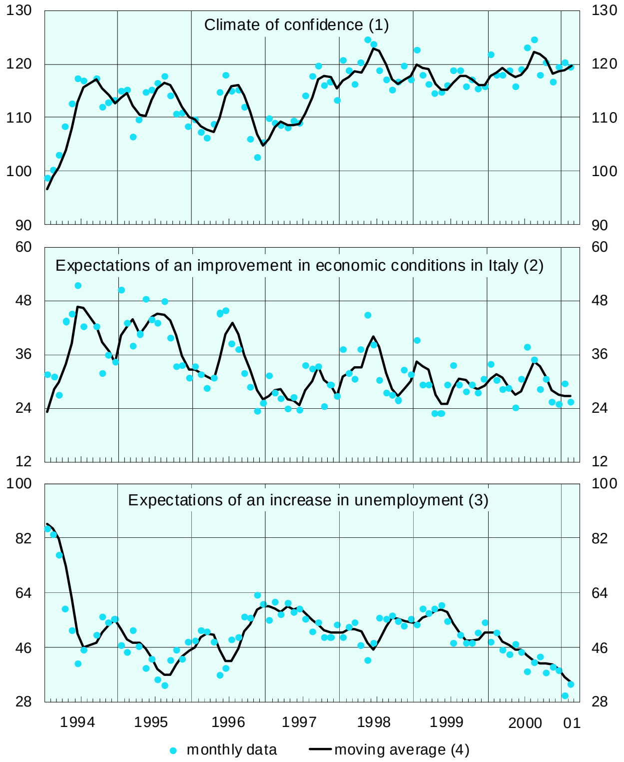
In Italy gross fixed investment, spurred by the recovery in demand, rose by 6.1 per cent in real terms last year. This was higher than the average for the euro area, but the pace weakened during the year as the prospects for growth became less promising.

Investment in machinery, equipment, transport equipment and intangible goods grew by 7.8 per cent, stimulated by the tax incentives introduced with Law 133 of 13 May 1999, the moderate cost of money and good corporate profitability. The ISAE's surveys of economic sentiment found that an increasing share of expenditure went to expanding plant in view of a steady erosion of spare capacity, a trend common to all the main euro-area countries (Figures 11 and 12). This year the extension of Law 133 and the temporary tax credits for investment in the disadvantaged areas should provide support for spending on capital goods. Nevertheless, recent signs of a slackening in the latter are confirmed by the slump in orders for machine tools recorded in the final part of 2000 by UMICU, the machine tool industry's trade association.

Investment in construction increased by 3.6 per cent, with a deceleration in the second half due to the weaker stimulus from public works. Residential building benefited from the low level of interest rates and the tax incentives for renovation works, which were in effect for the third consecutive year. Elsewhere in the euro area it is worth noting the continuing contraction in German investment in construction, which has been under way since the fourth quarter of 1999.

Figure 10

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



Source: Based on ISAE data.

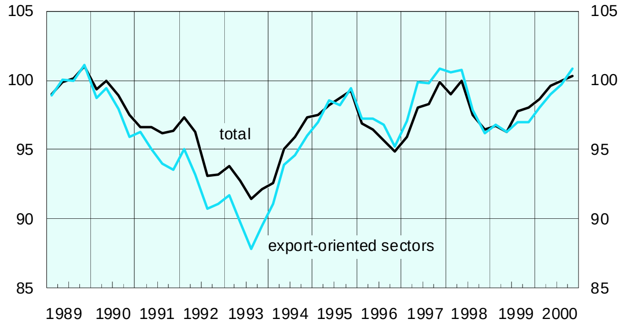
(1) Index, 1980=100. – (2) Percentage of those interviewed who expected an improvement in economic conditions in Italy in the subsequent 12 months. – (3) Percentage of those interviewed who expected an increase in unemployment in the subsequent 12 months. – (4) For the three months ending in the reference month.

Considerable destocking occurred in Italy in 2000 as a whole. According to the national accounts, the change in stocks and valuables, which includes the statistical discrepancies between the estimates of aggregate demand and supply, subtracted one percentage point from GDP growth. This figure offsets the stockbuilding of the three years from 1997 to 1999.

Figure 11

Composite indicator of capacity utilization in Italian industry (1)

(quarterly data; index, 1989=100)



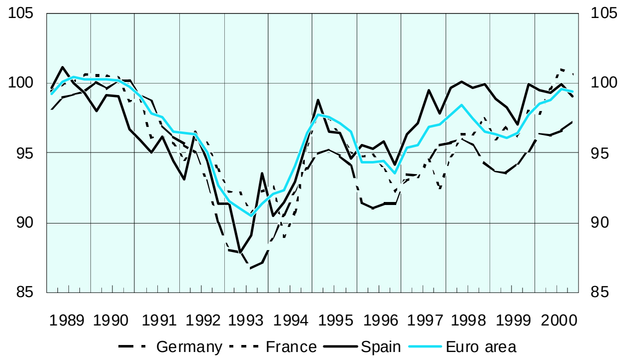
Sources: Based on Istat and ISAE data.

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

Figure 12

Indicator of capacity utilization in the euro area and selected euro-area countries (1)

(quarterly data)



Sources: Based on European Commission data.

(1) Replies from manufacturing firms to questions about the current level of capacity utilization. Indices set with base 100 in the years in which peak utilization rates were recorded: 1989 for France, Spain and the euro area, 1990 for Germany. Seasonally adjusted data.

Exports and imports

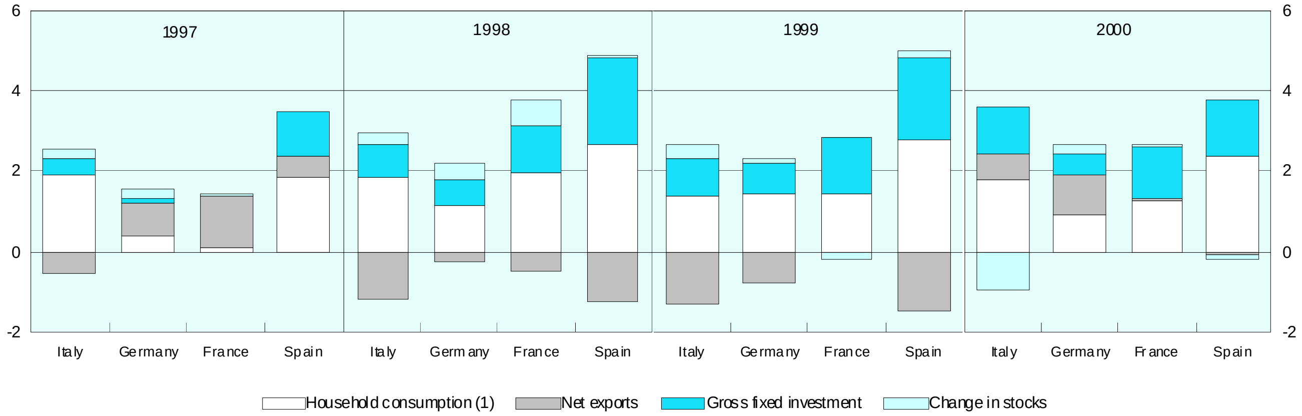
In 2000 net exports contributed 0.6 percentage points of the growth in euro-area GDP. The external sector contributed 0.6 percentage points of GDP growth in Italy and 1 point in Germany (Figure 13). The increase in exports of goods and services was larger in Germany and France than in Italy, where it amounted to 10.2 per cent, outpacing import growth by 2 points.

According to foreign trade data, Italian exports of goods in the first eleven months grew in volume by 10.8 per cent (Table 6), a large improvement on the past few years but nonetheless smaller than the gains recorded in France and Germany. An important factor in the overall export expansion was sales to non-EU markets, fostered by the substantial growth in the latter's import demand and the depreciation of the euro. The increase in Italian exports to the rest of the EU was more modest and smaller than the corresponding figures for French and German exports.

Figure 13

Contributions to the growth of GDP in the major euro-area countries

(at constant prices; percentage points)



Source: Based on national statistics.
(1) Comprises consumption of resident households and non-profit institutions serving households.

Table 6

Italy's exports and imports by main countries and areas, January-November 2000: value, average unit values and volume

(billions of lire and millions of euros; percentage changes on year-earlier period)

	Exports					Imports				
	Value		Percentage composition	Average unit values	Volume	Value		Percentage composition	Average unit values	Volume
	lire	euros				lire	euros			
EU countries	**254,931**	**131,661**	**54.7**	**4.0**	**5.9**	**257,762**	**133,122**	**55.8**	**6.6**	**7.4**
of which: France	*56,716*	*29,291*	*12.5*	*4.2*	*6.7*	*50,782*	*26,227*	*11.3*	*5.6*	*5.1*
Germany	*68,624*	*35,441*	*15.1*	*4.0*	*1.2*	*78,532*	*40,558*	*17.4*	*3.1*	*10.6*
United Kingdom	*31,258*	*16,143*	*6.9*	*3.4*	*8.1*	*24,185*	*12,491*	*5.4*	*10.4*	*0.3*
Spain	*27,923*	*14,421*	*6.2*	*4.4*	*7.8*	*18,384*	*9,495*	*4.1*	*4.4*	*12.1*
Non-EU countries	**206,077**	**105,913**	**45.3**	**8.2**	**17.2**	**198,507**	**102,520**	**44.2**	**26.1**	**12.3**
of which: China	*4,133*	*2,135*	*0.9*	*–0.4*	*27.5*	*12,633*	*6,524*	*2.8*	*14.3*	*23.7*
Japan	*7,794*	*4,025*	*1.7*	*8.5*	*16.7*	*11,647*	*6,015*	*2.6*	*16.2*	*9.1*
Russia	*4,419*	*2,282*	*1.0*	*1.6*	*47.7*	*14,655*	*7,569*	*3.3*	*80.7*	*13.4*
United States	*47,271*	*24,413*	*10.4*	*10.5*	*18.3*	*23,911*	*12,349*	*5.3*	*17.3*	*17.6*
Total	**460,008**	**237,574**	**100.0**	**5.7**	**10.8**	**456,269**	**235,643**	**100.0**	**14.2**	**9.5**

Source: Istat. The changes in average unit values and in volume are calculated on indices with base 1995=100.

Table 7

Indices of the volume of Italian exports and imports by geographic area and sector, January-November 2000

(percentage changes on year-earlier period and percentage composition of world total in value terms)

	Exports						Imports					
	EU		Non-EU		Total		EU		Non-EU		Total	
	Change	Composition 2000 H1	Change	Composition 2000 H1	Change	Composition 2000 H1	Change	Composition 2000 H1	Change	Composition 2000 H1	Change	Composition 2000 H1
Total	**5.9**	**55.0**	**17.2**	**45.0**	**10.7**	**100.0**	**7.4**	**56.1**	**12.3**	**43.9**	**9.5**	**100.0**
of which: Machinery and equipment	*7.0*	*9.8*	*14.0*	*9.8*	*10.5*	*19.6*	*9.8*	*4.9*	*16.4*	*3.0*	*12.2*	*7.9*
Transport equipment	*14.1*	*8.0*	*11.1*	*4.1*	*13.1*	*12.1*	*7.9*	*10.4*	*22.3*	*4.1*	*11.5*	*14.5*
Textiles and clothing	*4.8*	*5.4*	*21.2*	*4.8*	*11.8*	*10.2*	*9.5*	*1.8*	*16.5*	*3.2*	*14.1*	*5.0*
Electrical machinery and apparatus	*2.1*	*5.4*	*29.3*	*4.5*	*13.3*	*9.9*	*12.9*	*10.0*	*19.4*	*4.7*	*15.0*	*14.7*
Chemical products	*9.6*	*5.0*	*21.5*	*4.2*	*14.9*	*9.2*	*7.7*	*9.7*	*14.0*	*3.4*	*9.5*	*13.1*
Basic metals and metal products	*8.2*	*5.4*	*18.5*	*2.8*	*11.8*	*8.2*	*6.2*	*5.3*	*13.5*	*5.1*	*9.7*	*10.4*
Leather and leather products	*–1.7*	*2.0*	*26.6*	*2.9*	*12.6*	*4.9*	*5.3*	*0.4*	*22.7*	*1.6*	*18.8*	*2.0*
Oil and natural gas	..	..	..	..	..	..	*57.4*	*0.6*	*5.9*	*9.0*	*7.6*	*9.6*

Source: Based on Istat data.

Italian exports to non-EU countries expanded by 17.2 per cent overall, with particularly sizable gains in sales to the most dynamic markets: the United States, Asia and the OPEC countries. The slowdown in the closing months of 2000 reflected the retrenchment in world demand. All the main Italian export industries increased their sales in non-EU markets as a whole (Table 7). In addition to electrical machinery and apparatus, strong export performances were turned in by traditional industries (textiles, clothing, leather and footwear), whose sales basically returned to the levels prevailing before the Asian crisis.

The disappointing growth in Italian exports to the rest of the EU in the first eleven months (5.9 per cent) primarily reflected stagnant sales on the German market, where Italian exports increased by a mere 1.2 per cent despite the sharp rise in German imports (9.7 per cent overall, 13.7 per cent from the rest of the EU). The persistence of an adverse producer price inflation differential caused Italy to suffer a 0.5 per cent loss in competitiveness vis-à-vis other euro-area countries. By contrast, Germany's competitiveness improved by 3.6 per cent, while that of France and Spain did not change significantly (Figure 14). Italy's loss of market shares in Germany was therefore much larger than can be explained with the trends in price competitiveness within the euro area. The result, which reflects first and foremost the difficulty of traditional exports, may be partly due to the penetration of the German market by similar products, sold at lower prices, from Asia and especially eastern Europe. The composition of demand in Germany, which was less dynamic in

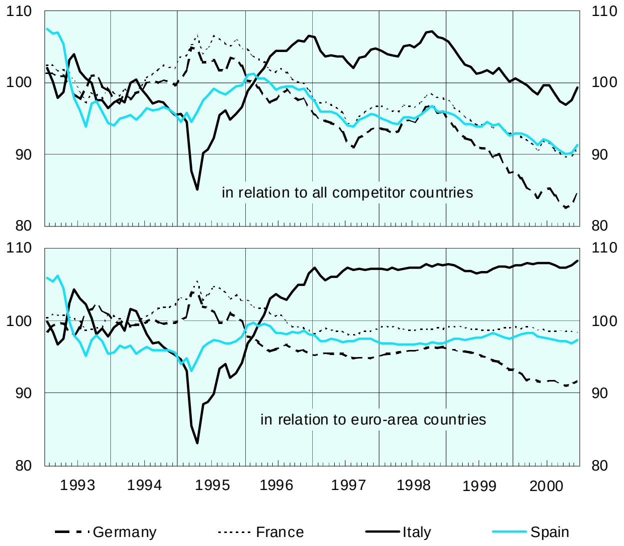
Italian exports' sectors of specialization, may also have been a factor.

In the same period the volume of Italian imports of goods grew by 9.5 per cent (Table 6), driven by the expansion in economic activity. A higher rate of growth (12.3 per cent) was recorded for imports from outside the EU – particularly from eastern Europe, an important area of outward processing for Italy, and China, whose market share in Italy had been steadily expanding since 1997 and surged last year.

Figure 14

Indicators of competitiveness in the major euro-area countries (1)

(average monthly data; indices, 1993=100)



Source: Based on national statistics.
(1) Based on the producer prices of manufactures. An increase in the index indicates a loss of competitiveness.

Almost half the growth in total imports was attributable to purchases of electrical machinery and apparatus and transport equipment (Table 7). Imports of crude oil and natural gas increased by 7.6 per cent in the first eleven months of the year; in the first quarter they were down slightly from a year earlier, probably signaling the drawing down of stocks; subsequently they accelerated, reflecting the expansion of economic activity.

Imports of capital goods at current prices rose appreciably over the year as a whole, in line with the corresponding component of demand. The acceleration in productive activity fostered imports of intermediate goods.

The balance of payments

According to provisional data, the euro area's current account deficit amounted to €28.3 billion in 2000, equal to 0.4 per cent of GDP, compared with €5.8 billion in 1999 (Table 8). This deterioration reflects the contraction in the trade surplus from €83.4 billion to €59.8 billion; the very rapid growth in the value of exports (19.6 per cent) still only partly offset that in imports (25.1 per cent), which was pushed up by the rise in the euro prices of oil.

In the area' s financial account, which closed with a surplus of €2.6 billion, net outflows of direct and portfolio investment were smaller than in 1999 but still totaled a substantial €143.4 billion. Gross investment outflows rose considerably, partly owing to the acquisition of Mannesmann by the British company Vodafone in February 2000 by means of a share swap; in the accounts, that transaction translated into a huge increase in inward direct investment and a matching outflow in the equity components of portfolio investment. Total portfolio investment outflows in equities, which grew by €216.6 billion, were only partly offset by increased inflows for purchases of other securities. In particular, the sign of the balance on portfolio investment in bonds reversed: the change from net outflows of €44.6 billion to net inflows of €123.6 billion was connected with the narrowing of the interest rate differential between the United States and the euro area.

After seven years in surplus, in 2000 Italy's current account showed a deficit of 9.1 trillion lire (€4.7 billion, or 0.4 per cent of GDP; Table 9). The deterioration of 24.3 trillion lire compared with 1999 was attributable to the decline in the fob-fob trade surplus from 42.7 to 22.6 trillion lire, despite larger volume growth in exports than imports. The result reflected a 7.4 per cent worsening in the terms of trade due to the rise in oil prices and the depreciation of the euro; on a cif-fob basis, the increase in the lira value of net imports of fossil fuels, which amounted to 26.7 trillion lire or 1.2 per cent of GDP, was larger than the contraction in the overall trade surplus. Slight improvements in the surplus on services and the deficit on transfers were countered by a substantial increase in the deficit on income.

Likewise, in France and Germany the deterioration in the current account was essentially due to the contraction in the trade surplus. In the first ten months France' s current account surplus declined from €30.5 billion to €23.6 billion, buoyed by sharply better results on services and income. Germany' s current account deficit widened in 2000 from €18.4 billion to €29.3 billion, reflecting in part an increase in the deficit on services.

In Italy, the small expansion in the surplus on services was the result of larger net outflows on business services, set against a sharp increase in the surplus on foreign travel to exceptional levels. The eleven-month increase of 12.7 per cent in inflows from tourism, which accelerated appreciably in the second half of the year, came partly from a rise of 4.4 per cent in the number of visitors from abroad. The influx of visitors from Catholic countries, especially Spain, Mexico, and Brazil, surged in connection with the Jubilee; arrivals in Lazio, the region where Rome is located, rose by 12.4 per cent. Receipts were also boosted by high-spending tourists benefiting from the depreciation of the euro, particularly from the United Kingdom and the United States, who increased in number by 10.5 and 7 per cent respectively.

Table 8

Balance of payments of the euro area

(balances in billions of euros)

	1999			2000		
	H1	H2	Year	H1	H2	Year
Current account	**3.5**	**–9.3**	**–5.8**	**–14.5**	**–13.8**	**–28.3**
Goods	39.3	44.1	83.4	23.9	35.8	59.8
Services	–4.6	–7.1	–11.8	–6.8	–6.7	–13.5
Income	–14.9	–17.5	–32.4	–12.6	–12.1	–24.7
Current transfers	–16.3	–28.8	–45.0	–19.1	–30.8	–49.9
Capital account	**6.2**	**7.3**	**13.5**	**5.2**	**3.5**	**8.7**
Financial account	**17.9**	**1.2**	**19.1**	**44.8**	**–42.2**	**2.6**
Direct investment	–61.7	–58.9	–120.6	129.8	–152.8	–23.0
Portfolio investment	–60.8	19.1	–41.7	–140.7	20.3	–120.4
Equity securities	–33.0	–16.4	–49.4	–224.5	–41.5	–266.0
Debt securities	–27.8	35.5	7.7	83.7	61.9	145.6
Financial derivatives	1.9	6.2	8.1	7.3	–10.9	–3.6
Other investment	127.7	35.4	163.1	46.1	85.5	131.6
Reserve assets	10.8	–0.6	10.2	2.4	15.7	18.1
Errors and omissions	**–27.5**	**0.7**	**–26.8**	**–35.5**	**52.6**	**17.1**

Source: ECB.

The reduction in the deficit on current transfers reflected smaller net transfers to the European Union. The slight decline in the surplus on capital account was also attributable to transactions with the EU.

Corresponding to the aggregate deficit of 5.2 trillion lire (€2.7 billion) on the current and capital account of Italy's balance of payments, there was a net inflow of foreign capital of 2.1 trillion lire (€1.1 billion; Table 9) resulting from overall portfolio and direct investment outflows slightly smaller than the inflow on "other investment". The errors and omissions item was therefore positive by 3.1 trillion lire (€1.6 billion), equal to 0.1 per cent of GDP.

Table 9

Italy's balance of payments (1)

(balances in billions of lire and millions of euros)

	1999				2000			
	H2		Year		H2		Year	
	lire	euros	lire	euros	lire	euros	lire	euros
Current account	**8,521**	**4,400**	**15,225**	**7,863**	**2,183**	**1,127**	**–9,104**	**–4,702**
Goods	23,063	11,911	42,682	22,043	16,601	8,574	22,556	11,649
Exports	221,330	114,307	428,853	221,484	266,268	137,516	502,504	259,522
Imports	198,267	102,396	386,171	199,441	249,667	128,942	479,947	247,872
Services	2,250	1,162	2,381	1,230	4,194	2,166	3,120	1,611
Income	–10,697	–5,525	–19,976	–10,317	–13,327	–6,883	–26,068	–13,463
Current transfers	–6,096	–3,148	–9,862	–5,093	–5,285	–2,729	–8,712	–4,499
public	*–4,933*	*–2,548*	*–8,086*	*–4,176*	–	–	–	–
Capital account	**1,992**	**1,029**	**5,341**	**2,758**	**2,388**	**1,233**	**3,903**	**2,016**
Intangible assets	22	11	–6	–3	–	–	–	–
Current transfers	1,970	1,017	5,347	2,761	–	–	–	–
public	*1,947*	*1,006*	*5,361*	*2,769*	–	–	–	–
Financial account	**–7,172**	**–3,704**	**–18,147**	**–9,372**	**–7,275**	**–3,757**	**2,138**	**1,104**
Direct investment	–7,658	–3,955	6	3	–113	–58	–1,503	–776
Portfolio investment	–25,936	–13,395	–45,764	–23,635	–47,063	–24,306	–48,715	–25,159
Financial derivatives	3,628	1,874	3,419	1,766	–1,565	–808	2,455	1,268
Other investment	24,271	12,535	10,446	5,395	43,649	22,543	55,821	28,829
Reserve assets	–1,477	–763	13,746	7,099	–2,185	–1,128	–5,921	–3,058
Errors and omissions	**–3,341**	**–1,725**	**–2,419**	**–1,249**	**2,704**	**1,396**	**3,063**	**1,582**

(1) Provisional data for November and December 2000.

Table 10

The financial account of Italy's balance of payments
(balances in billions of lire and millions of euros)

	1999				2000			
	January-October		Year		January-October		Year	
	lire	euros	lire	euros	lire	euros	lire	euros
Direct investment	4,933	2,548	6	3	−5,015	−2,590	−1,502	−776
Abroad (1)	−19,567	−10,105	−26,260	−13,562	−17,306	−8,938	−25,425	−13,131
In Italy (1)	24,500	12,653	26,266	13,565	12,291	6,348	23,923	12,355
Portfolio investment	−61,777	−31,905	−45,763	−23,635	−42,417	−21,907	−48,714	−25,159
Assets	−199,617	−103,093	−235,243	−121,493	−140,532	−72,579	−168,068	−86,800
Equity securities	−83,136	−42,936	−116,413	−60,122	−134,164	−69,290	....	....
Debt securities	−116,480	−60,157	−118,831	−61,371	−6,369	−3,289	....	....
Liabilities	137,840	71,188	189,480	97,858	98,115	50,677	119,354	61,641
Financial derivatives	1,144	591	3,419	1,766	5,830	3,011	2,455	1,268
Other investment	19,219	9,926	10,446	5,395	53,571	27,667	55,821	28,829
Assets	−30,239	−15,617	−59,103	−30,524	−3,892	−2,010	5,255	2,714
Liabilities	49,458	25,543	69,549	35,919	57,463	29,677	50,566	26,115
Reserve assets	12,764	6,592	13,746	7,099	−8,555	−4,418	−5,921	−3,058
Total	**−23,717**	**−12,248**	**−18,146**	**−9,372**	**3,414**	**1,763**	**2,139**	**1,104**

(1) In the data on direct investment in 1999 14,000 billion lire has been transferred from "Abroad" to "In Italy", leaving the net figure unchanged. This amount reflects the acquisition of Omnitel and Infostrada by a foreign company. As the operation was recorded in the statistics as a reduction in Italian investment abroad rather than an increase in investment in Italy, the reallocation respects the economlc connotations of the operation.

In 2000 Italian direct investment abroad generated outflows of 25.4 trillion lire (€13.1 billion), slightly more than the inflows from foreign direct investment in Italy (Table 10). If the Omnitel-Infostrada acquisition in 1999 is allocated to foreign direct investment in Italy, the flows in both directions remained basically at the same levels as in 1999; excluding that large transaction, however, inward direct investment grew again in 2000. Italian portfolio investment abroad generated an outflow of 168.1 trillion lire (€86.8 billion), substantially less than in 1999. In the first ten months the decline was due to smaller purchases of foreign bonds, particularly by the non-bank private sector, set against an increase of 51 trillion lire in purchases of foreign shares. Foreign portfolio investment in Italy contracted by more than one third to 119.4 trillion lire (€61.6 billion). Non-residents' net purchases of Italian government securities were smaller in the first ten months than in the same period a year earlier, essentially reflecting

Table 11

Portfolio investment in Italy (1)

(balances in billions of lire and millions of euros)

	1999						2000			
	H1		January-October		Year		H1		January-October	
	lire	euros	lire	euros	lire	euros	lire	euros	lire	euros
Government securities	113,965	58,858	145,661	75,228	178,542	92,209	114,300	59,031	98,308	50,772
BOTs	35,698	18,436	45,958	23,735	41,839	21,608	−2,138	−1,104	−6,120	−3,161
BTPs	63,595	32,844	86,702	44,778	124,048	64,065	90,949	46,971	105,027	54,242
CTEs	−6,134	−3,168	−8,497	−4,388	−9,151	−4,726	−1,252	−647	−1,499	−774
CCTs	−14,286	−7,378	−15,813	−8,167	−13,015	−6,722	10,350	5,345	−1,030	−532
CTOs										
CTZs	29,276	15,120	38,573	19,921	36,183	18,687	−8,736	−4,512	−24,590	−12,700
Republic of Italy issues	4,468	2,308	−1,570	−811	−1,762	−910	23,265	12,015	24,935	12,878
Other government securities	1,346	695	308	159	399	206	1,864	962	1,586	819
Bonds	−769	−397	3,849	1,988	9,568	4,941	912	471	9,319	4,813
Bank securities	13,033	6,731	16,527	8,535	16,455	8,498	−25	−13	5,166	2,668
Equity securities	−27,317	−14,108	−29,012	−14,983	−16,103	−8,317	−23,046	−11,903	−15,895	−8,209
Other securities	285	147	813	420	1,018	526	779	402	1,217	629
Total	**99,198**	**51,231**	**137,839**	**71,188**	**189,480**	**97,858**	**92,920**	**47,989**	**98,115**	**50,672**

(1) The items “Equity securities” and “Bonds” refer to securities issued by residents belonging to non-bank sectors other than general government; the item “Bank securities” comprises shares and bonds issued by Italian banks.

the trends in purchases of Treasury bills and Treasury credit certificates (Table 11). Non-residents continued to reduce their holdings of Italian shares: including bank shares, the net outflow in the first ten months amounted to 12.5 trillion lire (€6.5 billion), about half that recorded in the same period of 1999.

In June 2000 Italy had a net foreign creditor position amounting to 119.6 trillion lire, an improvement of 16.3 trillion from the end of 1999. The negative effect of financial flows was outweighed by the positive contribution of valuation adjustments totaling 25.7 trillion lire.

The labour market

Employment

Employment in the four largest euro-area countries increased by about 2 per cent in 2000. The growth was slower in Germany and Italy, faster in France and Spain (Figure 15). In the second half of the year, although it remained rapid, the pace of job creation eased slightly.

In Italy the average number of people in work increased by 1.6 per cent in 2000 according to the national accounts estimates, and by 1.5 per cent in full-time equivalent terms. The gain also involved traditional open-ended, full-time contracts. The increase may have been due in part to the "surfacing" of jobs that previously escaped detection even in the national accounts, although these do include an estimate for the underground economy.

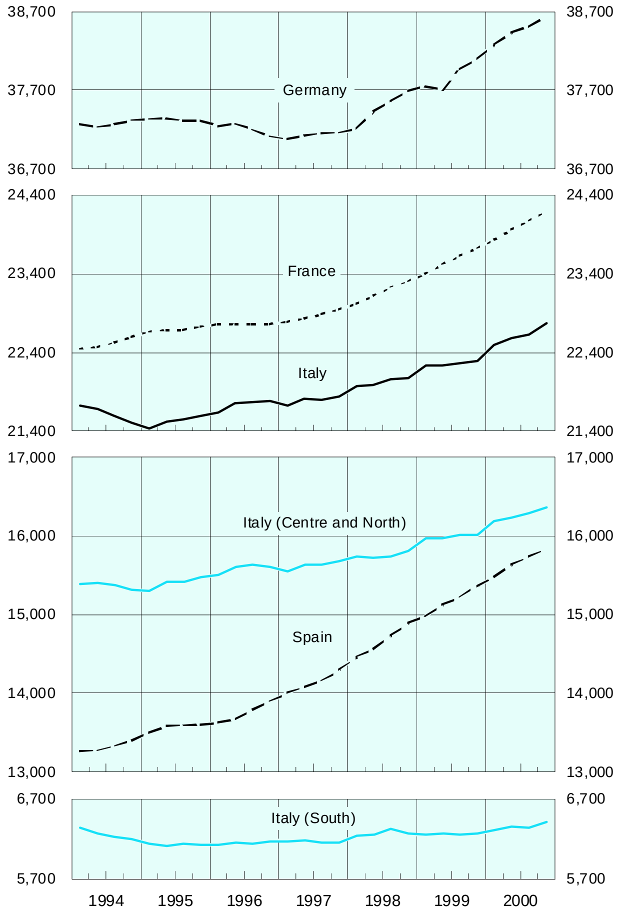
The upswing in Italian employment since the end of 1997 has been stronger than one would expect on the basis of output growth. It has been encouraged by the moderation in labour costs per full-time equivalent worker, which have held broadly unchanged in real terms, and by the reduction in indirect labour costs in connection with greater flexibility in employment forms and work schedules.

According to Istat's quarterly labour force survey, the number of people employed increased by 241,000, or 1.1 per cent, between July and October 2000, on a seasonally adjusted basis. In twelve months the increase came to 590,000 jobs, or 2.8 per cent, bringing total employment to 21.45 million (Table 12). The average number of people in work grew last year by 1.9 per cent. The employment rate for the working-age population (15-64) rose from 52.9 to 54.4 per cent in the twelve months to October; on average for the year, it rose from 52.5 to 53.5 per cent, which is still far below the euro area average (60.1 per cent in the spring of 1999) and the EU-wide target set at the Lisbon summit (70 per cent by the end of the decade).

Figure 15

Employment in the major euro-area countries

(seasonally adjusted quarterly data; thousands of persons)



Sources: For Italy, Istat, *Conti nazionali* (ESA95) and regional estimates; the quarterly data are partly estimated. For the other countries, Eurostat, National Accounts (ESA95); for France, data partly estimated.

As in the past, women accounted for a large part of the increase (55.0 per cent) with a gain of 324,000 jobs, or 4.2 per cent, compared with October 1999. Women's share of total employment thus rose by 0.5 percentage points to 37.1 per cent. Despite the substantial increments of recent years, the female employment rate (40.5 per cent in October for women

Table 12

Labour force status of the Italian population

(thousands of persons and percentages)

	1994 average (1)		2000 average (1)		October1999		October 2000	
	Number	Percent-age share (2)	Number	Percent-age share (2)	Number	Percent-age share (2)	Number	Percent-age share (2)
Employees	**14,356**	**71.2**	**15,131**	**71.8**	**14,980**	**71.8**	**15,359**	**71.6**
open-ended contracts	13,381	66.4	13,601	64.5	13,563	65.0	13,744	64.1
full-time	12,851	63.8	12,748	60.5	12,730	61.0	12,876	60.0
part-time	530	2.6	853	4.0	833	4.0	868	4.0
fixed-term contracts	975	4.8	1,530	7.3	1,417	6.8	1,615	7.5
full-time	682	3.4	1,042	4.9	952	4.6	1,112	5.2
part-time	293	1.5	488	2.3	465	2.2	503	2.3
Self-employed	**5,798**	**28.8**	**5,949**	**28.2**	**5,881**	**28.2**	**6,091**	**28.4**
full-time	5,428	26.9	5,511	26.1	5,473	26.2	5,644	26.3
part-time	370	1.8	438	2.1	408	2.0	447	2.1
Total persons in employment	**20,154**	**100.0**	**21,080**	**100.0**	**20,861**	**100.0**	**21,450**	**100.0**
Unemployed	**2,508**		**2,494**		**2,600**		**2,383**	
Labour force	**22,662**		**23,574**		**23,460**		**23,833**	
Non-labour-force	**33,961**		**33,614**		**33,627**		**33,403**	
non-working age (under 15)	8,792		8,272		8,292		8,263	
working age (15-64)	16,563		15,549		15,685		15,313	
not actively seeking work but would be immediately available	*1,288*		*1,211*		*1,168*		*1,220*	
non-working age (65 and over)	8,606		9,794		9,650		9,827	
Population	**56,623**		**57,188**		**57,088**		**57,236**	
Unemployment rate	**11.1**		**10.6**		**11.1**		**10.0**	
Participation rate (ages 15-64)	**57.4**		**59.9**		**59.6**		**60.5**	
Employment rate (ages 15-64)	**51.0**		**53.5**		**52.9**		**54.4**	

Source: Istat, *Indagine sulle forze di lavoro,*
(1) Average of the surveys taken in January, April, July and October. – (2) Of total employment.

aged 15-64) is still far below the male rate (68.3 per cent) or the average euro-area female rate (50.0 per cent in the spring of 1999); the difference with respect to the latter has actually been widening (at least until 1999, when it stood at 11.9 points, as against 10.7 in 1993).

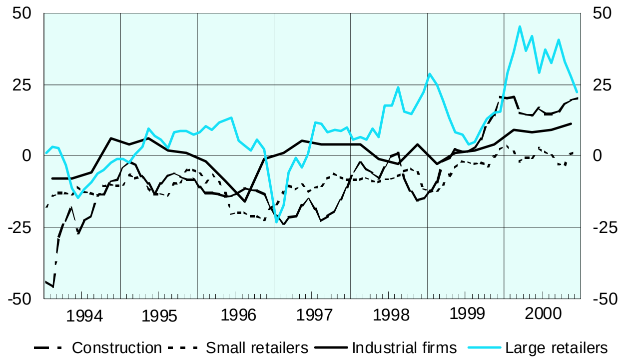
Self-employment accounted for more than a third of the overall gain (210,000 persons), with increasing numbers of entrepreneurs, family workers and professionals (all told, 254,000 persons). These three categories expanded thanks in part to the increase in continuous, coordinated collaboration contracts, which frequently involve jobs similar to those of payroll employees but with full contractual flexbility. The number of more traditional positions, such as craft and repair activities, declined by 72,000.

The number of payroll jobs increased by 379,000 (2.5 per cent); nearly 40 per cent of these consisted of permanent, full-time positions, which grew by 146,000 (1.1 per cent). The number of part-time and/or fixed-term jobs rose by 233,000 (10.4 per cent).

The growth in fixed-term contracts slowed in the first half of the year but then picked up sharply again, recording a twelve-month increase of 14 per cent in October (Table 12). Given stable expectations on vacancies since the early months of 2000, firms probably opted for fixed-term contracts, in part in light of the attenuation of recruitment difficulties (Figures 16 and 17).

Figure 16

Expected changes in employment levels in Italy (1)
(monthly data)

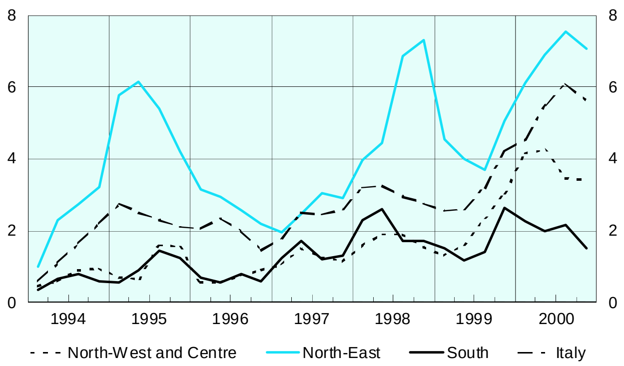


Source: ISAE, *Inchiesta presso le imprese industriali* e *Inchiesta presso le imprese del commercio al minuto e della grande distribuzione*.

(1) Difference between percentage of positive responses ("increase") and percentage of negative responses ("decrease") to question on respondent's expectations of labour demand in the next 3-4 months.

Figure 17

Impediments to output due to lack of manpower (1)
(quarterly data)



Source: ISAE, *Inchiesta presso le imprese industriali.*

(1) Percentage of firms citing lack of manpower as an impediment to production; moving average of the last two terms. The areas are formed by aggregation of regional data, weighted according to the number of the ISAE respondent firms in each region.

The share of fixed-term positions in the total payroll work force rose to 10.1 per cent on average for the year, compared with 9.5 per cent in 1999 (Table 13). A significant contribution was made by temporary employment; according to temporary employment agency trade associations, referrals totaled 570,000 for the year, more than twice the 1999 figure, representing a labour input equivalent to 90,000 full-time year-round positions. One factor was hiring by local governments and public service companies, thanks to the framing agreement on temporary jobs in the public sector, signed on 9 August 2000.

Table 13

Fixed-term employees' share of total payroll employment in Italy
(percentages)

	1994 average	2000 average	October 1999	October 2000
Men	5.7	8.7	8.2	9.0
Women	8.6	12.2	11.4	12.7
Aged 15-34	10.5	15.6	14.9	15.6
Over 34	4.1	6.5	5.9	7.3
Agriculture	33.4	37.6	41.7	41.5
Industry excluding construction	3.7	6.6	5.8	7.1
Constructioin	10.7	13.1	11.8	13.2
Services	6.2	10.1	9.2	10.2
trade, hotels and restaurants	*8.9*	*12.2*	*10.8*	*11.8*
Total . . .	**6.8**	**10.1**	**9.5**	**10.5**

Source: Istat. *Indagine sulle forze di lavoro.*

The use of part-time contracts continued to expand in the second half of the year, although less rapidly than in the preceding quarters, and showed a twelve-month increase of 5.7 per cent in October; their share of total payroll jobs rose to 8.9 per cent on average for the year, compared with 8.2 per cent in 1999 (Table 14).

Table 14

Part-time employees' share of total payroll employment in Italy
(percentages)

	1994 average	2000 average	October 1999	October 2000
Men	2.3	3.6	3.7	3.7
Women	11.6	16.7	16.2	16.7
Aged 15-34	6.9	10.2	10.3	10.1
Over 34	4.8	8.0	7.6	8.2
Agriculture	16.6	18.7	17.0	20.4
Industry excluding construction	3.4	4.5	4.3	4.3
Construction	3.8	4.4	4.4	4.8
Services	6.5	10.8	10.7	10.9
trade, hotels and restaurants	*10.3*	*14.8*	*14.6*	*14.5*
Total	**5.7**	**8.9**	**8.7**	**8.9**

Source: Istat. *Indagine sulle forze di lavoro.*

Labour demand: sectoral and regional developments in Italy

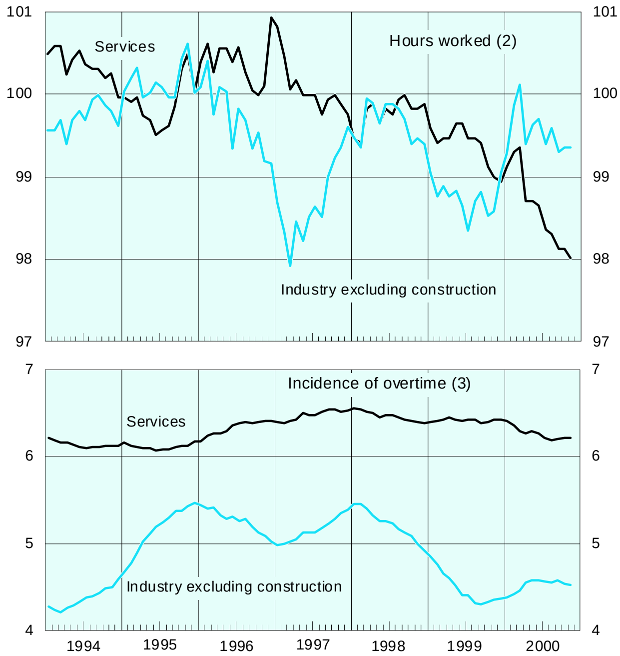
The rise in employment between July and October was almost entirely concentrated in the service sector, which registered a seasonally adjusted gain of 223,000 jobs, or 1.7 per cent, in the quarter and a 3.0 per cent average increase year on year. The most recent data indicate a slackening of the sector's employment growth: the share of large retailers surveyed by the ISAE that planned to expand staff in the fourth quarter was lower than for the third quarter (Figure 16). Since last spring large service firms, which form the subject of a special survey by Istat, have been reporting a significant decline in per capita hours worked

Employment in the construction industry rose in October for the seventh consecutive quarter, with a gain of 17,000 jobs by comparison with July, or 1.0 per cent (2.8 per cent on average for 2000; Table 15). The labour demand forecasts of the construction firms surveyed by the ISAE remain strong, with a slight increase since the summer.

Industry excluding construction recorded its second consecutive quarterly employment increase in October. The modest gain (6,000 jobs, or 0.1 per cent) confirmed the halt to the downward trend that had lasted from October 1998 until last April, but was not large enough to prevent an average contraction of 25,000 jobs (0.5 per cent) between 1999 and 2000. Fourth-quarter indicators signal stability. The intentions of the firms responding to the ISAE survey pointed to broadly unchanged labour demand in the last part of 2000 and the early months of 2001; this finding was confirmed in November by the indicators for industrial firms with more than 500 employees surveyed by Istat (Figure 18).

Figure 18

Hours worked and incidence of overtime in large firms in Italy
(indices and percentages) (1)



Source: Istat, *Indagine sulle grandi imprese.*
(1) Moving average of the 12 months ending with the reference month. – (2) Indices, 1995=100. – (3) Percentage ratio of overtime to regular hours worked in firms with more than 500 employees.

The difficulties in filling vacancies that had emerged during the summer eased in all parts of Italy, including the North-East (Figure 17).

All parts of the country shared in the employment expansion between July and October. Growth was particularly significant in the southern regions, with an increase of 99,000 jobs, or 1.7 per cent (2.7 per cent by comparison with October 1999; Table 15). After the stagnation of 1999, average employment growth in 2000 recovered to 1.7 per cent, the same as in 1998, when southern employment was stimulated by the labour policy instruments of the so-called Treu package (named after then minister of labour Tiziano Treu).

Table 15

Employment by sector and geographical area in Italy
(seasonally adjusted; changes on year-earlier period)

	Year		October	
	Percentage change	Contribution, in percentage points	Percentage change	Contribution, in percentage points
		Sector		
Agriculture . . .	−1.3	−0.1	−0.5	. .
Industry excluding construction	−0.5	−0.1	0.1	. .
Construction .	2.8	0.2	1.0	0.1
Services	3.0	1.9	1.7	1.1
		Geographical area		
North	2.0	1.0	1.0	0.5
Centre	2.0	0.4	0.7	0.1
South	1.7	0.5	1.7	0.5
Italy . .	**1.9**	−	**1.1**	−

Source: Istat. *Indagine sulle forze di lavoro.*

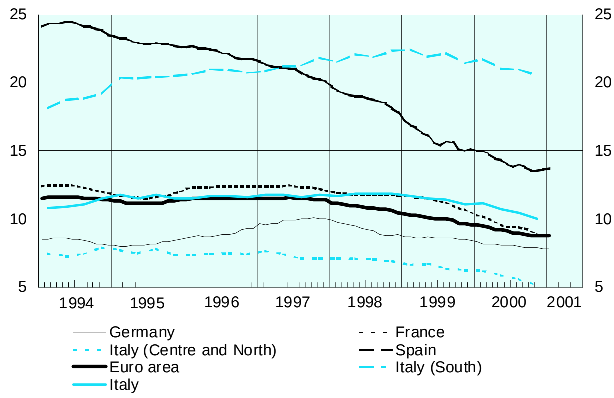
In the Centre and North, the number of persons employed, which has been growing steadily since 1998, was 141,000 greater in October than in July (an increase of 0.9 per cent) and 395,000 (2.6 per cent) more than in October 1999. The average annual increase amounted to 292,000 jobs, or 2.0 per cent.

Unemployment and the labour supply

In the euro area (including Greece), the decline in the unemployment rate came to a halt in the autumn. Between October and January joblessness held steady at 8.8 per cent of the labour force, on a seasonally adjusted basis. The rate continued to decline in France and remained broadly unchanged in Germany, while rising marginally in Spain. By comparison with January 2000, the rate fell by 1.6 points to 8.7 per cent in France, by 1.3 points to 13.7 per cent in Spain and by 0.5 points to 7.8 per cent in Germany, which still had the lowest unemployment of the four major euro-area economies (Figure 19).

Figure 19

Unemployment rates in the major euro-area countries
(seasonally adjusted data; percentages) (1)



Sources: Istat and Eurostat.
(1) For Italy, quarterly data; for the other countries, monthly.

In Italy, the seasonally adjusted unemployment rate was 10.0 per cent in October, 0.4 percentage points lower than in July and one point less than in October 1999. The number of persons seeking work fell by 85,000 (3.4 per cent); the sharpest declines were among workers having lost their jobs and among those unemployed for more than 12 months.

In the North, the number of unemployed fell by 9.1 per cent, reducing the unemployment rate by 0.4 percentage points to 4.2 per cent. In the Centre the rate fell by nearly half a point to 7.5 per cent. The improvement progressively spread to the South as well, where the jobless rate eased from 21.0 per cent in July to 20.5 per cent in October, the lowest since 1996.

Between July and October the Italian labour force grew by 156,000 (0.7 per cent), and the participation rate for the population aged 15-64 rose to 60.5 per cent, 0.9 points higher than in October 1999. The average for the year was 59.9 per cent, a rise of 0.6 points. The increase involved both men and women, more markedly the latter, and all parts of the country, but most of all the Centre and North; in those regions participation by men over 55 continued to decline, however, despite the gradual raising of the retirement age.

Wages, the cost of labour and industrial relations

Per capita contractual earnings increased slowly in the second half of 2000, with year-on-year growth of 1.7 per cent as against 2.1 per cent in the first half. For 2000 as a whole, the increase was 1.9 per cent, a bit more than the 1.8 per cent growth in 1999.

On 6 February talks for the metalworkers' contract got under way. The trade unions have asked for an average increase of 135,000 lire a month, or a cumulative 4.6 per cent, over the two-year life of the contract (2001-2002). The employers have offered no more than 4 per cent. The negotiations are complicated by the symbolic importance of the difference, small though it is; the unions' position is that the larger increase would represent a redistribution of the industry's productivity gains in favour of labour.

According to the national accounts estimates, actual earnings per full-time equivalent employee increased by 3.1 per cent in 2000 (Table 16), 0.6 points more than consumer prices. The acceleration with respect to the 2.4 per cent increase recorded in 1999 was due to the sharp rise of 4.3 per cent in earnings in the services, mainly in public services. In the private sector excluding energy and agriculture, wages rose by 2.6 per cent, in line with prices, reflecting moderate increases in private services (2.5 per cent) and in manufacturing industry (2.4 per cent), where wages rose less than in 1999.

Table 16

Labour costs and productivity in Italy
(percentage changes on year-earlier period)

	Productivity (1)		Per capita earnings (2)		Per capita labour costs (3)		Labour's share of value added (4)	
	1999	2000	1999	2000	1999	2000	1999	2000
Agriculture	12.0	0.3	1.6	0.9	0.8	0.4	60.5	60.3
Industry excluding construction	1.1	3.4	2.9	2.4	2.7	2.7	64.3	62.5
of which: manufacturing	0.3	3.2	3.1	2.4	2.9	2.7	68.4	66.9
Construction	–0.3	1.0	3.3	3.2	3.2	3.5	71.3	70.4
Private services (5)	–0.9	0.4	1.6	2.5	1.4	2.7	51.2	51.4
Public services (6)	0.2	–0.2	2.5	4.3	2.7	3.5	85.0	85.4
Total economy	**0.5**	**1.4**	**2.4**	**3.1**	**2.4**	**2.9**	**63.1**	**62.7**
Memorandum item:								
Private sector excluding agriculture and energy (7)	0.4	1.4	2.4	2.6	2.2	2.8	57.4	57.0

Source: Istat. *Conti nazionali* (ESA 95).

(1) Value added per standard labour unit at "base prices" and at 1995 prices. – (2) Gross earnings per standard employee labour unit. – (3) Employees' labour income per standard employee labour unit. – (4) Percentage points; obtained by multiplying the share of employee labour incomes in value added (at "base prices") by the ratio of total employment to payroll employment; gross of financial intermediation services indirectly calculated. – (5) Comprises wholesale and retail trade, repairs, hotels and restaurants, transport and communications, monetary and financial intermediation, real estate activities and entrepreneurial activities. – (6) Comprises public administration and defence, compulsory social insurance, education, health and other social services, other public, social and personal services, domestic services to households. – (7) Comprises industry, construction, and private services.

Labour incomes per full-time equivalent employee increased by 2.9 per cent, 0.5 percentage points more than in 1999. In the private sector excluding agriculture and energy, per capita labour costs rose more than earnings (2.8 per cent), signaling an increase in the actual incidence of social contributions, while the official rates remained unchanged. As with employment, this differential may reflect the surfacing of underground activity.

On a seasonally adjusted basis the share of value added (at base prices) remaining to firms after employee compensation but before amortization, depreciation and taxes rose by 0.5 percentage points last year to 37.3 per cent; in the private non-farm, non-energy sector, the increase was 0.4 points to 43.0 per cent. This upturn, which has been under way for a number of years now, is apparently due to higher gross profit rates; according to the national accounts, the ratio of capital to GDP has not risen.

Wage moderation continued in France and Germany as well, with per capita labour costs rising by less than 2 per cent in 2000. Only in Spain was the increase in per capita earnings again appreciably above the European average, putting pressure on unit labour costs.

Prices and costs

An overview

The acceleration in consumer prices in the euro area, which had been triggered in mid-1999 by the sharp rise in oil prices and the depreciation of the euro, came to a halt in December as these pressures subsided. In January and, according to provisional figures, February, inflation remained high owing to a number of specific factors, notably the concerns over “mad cow” disease, which caused meat prices to rise significantly.

In addition to these factors affecting all the European economies, Italy also felt the one-off effect of increases in the prices of a wide range of regulated goods and services, a far larger proportion of which were concentrated in January than was the case in previous years. These had a greater impact on the national consumer price index than on the harmonized index owing to differences in the way they treat particular items in the two baskets.

The consumer price inflation differential between Italy and the other euro-area countries, which had disappeared last autumn, widened to 0.3 percentage points in January; the differential for underlying inflation remained at just over 0.5 points.

With external pressures on euro-area prices easing, attention is now shifting to domestic cost factors. Wage growth remained generally slow last year, despite higher inflation and increased demand for labour. In addition to contingent factors such as the expiry of labour contracts in major countries this year, one moderating influence was the monetary policy stance, which was designed to ensure that the rise in oil prices and the deterioration of the exchange rate did not affect inflation expectations. The behaviour of domestic costs offset part of the impact of higher prices for imported inputs on underlying inflation, although the effect may not yet be fully reflected in final prices.

Consumer prices

The harmonized index of consumer prices rose by 2.3 per cent last year in the euro area excluding Greece and by 2.6 per cent in Italy, compared with 1.1 and 1.7 per cent respectively in 1999 (Appendix Tables a13 and a14). Energy prices contributed about 1 percentage point to the rise in the euro area and about 0.7 points in Italy; the difference is attributable to the fact that the weight of energy prices in the consumption basket of Italian households is about 2 percentage points less than the average for the other countries.

In the euro area as a whole, the twelve-month rate of increase in consumer prices peaked at 2.9 per cent in November (Figure 20) before declining to 2.5 per cent in January (the latter figure refers to the index including Greece). In Italy the rate was 2.9 per cent in November and 2.7 per cent in January.

In the major euro-area countries consumer price inflation has been fueled in recent months by exceptional increases in the prices of white meats in reaction to “mad cow” disease. However, beef prices have declined only slightly in the wake of the collapse in demand. This is similar to the behaviour observed in 1996, when concerns about BSE first emerged, although the impact on prices has been greater this time. As then, however, these effects should be temporary.

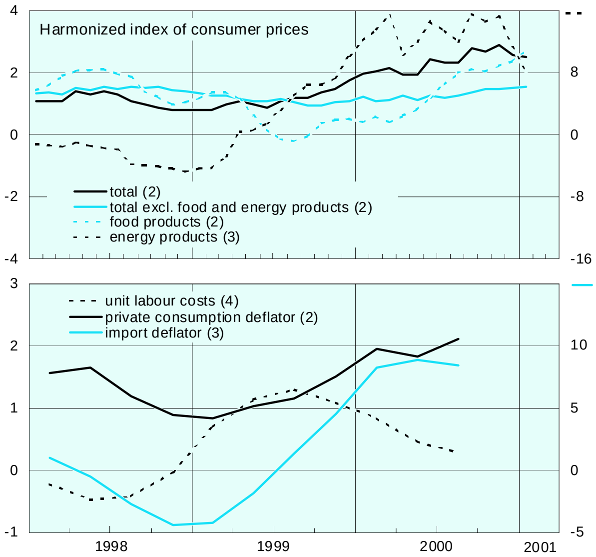
Underlying inflation in the euro area – measured by the consumer price index excluding energy products and unprocessed food – rose only slightly in 2000, from 1.1 to 1.2 per cent; in Italy it rose from 1.8 to 1.9 per cent. Inflation tended to be higher in the countries with the most rapid economic growth (Figure 21). In January, however, the twelve-month rate of increase was 2.1 per cent in Italy, compared with 1.7 per cent in the area as a whole (including Greece).

The smallness of the rise in underlying inflation in 2000 despite the indirect effects of the jump in oil prices and the depreciation of the euro is chiefly attributable to the moderate rise in domestic costs and the fact that a large share of consumer goods trade is internal to the euro area.

Figure 20

Inflation indicators in the euro area

(percentage changes on year-earlier period) (1)



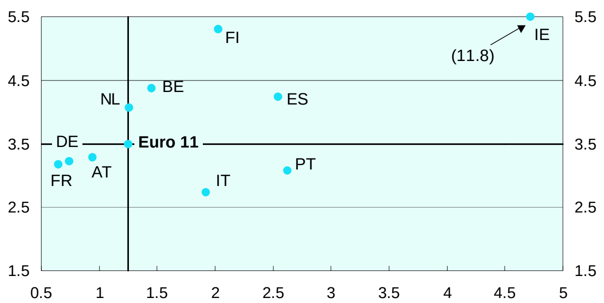
Source: Based on Eurostat data.

(1) Monthly data for the harmonized indices, quarterly data for the other variables. – (2) Left-hand scale. – (3) Right-hand scale. – (4) For the entire economy. Moving averages of four quarters ending in the reference period. Left-hand scale.

Figure 21

GDP growth and underlying inflation in the euro-area countries in 2000

(percentage changes on previous year) (1)



Source: Based on Eurostat data.

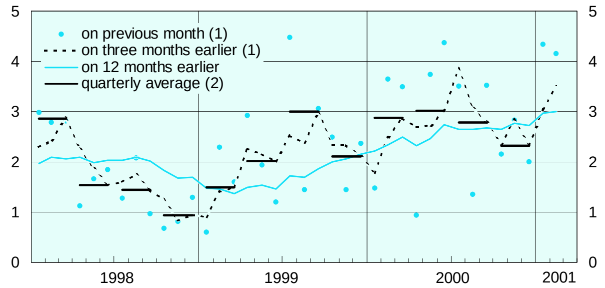
(1) GDP: vertical axis; harmonized general index of consumer prices excluding energy products and unprocessed food: horizontal axis. For GDP, average of first three quarters in relation to the same period of 1999. The lines in bold indicate the euro-area averages.

The general consumer price index in Italy rose sharply in January and, according to provisional figures, February, by respectively 0.4 and 0.3 per cent on the previous month and by 3.0 per cent on a twelve-month basis (compared with 2.7 per cent in December; Figure 22). The three-month increase in the seasonally-adjusted general index, which fell to an annualized rate of 2.5 per cent in the fourth quarter of 2000, rose to more than 3 per cent at the start of this year.

Figure 22

Italy: general consumer price index

(percentage changes)



Source: Based on Istat data.

(1) Seasonally adjusted and annualized. – (2) Average of seasonally adjusted and annualized monthly changes in the reference quarter.

This behaviour can be attributed to a number of factors, such as higher prices for meat other than beef and increases in regulated prices, which in January contributed about 0.3 percentage points to the monthly rise in the general index; some charges, for postal services, competitions and betting, had not been raised for more than a year. Energy prices were more variable, falling in January and rising in February in step with oil prices. The twelve-month increase in the index excluding food and energy products and regulated items was 2.3 per cent in January, compared with 2.1 per cent in December.

The unusually large difference between the monthly rates of change in the general consumer price index and the harmonized index (0.3 percentage points) is attributable to two factors: the sharp rise in charges for “competitions, games and lotteries”, which only appear in the national index, and the abolition of prescription charges for medicines, which are only included in the harmonized index, which thus registered a fall in the prices of these items.

Table 17

Harmonized consumer price indices for December 2000 in the euro-area countries
(percentage changes on year-earlier period)

	Non-food and non-energy products	Services	Total excl. food and energy products	Total excl. energy and unprocessed food products	Food products	Energy products	General index
Germany	0.6	1.3	1.0	0.9	1.1	13.7	2.3
France	0.5	0.7	0.7	1.0	3.0	7.4	1.7
Italy	2.0	2.3	2.2	2.1	2.4	10.4	2.8
Spain	2.4	4.3	3.4	3.0	3.6	11.2	4.0
Netherlands	1.7	1.5	1.6	1.8	3.1	12.8	2.9
Belgium	1.3	1.9	1.6	1.6	2.1	12.2	3.0
Austria	−0.1	1.7	0.9	0.9	1.6	11.8	1.8
Finland	0.9	3.6	2.4	2.4	2.6	5.3	2.9
Portugal	1.8	4.1	3.0	2.8	4.4	8.8	3.8
Ireland	1.3	5.4	4.0	3.8	4.0	10.4	4.6
Luxembourg	1.8	2.5	2.1	2.3	3.4	17.2	4.3
Euro area (1)	1.1	1.8	1.5	1.5	2.4	11.3	2.6

Source: Based on Eurostat data.
(1) Weighted average of the 11 countries.

According to the harmonized index excluding energy and unprocessed food products – a more reliable indicator of inflation differentials, especially at times of exceptional changes in the most erratic components of the overall index – Italy continued to show a differential of just over 0.5 points in relation to the average for the other euro-area countries. In December the twelve-month increase in the Italian index for goods alone was 1.5 and 1.4 points higher than those in France and Germany respectively (Table 17). This consumer price differential, which is similar to that for producer prices vis-à-vis the average for the two countries based on the prices of non-food, non-energy products for final consumption, does not appear to be the result of contingent factors. Rather, it appears to be due to the less favourable overall trend in Italian domestic costs, despite the narrowing of the gap over the last few quarters.

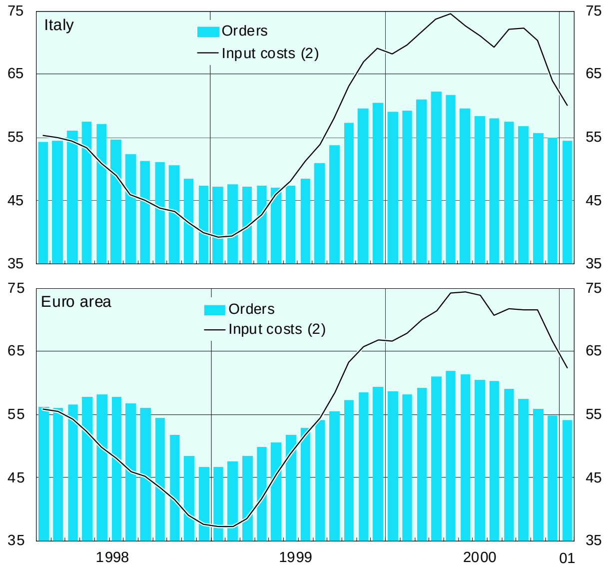
Producer prices and their determinants

At the end of last year the average twelve-month rate of change in the general index of producer prices for the domestic market in the four largest euro-area countries gradually declined from 5.9 per cent in October to 4.9 per cent in December (from 6.8 to 6.2 per cent in Italy), in line with the slowdown in the cost of imported inputs and less rapid economic growth (Figure 23).

Trends were similar in the four main euro-area countries, for which comparable disaggregated figures are available (Tables a16 and a17). The slower increase in the prices of intermediate goods excluding energy products and transport equipment, which fell from 4.9 per cent in August to 4.0 per cent in December (Table 18), reflected the small decline in

Figure 23

Demand and input costs for manufacturers
(percentages) (1)



Source: Reuters.

(1) Monthly survey conducted by Reuters of a sample of manufacturing firms in the euro area. – (2) Purchasing managers of the firms in the sample are asked to give their assessment of the behaviour of the prices paid for productive inputs with respect to the previous month. An index level of over (below) 50 indicates an increase (decrease) in input costs in relation to the previous month.

the prices of raw materials in the second half of last year; in Italy the rate fell by a similar amount, from 5.3 to 4.6 per cent over the same period. The easing of pressures in the oil market at the end of 2000 led to a rapid fall in the twelve-month rate of increase in the prices of energy products, from over 20 per cent in the autumn to 15.7 per cent in December. At the same time the rise in the prices of capital goods held steady at 1 per cent in the euro area and Italy. In the last quarter of 2000 the twelve-month changes in the prices of consumer goods excluding food, energy products and transport equipment rose slightly to an average of just over 1 per cent (Figure 24), with a slightly more pronounced increase in France and Spain; in Italy the rate fluctuated at just over 2 per cent in the second half of the year. In December food prices in all the major countries rose sharply in connection with the tensions in the meat markets, in line with the corresponding developments in consumer prices.

The findings of the survey of industrial firms in the euro area conducted by the European Commission in December suggest that the overall behaviour of producer prices should remain favourable in the coming months as external cost pressures gradually dissipate.

Table 18

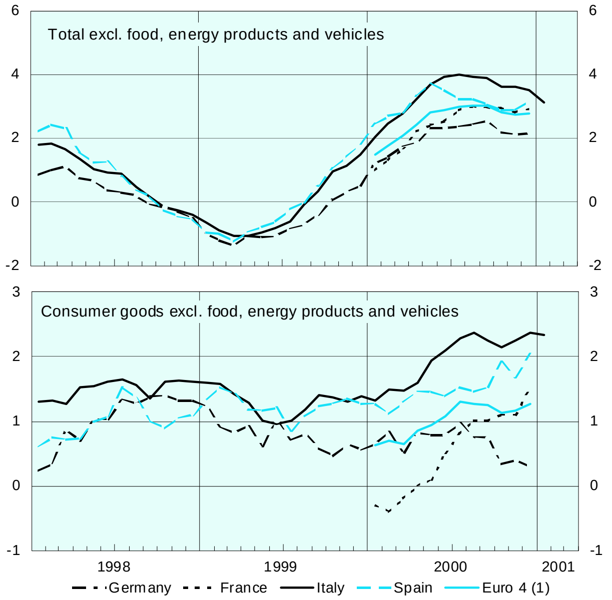
Main euro-area countries: producer price indices in December 2000
(percentage changes on year-earlier period)

	Consumer goods excl. food and energy products and vehicles	Food products	Capital goods excl. vehicles	Vehicles	Intermediate goods excl. energy products and vehicles	Energy products	Total excl. food and energy products and vehicles	Overall total
Germany	0.3	3.4	0.6	0.5	3.8	13.1	2.2	4.2
France	1.5	3.8	1.2	0.0	4.6	13.5	2.9	4.8
Italy	2.3	2.0	1.1	1.7	4.6	22.6	3.5	6.2
Spain	2.0	1.9	2.3	1.5	2.0	15.9	3.2	5.0
Euro 4 (1)	1.3	3.0	1.0	0.7	4.0	15.7	2.8	4.9

Sources: Based on Eurostat data and national statistics.
(1) Average, weighted on the basis of GDP, of the indices for France, Germany, Italy and Spain.

Figure 24

Producer prices in the main euro-area countries
(percentage changes on year-earlier period)



Sources: Based on Eurostat data and national statistics.

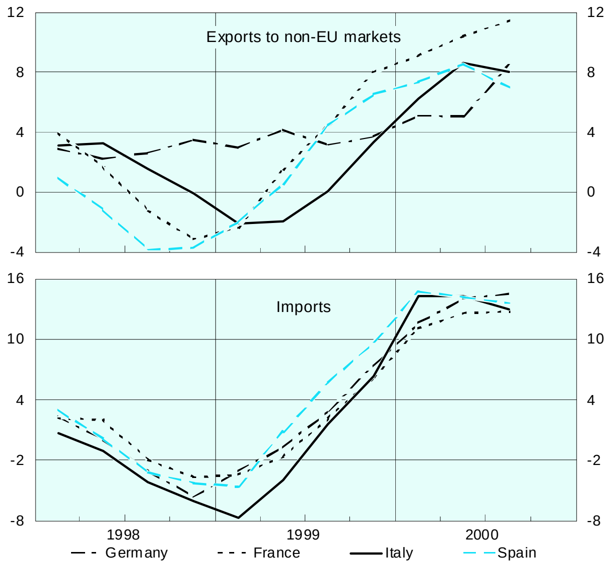
(1) Average, weighted on the basis of GDP, of the indices for Germany, France, Italy and Spain. The indices for France are available from January 1999 onwards.

In 2000 continued wage moderation and substantial productivity gains offset the inflationary pressure exerted by the prices of imported inputs. In Italy, national accounts figures show that unit variable costs in industry excluding construction rose year-on-year in line with the overall output deflator, leaving unit profit margins broadly unchanged. The share of profits in value added in industry excluding construction also remained high, close to that recorded at the peak of the cycle in 1995, indicating that the acceleration in costs did not squeeze margins in Italy. Although figures directly comparable with those published by Istat on industry's unit variable costs and the output deflator are not available for the other major countries, the national accounts data of these countries suggest similar developments.

European exporters increased their profit margins in non-EU markets by appropriating part of the decline in the nominal effective exchange rate. In the first nine months of the year the average lira unit values of Italian exports to these markets rose by 7.7 per cent compared with the same period of 1999, while the nominal effective exchange rate for exports declined by 13.4 per cent; the increase was less than the rise in euro prices charged by French exporters in those markets (10.3 per cent) and greater than that implemented by German producers (6.2 per cent). In European markets Italian firms raised prices by an average of 3.7 per cent, close to the increase applied by domestic producers in those countries.

Figure 25

Main euro-area countries:
average unit values of exports and imports
(percentage changes on year-earlier quarter)



Sources: Based on Istat and Eurostat data.

In the first nine months of 2000 Italian import prices were on average 13.6 per cent higher than in the year-earlier period; similar rises were recorded in France and Germany (Figure 25). The increase mainly reflected higher dollar prices for oil: the average price of the three main grades soared by 56.3 per cent to more than $32 a barrel in November, before easing to $25. In early February oil prices staged a temporary recovery. The prices of forward contracts signal a further gradual decline in oil prices over the coming months. The IMF's index of the dollar prices of non-energy raw materials registered a twelve-month decline of 3.5 per cent in January this year, compared with an increase of more than 6 per cent in the first few months of 2000. The easing of externally-generated tensions is confirmed by Reuters' monthly survey of input costs for manufacturing firms in the major euro-area countries (Figure 23).

As regards domestic costs, wage growth in industry excluding construction remained moderate both in Italy and in the other major euro-area countries in 2000. The trend in unit labour costs in the euro area was even better than in 1999: according to preliminary figures, in the first nine months they were 0.3 per cent higher than a year earlier, compared with a rise of 1.1 per cent in the same period of 1999 (Table 19). Unit labour costs actually declined by 0.9 per cent in Germany as a result of very rapid productivity

Table 19

Main euro-area countries: unit labour costs and their components
(percentage changes on year-earlier period) (1)

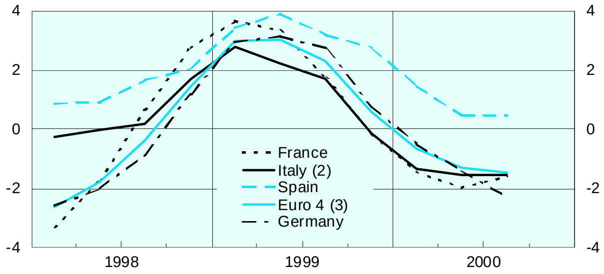
	Cost of labour per employee (2)		Labour productivity						Unit labour costs	
					of which:					
					Value added (3)		Employees (2)			
	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000
					Industry excluding construction					
Germany	1.3	2.5	0.8	4.9	−0.1	5.4	−0.7	0.4	0.5	−2.3
France	2.4	1.7	2.5	2.9	2.3	3.7	−0.2	0.8	−0.2	−1.2
Italy	2.7	2.7	1.1	3.4	0.5	3.5	−0.6	0.1	1.6	−0.7
Spain	2.4	2.6	−0.3	2.4	3.0	5.0	3.3	2.6	2.8	0.2
Euro 4 (4)	1.7	2.4	1.1	3.9	1.2	4.6	0.1	0.7	0.6	−1.4
					Services (5)					
Germany	1.3	0.7	0.4	1.2	2.6	3.8	2.2	2.5	0.8	−0.6
France	1.7	1.4	0.1	−0.2	2.7	2.8	2.6	3.0	1.6	1.6
Italy	2.1	3.1	−0.4	0.6	1.5	3.0	1.9	2.3	2.5	2.4
private	*1.4*	*2.7*	*−0.9*	*0.4*	*1.7*	*4.1*	*2.6*	*3.7*	*2.4*	*2.3*
public	*2.7*	*3.5*	*0.2*	*−0.2*	*0.9*	*0.0*	*0.7*	*0.2*	*2.6*	*3.7*
Spain	2.8	4.3	0.0	0.3	3.5	3.8	3.5	3.5	2.8	4.0
Euro 4 (4)	1.6	1.6	−0.1	0.6	2.4	3.4	2.5	2.8	1.7	1.0
					Total economy					
Germany	1.1	1.2	0.7	2.1	1.6	3.8	1.1	1.6	0.4	−0.9
France	1.7	1.4	0.9	1.1	2.7	3.0	1.7	1.9	0.8	0.3
Italy	2.4	2.9	0.5	1.4	1.4	2.9	0.8	1.5	1.8	1.5
Spain	2.8	3.8	−0.2	0.7	3.4	4.1	3.6	3.4	2.9	3.0
Euro 4 (4)	1.5	1.8	0.4	1.5	2.0	3.4	1.6	1.9	1.1	0.3

Source: Based on Eurostat data.

(1) Except for Italy, the figures for 2000 have been calculated as the increase in the first nine months on the year-earlier period; for Italy, the figures refer to the entire year-on-year increase. – (2) For Italy and Spain, standard labour units. – (3) At 1995 prices. – (4) Sum of the figures for France, Germany, Italy and Spain. – (5) Comprising the following sectors (ESA1995): "wholesale and retail trade, transport and communication services", "financial intermediation and real estate services" and "other services".

Figure 26

Main euro-area countries: unit labour costs in industry excluding construction
(percentage changes on year-earlier quarter) (1)



Source: Based on Eurostat data.

(1) Calculated on the basis of moving averages of the 4 quarters ending in the reference quarter. – (2) The data for 1998 have been adjusted to take account of the introduction of IRAP. – (3) The individual components of unit labour costs have been obtained by summing the values for Germany, France, Italy and Spain.

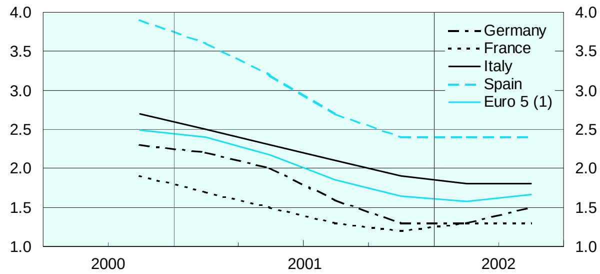
growth in early 2000; they rose slightly in France (by 0.3 per cent) and more rapidly in Italy (by 1.5 per cent in the year as a whole) and Spain (by 3.0 per cent). In Italy the rise was especially rapid in public services owing to a large increase in per capita incomes; if this sector is excluded, the rise was appreciably smaller (1.1 per cent). The favourable trend in unit labour costs in industry, which has been under way since mid-1999, continued in Italy and the other countries in 2000: on a twelve-month basis they declined everywhere except Spain (Figure 26).

Inflation expectations

Last year the *Consensus Forecasts* survey of inflation expectations continued to signal a decline in price pressures in 2001. The survey conducted in February of this year showed expectations that consumer price inflation would fall to 2.0 per cent in the euro area and 2.3 per cent in Italy (Table 20). With regard to the pattern over the course of the year, the quarterly survey conducted in December indicated that the decline should accelerate in the spring

Figure 27

Inflation expectations for the subsequent 8 quarters measured by *Consensus Forecasts*
(percentage changes on previous year)



Source: *Consensus Forecasts.*

(1) Weighted average on the basis of household consumption for Germany, France, Italy, Spain and the Netherlands.

Table 20

Inflation expectations for 2001 and 2002 in the euro area measured by *Consensus Forecasts*
(percentage changes on previous year)

	January 2001		February 2001	
	2001	2002	2001	2002
Germany	1.7	1.5	1.8	1.5
France	1.4	1.4	1.4	1.4
Italy	2.2	1.8	2.3	1.8
Spain	2.9	2.6	2.9	2.4
Euro area	2.2	1.7	2.0	1.7

Source: *Consensus Forecasts.*

(Figure 27). Professional forecasters expect a further decline in 2002, to 1.7 per cent in the euro area and 1.8 per cent in Italy.

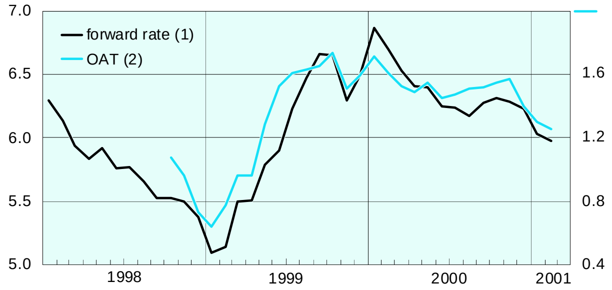
The ISAE survey of Italian households has also registered a gradual improvement in short-term inflation expectations in Italy since last summer.

The quarterly survey of a sample of Italian firms conducted jointly by the Bank of Italy and *Il Sole 24 Ore* in December showed that the percentage by which firms intended to raise prices within the subsequent twelve months averaged 1.9 per cent, compared with 2.2 per cent in September. The indicator of inflation expectations over longer time-spans (nine years), which is inferred from financial market rates, confirms the view that the uptick in inflation last year was temporary (Figure 28). The difference between nominal and real yields on French Treasury bonds (deduced from yields on index-linked securities) narrowed from 1.7 points at the start of 2000 to 1.2 points in February this year.

Figure 28

Indicators of long-term inflation expectations implicit in interest rates

(percentages and percentage points)



Source: Based on *Datastream* data.

(1) Average of 1-year forward rates between 6 and 9 years ahead on euro interest rate swaps. Left-hand scale. – (2) Difference in percentage points between the yield on securities with a nominal coupon (OAT) and that on similar index-linked securities (*Obligation assimilable du Trésor indexée*) maturing in 2009. Right-hand scale.

THE PUBLIC FINANCES IN THE EURO AREA AND IN ITALY

Highlights of the outturn for 2000

In the euro area the general government budgetary balance swung from a deficit of 1.3 per cent of GDP in 1999 to a surplus of 0.3 per cent in 2000. Excluding the proceeds of sales of UMTS third-generation telephony licences, net borrowing was equal to 0.8 per cent of GDP. The result benefited from the faster growth in economic activity and the further reduction in interest payments in relation to GDP.

In Italy general government net borrowing declined from 1.8 to 0.3 per cent of GDP. Excluding the proceeds of sales of UMTS licences, it was equal to 1.5 per cent of GDP. The improvement on the previous year was due to the reduction in the incidence of interest payments. The primary balance remained unchanged at 5 per cent of GDP (Table 21; Figure 29); it was reduced by tax relief but benefited from the acceleration in economic activity and prices, the increase in receipts of the tax on the operating results of managed assets and factors that curbed pension expenditure and public sector staff costs.

Table 21

General government net borrowing, gross borrowing requirement and debt in Italy
(as a percentage of GDP)

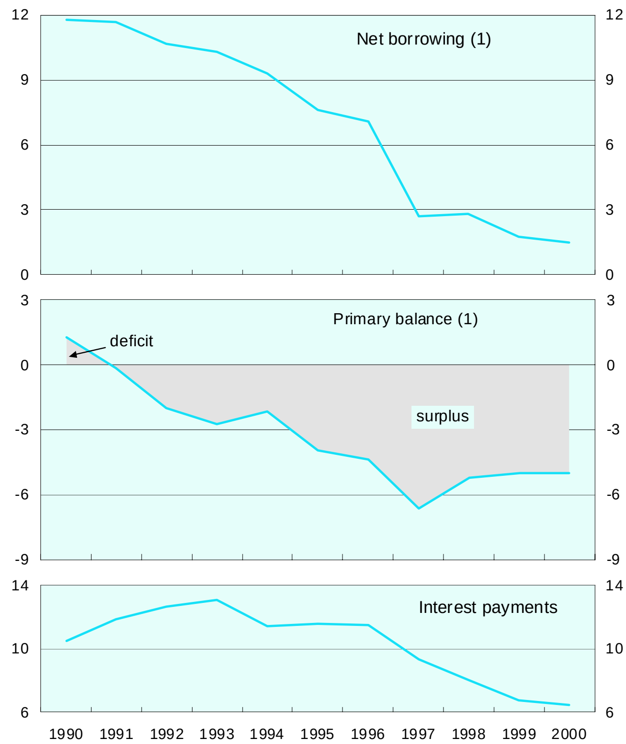
	1998	1999	2000 Including UMTS (1)	2000 Excluding UMTS
Net borrowing	2.8	1.8	0.3	1.5
Primary surplus	5.2	5.0	6.1	5.0
Interest payments	8.0	6.7	6.5	
Gross borrowing requirement	2.5	0.8	2.2	–
Debt	116.2	114.5	110.2	–

Sources: Istat; Bank of Italy for the borrowing requirement and the debt. Rounding may cause discrepancies in totals.

(1) The proceeds of the sale of third-generation UMTS licences reduced net borrowing by 26.75 trillion lire (1.2 per cent of GDP) and the gross borrowing requirement by 23.04 trillion (1 per cent of GDP).

Figure 29

General government net borrowing, primary balance and interest payments in Italy
(*as a percentage of GDP*)



Source: Istat. Based on ESA95.

(1) The figure for 2000 does not include 26.75 trillion lire of proceeds from the sale of UMTS licences.

The general government gross borrowing requirement, which includes the proceeds of the sale of UMTS licences, rose from 0.8 to 2.2 per cent of GDP. The disparity between the performance of net borrowing and that of the borrowing requirement reflects differences in the definitions and methods of calculating the two aggregates and statistical discrepancies (see the box “The general government borrowing requirement and general government net borrowing: definitions and differences”).

The general government borrowing requirement and general government net borrowing: definitions and differences

The general government borrowing requirement and general government net borrowing are summary indicators of the accounts of the public bodies included in the sector, respectively on a cash and an accruals basis.[1] Both indicators can be calculated with reference either to their formation or to their financing.

The formation of the borrowing requirement is the result of cash movements in relation to two types of transactions: those of the consolidated accounts (which include the transactions that modify the "real" assets of the balance sheet, primarily plant and buildings) and those that modify the financial assets.[2] The borrowing requirement is financed by new general government borrowing or reductions in the sector's cash balances (conventionally defined as the sum of the assets held by the Treasury with the Bank of Italy).

The formation of net borrowing is the result of the transactions included in the consolidated accounts on an accruals basis, in accordance with the European System of National Accounts (ESA95). Net borrowing is financed by new general government borrowing or reductions in the sector's cash balances and financial assets.[3]

The difference between the two aggregates thus depends on the transactions that modify general government's financial assets (which are included in the formation of the borrowing requirement and the financing of net borrowing) and the different principles adopted in drawing up the accounts (on a cash basis for the borrowing requirement and on an accruals basis for net borrowing, which results, for example, in the exclusion from net borrowing of settlements of past debts).[4]

The two aggregates also differ owing to differences in the criteria used to determine whether transactions are real or financial: for example, some transactions are classified as "increases in capital" and included among financial assets in the calculation of the borrowing requirement, whereas they are considered to be "transfers" and included in the consolidated accounts in the calculation of net borrowing.

The EU budgetary rules refer to net borrowing. However, the borrowing requirement is the only indicator available for controlling the public finances during the year; it can be calculated rapidly on the financing side using information provided by markets and financial intermediaries, without having to wait for each body to draw up its annual accounts.[5] Moreover, the borrowing requirement is the main determinant of changes in the public debt.

The items reconciling the two aggregates are highly variable and there is a need for more information on them.

In 2000, for example, the general government gross borrowing requirement exceeded the sector's net borrowing by around 14.9 trillion lire (excluding the proceeds of the sale of UMTS licences). In 1999 the difference had been of the opposite sign and equal to around 21.5 trillion.

Of the total change of 36.4 trillion lire in the reconciliation between the two years, 17.1 trillion can be attributed to the fall in extraordinary receipts in connection with privatizations (including the proceeds of the sale of UMTS licences) and the securitization of social security contribution receivables. The remainder was the balance of the changes in settlements of past debts and transactions involving general government's other financial assets, and of the effects of the different accounting principles adopted and statistical discrepancies.

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[1] The calculation of net borrowing on an accruals basis is required by the European System of National Accounts (ESA95).

[2] This definition corresponds to the so-called gross borrowing requirement. The net borrowing requirement is calculated by excluding expenditure on the settlement of past debts and some forms of extraordinary revenue (mostly privatization receipts).

[3] In calculating the financing of net borrowing, it is necessary to take account of the differences between valuations on a cash and an accruals basis of the transactions that contribute to the formation of net borrowing.

[4] At the time they were contracted, these debts did not involve the issue of financial instruments and were therefore not included in the borrowing requirement.

[5] The state sector borrowing requirement has the same characteristics but refers to a more narrowly defined set of public bodies. The difference between the general government and state sector borrowing requirements consists mainly in the borrowing requirement of local authorities and social security institutions remaining after consolidation.

The ratio of public debt to GDP fell by 4.3 percentage points to 110.2 per cent; in 1999 the fall had been 1.7 points.

Results and objectives for the euro area

Excluding the proceeds of sales of UMTS licences, general government net borrowing in the euro area declined in 2000 by half a percentage point in relation to GDP, despite the tax reliefs introduced in some countries, such as Germany and Italy. The deficit was slightly smaller than indicated in the stability programmes submitted late in 1999 and early in 2000. The estimates prepared by the European Commission and the OECD show that the deficit was basically unchanged on a cyclically adjusted basis (Table 22).

Table 22

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

(as a percentage of GDP)

	1999		2000		2001		2002	
	Euro area	EU	Euro area	EU	Euro area	EU	Euro area	EU
Net borrowing								
Outturn for 1999 and preliminary outturn for 2000 (2)	1.3	0.7	0.8	0.1	–	–	–	–
Objectives set in stability and convergence programmes	1.3	0.6	0.7	0.2	0.6	0.2	0.3	0.1
European Commission (November 2000)	1.3	0.7	0.8	0.1	0.7	0.0	0.3	−0.3
OECD (December 2000) (3)	1.3	0.8	−0.3	−0.7	0.5	0.0	0.3	−0.1
Cyclically-adjusted net borrowing (2)								
European Commission (November 2000)	0.8	0.3	0.7	0.0	0.8	0.2	0.6	0.0
OECD (December 2000) (3) (4)	0.6	0.2	0.6	0.1	0.8	0.3	0.6	0.2
Expenditure and revenue (European Commission, November 2000)								
Expenditure	49.1	48.0	48.3	47.1	47.4	46.3	46.6	45.6
of which: interest payments	*4.3*	*4.1*	*4.1*	*3.9*	*3.9*	*3.6*	*3.8*	*3.5*
Revenue	47.8	47.3	47.6	47.0	46.7	46.3	46.3	45.9
Debt								
Outturn for 1999 and preliminary outturn for 2000 (2)	72.1	67.5	69.7	64.5	–	–	–	–
Objectives set in stability and convergence programmes	72.3	67.3	70.2	64.4	67.9	61.5	66.1	59.6
European Commission (November 2000)	72.1	67.5	69.8	63.9	67.5	60.7	65.2	57.9

Sources: European Commission. *Autumn Forecast*, November 2000; OECD, *Economic Outlook*, December 2000; updates to stability and convergence programmes submitted starting in the last part of 2000; and data submitted to the European Union by Member States in connection with the excessive deficit procedure (February-March 2001).

(1) Weighted averages based on GDP. The figures for the euro area include Greece from 2001 onwards. The proceeds of the sales of UMTS licences are not included. – (2) Means of the figures notified to the EU. In the absence of such notifications, European Commission, November 2000. – (3) The figures include the proceeds of the sales of UMTS licences. Greece is considered to have been part of the euro area in 1999 and 2000. – (4) The figures are based on ratios to potential GDP except for Luxembourg.

The reduction in public debt in relation to GDP accelerated: the ratio declined to 69.7 per cent from 72.1 per cent in 1999 and 73 per cent in 1998.

Three of the four countries that had not adopted the single currency in 2000 (Denmark, Sweden and the United Kingdom) recorded further large budget surpluses, even when the proceeds of sales of UMTS licences are excluded. Greece, which became part of the euro area on 1 January 2001, further reduced its deficit. The ratio of public debt to GDP declined in all four countries and the average fell to 48.3 per cent.

The updates to stability and convergence programmes submitted in the last part of 2000 and in January 2001 indicate a slight improvement in euro-area net borrowing in 2001, excluding the proceeds of sales of UMTS licences. The number of euro-area countries with a budget surplus is forecast to rise from four (Finland, Ireland, Luxembourg and the Netherlands) to six, with the addition of Belgium

Table 23

Objectives for net borrowing and debt in the latest updates to stability and convergence programmes (1)
(as a percentage of GDP)

	1999 (2)		2000		2001		2002		2003		2004	
	Net borrowing	Debt	Net borrowing	Debt	Net borrowing	Debt	Net borrowing	Debt	Net borrowing	Debt	Net borrowing	Debt
							Stability programmes					
Germany	1.4	61.1	1.0	60.0	1.5	58.0	1.0	57.5	0.5	56.5	0.0	54.5
France (3)	1.8	58.9	1.4	58.4	1.0	56.9	0.6	55.5	0.4	54.5	0.2	53.1
Italy	1.9	115.1	1.3	112.1	0.8	106.6	0.5	103.5	0.0	99.6	−0.3	94.9
Spain	1.1	63.3	0.3	61.1	0.0	58.9	−0.2	56.6	−0.3	52.8	−0.3	49.6
Netherlands (4)	−1.0	62.9	−1.0	56.6	−0.7	52.3	−0.3	50.3	−0.3	48.8	−0.3	46.8
Belgium	0.7	116.1	0.1	110.6	−0.2	105.8	−0.3	101.4	−0.5	97.2	−0.6	92.9
Austria	2.1	64.6	1.8	63.1	0.8	61.4	0.0	59.1	0.0	57.2	0.0	55.3
Finland	−1.9	46.6	−4.5	42.4	−4.7	39.2	−4.4	37.1	−4.5	34.9	−4.9	32.2
Greece	1.8	104.6	0.8	103.9	−0.5	98.9	−1.5	96.0	−2.0	90.5	−2.0	84.0
Portugal	2.0	55.8	1.9	55.6	1.1	53.4	0.7	51.5	0.3	49.8	0.0	48.1
Ireland	−3.9	50.1	−4.7	39.0	−4.3	33.0	−3.8	28.0	−4.6	24.0	....	....
Luxembourg	−4.4	....	−3.0	....	−2.6	....	−2.5	....	−2.5	....	....	....
							Convergence programmes					
United Kingdom	−1.8	43.6	−1.1	40.1	−0.6	37.7	0.1	36.1	0.9	35.6	1.0	35.5
Sweden	−1.9	65.6	−3.4	58.9	−3.5	53.2	−2.0	50.2	−2.0	48.2	....	....
Denmark	−3.1	52.6	−2.7	48.3	−2.8	44.7	−2.6	41.8	−2.6	39.2	−2.7	36.8

Sources: Updates to the stability and convergence programmes submitted starting in the last part of 2000.

(1) Excluding the proceeds of sales of UMTS licences. – (2) Outturns reported in stability and convergence programmes. – (3) Two macroeconomic scenarios are considered for the debt in the years 2002-04 and for net borrowing in 2004. The figures shown in the table are the means of those for the two scenarios. – (4) Two macroeconomic scenarios are considered in the stability programme. In accordance with the budget procedure in the Netherlands, the table shows the figures for the more cautious scenario.

and Greece (Table 23). Public debt is expected to fall further in relation to GDP.

According to the programmes, in 2004 there will no longer be any deficits: Austria, Germany and Portugal are expected to be in balance and all the other countries in surplus (although France would still have a deficit on the basis of its less favourable macroeconomic scenario).

The budgetary policies announced by the leading euro-area countries are basically similar: the planned improvement in their balances between 2001 and 2004 is to come from a reduction in primary expenditure in relation to GDP, offset only in part by a corresponding reduction in taxes and social security contributions.

In Germany net borrowing in relation to GDP is expected to rise in 2001, primarily as a consequence of the measures to reduce the tax burden, and then to come down by 1.5 percentage points in the three following years, thereby bringing the budget into balance in 2004. It is intended that the revenue ratio should fall by 3 points over the four years.

In France the forecast is for net borrowing to fall from 1.4 per cent of GDP in 2000 to 0.5 per cent in 2004 or, on the basis of a more optimistic macroeconomic scenario, to turn into a surplus equal to 0.2 per cent of GDP. It is intended that the gradual reduction in the tax burden should be more than offset by the fall in the expenditure ratio deriving from curbs on the growth in outlays in real terms.

In Spain the budgetary position is expected to swing from a deficit of 0.3 per cent of GDP in 2000 to a surplus of the same size in 2004, with balance being reached in 2001. The improvement is to be achieved by a reduction in the current expenditure ratio that is to be offset only in part by an increase in investment; the revenue ratio is forecast to remain virtually unchanged.

Results and objectives for Italy

Excluding the proceeds of the sale of UMTS licences, net borrowing amounted to 1.5 per cent of GDP in 2000, compared with the objective of 1.3 per cent laid down in the Economic and Financial Planning Document published in June 2000 and confirmed in the update of the stability programme in December (the objective set in the year-earlier update had been 1.5 per cent; Table 24).

The improvement in net borrowing between 1999 and 2000 was due to the reduction in interest payments, which declined to 6.5 per cent of GDP.

The primary surplus was unchanged at 5 per cent of GDP. The Planning Document had indicated an increase of 0.3 percentage points, as a consequence of faster growth in revenue than primary expenditure (4 and 3.4 per cent respectively). If these results had been achieved, both primary expenditure and revenue would have decreased in relation to GDP (by 0.4 and 0.1 percentage points respectively). In the event the difference between the two increases was smaller since primary expenditure grew by 3 per cent and revenue by 3.2 per cent, even though nominal GDP expanded more than expected (by 5.2 per cent, as against the figure of 4.2 per cent indicated in the Planning Document). As a ratio to GDP, both primary expenditure and revenue decreased by 0.9 percentage points; the larger-than-forecast reduction in the primary expenditure ratio was due to the higher-than-expected growth in GDP.

The outturn for primary expenditure reflected the delay in renewing the wage agreements of public employees and the fall in the number of new pensions owing to the increase of one year in the retirement age for old-age pensions. On the other hand, health expenditure rose at a particularly rapid pace (see the box “General government revenue and expenditure”).

Revenue was increased not only by the acceleration in economic activity but also by the surge in tax on the operating results of managed assets (15.2 trillion lire in 2000, as against 2.9 trillion in 1999) and the effects on VAT receipts of the rise in the price of oil. It was decreased by the reliefs granted at the end of 1999 (0.5 per cent of GDP) and those granted in September 2000 (0.6 per cent) to counter the tendency for revenue to exceed the objective laid down in the Economic and Financial Planning Document.

Table 24

Evolution of the objectives for budgetary policy in Italy in 2000 (1)

(as a percentage of GDP)

	Total revenue *a*	*of which:* tax revenue (2) *b*	Primary expenditure *c*	Interest payments *d*	Primary surplus *a–c*	Net borrowing *c+d–a*	*Memorandum item:* Forecast real GDP growth
EFPD (3) (June 1999)	46.1	42.8	41.6	6.5	4.4	2.0	2.2
FPR (4) and EFPD update (September 1999)							
Current programmes increase in revenue	0.4	0.4	–	–	–	–	–
Tax reliefs and other measures (5)	–0.3	–0.5	–0.4	–	–	–	–
Planned values (6)	46.3	42.8	41.3	6.5	5.0	1.5	2.2
Update of the stability programme (December 1999)	46.3	....	41.3	6.5	5.0	1.5	2.2
RTC (7) (April 2000)	46.6	42.7	41.5	6.6	5.1	1.5	2.5
EFPD (3) (June 2000)	46.8	43.2	41.7	6.5	5.2	1.3	2.8
QRBR (4) and EFPD update (September 2000)							
Current programmes increase in revenue	0.6	0.6	–	–	–	–	–
Tax reliefs (8)	–0.6	–0.6	–	–	–	–	–
Planned values	46.8	43.2	41.6	6.5	5.2	1.3	2.8
Update of the stability programme (December 1999)	46.8	....	41.6	6.5	5.2	1.3	2.8
Memorandum item:							
Outturn 1999 (old version) (9)	46.9	43.3	42.0	6.8	4.9	1.9	1.8

(1) The objectives for 2000 were set excluding the proceeds of the sale of UMTS licences. – (2) Includes capital taxes. These are not included in the official figures but have been estimated here as equal to 0.1 per cent of GDP. – (3) Economic and Financial Planning Document (*Documento di programmazione economico-finanziaria*). Figures on a current programmes basis. – (4) Forecasting and Planning Report (*Relazione previsionale e programmatica*). – (5) Introduced in the Finance Law for 2000. – (6) As indicated in the documents, the effects of the domestic stability pact and the expenditure savings deriving from the management of the debt were included as reductions in primary expenditure. – (7) Quarterly Report on the Borrowing Requirement (*Relazione trimestrale di Cassa*). – (8) Introduced in Legislative Decree 268 of 30 September 2000. – (9) The figures shown are those used to set the objectives during the year 2000. They do not take account of the revisions published by Istat in March 2001.

The figures on a cash basis, which for revenue are available for a smaller aggregate than general government and for expenditure are not yet available for the whole year, show faster rates of growth. Central government tax receipts, adjusted to take account of amounts received but not yet recorded in the budget accounts, and receipts of the two main taxes collected at local level (Irap and ICI) grew by

4.4 per cent, as against an increase of 3.5 per cent in general government tax receipts. The primary expenditure of the public sector, which basically coincides with general government, grew by 5 per cent in the first nine months of the year; the growth in health expenditure was especially pronounced.

Financial balances and the public debt in Italy

The general government gross borrowing requirement increased from 16.2 trillion lire in 1999 to 49.2 trillion in 2000; the result for the state sector was similar, with a swing from a small surplus in 1999 to a borrowing requirement of 28.1 trillion in 2000 (Tables 25, a21 and a22).

Table 25

General government and state sector balances
(billions of lire and, in brackets, millions of euros)

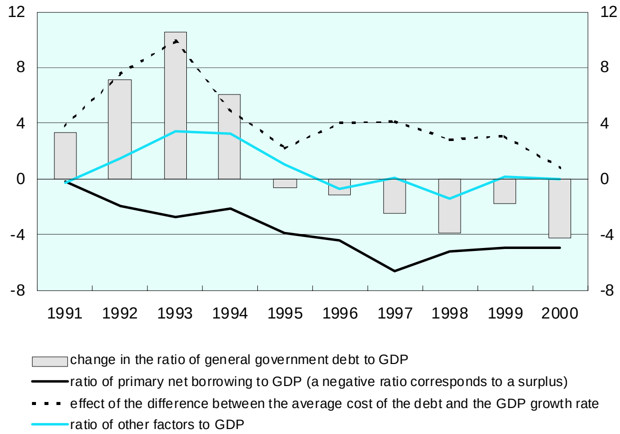
	1998	1999	2000 (1)
General government gross borrowing requirement . . .	52,592	16,213 (8,374)	49,196 (25,408)
as a percentage of GDP	*2.5*	*0.8*	*2.2*
General government borrowing requirement net of settlements and privatization receipts (2) . . .	63,100	47,934 (24,756)	70,243 (36,277)
as a percentage of GDP	*3.0*	*2.2*	*3.1*
State sector gross borrowing requirement	48,005	−677 (−350)	28,111 (14,518)
as a percentage of GDP	*2.3*	*. .*	*1.2*
State sector borrowing requirement net of settlements and privatization receipts (2) . . .	58,513	31,044 (16,033)	49,158 (25,388)
as a percentage of GDP	*2.8*	*1.4*	*2.2*
Memorandum items:			
Settlements of past debts	4,769	12,118 (6,259)	8,904 (4,599)
Privatization receipts (2)	−15,277	−43,839 (−22,641)	−29,951 (−15,469)

(1) Provisional. − (2) Privatization receipts include the part of the proceeds of the sale of UMTS licences used to reduce the public debt (20,736 billion lire). The balance of the receipts of these proceeds in 2000 (2,304 billion lire) was accounted for under revenue.

The public debt grew by 33.4 trillion lire to 2,488.3 trillion (Table a23). The increase was 15.8 trillion less than the gross borrowing requirement (in 1999 the increase had been 24.4 trillion more than the borrowing requirement). The factors that contributed to the difference included: a) the drawing down of 18.6 trillion of assets held with the Bank of Italy (as against an increase of 13.9 trillion in 1999); b) the weakening of the euro, which increased the equivalent in lire of liabilities denominated in other currencies by 2.3 trillion (as against an increase of 13.5 trillion in 1999); and c) issue discounts and other residual items, which together reduced the debt by 500 billion lire in 2000, whereas they had increased it by 3 trillion in 1999.

Figure 30

Change in the ratio of public debt to GDP and its components (1)
(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 and the approximation inherent in using the above decomposition in discrete time when it is only exact in continuous time.

The average residual maturity of the public debt lengthened from 5.5 years at the end of 1999 to 5.7 at the end of 2000. The financing of the borrowing requirement included net new foreign loans totaling 23.7 trillion lire, net issues of medium and long term securities totaling 37 trillion and net redemptions of short-term securities totaling 33.8 trillion.

General government expenditure and revenue

Expenditure

General government expenditure totaled l.04 trillion lire, virtually the same as in 1999. In relation to GDP it declined by 2.3 percentage points to 46.1 per cent.

If one excludes the proceeds from the sale of UMTS licences, which are accounted for by making a corresponding deduction from capital expenditure, total spending rose by 2.7 per cent (3 per cent net of interest payments) and the ratio to GDP decreased by 1.1 per cent to 47.3 per cent.

The decline in the ratio of expenditure to GDP reflected mainly the behaviour of primary current expenditure, which fell by 0.7 points to 37.1 per cent of GDP. Interest payments and capital expenditure (excluding the proceeds from the sale of UMTS licences) both came down by 0.2 points to 6.5 and 3.7 per cent of GDP respectively.

The growth in primary current expenditure (3.4 per cent in nominal terms) was moderated mainly by a rise of only 2.3 per cent in social security benefits and one of 3.1 per cent in wages and salaries; spending on intermediate consumption, by contrast, increased by 5 per cent.

The ratio of social security benefits to GDP fell by 0.5 percentage points to 16.7 per cent, the same level as in 1995, on account of two factors: a) *the disparity between the rise in the GDP deflator (2.2 per cent) and the rate used for adjusting pensions in 2000 (1.5 per cent), which was based on inflation in 1999; and* b) *the increase in the age for private sector employees' entitlement to old-age pensions from 64 to 65 years for men and from 59 to 60 years for women in 2000; the gradual raising of the pensionable age had originally been laid down in Legislative Decree 503 of 1992 and was subsequently brought forward by the legislation attached to the Finance Law for 1995.*

General government expenditure and revenue
(billions of lire and millions of euros)

	1999		2000	
	lire	euros (2)	lire	euros (2)
EXPENDITURE				
Compensation of employees	228,713	118,120	235,874	121,819
Intermediate consumption	106,593	55,051	111,931	57,808
Social security benefits in cash	368,493	190,311	377,115	194,764
Interest payments	144,781	74,773	146,126	75,468
Other current expenditure	107,202	55,365	113,307	58,518
Current expenditure	**955,782**	**493,620**	**984,353**	**508,376**
as a % of GDP	*44.6*	–	*43.6*	–
Current expenditure, net of interest payments	**811,001**	**418,847**	**838,227**	**432,908**
as a % of GDP	*37.8*	–	*37.1*	–
Investment	52,728	27,232	54,154	27,968
Investment grants	22,327	11,531	23,091	11,926
Other capital expenditure (1)	7,928	4,095	–21,358	–11,031
Capital expenditure (1)	**82,983**	**42,857**	**55,887**	**28,863**
Total expenditure, net of interest payments (1)	**893,984**	**461,704**	**894,114**	**461,771**
as a % of GDP	*41.7*	–	*39.6*	–
TOTAL EXPENDITURE (1)	**1,038,765**	**536,477**	**1,040,240**	**537,239**
as a % of GDP	*48.4*	–	*46.1*	–
REVENUE				
Direct taxes	320,069	165,302	326,883	168,821
Indirect taxes	325,351	168,030	341,184	176,207
Social security contributions	274,751	141,897	287,344	148,401
Other current revenue	70,196	36,253	68,684	35,472
Current revenue	**990,367**	**511,482**	**1,024,095**	**528,901**
as a % of GDP	*46.2*	–	*45.4*	–
Capital revenue	**10,674**	**5,513**	**8,585**	**4,434**
TOTAL REVENUE	**1,001,041**	**516,995**	**1,032,680**	**533,335**
as a % of GDP	*46.7*	–	*45.8*	–
NET BORROWING (1)	**37,724**	**19,483**	**7,560**	**3,904**
as a % of GDP	*1.8*	–	*0.3*	–
Primary surplus (1)	**107,057**	**55,290**	**138,566**	**71,563**
as a % of GDP	*5.0*	–	*6.1*	–
Memorandum item:				
GDP	*2,144,959*	*1,107,779*	*2,257,066*	*1,165,677*

Source: Based on Istat data.
(1) The figure for 2000 includes 26,75 trillion lire in receipts from sales of UMTS licences (equal to 1.2 per cent of GDP). – (2) Rounding after conversion into euros may cause discrepancies in totals.

cont.

At the end of the year the public debt was equal to 110.2 per cent of GDP, a decrease of 4.3 percentage points, which was larger than that recorded in 1999 (1.7 points) and exceeded the Government's forecast (3 points). This result was due to the growth in nominal GDP having exceeded that of the previous year by nearly two percentage points and that forecast by the Government by one point (mainly owing to the increase in the deflator).

The ratio of wages and salaries to GDP declined from 10.7 to 10.5 per cent, owing partly to the delay in renewing the main labour contracts for 2000 and 2001. Around 1.5 points of the nominal increase in this item of expenditure are attributable to the carryover effect of the agreements for 1998 and 1999.

The large increase of 7.2 per cent in health spending was a significant factor in the appreciable rise of 5.7 per cent in other current expenditure.

Revenue

General government revenue rose by 3.2 per cent in absolute terms, while in relation to GDP it declined by 0.9 points to 45.8 per cent. The ratio of tax and social security contributions to GDP came down from 43 per cent in 1999 to 42.4 per cent, owing mainly to the decline of 0.4 points in the ratio of direct taxation to GDP.

The growth in revenue due to the acceleration in economic activity, the increase in receipts from the tax on managed savings and the effect of the rise in the prices of oil products on VAT were moderated by the granting of tax reliefs, which are estimated overall at 1.1 per cent of GDP (24.3 trillion lire, of which 14 trillion was decided last September).

The behaviour of the main items of tax revenue is analyzed below on a cash basis, as accruals data on individual taxes are not available.

Receipts from direct taxes were sustained by the increase in collections of withholding tax on managed savings (from 2.9 trillion lire in 1999 to 15.2 trillion last year), which more than offset the decline in revenue from corporate income tax and other direct taxes; the yield from personal income tax remained broadly unchanged.

The tax withheld on employee incomes and the like rose by around 1 per cent; had it not been for tax reliefs estimated at more than 12 trillion lire, the increase would have been about 8 per cent.

Receipts of corporate income tax and the self-assessed part of personal income tax declined, owing primarily to tax reliefs amounting to about 7.6 trillion lire; the decrease was limited by the effects of the growth in profits in 1999.

Receipts of indirect taxes grew on account of a rise in VAT and income from state monopolies, which outweighed a decline in revenue from other business taxes, duty on mineral oils and revenue from lotto and lotteries.

VAT receipts increased by more than 15 per cent, thanks to the strength of consumption, the rise in oil prices and the emergence of hitherto undisclosed tax base. The income of state monopolies rose by 15 per cent owing to more effective action to combat smuggling.

Revenue from the regional tax on productive activities (Irap) rose by 8.7 per cent; in 1999 receipts had declined in view of the large payments on account (120 per cent) made in 1998, the first year of the tax.

Social security contributions increased by 4.6 per cent, in line with the growth in gross earnings in the economy as a whole (4.7 per cent). They remained unchanged in relation to GDP.

The average cost of the public debt was equal to 6 per cent, as in 1999. The downward trend of the last few years came to a halt owing to the rise in interest rates at issue on long-term securities in 1998 and 1999 and on short-term securities in 2000.

In addition, the primary surplus was basically unchanged (excluding the proceeds of the sale of UMTS licences) as was the impact of the factors that affect the size of the debt even though they are excluded from the calculation of net borrowing (Figure 30).

THE SINGLE MONETARY POLICY AND FINANCIAL INTERMEDIARIES AND MARKETS

Monetary developments in the euro area and in Italy

After the increase in official interest rates in the Eurosystem last October, the Governing Council of the European Central Bank kept rates unchanged during the remainder of 2000 and the first few months of this year against the background of a steady easing of inflationary pressures; the minimum rate on main refinancing operations now stands at 4.75 per cent (Figure 31).

The fall in raw materials prices and the strengthening of the euro against leading currencies as growth prospects deteriorated, especially in the United States, helped alleviate the threat to price stability in the euro area.

These developments were reflected in a fall in both spot and expected money-market yields. Three-month interbank rates declined by 0.3 percentage points between the end of October and the beginning of March to stand at 4.8 per cent; the differential in relation to the EONIA rate, which had been 0.3 points in October, was eliminated. The forward yield curve derived from rates on Euromarket futures contracts shifted downwards (Figure 32). In early March the 3-month rate for the contract maturing in September 2001 was 0.5 percentage points below the spot rate.

The markets correctly interpreted the ECB's monetary policy signals by anticipating the movements in short-term interest rates. Since the launch of the third stage of EMU the difference between the spot 3-month euro deposit rate and the forward rate for the same maturity recorded three months earlier has remained small and not dissimilar to that for comparable sterling and dollar rates (Figure 33). A similar picture emerges from analysis of the differences obtained using forward rates recorded one month earlier.

Figure 31

Official interest rates and money and financial market rates in the euro area

(daily data; percentages)

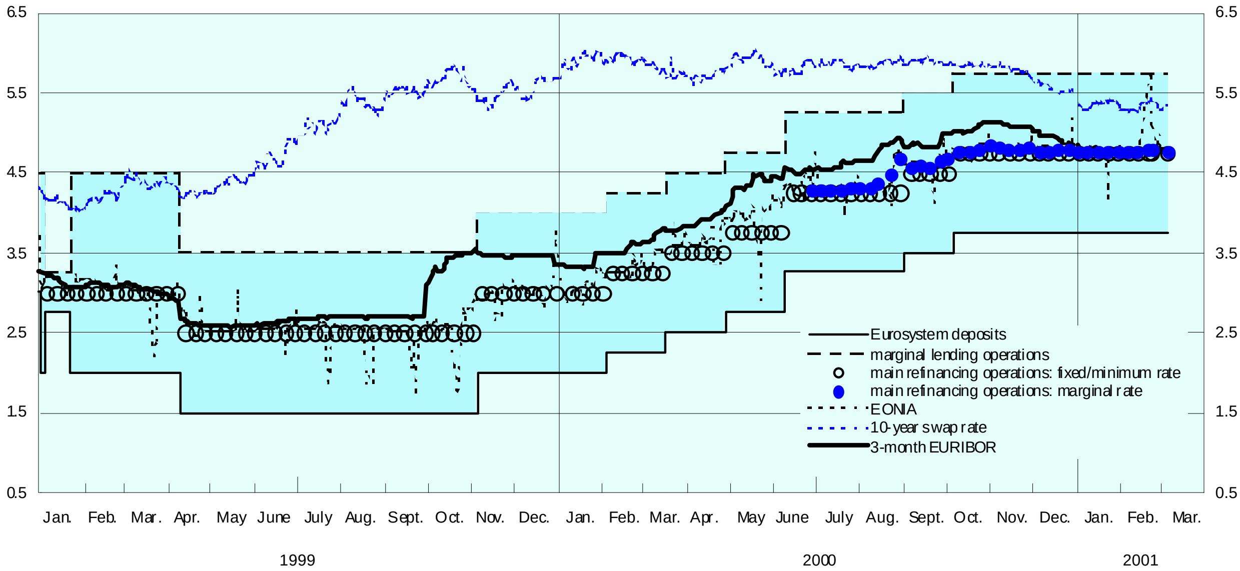
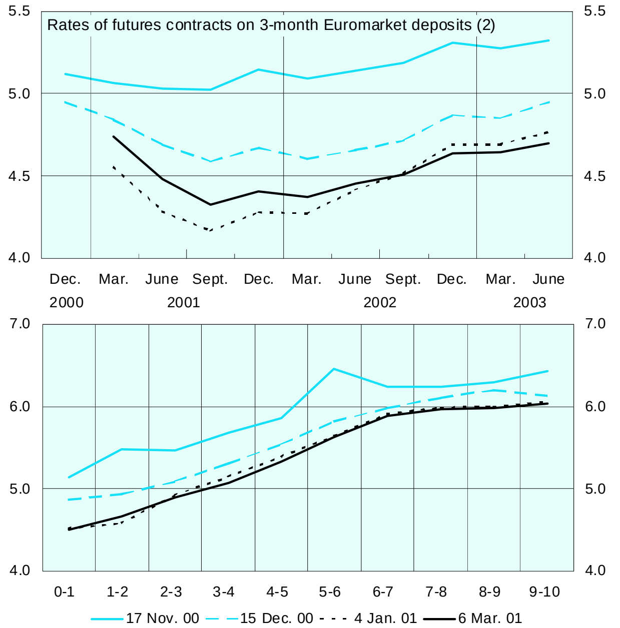


Figure 32

Euro forward yield curve (1)
(percentages)

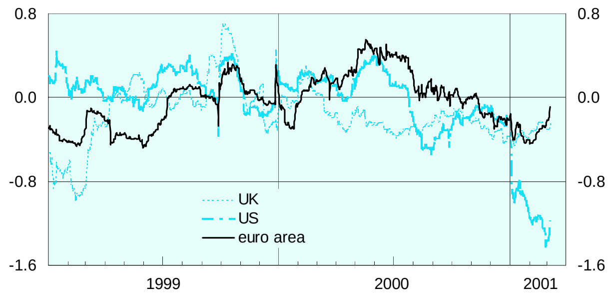


(1) Each curve relates to the contract date indicated in the legend. – (2) The horizontal axis shows the settlement dates for the futures contracts to which the yields refer. – (3) The horizontal axis shows the period to which the yield refers, expressed in years from the contract date indicated; the first observation is the spot yield for that date.

At the end of December the real euro short-term interest rate, calculated from inflation expectations surveyed by Consensus Forecasts, was 2.6 per cent, more or less the same as at the end of September (Figure 34). The real euro rate remains slightly below the real dollar rate, although the differential narrowed considerably in the second half of 2000 and the first few months of this year, reflecting the progressive downscaling of expectations of growth in the United States. In Italy the real rate remains lower than that for the euro area as a whole, as expected inflation is marginally higher.

Figure 33

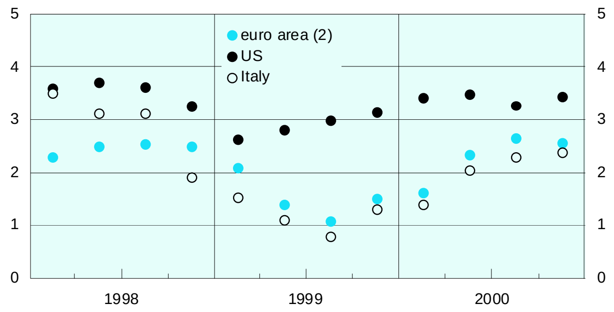
Difference between actual and expected 3-month interest rates (1)



(1) The expected interest rate is the rate implied by the yield curve 3 months before the date indicated; the actual rate is the spot rate. LIBOR rates.

Figure 34

Expected real 3-month interest rate (1)
(quarterly data; percentages)



(1) Nominal 3-month interest rate on Euromarket deposits (average of daily data in the last month of the quarter), deflated using inflation expectations measured by the quarterly *Consensus Forecasts* survey of December 2000 for the period ending in the subsequent quarter. – (2) Until December 1998, 3-month LIBOR rates for France, Germany, Italy and Spain; from January 1999 onwards, 3-month EURIBOR. The real rate for the area is calculated as the average of those for the 4 countries, weighted using each country's GDP (at current prices in national currency, translated into a common currency using the average purchasing power parities for 1994-96. Source: based on OECD data).

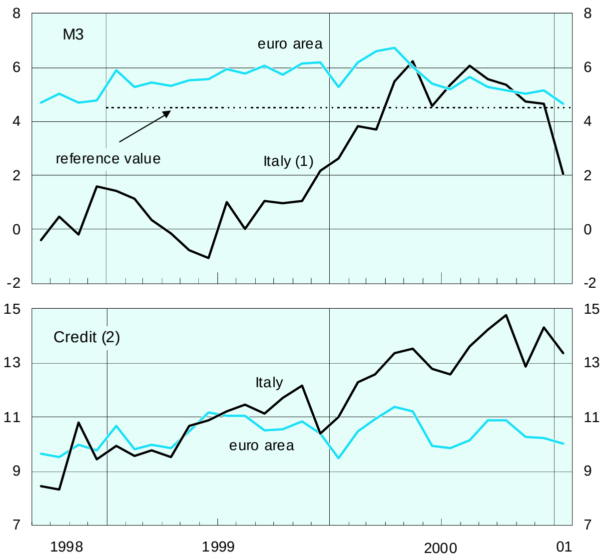
The euro, which had depreciated markedly until the end of October (by 11.6 per cent since the beginning of the year in effective nominal terms), strengthened considerably towards the end of 2000. It has remained broadly stable since January 2001; by the beginning of March it had appreciated by 12.5 per cent against the US dollar, 23.1 per cent against the yen and 11.6 per cent in nominal effective terms in relation to the record low of last October. One reason for its recovery against the dollar was the sharp deterioration in growth prospects in the United States and the resulting decrease in the differential between dollar and euro interest rates: the differential in short-term rates narrowed from 1.6 percentage points at the end of October to 0.3 points in early March. The extremely large appreciation against the yen can be ascribed to the renewed deterioration in the Japanese economy.

The easing of inflationary pressures and the more subdued prospects for economic growth in the area had an effect on long-term rates. Since the end of October yields on 10-year government benchmark bonds have fallen from 5.4 to 5 per cent and those on interest rate swaps of comparable maturity from 5.9 to 5.3 per cent. The larger decline in corresponding dollar yields (0.7 points on 10-year government securities and 0.9 points on swaps of the same maturity) caused differentials to narrow.

The slowdown of M3 growth in the euro area that had begun in May continued in late 2000 and January 2001, when the 12-month rate of increase fell to 4.7 per cent, compared with 5.3 per cent in September (Figure 35); the corresponding quarterly moving average decreased to 5 per cent, above the reference value of 4.5 per cent set by the Governing Council of the ECB for 2001. The behaviour of the aggregate reflected the slowdown in the more liquid components: in January the 12-month rate of growth in M1 was 1.4 per cent, compared with 6.2 per cent in September. By contrast, marketable instruments continued to expand very rapidly (18.1 per cent). This divergence was due in part to the widening of the yield differential between the two components; between January and November 2000 the 3-month interbank deposit rate (which approximates to the yield on the less liquid components of the money supply) increased by 1.4 percentage points more than the rate on sight deposits.

Figure 35

Monetary and credit aggregates in the euro area and in Italy
(monthly data; twelve-month percentage changes)



Sources: ECB and Bank of Italy.

(1) Italian contribution to euro-area M3. – (2) Financing granted by monetary financial institutions (MFIs) to euro-area residents other than general government and MFIs in euros and other currencies in the form of loans and purchases of bonds, shares and other equity.

Bank lending to the private sector continued to grow rapidly in the euro area, increasing by 10 per cent in the twelve months to January. Data disaggregated according to sector of economic activity, which are available on a quarterly basis, indicate that lending to non-financial enterprises accelerated strongly (from a rate of 5.9 per cent in December 1999 to one of 12 per cent in September 2000), whereas the rate of growth in lending to households slowed down slightly (from 9.8 to 8.6 per cent).

With effect from January 2001 the monetary and credit aggregates for the area include the contribution of Greece, which adopted the euro on the first of that month.

In Italy the slowdown in the growth of the domestic components of M3 (from a 12-month rate of 5.6 per cent in September to one of 2.1 per cent in January) was more abrupt than that in the corresponding aggregate for the area as a whole owing to a sharper deceleration in M1 (from 8 to 0.5 per cent over the same period). Part of this slowdown appears to be attributable to a change in the seasonality of current accounts in January. The rise in bank lending to the private sector by 13.3 per cent in the twelve months to January remained above the average for the area owing to high corporate demand for short-term loans (see box: “Households’ financial saving and corporate indebtedness in the first nine months of 2000” and the section “Banking in Italy” below).

The total financial assets of the Italian private sector, net of shares, increased by 5.1 per cent in the twelve months ending in September, reflecting a slight increase of 1.4 per cent in the domestic component and a substantial expansion of 16.4 per cent in foreign assets (Table 26).

Households' financial saving and corporate indebtedness in the first nine months of 2000

In the first nine months of the year the financial surplus of the sector comprising Italian consumer and producer households amounted to €59.5 billion, slightly more than in the same period of 1999 (see Table). External assets continued to increase rapidly, rising by €31.5 billion, with especially rapid growth in shares and investment fund units. Purchases of medium and long-term securities were substantial (€26.5 billion). By contrast, net purchases of units of Italian funds fell to a very low figure (€4 billion, compared with e83.3 billion in the same period of 1999; see the section "The stock markets and investment funds"). On the liabilities side, the growth in short-term borrowing remained modest; the increase in medium and long-term debt, although still high, was less than in the same period of 1999.

The borrowing requirement of non-financial enterprises, which had been particularly low in the first nine months of 1999 (€2.7 billion), rose to €30.9 billion, as liabilities increased by €46.6 billion while assets rose by €15.7 billion. The growth on the assets side was mainly in short-term and external assets; flows of shares and participations were practically nil, in contrast to large purchases in 1999. The growth in loan demand was due largely to the recovery in investment during the period (see the chapter "Production, demand and the balance of payments"*); an additional factor was the increase in net interest charges at a time of rising market interest rates. The faster growth in borrowing reflected the expansion in domestic debt, especially at short term (€20 billion, compared with a contraction of €3.9 billion in 1999). Issues of shares and other equities represented more than one third of the increase in liabilities. The rise in external liabilities was negligible.*

Financial assets and liabilities (1)
(millions of euros)

	Households (2)			Non-financial enterprises		
	Flows		Stocks	Flows		Stocks
	Jan.-Sept. 1999	Jan.-Sept. 2000	Sept. 2000	Jan.-Sept. 1999	Jan.-Sept. 2000	Sept. 2000
ASSETS						
Cash and sight deposits	7,154	–10,983	364,147	3,779	7,875	93,972
Other deposits	–29,915	–2,602	252,828	–2,295	2,464	10,157
Short-term securities	–23,186	–6,026	18,439	–1,502	1,574	201
Medium and long-term securities	–18,516	26,520	350,025	–1,174	–1,201	26,336
of which: government	*–14,825*	*16,986*	*168,190*	*–1,728*	*–2,346*	*15,322*
Investment fund units	83,275	4,047	453,304	1,158	56	6,304
Shares and other equities	9,004	13,104	441,299	21,768	124	294,303
External assets	20,248	31,490	252,035	26,657	14,345	290,134
Other financial assets (3)	33,507	24,485	319,807	–14,498	–9,520	202,577
Total assets	**81,571**	**80,034**	**2,451,883**	**33,892**	**15,717**	**923,984**
(in billions of lire)	*(157,944)*	*(154,967)*	*(4,747,507)*	*(65,624)*	*(30,432)*	*(1,789,082)*
LIABILITIES						
Short-term debt (4)	945	1,475	53,083	–3,862	20,040	276,360
of which: bank	*1,030*	*1,458*	*52,607*	*–3,766*	*19,378*	*257,752*
Medium and long-term debt (5)	24,057	17,875	206,323	13,908	18,073	254,486
of which: bank	*23,674*	*17,321*	*187,548*	*11,349*	*15,073*	*201,811*
Shares and other equities	–	–	–	29,018	17,023	725,609
External liabilities	–	–	–	9,305	948	270,841
Other financial liabilities (6)	1,091	1,184	21,808	–11,767	–9,500	280,052
Total liabilities	**26,093**	**20,534**	**281,214**	**36,602**	**46,584**	**1,807,349**
(in billions of lire)	*(50,524)*	*(39,760)*	*(544,507)*	*(70,871)*	*(90,200)*	*(3,499,515)*
BALANCE	**55,478**	**59,499**	**2,170,668**	**–2,710**	**–30,868**	**–883,365**
(in billions of lire)	*(107,420)*	*(115,207)*	*(4,203,000)*	*(–5,247)*	*(–59,768)*	*(–1,710,433)*

Source: Financial accounts.

(1) Rounding may cause discrepancies in totals. – (2) Comprises consumer households, sole proprietorships with up to 5 employees and non-profit institutions serving households. – (3) Includes insurance reserves of the life and casualty sectors; for households also includes pension funds and for enterprises trade credit. – (4) Includes finance provided by factoring companies and, for enterprises, repos. – (5) Includes finance provided by leasing companies and, for households, consumer credit from financial corporations. – (6) Includes severance pay and pension funds and, for enterprises, bonds and trade credit.

Table 26

Credit and financial assets in Italy (1)

(end-of-period data; percentages)

	12-month percentage changes		Percentage shares of stocks	
	December 1999	September 2000	December 1999	September 2000
Total credit	**6.0**	**5.9**	**100.0**	**100.0**
General government debt (2)	1.3	0.4	58.8	57.6
Total finance to "other residents"	13.6	14.3	41.2	42.4
Bank lending	10.6	14.4	35.3	36.3
Bonds	6.9	24.3	0.6	0.5
Loans from abroad	40.0	12.8	5.4	5.5
Financial assets (3)	**5.8**	**5.1**	**100.0**	**100.0**
Domestic	–2.7	1.4	74.6	71.9
Monetary assets, other deposits and Treasury bills	–1.9	3.9	40.6	38.4
Medium and long-term securities	–3.0	–1.4	31.7	31.2
Other financial assets (4)	–12.6	–0.3	2.3	2.3
Foreign	45.7	16.4	25.4	28.1

(1) Provisional data. Rounding may cause discrepancies in totals. Data on items with the rest of the world may be subject to revision once the reform of the balance-of-payments statistics to bring them into line with the new IMF standards has been completed. – (2) According to the EU definition. - (3) The money-holding sector comprises all Italian residents other than MFIs and central government. – (4) Include companies' surety deposits and shares held by non-money-market funds.

Banking in Italy

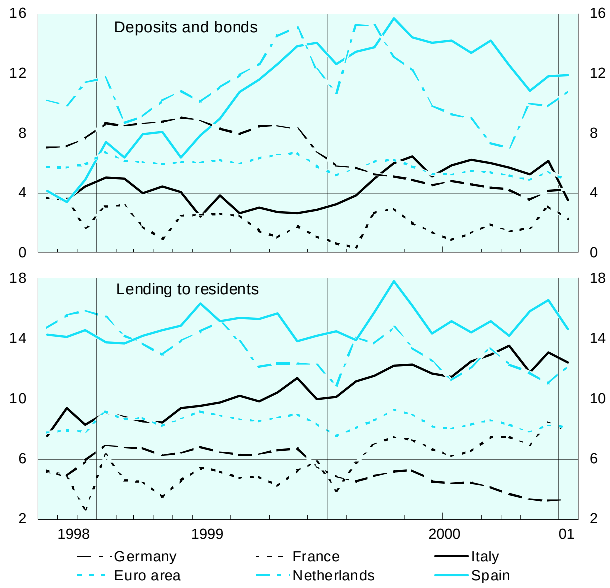
In the last few months of 2000 and January of this year total lending by Italian banks, calculated in accordance with the harmonized definition of the ESCB, continued to grow at a sustained pace (12.4 per cent in the twelve months to January; Table 27 and Figure 36) and more rapidly than in the euro area as a whole. The acceleration was particularly marked in the case of short-term lending, comprising mainly corporate loans, which increased by 18.3 per cent in 2000, against 6.5 per cent in 1999 (Table 28); on the other hand, the growth in medium and long-term lending slowed down to 9.9 per cent, compared with 13.2 per cent in 1999, owing mainly to the behaviour of mortgage lending to households.

Credit to industrial enterprises rose by 12.4 per cent in 2000, compared with 4.5 per cent in 1999, and that to the service sector by 19.4 per cent (11.8 per cent in 1999; Table 29). Credit demand was fueled partly by the expansion in investment and a number of exceptional financing operations, primarily in the energy and telecommunications sectors. Lending to

Figure 36

Bank funding and lending in the major euro-area countries (1)

(monthly data; twelve-month percentage changes)



Sources: Based on ECB data and national statistics.
(1) Funding and lending of the monetary financial institutions (MFIs) of the euro-area countries (excluding the Eurosystem), from and to non-MFI customers resident in the area. Data are adjusted for reclassifications, revaluations, exchange rate variations and any other changes not due to transactions.

Table 27

Bank funding and lending in the euro area and in Italy (1)

(harmonized definitions; billions of euros and twelve-month percentage changes)

		Deposits (2)										Debt securities issued (3)		Loans (4)	
				Excluding central government											
				Current accounts		With agreed maturity		Redeemable at notice		Repurchase agreements					
		Balances	% changes	Balances	% changes	Balances	% changes	Balances	% changes	Balances	% changes	Balances	% changes	Balances	% changes
								Euro area (5)							
1999 –	Oct.	5,034.5	4.4	1,472.0	15.2	2,001.2	1.0	1,318.9	4.2	157.5	−27.4	2,361.7	11.4	6,259.2	8.7
	Nov.	5,069.5	4.7	1,505.7	13.7	2,009.5	1.7	1,313.6	3.7	158.6	−19.6	2,382.8	11.2	6,336.9	9.0
	Dec.	5,144.0	3.8	1,537.0	10.5	2,042.2	1.8	1,332.0	2.2	144.2	−16.6	2,370.6	10,5	6,364.9	8.3
2000 –	Jan.	5,167.8	3.4	1,566.4	10.4	2,027.5	1.1	1,332.3	1.2	155.0	−9.7	2,376.6	9.2	6,401.7	7.5
	Feb.	5,175.0	4.1	1,559.8	12.2	2,045.3	2.6	1,322.4	0.4	159.5	−13.3	2,402.9	9.2	6,433.1	8.1
	Mar.	5,197.0	4.7	1,568.0	12.3	2,052.1	2.7	1,312.5	−0.2	177.3	−0.7	2,430.0	9.3	6,509.4	8.5
	Apr.	5,235.8	5.0	1,602.3	13.3	2,060.5	2.9	1,305.0	−1.0	179.8	4.6	2,459.0	8.9	6,572.5	9.2
	May	5,224.7	4.4	1,586.5	10.0	2,080.1	4.6	1,297.1	−1.8	181.2	4.9	2,477.9	8.8	6,596.0	9.0
	June	5,226.2	3.8	1,596.1	7.4	2,077.6	5.3	1,291.8	−2.5	167.3	0.4	2,486.7	8.4	6,663.0	8.2
	July	5,224.7	3.6	1,594.6	8.0	2,088.0	4.6	1,285.1	−3.2	172.0	4.9	2,511.0	8.8	6,689.6	8.0
	Aug.	5,222.3	3.9	1,566.4	8.1	2,119.7	5.7	1,280.1	−3.5	169.4	4.0	2,537.8	9.0	6,696.3	8.3
	Sept.	5,259.3	4.2	1,577.0	6.7	2,124.4	6.2	1,272.7	−3.8	171.4	6.5	2,558.6	7.8	6,777.8	8.6
	Oct.	5,273.7	4.1	1,577.0	6.6	2,140.9	5.9	1,263.9	−4.2	170.6	8.2	2,581.9	7.3	6,822.7	8.3
	Nov.	5,287.3	3.9	1,594.9	5.6	2,147.0	6.0	1,258.0	−4.3	173.5	9.3	2,578.0	6.9	6,865.1	7.8
	Dec.	5,380.1	4.4	1,649.7	7.3	2,159.1	5.4	1,278.2	−4.1	175.6	21.7	2,570.0	7.6	6,905.4	8.2
2001 –	Jan.	5,454.8	3.0	1,608.1	1.8	2,210.1	6.9	1,328.6	−4.2	212.5	24.0	2,601.7	8.6	7,004.4	8.1
								Italy (6)							
1999 –	Oct.	565.2	−0.1	360.5	15.0	81.8	−20.9	60.5	2.2	54.9	−33.9	266.4	9.1	788.1	10.4
	Nov.	555.5	−0.1	351.8	12.4	80.0	−21.8	60.1	1.2	56.5	−24.2	269.8	8.8	815.3	11.4
	Dec.	583.4	0.6	384.9	10.0	79.1	−22.2	61.2	0.0	50.3	−16.3	271.6	8.0	824.5	10.0
2000 –	Jan.	584.6	0.7	384.7	9.7	77.5	−21.9	60.7	−0.3	54.2	−11.7	273.8	8.9	827.5	10.1
	Feb.	580.7	1.5	379.6	11.9	76.0	−20.6	59.6	−0.6	58.3	−15.6	277.7	9.1	834.0	11.2
	Mar.	582.5	2.4	383.4	11.7	76.1	−18.8	58.6	−1.2	57.2	−11.4	284.4	10.7	841.2	11.5
	Apr.	594.5	3.9	394.1	11.7	75.8	−17.1	58.4	−1.7	58.9	−3.1	286.3	10.6	849.5	12.1
	May	595.8	4.8	392.1	10.9	74.5	−16.1	57.9	−2.3	63.8	8.6	288.1	9.9	851.8	12.2
	June	591.3	3.0	389.5	6.6	73.6	−15.6	57.5	−2.8	63.5	16.5	289.2	9.5	871.0	11.7
	July	591.8	4.3	386.8	7.9	73.2	−14.0	57.4	−3.6	67.6	18.4	288.1	9.3	874.7	11.4
	Aug.	582.0	4.6	379.0	9.4	71.2	−16.0	57.4	−4.2	67.5	16.0	290.0	9.6	875.3	12.4
	Sept.	582.0	3.7	384.3	8.3	69.2	−17.2	56.8	−5.3	64.6	17.4	294.0	10.9	881.0	12.9
	Oct.	587.0	3.5	386.1	6.8	68.7	−16.8	56.2	−7.1	69.3	26.2	294.6	10.3	889.6	13.5
	Nov.	573.3	3.0	372.7	5.8	66.8	−16.9	55.6	−7.3	71.2	26.1	296.7	9.8	904.4	11.7
	Dec.	605.1	4.0	407.9	6.0	64.9	−16.1	57.1	−6.6	68.3	35.7	302.5	10.6	922.8	12.9
2001 –	Jan.	586.2	0.5	384.8	0.1	63.0	−16.8	55.6	−8.3	75.3	39.0	303.0	9.9	920.5	12.4

(1) End-of-period data; the percentage changes are adjusted to take account of reclassifications, exchange rate variations and any other changes not due to transactions. The data are consistent with those published in the *Monthly Bulletin* of the ECB. - (2) Denominated in euros and other currencies. - (3) By convention they are attributed entirely to residents of the reporting country. - (4) Including bad debts and repos. - (5) Funding and lending of the monetary financial institutions (MFIs) of the euro-area countries (excluding the Eurosystem), from and to non-MFI customers resident in the area. - (6) Funding and lending of Italian MFIs (excluding the Bank of Italy) from and to non-MFI customers resident in Italy.

financial enterprises continued to increase rapidly (by 24.8 per cent during the year, compared with 17.5 per cent in 1999), owing mainly to disbursements to leasing companies, which saw a brisk expansion in business. The growth in lending to consumer households slowed down from 21.6 to 13.2 per cent.

Syndicated loans arranged by Italian banks amounted to €125 billion in 2000, equal to 5.2 per cent of the world total. Those granted to residents of Italy came to €40 billion, against €17 billion in 1999 and €2 billion in 1998; last year's figure represented 94 per cent of the syndicated loans taken up by Italian residents, the highest share recorded in the last decade and compared with an average of 66 per cent in the nine preceding years. Loans to Italian telecommunications companies, which accounted for 43 per cent of total syndicated loans, were arranged almost exclusively by Italian banks.

The stock of bad debts, which had declined by 7.2 per cent in 1999, decreased by a further 13.8 per cent last year, thanks partly to operations to write off and dispose of loans. In December the ratio of bad debts to total lending stood at 5.7 per cent, its lowest level since 1993; at the same date the proportion of bad debts that are not recoverable but the subject of specific provisions rose to 52.7 per cent, compared with 48.9 per cent a year earlier. In 2000 the flow of new bad debts was equal to 1 per cent of outstanding active loans at the end of 1999, a reduction from the preceding year; most of the decline occurred in the second half of the year.

Credit conditions remained easy throughout 2000. Despite the sustained growth in lending, the take-up of overdraft facilities persisted at historically low levels for all categories of borrower. The differential between average and minimum rates

Table 28

Assets and liabilities of Italian banks (1)

(end-of-period data; twelve-month percentage changes; millions of euros)

	1999	2000	2000 (2) Q1	Q2	Q3	Q4	Balances, December 2000
Assets							
Securities	13.6	−3.9	8.5	−0.8	−11.1	−10.7	187,346
of which: *government securities*	*16.1*	*−5.6*	*8.8*	*0.2*	*−15.6*	*−13.6*	*136,022*
Loans	10.0	12.9	12.7	13.6	11.6	13.8	922,799
of which (3): *short-term (a)*	*6.5*	*18.3*	*19.7*	*16.4*	*20.2*	*17.3*	*435,839*
medium and long-term (b)	*13.2*	*9.9*	*9.3*	*11.2*	*8.3*	*10.8*	*423,112*
(a)+(b)	*9.8*	*14.0*	*14.3*	*13.7*	*14.1*	*14.0*	*858,952*
repos	*30.5*	*−18.4*	*−74.4*	*64.5*	*−80.9*	*452.2*	*8,316*
bad debts (4)	*−7.2*	*−13.8*	*−4.7*	*−12.4*	*−3.8*	*−31.2*	*51,903*
Memorandum item: bad debts at estimated realizable value	*−16.2*	*−20.1*	*−29.3*	*−14.2*	*0.7*	*−33.3*	*24,551*
External assets	−8.1	1.0	8.1	13.9	−26.1	14.5	194,485
Liabilities							
Deposits	0.6	4.0	5.6	3.2	4.1	5.3	605,134
of which (5): *current accounts*	*10.0*	*6.0*	*12.5*	*−0.5*	*12.3*	*2.1*	*407,909*
with agreed maturity	*−22.2*	*−16.1*	*−15.3*	*−12.1*	*−22.9*	*−13.5*	*64,865*
redeemable at notice	*0.0*	*−6.6*	*−4.6*	*−6.3*	*−8.5*	*−8.0*	*57,131*
repos	*−16.3*	*35.7*	*6.5*	*73.7*	*4.7*	*66.3*	*68,265*
Bonds	8.0	10.6	20.0	6.9	6.5	9.8	302,481
External liabilities (2)	4.3	11.6	17.7	−0.6	20.4	10.2	272,380

(1) The percentage changes are adjusted to take account of reclassifications, exchange rate variations and any other changes not due to transactions. – (2) At an annual rate, based on seasonally adjusted data where appropriate. – (3) Minor items in the aggregate are not reported. – (4) The percentage changes are not adjusted for cancellations. — (5) Excluding central government.

Table 29

Lending, bad debts and short-term lending rates of Italian banks by sector of economic activity
(percentages)

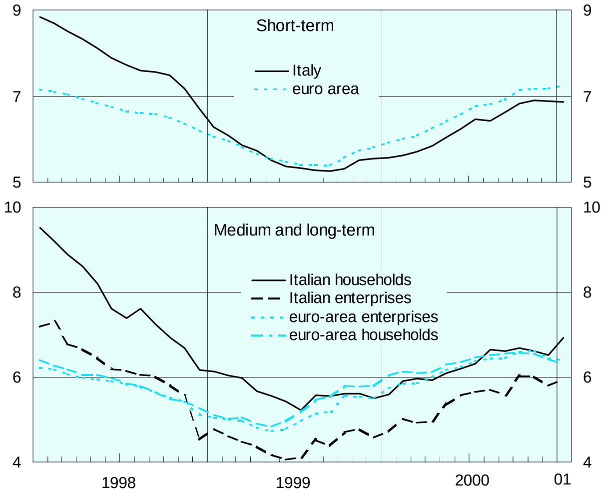
	General govern-ment (2)	Finance and insurance companies	Enterprises						Households		Total
				Holding companies	Non-financial enterprises						
						Industry excluding construction	Construction	Services	Consumers	Sole proprietor-ships	
						12-month percentage changes in lending (3)					
1999 – December	3.2	17.5	5.9	2.1	6.2	4.5	2.2	11.8	21.6	7.6	9.8
2000 – March	–3.3	24.0	8.8	15.9	8.4	7.1	4.4	13.4	22.8	8.9	12.0
June	–3.5	24.0	9.9	17.5	9.4	8.4	5.9	12.7	19.3	9.7	11.9
September	–4.4	24.0	13.9	20.6	13.5	10.7	7.3	20.7	17.0	8.9	13.7
December	–4.6	24.8	15.5	33.9	14.4	12.4	9.0	19.4	13.2	8.0	14.0
						12-month percentage changes in bad debts (4)					
1999 – December	214.1	–23.1	–6.1	–8.9	–6.0	–3.5	–2.9	–9.7	–8.8	–5.0	–7.2
2000 – March	–20.7	–22.3	–7.4	–8.3	–7.3	–3.6	–5.0	–10.8	–9.2	–6.7	–8.0
June	–44.7	–15.3	–8.7	–19.4	–8.4	–2.4	–10.2	–10.6	–10.2	–7.4	–8.7
September	–45.2	–15.5	–10.1	–20.8	–9.8	–4.5	–11.7	–11.4	–8.1	–8.1	–9.4
December	–6.3	–12.2	–16.2	–44.0	–15.5	–7.6	–21.8	–13.8	–9.1	–12.8	–13.8
						Ratio of bad debts to total lending (5)					
1999 – December	0.1	1.1	8.0	3.6	8.3	5.2	19.0	7.6	8.0	17.9	7.4
2000 – March	0.1	1.0	7.8	3.7	8.1	5.2	18.3	7.3	7.6	17.2	7.2
June	0.1	0.9	7.2	2.7	7.5	4.9	17.0	6.9	7.2	16.6	6.7
September	0.1	1.0	6.9	2.5	7.2	4.9	16.3	6.4	7.1	16.2	6.5
December	0.1	0.8	5.9	1.5	6.2	4.3	14.4	5.6	6.5	14.9	5.7
						Interest rates on short-term loans (6)					
1999 – December	4.61	3.37	5.63	3.52	5.76	5.17	7.19	6.08	7.30	8.41	5.37
2000 – March	5.57	3.70	5.93	3.94	6.05	5.52	7.49	6.31	7.41	8.61	5.70
June	6.46	4.21	6.30	4.49	6.42	5.97	7.66	6.66	7.62	8.50	6.10
September	5.02	4.88	6.79	5.05	6.88	6.46	8.34	7.05	8.20	9.24	6.55
						Percentage composition of lending					
1999 – December	8.2	10.7	54.9	3.2	51.6	23.4	5.9	21.2	19.9	6.3	100.0
2000 – December	6.9	11.7	55.7	3.8	51.9	23.0	5.6	22.1	19.7	6.0	100.0

(1) The data have been obtained using the classification criteria in force since May 1998. – (2) Includes loans raised by the State Railways with the costs borne by the Government, in accordance with indications from Eurostat. – (3) Net of changes due to reclassifications and exchange rate variations. – (4) Not adjusted for the effects of cancellations. – (5) The denominator includes bad debts. – (6) Source: Central Credit Register.

charged by banks on short-term loans narrowed by 0.35 percentage points during 2000 and the trend continued in January of this year. At the end of last year the differential between the average lending rate and Treasury bill yields rose to 2.2 points, a low level by historical standards.

Figure 37

Bank lending rates in Italy and the euro area (1)
(monthly data; percentages)



Sources: Based on statistics for 10-day periods and ECB data.
(1) Weighted averages of national interest rates notified to the central banks. As the curves are based on non-harmonized data, they should be treated with caution; they indicate trends rather than the relative level of rates.

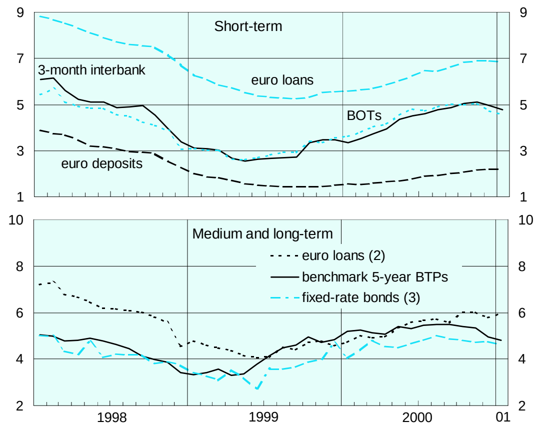
Short-term lending rates increased by 1.3 percentage points during the year to 6.9 per cent, a rise similar to the euro-area average (Figure 37). Rates on new medium and long-term loans rose by 1.2 points for enterprises and by 1 per cent for households to 5.8 and 6.5 per cent respectively. The increases were slightly above the area average (0.9 points for enterprises and 0.6 points for households), but the difference disappears if the comparison is commenced from mid-1999, when bond yields began to rise. In January 2001 short-term lending rates remained unchanged both in Italy and in the euro area as a whole.

Fund-raising by Italian banks increased by 5.9 per cent in the twelve months to December, compared with a rise of 2.9 per cent in 1999 (Figure 36). The growth in current account deposits slowed down from 10 per cent in 1999 to 6 per cent last year (Table 27), reflecting a widening of the yield gap in relation to the money market. In order to fund the rapid increase in lending, banks had greater recourse to securities repurchase agreements in view of the high flexibility of this financing instrument and its low impact on the overall cost of funds; at the end of December the 12-month rate of growth in repos was 35.7 per cent, in contrast to a contraction of 16.3 per cent in 1999. The volume of bond issues continued to rise rapidly (by 10.6 per cent in 2000) owing to increasing issues of subordinated liabilities (debt instruments with a low priority in the event of liquidation of the issuer; see box: “Bank fund-raising in Italy and the euro area and Eurobond issues”). The latter doubled in volume during the year and now account for around 10 per cent of all funds for terms of more than 18 months and more than 10 per cent of supervisory capital and reserves. In January 2001 the growth of current accounts slowed down further, causing a sharp deceleration in total fund-raising.

Bank deposit rates gradually adjusted to the increase in official rates. The average rate paid on all deposits rose from 1.5 to 2.2 per cent in the course of the year (Figure 38). While remaining small by historical standards, the spread between lending and deposit rates increased to 4.7 per cent at the end of the year, compared with 4 per cent in December 1999.

Figure 38

Bank interest rates and rates on government securities in Italy (1)
(monthly data; percentages)



Source: Statistics for 10-day periods.
(1) Up to December 1998 rates refer to operations in lire; thereafter they refer to operations in lire and other euro-area currencies. – (2) Average rate on loans in euros disbursed during the month to resident firms. – (3) Average rate on euro-denominated bonds issued by banks during the month.

The rate on current account deposits, which in Italy make up more than 45 per cent of the banks' total funds, increased by 0.9 points during the year, compared with a rise of only 0.3 points in the euro area. Rates on new issues of CDs rose by 1.1 points in Italy for terms of up to 6 months and by 0.8 points for terms of between 18 and 24 months; in the euro area the rates on comparable instruments increased by an average of 1.3 per cent. In January interest rates on all types of borrowed funds remained unchanged.

In the last few months of the year the growth in lending in excess of that in deposits and borrowed funds was financed by borrowing abroad and reducing securities portfolios. Liabilities towards non-residents, net of exchange rate variations, rose by €28.4 billion, or 11.6 per cent (Table 28), whereas external assets increased by €2.5 billion. Holdings of securities decreased by 3.9 per cent, bringing the ratio of liquid assets (cash and securities) to total financial assets below 16 per cent, a low level both by historical standards and in relation to the euro-area average.

Preliminary data on banks' profit and loss accounts for the year as a whole confirm the positive results recorded in the first half of 2000. Net interest income rose by 8.8 per cent, whereas in 1999 it had declined by 6.6 per cent. Adjusted for double-counting due to dividends distributed within banking groups, other income rose by 24 per cent, benefiting from the strong expansion of 41 per cent in profits from trading. As a consequence, gross income rose by 15.3 per cent, compared with 2.9 per cent in 1999.

Staff costs showed a moderate increase of 1.8 per cent, despite a slight fall of 0.8 per cent in the number of employees. With other operating costs only slightly higher, operating profit rose by 37.7 per cent.

The bond markets

Net issues of government securities in the euro area declined last year, in parallel with the improvement in public finances. The data on eight countries indicate a fall of around 19 per cent over the year, mostly in medium and long-term securities.

In Italy the Treasury made net redemptions of government securities in the domestic market amounting to €800 million (against net issues of €7.7 billion in 1999; Table 30) and issued Republic of Italy loans worth €13.8 billion (against redemptions of

Table 30

Issues of Italian government securities (1)
(millions of euros and, in brackets, billions of lire)

	1999	2000	1999	2000
	Gross issues (2)		**Net issues** (3)	
BOTs	192,893	164,650	–18,131	–17,550
CTZs	49,099	33,317	–8,830	–22,462
CCTs	20,567	19,870	–27,229	–7,860
BTPs	142,149	106,737	75,846	47,626
Other	0	1,167	–13,981	–577
Total	**404,708**	**325,741**	**7,675**	**–824**
Republic of Italy issues	10,113	19,614	–3,925	13,804
Total government securities	**414,821** ***(803,205)***	**345,355** ***(668,700)***	**3,750** ***(7,261)***	**12,980** ***(25,133)***

(1) Rounding may cause discrepancies in totals. – (2) At face value; includes issues of securities to fund past debts. – (3) Face value of the securities issued, net of issue differences and the nominal value of redeemed securities; includes issues of securities to fund past debts and buybacks and redemptions made by drawing on the sinking fund for the redemption of government securities.

Bank fund-raising in Italy and in the euro area and Eurobond issues

In the last two years the banking systems of the main euro-area countries have experienced slow growth in deposits and a switch towards liabilities in the form of bonds; in the case of Italian banks, bonds rose from 30.3 per cent of total deposits and borrowed funds at the end of 1998 to 33.3 per cent last December; in the euro area they increased from 29.9 to 32.3 per cent.

Banks have increasingly issued their bonds on the international market, contributing to the rapid growth of the Eurobond market following the launch of the single European currency.[1] *In 1999 and 2000 Eurobond issues by Italian banks averaged more than €18 billion a year, six times the average for the previous four years (see Table), and rose from 4.8 to 9.8 per cent of the euro-area total. There were also very large increases in France, Germany and Spain, where issues broadly tripled, and in the Netherlands, where they doubled. Only 4.3 per cent of the bonds issued by Italian banks in the last two years were denominated in currencies other than the euro, compared with 24.8 per cent in the area as a whole.*

The growth of the Eurobond market was also fostered by the increase in the number of rated issues,[2] *which in the area as a whole rose from 46.0 per cent in 1995-98 to 67.4 per cent in the last two years; in Italy the proportion rose from 26.5 to 47.6 per cent.*

A growing share of the Eurobonds issued by Italian banks are subordinated securities, which count towards supervisory capital; they made up 19.2 per cent of the total in 1999 and 2000, compared with 9.9 per cent in the previous four years. For all banks resident in the area the proportion of issues consisting of subordinated bonds remained constant at 7.3 per cent. The development of a wide market for such liabilities may encourage the emergence of subscribers specializing in risk assessment and, at a later stage, strengthen the role of the markets in appraising the activity of intermediaries, as envisaged by the recent proposed revision of the Basle Accord on capital requirements.

Although recourse to the Euromarket is more common among major and large Italian banks, smaller institutions have also begun to tap this source. In the last two years Eurobonds were issued by 37 Italian banks, all belonging to banking groups, and of these 28 were in the medium-sized or small categories; 25 have their headquarters in the North.

The results of an econometric study of the situation in Italy indicate that recourse to the Euromarket is easier for banks that are large, listed on official markets and have a low level of risk in their loan portfolios. Other things being equal, the decision whether to issue Eurobonds also depends on conditions in the domestic market for bank liabilities. For banks whose domestic liabilities are concentrated in a narrow range of instruments, Eurobond issues offer an opportunity to diversify their sources of finance and to stabilize their borrowed funds. They also offer another advantage, given that they make up only a small proportion of total funds: although in themselves they are relatively more expensive, they avoid a general increase in the cost of fund-raising by means of traditional instruments, thereby containing the overall cost of funds.

[1] *See box "The euro-area bond market" in* Economic Bulletin *No. 30, March 2000.*

[2] *From at least one of the following agencies: Moody's, Standard & Poor's and Fitch-Ibca.*

cont.

Issues of bank bonds on the Euromarket (1)

(annual averages, millions of euros and percentages)

	France		Germany		Italy		Netherlands		Spain		Euro area	
	1995-1998	1999-2000	1995-1998	1999-2000	1995-1998	1999-2000	1995-1998	1999-2000	1995-1998	1999-2000	1995-1998	1999-2000
Issues (amount)	5,353	14,327	33,039	99,858	3,121	18,122	15,450	28,035	2,159	6,517	65,689	184,577
as % of area total	8.1	7.8	50.3	54.1	4.8	9.8	23.5	15.2	3.3	3.5	100.0	100.0
	Percentage composition of issues (by value)											
In euros (2)	37.8	87.5	43.1	74.1	59.5	95.7	58.2	62.0	48.3	80.0	48.3	75.2
Variable rate	56.1	57.3	15.6	55.9	63.2	87.1	6.3	16.4	46.2	26.5	20.2	52.2
Subordinated	20.5	8.0	4.2	4.1	9.9	19.2	6.6	8.7	1.8	12.8	7.3	7.3
Issued by foreign subsidiaries	10.5	0.0	25.3	11.5	73.0	17.9	7.3	4.2	95.0	26.7	25.6	12.5
Unrated issues	36.5	34.7	44.7	23.8	65.5	32.9	31.1	10.1	57.1	46.9	43.7	24.3
At short term (less than 24 months)	9.1	10.0	3.8	44.4	0.6	6.0	3.8	6.9	6.3	19.8	4.3	28.2
At medium term (between 24 and 60 months)	27.5	22.5	40.4	23.4	17.5	39.0	24.2	26.3	17.9	15.3	32.0	25.4
At long term (more than 60 months)	63.5	67.5	55.8	32.1	82.0	55.0	72.0	66.8	75.8	64.9	63.7	46.4
	Number of issuers and issues											
Number of issues	49	74	304	755	17	82	115	191	14	15	589	1.302
of which: unrated (number) (3)	*24*	*21*	*158*	*265*	*13*	*43*	*53*	*36*	*9*	*7*	*318*	*424*
unrated (percentage of total) (3)	*49.4*	*27.7*	*51.8*	*35.1*	*73.5*	*52.4*	*46.1*	*18.8*	*60.7*	*43.3*	*54.0*	*32.6*
Number of issuers	15	16	45	59	11	31	15	16	4	10	113	168
Number of issues per issuer	3	5	7	13	2	3	8	12	4	2	5	8
Average issue volume (millions of euros)	109	194	109	132	184	221	134	147	154	434	112	143
Average amount per issuer (millions of euros)	351	924	734	1.693	277	594	1.013	1.809	617	686	580	1.102

Source: Capital Data Bondware.

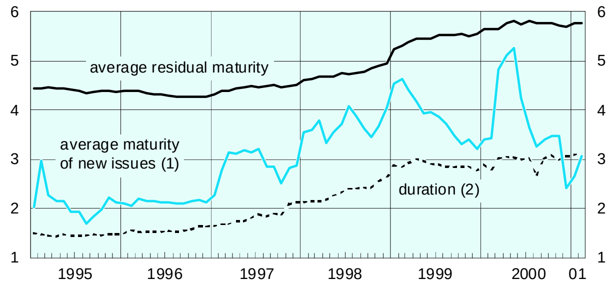
(1) Gross issues by resident banks and by foreign banks belonging to domestic banking groups. – (2) Issues in ecus, euros and euro-area currencies. – (3) Issues which, when launched, had not obtained a rating from Standard & Poor's, Fitch-Ibca or Moody's.

€3.9 billion the preceding year). Net issues of Treasury bonds remained high (€47.6 billion, against €75.8 billion in 1999), whereas there were net redemptions of other types of security. The average residual term to maturity of the debt remained above five and a half years (Figure 39). In December the average maturity of new issues shortened owing to the cancellation of auctions of long-term securities in that month.

The volume of Italian government securities held by banks and investment funds decreased further (Table 31), while the proportion held by foreign investors rose to 43 per cent in September, 4 points more than in 1999.

Figure 39

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



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

Table 31

Stocks and net purchases of securities issued by residents in Italy (1)
(millions of euros and, in brackets, billions of lire)

Subscribers	Government securities						Corporate bonds	Total public sector securities and corporate bonds	Listed Italian shares
	BOTs	CTZs	CCTs	BTPs	Other (2)	Total			
					Stocks				
December 2000									
Central bank	78	200	5,802	15,786	40,532	62,398	202	62,600	7,549
Banks	6,267	7,471	52,038	34,981	7,846	108,603	37,062	145,665	5,601
Investment funds	4,247	9,955	25,502	84,572	2,978	127,254	7,794	135,048	44,182
Other investors (3)	91,501	44,789	152,646	459,060	73,501	821,497	243,465	1,064,962	732,945
of which: non-residents (4) .	*67,606*	*19,820*	*57,302*	*264,171*	*73,887*	*482,786*	....	*482,786*	....
Total ...	**102,093** ***(197,680)***	**62,415** ***(120,852)***	**235,988** ***(456,936)***	**594,399** ***(1,150,917)***	**124,857** ***(241,757)***	**1,119,752** ***(2,168,142)***	**288,523** ***(558,658)***	**1,408,275** ***(2,726,801)***	**790,277** ***(1,530,190)***
					Net purchases				
January-December 2000									
Central bank	74	..	3,301	−984	1,174	3,565	−4	3,561	231
Banks	−9,714	−1,499	−9,606	−9,761	494	−30,086	1,377	−28,709	740
Investment funds	−2,907	−11,487	−11,271	−5,417	−322	−31,404	637	−30,767	49
Other investors (3)	−5,003	−9,476	9,716	63,788	13,565	72,590	26,774	99,364	9,292
of which: non-residents (4) .	*−1,817*	*−11,654*	*2,198*	*54,888*	*13,327*	*56,942*	*4,638*	*61,580*	....
Total ...	**−17,550** ***(−33,982)***	**−22,462** ***(−43,492)***	**−7,860** ***(−15,219)***	**47,626** ***(92,217)***	**14,911** ***(28,872)***	**14,665** ***(28,395)***	**28,784** ***(55,734)***	**43,449** ***(84,129)***	**10,312** ***(19,006)***

(1) Stocks of government securities and corporate bonds are stated at face value and those of shares at market value; net purchases are stated at market value. Rounding may cause discrepancies in totals. – (2) Includes Republic of Italy loans and other public sector securities. – (3) Households, enterprises, non-residents, central and local government, social security institutions, the Deposits and Loans Fund, securities investment firms and insurance companies; the figures for shares are estimated. – (4) Stocks of CTZs are partly estimated; the data relate to the end of September 2000.

Table 32

Eurobond issues by private sector companies resident in the major euro-area countries and in the euro area (1)

(number of operations, millions of euros and percentage shares)

	1995	1996	1997	1998	1999	2000	2000 Q1	2000 Q2	2000 Q3	2000 Q4
Italy										
Gross issues *(number of operations)*	22	27	32	41	105	183	48	25	51	59
(millions of euros)	2,662	4,281	5,377	8,861	45,860	45,871	13,742	5,040	17,926	9,163
of which: non-financial enterprises	*213*	*446*	*1,695*	*4,041*	*24,102*	*10,957*	*2,618*	*1,169*	*6,081*	*1,089*
Rated issues (2) *(percentage share)*	20	49	25	24	81	52	65	42	41	57
of which: AAA or Aaa	*44*	*20*	–	*14*	*13*	*25*	*4*	*2*	*32*	*63*
France										
Gross issues *(number of operations)*	83	90	91	65	178	218	62	55	52	49
(millions of euros)	7,988	10,598	15,131	11,737	45,594	49,590	13,705	12,960	12,290	10,634
of which: non-financial enterprises	*829*	*1,507*	*3,793*	*3,816*	*28,753*	*25,473*	*4,632*	*7,600*	*8,602*	*4,638*
Rated issues (2) *(percentage share)*	56	89	45	59	58	38	44	53	87	31
of which: AAA or Aaa	*11*	*3*	*6*	*3*	*14*	–	*0*	*9*	*0*	*27*
Germany										
Gross issues *(number of operations)*	123	238	250	291	588	632	168	180	133	151
(millions of euros)	14,303	36,358	37,508	48,072	111,035	121,763	39,286	32,710	31,745	18,293
of which: non-financial enterprises	*895*	*3,482*	*4,047*	*4,980*	*15,444*	*25,947*	*8,062*	*9,552*	*7,345*	*988*
Rated issues (2) *(percentage share)*	31	59	62	55	68	61	62	50	67	67
of which: AAA or Aaa	*24*	*42*	*31*	*52*	*46*	*45*	*53*	*28*	*41*	*60*
Euro area										
Gross issues *(number of operations)*	536	689	723	702	1,406	1,734	473	413	419	429
(millions of euros)	51,850	84,298	96,916	116,596	312,561	370,307	100,008	86,386	104,256	76,657
of which: non-financial enterprises	*3,188*	*8,181*	*12,879*	*20,959*	*91,459*	*103,182*	*17,990*	*34,345*	*38,432*	*12,416*
Rated issues (2) *(percentage share)*	39	63	50	51	71	57	62	52	48	65
of which: AAA or Aaa	*43*	*34*	*26*	*37*	*29*	*33*	*29*	*21*	*28*	*55*

Source: Bank of Italy calculations based on data from Capital Data.

(1) Eurobonds issued by private sector borrowers belonging to groups resident in the country or area indicated, at face value; include private placements and issues placed simultaneously in the Eurobond market and in the US domestic market. Non-financial enterprises are classified according to the sector to which the controlling company belongs. Amounts in local currency for periods before 1999 have been translated at the exchange rate of the euro applicable at 1 January 1999. – (2) Percentage share of the total nominal value of issues. The rating considered is that awarded by Standard & Poor's or, if not available, by Moody's or Fitch-Ibca.

Yield differentials between government securities in the euro area

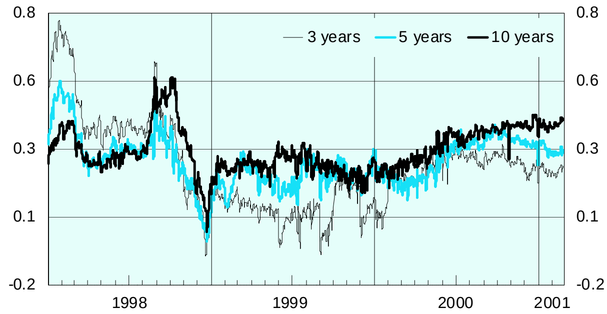
The primary and secondary markets in Italian government securities have comfortably withstood the keener competition from the bond markets of the other euro-area countries resulting from the launch of the third stage of EMU. Trading on the screen-based market in government securities (MTS) has remained brisk, thanks partly to the introduction of repos trading. The liquidity of benchmark BTP bonds has not changed significantly: bid-ask spreads were around 4 basis points in 1999 and 2000, virtually the same as in 1998. Turnover, measured in terms of the ratio of the volume of transactions to the stock of securities in circulation, has remained broadly unchanged for 3 and 5-year benchmark BTPs and has risen slightly for 10-year paper. Since the launch of the third stage of EMU the number of intermediaries operating in the market without having offices in Italy has doubled to 25; they now account for one quarter of all trades. International investor interest in the Italian market is also confirmed by the increase in the proportion of outstanding BTPs held by non-residents from 39 per cent to a record 44 per cent in the first nine months of last year.

Trading in benchmark BTPs on EuroMTS has increased, to the point where it represented half of total transactions in this market last year.

With the introduction of the euro, the yield differential between 10-year BTPs and German Bunds narrowed considerably, to an average of 24 basis points in 1999 (Figure 1; in 1996 it had been 320 bp).

Figure 1

Yield differential between benchmark BTPs and Bunds of the main maturities
(daily data; percentage points)



Following a period of broad stability in January and February of last year, the differential between 10-year BTPs and Bunds gradually increased from March onwards, so that by about the middle of December it exceeded 40 basis points; there was also a widening of differentials for 30-year bonds and shorter-dated paper (between three and five years).

The widening of the differential coincided with the start of a period of turbulence in world equity markets and grew more pronounced in May, when the German

cont.

Yield differentials between Italian 10-year benchmark Treasury bonds and German Bunds of the same maturity widened by about 0.2 percentage points during the year, stabilizing at around 0.4 points in October (see box: “Yield differentials between government securities in the euro area”).

Trading in the government securities of euro-area countries increased between October and January. Daily turnover on the Italian MTS (the screen-based market in government securities), which had averaged €7.5 billion in the first nine months of last year, rose to €9.5 billion; Bund trading also increased. Average daily turnover on the EuroMTS market in London rose from €3 to 3.6 billion, reflecting increased activity in BTPs, Bunds and OATs; the segment created for trading mortgage-backed bonds and the securities of state agencies and international institutions got off to a good start.

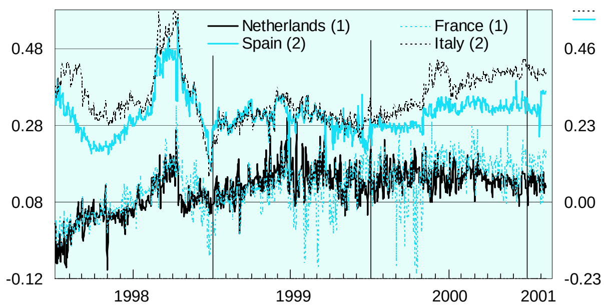
Daily turnover in futures on 10-year Bunds averaged €61.7 billion between October and January, *Government announced the tender for the award of UMTS licences, the proceeds from which were expected to lead to a large reduction in issues of German government securities. Another contributory factor was the tabling of German Government proposals for the reform of social security and corporate taxation that could foster an improvement in the public finances and economic growth thereby helping to reduce the supply of government securities in the market. The cost of the public debt in Germany has also been kept down by the fact that from early 1999 onwards Bunds have been the underlying instrument for almost all long-term interest-rate derivatives contracts in the euro area.*

For the other major euro-area countries, however, the increase in the 10-year yield differential with Germany was more moderate, averaging 7 basis points between April and December (Figure 2). At the end of the year the differential vis-à-vis 10-year Bunds was 18 bp in France, 12 bp in the Netherlands and 31 bp in Spain.

The increase in the Italian differential with the other countries of the area was due partly to special factors that worked in favour of foreign government securities. For Germany and France, the most important of these was the reduction in the supply of securities for terms of more than 12 months, net issues of which declined by respectively one half and two thirds in 2000. In France the liquidity of government securities benefited from the commitment made by a number of large French intermediaries at the beginning of last year to support futures trading in French Treasury bonds.

Figure 2

Yield differential on the 10-year benchmark government securities of Italy, France, Spain and the Netherlands in relation to German Bunds
(daily data; percentage points)



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

Belgian, Dutch and Spanish government securities benefited from the launch of electronic trading (national MTS systems in Belgium and the Netherlands and EuroMTS in Spain), which helped to hold down the cost of public debt in these countries by increasing liquidity.

slightly less than in the first nine months of last year (€65 billion). It represented more than 80 per cent of total trades in futures on euro-area government securities; the remaining share related to contacts on OATs, as trading in BTP futures had virtually ceased since the beginning of 2000.

Gross bond issues by euro-area enterprises totalled €835 billion in 2000, thus exceeding the already high level of €809 billion of the preceding year. Issues in Italy amounted to €102 billion, compared with €93 billion in 1999.

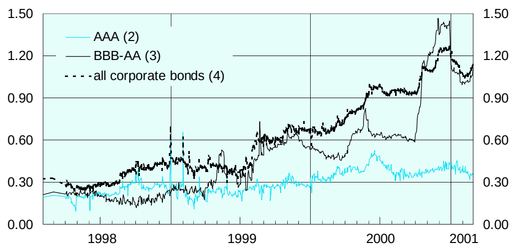
Gross Eurobond issues by private sector companies from the area were substantial, amounting to €370.3 billion, 18.5 per cent more than in 1999 (Table 32). The increase over the preceding year involved both financial enterprises (20.8 per cent) and non-financial firms (12.8 per cent), especially companies in the automobile and telecommunications sectors.

Eurobond issues by private sector Italian companies amounted to €45.9 billion in 2000, similar to the 1999 figure. A substantial increase in issues by financial enterprises (first and foremost banks) was offset by a sharp contraction in those by non-financial enterprises, reflecting the exceptionally large volume raised in 1999, which included the placements by Tecnost to finance the acquisition of Telecom Italia.

The final quarter of the year saw a substantial decrease in corporate bond issues in the euro area, especially on the part of non-financial enterprises; at the same time, yield differentials in relation to government securities widened appreciably (Figure 40).

Figure 40

Yield differentials between Eurobonds of non-financial corporate issuers and government securities and between rating classes (1)
(daily data; percentage points)



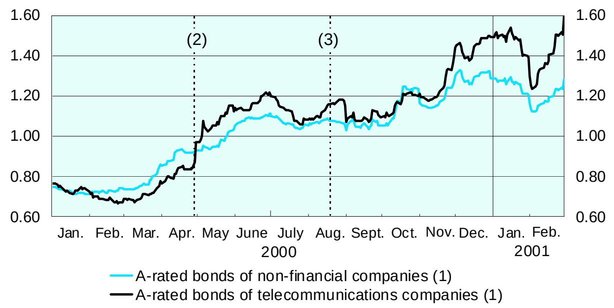
Source: Bank of Italy calculations based on Merrill Lynch indices.

(1) Yields on fixed-rate euro-denominated Eurobonds issued by non-financial enterprises with a residual term to maturity of not less than one year. Includes bonds of issuers in countries whose long-term foreign currency debt is of investment grade (rating of not less than BBB3 or BBB-). The yield curve for government securities is estimated by Merrill Lynch on the basis of French and German securities. Differentials are adjusted for the value of redemption options (option-adjusted spreads). End-of-month data until March 1998, daily data thereafter. – (2) Yield differential between AAA-rated bonds and government securities. – (3) Yield differential between BBB-rated and AA-rated bonds. – (4) Yield differential between all corporate bonds and government securities.

The deterioration in market conditions, which were affected by signs of a slowdown in the world economy, was pronounced for securities with less than prime ratings and for those of telecommunications companies (Figure 41); the latter were affected by the large increase in borrowing by many companies in the sector in order to purchase UMTS licences and to finance investment in new technology as well as a number of mergers and acquisitions.

Figure 41

Yield differentials between bonds of euro-area companies with a uniform rating and government securities (1)
(daily data; percentage points)



Source: Bank of Italy calculations based on Morgan Stanley indices.

(1) Yields on fixed-rate bonds in euros with a rating of not less than A3 or A- and not higher than A1 or A+ (the rating class to which the majority of telecommunications companies belonged at the beginning of 2000). The yield curve for government securities is estimated by Morgan Stanley. – (2) Close of the UK auction of UMTS licences (27 April 2000). – (3) Close of the German auction of UMTS licences (18 August 2000).

In the last few months of the year, partly in response to the fall in the prices of technology stocks, the rating agencies downgraded some telecommunications companies, which reduced their bond issues and increased their recourse to syndicated loans and short-term bank borrowing.

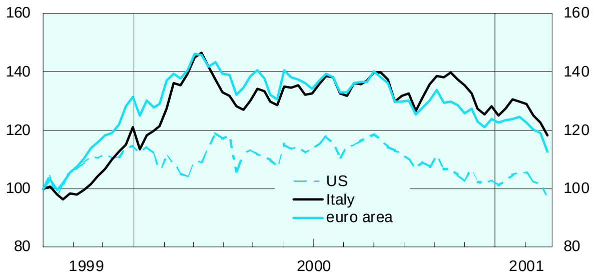
The stock markets and investment funds

The long period of growth in the main share markets, which had lasted almost without interruption since the mid-nineties, came to an end in the second half of 2000 (Figure 42). In the course of the year stock prices fell by 12.7 per cent in Spain, 6.2 per cent in Germany and the area as a whole and by 0.5 per cent in France. The Italian share index, by contrast, rose by 5.9 per cent.

The better performance of the Italian stock market was largely attributable to substantial gains by banking and insurance shares and, in the second half of the year, a less pronounced fall in the telecommunications index than in the other European countries. Investors took a positive view of the growth prospects of the large banking groups and the high profits of some insurance companies. In the weeks following the publication on 17 November of the judgement of the Court of Cassation on interest rates on mortgage loans signed before March 1996 the index of bank shares declined by slightly more than the market as a whole.

Figure 42

Share prices (1)
(end-of-week data; indices, 1 October 1999=100)



Source: Bloomberg.
(1) Indices: MIB for Italy, Dow Jones Euro Stoxx for the euro area, Standard & Poor's 500 for the United States.

The downturn in international stock markets began in September, in reaction to the announcement of lower-than-expected profits by numerous American and European companies, predominantly in the technology sectors, and signs of a softening of world economic activity. Moreover, there was growing concern about the rising debt ratios of enterprises in certain sectors.

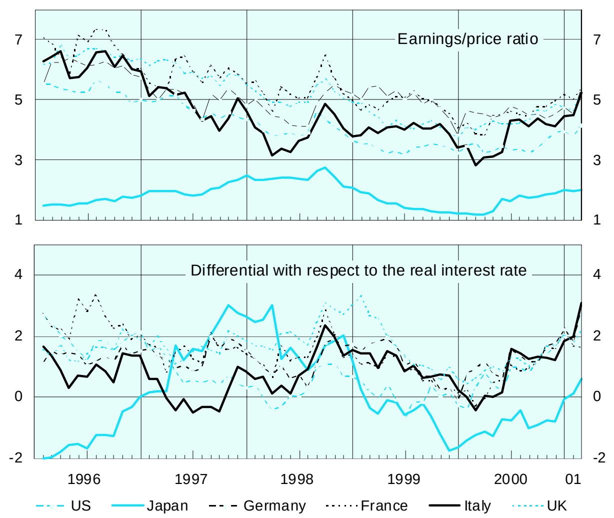
The fall in share prices was precipitous in industries most closely linked to information technologies: in the last four months of the year the index representing these sectors lost an average of 24.3 per cent in the euro area, compared with a fall of 9.9 per cent in the Euro Stoxx index.

The markets reserved for high-growth companies recorded substantial losses; in mid-February the index of the Italian Nuovo Mercato was 27.6 per cent lower than at the end of 1999 and that of the German Neuer Markt was down by 44.9 per cent. Share prices fell less sharply on the French Nouveau Marché, which benefited from its wider sectoral diversification.

The decline in share prices and the growth in corporate profits (albeit by less than expected) led to a rise in the earnings/price ratio (Figure 43). Thanks partly to the decline in long-term interest rates during the autumn, the differential between the ratio and real rates on government securities, which had almost vanished at the beginning of 2000, widened again in the main European markets to around 2 percentage points. This figure, which is less than in previous decades, may partly reflect a reduction in the risk premium required by savers for investments in shares.

Figure 43

Earnings/price ratio and differential with respect to the real 10-year interest rate on the main stock exchanges (1)
(monthly data; percentages and percentage points)



Source: Thomson Financial Datastream and Bank of Italy.
(1) Real interest rates are calculated by deflating nominal rates on 10-year benchmark government securities by consumer price inflation in the twelve months ending in the month indicated.

The number of listed companies increased in all the main European stock exchanges, to 744 in Germany, 1,021 in France and 291 in Italy at the end of the year; the percentage increases over the year were 20.6, 5.5 and 10.2 per cent respectively.

In Italy 43 companies were admitted to listing, of which 31 joined the Nuovo Mercato; together they raised more than €6 billion in risk capital (€4 billion on the Nuovo Mercato). Individual investors subscribed a particularly high proportion of the new issues; according to data from The Italian Stock Exchange, more than 8 million share applications were submitted, of which almost 1 million were accepted.

Including capital increases amounting to €4 billion, the total capitalization of the main market, the restricted market and the Nuovo Mercato was 12.6 per cent higher at the end of 2000 than it had been a year earlier and was equivalent to 70 per cent of GDP, compared with 67 per cent in Germany, 89 per cent in Spain and 111 per cent in France.

The flow of savings into investment funds slackened slightly in the closing months of 2000. Net subscriptions during the year as a whole amounted to €29.2 billion (€88.2 billion in 1999), reflecting the volume of savings channeled to foreign funds controlled by Italian intermediaries (€36.2 billion) and net redemptions of units in Italian funds (€7 billion, compared with net subscriptions of €61.3 billion in 1999). In January of this year redemptions exceeded subscriptions.

In 2000 savings continued to flow out of bond funds into equity funds, with the former recording net redemptions of €61.4 billion and the latter net subscriptions of €61.8 billion. There was a marked reduction in this tendency in December and January.

Fun-raising by funds of funds (collective investment undertakings investing in other investment funds) amounted to €5.3 billion from the time of their launch in May of last year.

The return of Italian investment funds was negative in 2000 (–3.6 per cent, compared with 12.6 per cent in 1999), reflecting the fall in the value of securities in the last four months of the year. The index of equity funds declined by 8.8 per cent, while that of bond funds rose by 4.3 per cent; in 1999 both had risen, by 35.7 and 0.3 per cent respectively.

At the end of December the net assets of Italian investment funds amounted to €452.8 billion, 4.7 per cent less than a year earlier; the net assets of foreign funds controlled by Italian intermediaries totaled €94.8 billion, a rise of 52.6 per cent.

SHORT-TERM ECONOMIC PROSPECTS

The world economy

The year 2000 was a good year for the world economy; economic activity and trade grew by 4.8 and 13 per cent respectively, among the highest rates of the last quarter-century, and inflation remained moderate, albeit increasing. These overall results nevertheless mask differences in regional performance. Output increased very rapidly in the United States (by 5 per cent) and in emerging countries (by around 6 per cent). The euro area also recorded strong growth (3.4 per cent), but in Japan output rose by barely 1.7 per cent.

The economic situation deteriorated everywhere in the second half of the year. The slowdown was particularly pronounced in the United States, where the sharper-than-expected decline in output growth was attributable to both economic and financial factors.

The increase in oil prices in 2000 caused inflation to rise. Price pressures appear to have eased towards the end of the year following the decline in oil prices and the slowdown in economic activity. In Japan the deflationary tendencies intensified.

In the United States some of the most recent economic indicators do not rule out a resumption of sustained growth as early as the second half of the year. Orders for durable goods, excluding the more volatile items, rose in January; the leading cyclical indicator produced by the Conference Board, which had declined almost continuously since the spring of 2000, showed a marked increase. Business confidence improved in February.

There are signs that the reduction in stocks in manufacturing industry, which has been larger and more rapid than in previous slowdowns, has almost run its course, particularly in the automobile sector; this could be a prelude to a recovery in production.

The easing of monetary conditions in January strengthened the markets' conviction that the Federal Reserve will act to prevent the weakness of the US economy from persisting or worsening. The financial markets expect further reductions in the cost of money before the middle of the year.

Despite the slowdown in activity, labour productivity in the United States continued to increase rapidly in the second half of the year (at an annual rate of 3.5 per cent). This would appear to validate the notion that the acceleration in productivity growth since the mid-nineties can be maintained.

The official forecasts currently available from international organizations were drawn up before signs of a slowdown in the world economy became clear; they are now being updated, and appear to suggest world economic growth of around 3.5 per cent in 2001. The projections by the main private forecasters, which take account of more recent developments, point to growth of between 1.4 and 2 per cent in US output (Table 33). These predictions assume stagnation in activity in the first half of the year followed by recovery in the second. The Federal Reserve has produced a similar forecast. For Japan the range of growth forecasts is very wide, extending from 0.3 to 2.4 per cent (1.4 per cent in the case of *Consensus Forecasts*). Economic growth is also expected to slow down appreciably in the emerging economies, although rates are likely to remain higher than in the industrial countries. Barring renewed tensions in the oil market, inflation in the United States should fall below 3 per cent; in Japan prices are expected to continue to decline.

Table 33

Actual and forecast performance of selected international macroeconomic variables

(percentage changes on previous year)

	2000 (1)	2001 (2)			
		Consensus Forecasts	JP Morgan	Goldman Sachs	Survey of Professional Forecasters
GDP (3)					
United States	5.0	2.0	1.4	2.0	–
Japan	1.7	1.4	1.1	2.4	–
Euro area	3.4	2.8	2.3	2.6	2.8
Emerging economies	5.8*	–	4.2	4.7	–
of which: Asia	*7.4**	–	*5.1*	*5.1*	–
Latin America	*3.9**	*3.6*	*3.2*	*3.4*	–
Consumer prices					
United States	3.4	2.6	2.6	2.3	–
Japan	−0.6	−0.4	−0.4	−0.5	–
Euro area	2.3	2.0	2.0	1.4	2.0
Emerging economies	7.0*	–	6.7	4.3	–
of which: Asia	*1.5**	–	*2.7*	*2.7*	–
Latin America	*7.6**	*5.2*	*5.6*	*5.6*	–
Oil prices (4)					
WTI oil ($ per barrel)	30.3	26.9 (5)	–	23.9	–

Sources: National statistics; IMF; *Consensus Forecasts*, 12-19 February 2001; JP Morgan, *Global Data Watch*, 9 March 2001; Goldman Sachs, *The International Economics Analyst*, January-February 2001; Survey of Professional Forecasters, in ECB *Monthly Bulletin*, March 2001 (the survey was conducted in February).

(1) The figures marked by an asterisk are JP Morgan estimates. – (2) Forecasts. – (3) At constant prices. – (4) In US dollars. – (5) Forecast for end-May 2001.

There is nevertheless a risk of a more sombre world economic scenario. In the United States further declines in share prices and possibly rising unemployment as a result of a rapid adjustment of production to changed demand conditions may have adverse repercussions on consumers' spending decisions.

The prospects for the Japanese economy are uncertain. In the final quarter of 2000 GDP was 0.8 per cent higher than in the preceding period, a far better result than had been expected. However, the sharp fall in industrial output in January (by 4 per cent over the month) is feeding fears of recession. The most worrying aspect concerns the banking system; when the financial year closes at the end of March the sharp fall in share prices will have a negative impact on the sector's annual results, further eroding the banks' capital base. There appears to be virtually no scope for action based on traditional economic measures. The authorities are discussing an emergency plan that would include measures to buttress share prices, the property market and the banking system.

The prospects for the world economy should improve from mid-year onwards. In the United States the wide gap that has developed recently between actual and potential output should narrow, thanks partly to the reduction in interest rates and the proposed reform of personal and corporate income taxes. This would bolster share prices, stabilize the value of households' financial wealth and make it easier for corporations to raise finance. An improvement in the economic performance of the United States would also benefit the other economies of the world, especially those in Latin America and Asia.

The euro area

In the euro area GDP growth last year was nearly one percentage point higher than the previous year's figure of 2.5 per cent. The acceleration reflected the remarkable expansion in world trade and the gain in competitiveness produced by the depreciation of the euro; domestic demand continued to grow briskly. Activity showed signs of slowing down in the second half of the year in connection with the worsening of the world economic situation and the rise in oil prices. The deceleration was more moderate than in other economic areas. The results of the latest economic surveys are mixed: the indicator of household confidence remains high, whereas that of business sentiment has deteriorated considerably.

Inflation was subject to upward pressure during 2000 owing to rising oil prices and the depreciation of the euro, but it was held in check by the moderate increase in labour costs and appreciable productivity gains; the common monetary policy was directed towards preventing the short-term behaviour of prices from causing a deterioration in inflation expectations for the medium term.

The harmonized index of consumer prices rose by an annual average of 2.3 per cent, compared with 1.1 per cent in 1999; the increase in the index excluding energy products and fresh food – the most volatile components – was much smaller (1.2 per cent) and only slightly larger than in the previous year (1.1 per cent). The inflationary pressures became more evident during the second half of the year: the twelve-month rate of increase in the general index touched 3 per cent in November. Inflation eased in December and continued to abate in January of this year; the slowing-down of the world economy, the appreciation of the euro and the fall in oil prices caused the inflationary pressures originating outside the area to subside. However, it is likely that not all the past increases in the prices of imported inputs have fed through to final prices: the less volatile components of the index show a slow but steady rise.

The leading private forecasters predict that the area's rate of growth will be about half a point lower in 2001 than in 2000. The contribution of net exports is expected to decline, reflecting the altered international environment and the appreciation of the euro up to now. The rate of growth in the domestic components of demand is forecast to remain steady, benefiting from favourable credit conditions and the tax cuts planned in many countries.

The inflationary pressures that surfaced in the second half of 2000 should abate during the year. Assuming a reduction in the price of oil as worldwide activity slackens, inflation is likely to come down to an average annual rate of 2 per cent, falling further in the second half of the year. The forecast assumes the continuation of wage restraint, thanks in part to a monetary policy credibly committed to maintaining price stability.

As with the other main industrial economies, the scenario painted for the euro area is subject to uncertainty. Growth could be weaker; a sharper deceleration in world trade and a further appreciation of the euro are possible. The planned tax cuts might prove incompatible with the objectives of the stability programmes, especially against the background of a more marked economic slowdown than originally forecast. On the inflation front, the possibility of an improvement stemming from slower growth is set against the risk of wage claims to recoup lost purchasing power, of which there have been signs in several countries.

Resolute implementation of the structural reforms recommended by the European Council in labour and product markets, public finances and the promotion of innovation would enable the European countries to benefit more fully from the positive developments that are expected to take shape in the world economy in the second half of the year.

The performance of the Italian economy is in step with that of the rest of the euro area: both the trends and the explanatory factors are similar. GDP growth averaged 2.9 per cent in 2000, only marginally slower than in Germany and France, the growth differential in relation to the euro area was reduced by half a percentage point and, as in the entire area, the decisive contribution to the acceleration in economic activity came from net exports, despite some difficulties in Italy's markets within the euro area. The growth in the main components of Italian domestic demand, except for stock-building, also quickened. The provisional data so far available indicate that economic activity slowed down in the middle of the year. Industrial production accelerated sharply in December. According to preliminary estimates, it slowed down in the first two months of 2001, confirming the principal leading indicators, which had been signaling a downturn since the summer.

Inflation trends in Italy were also similar to those in the rest of the area, although the rate remained higher. The average rise in the harmonized index of consumer prices accelerated from 1.7 per cent in 1999 to 2.6 per cent in 2000. Core inflation, net of the most volatile components, was 1.9 per cent (1.8 per cent in 1999), or about half a percentage point above the average for the area; the differential vis-à-vis Germany and France was wider. After peaking in November, the twelve-month rise in the overall HICP eased slightly until February. In Italy as elsewhere, the external inflationary pressures observed last year can be expected gradually to feed through to final prices in the next few months.

The predictions collated in *Consensus Forecasts* in February estimate Italian economic growth at about 2.5 per cent in 2001. As in the euro area, the contribution of net exports is expected to diminish. Investment growth, which was already slowing at the end of 2000, is likely to weaken further because of the reduced stimulus from foreign demand; consumption growth is also expected to slow. Consumer price inflation, measured in terms of the harmonized index, should ease to an annual average of around 2 per cent in 2001 and could fall below that level in the second half of the year.

The Italian economy has the resources to enhance its growth potential. Accomplishing this, in keeping with the recommendations of the European Council and international organizations, will depend crucially on eliminating the frequently cited structural factors that limit firms' competitiveness and the growth of employment and domestic demand. It appears that priority should be given to reducing the tax burden together with current government expenditure, further strengthening competition in important markets, linking wages and salaries more closely to productivity and enacting effective policies for innovation.

Monetary and credit conditions in the euro area

The reduction in the threat to price stability and the slackening of economic activity in the euro area have been reflected in the yield curve. At the beginning of March futures contracts signaled expectations of a modest decline in short-term yields during the year: the three-month rate expected for September was about half a percentage point lower than its spot counterpart. Long-term rates, which have been declining since the end of October, have come down to 5 per cent. The differential between ten-year and three-month yields has narrowed to 0.2 points.

At the end of February the real short-term interest rate in euros, based on inflation expectations drawn from surveys, was about 2.5 per cent, not far from the long-term average recorded in countries with an established tradition of monetary stability.

The slowdown in M3 growth in the area that began in the spring of 2000 has continued in recent months, reflecting the increased opportunity cost of the most liquid components. In January the twelve-month expansion diminished to 4.7 per cent; the moving average for the last three months fell to 5 per cent, not far from the reference value. The growth of total euro-area bank lending to the private sector remains rapid (10 per cent in the twelve months ending in January).

Bank lending continues to grow more rapidly in Italy than in the rest of the area. The expansion has been fueled mainly by the growth in investment; several exceptional financial operations in the energy and telecommunications industries have again contributed in recent months.

Credit conditions in Italy continue to be expansionary. The interest rate differential between bank loans and Treasury bills remains very small, just over 2 percentage points. The ratio of bad loans to total lending has returned to the lowest levels of the early nineties.

Italian banks have bridged the persistent gap between the growth of lending and that of domestic fund-raising by increasing net borrowing abroad and reducing their securities portfolios. The ratio of liquid assets (cash and securities) to total financial assets now stands at about 16 per cent, which is low both historically and by comparison with the average for the area as a whole.

Budgetary policy in Italy

Excluding the proceeds of the sale of UMTS licences, general government net borrowing declined to 1.5 per cent of GDP in 2000, as against 1.8 per cent in 1999 and the objective of 1.3 per cent set in the Economic and Financial Planning Document published in June 2000. The improvement in the ratio of the overall balance to GDP was due to the further reduction in that of interest payments, since the primary surplus was unchanged at 5 per cent of GDP. The latter was reduced by tax reliefs and boosted by the acceleration in economic activity and prices and by some factors that curbed social security expenditure and public sector staff costs.

The general government borrowing requirement rose from 0.8 to 2.2 per cent of GDP, including the proceeds of the sale of UMTS licences.

The decline of 4.3 percentage points in the ratio of the public debt to GDP was much larger than that recorded in 1999 (1.7 points) and the objective set in the Economic and Financial Planning Document (3 points). The faster growth in nominal GDP in 2000 contributed to the improvement. At the end of last year the debt was equal to 110.2 per cent of GDP.

In 2000 the ratio of taxes and social security contributions to GDP declined by 0.6 percentage points to 42.4 per cent. The divergence from the original forecast of basically no change reflected the larger-than-expected rise in the GDP deflator and a small upward revision of the tax revenue for 1999.

Budgetary policy for this year continues to be directed towards the dual objective of steadily reducing the burden of taxation and gradually curbing the deficit in order to achieve a balanced budget in 2003. The objective for net borrowing in 2001 is 0.8 per cent of GDP; the primary surplus is expected to rise to 5.3 per cent of GDP.

The forecast for revenue in 2001 on a current programmes basis published in the Economic and Financial Planning Document in June 2000 was revised upwards by just over one per cent of GDP in September in the Planning Document Update. The expected increase in revenue, which is attributed entirely to structural factors, has been offset by tax reliefs so as to keep the initial objective of a decrease in the burden of taxation basically unchanged. According to the Government, the ratio of taxes and social security contributions to GDP should fall by 0.8 percentage points in 2001 and by another point in the two following years.

Official estimates indicate that the budget for 2001 will reduce the primary surplus by around 25 trillion lire compared with its value on a current programmes basis (see box).

Achievement of the objective for net borrowing depends mainly on four factors: macroeconomic developments in conformity with those underlying

The implementing provisions of the budget for 2001

Parliament introduced some amendments to the budget measures proposed by the Government (see the box "The budget for 2001" in Economic Bulletin, *No. 31, 2000), but left the overall increase in net borrowing basically unchanged.*

In line with the guidelines laid down by the Government in June 2000, the aim of the budget is to implement economic policies that will foster growth by reducing the tax burden on households and firms and reallocating public expenditure.

Revenue

The budget measures passed by Parliament provide for 11 trillion lire of additional revenue and 32.1 trillion of tax relief. Compared with the Government's original proposals, the increase in revenue is 1.5 trillion larger and tax relief is up by 1.4 trillion.

***Increase in revenue.** – Most of the increase in revenue decided by Parliament comes from the reduction from 5 to 1 billion lire in the limit on tax refunds that can be obtained by offsetting tax overpayments against liabilities; this change is expected to yield 1.1 trillion.*

***Tax relief.** – Parliament increased the Irpef tax credits for dependents and introduced some new ones (400 billion lire); it also granted some facilitations for enterprises (500 billion) and extended the reduction in family allowance contributions to firms that had previously been excluded (500 billion).*

As regards households, Parliament confirmed the changes made by the Government to the structure of Irpef: the increase from 15 to 20 million lire in the upper limit of the first income bracket; the reduction of one percentage point in the tax rates for the second and third brackets; the exclusion of the imputed income from owner-occupied dwellings; increases in the tax credits

Estimated effects of the budget on the general government consolidated accounts for 2001 (1)
(*billions of lire*)

REVENUE	
Increase in revenue	**11,000**
Increases in current receipts	10,200
Lotteries and the like (2)	*2,100*
Limit on offsetting of tax overpayments against liabilities	*3,600*
Reduction in Irpeg and Irap payments on account in 2000 (2)	*3,600*
Other tax measures	*900*
Property sales	800
Decrease in revenue	**-32,100**
Tax receipts	-29,400
Changes in Irpef (3)	*-15,600*
Changes in Irpeg rates and payments on account in 2001	*-3,500*
Tax credits and other facilitations for firms	*-2,300*
Regional taxes (Irap and Irpef supplement)	*-3,300*
Reduction in taxes on electricity for firms	*-1,300*
Reduction in excise duties on oil products	*-2,100*
Changes in VAT	*-1,300*
Social security contributions	-2,700
NET CHANGE IN REVENUE *(A)*	**-21,100**
of which: NET CHANGE IN TAXES AND CONTRIBUTIONS	***-21,900***
EXPENDITURE	
Reduction in expenditure	**-8,300**
Intermediate consumption	-5,600
Other reductions in expenditure	-2,700
Increase in expenditure	**12,000**
Increases in current expenditure	9,100
Renewals of labour contracts	*2,000*
Pensions	*2,500*
Social policies and other minor items	*1,700*
Health care	*1,700*
Increase in current account appropriations	*1,200*
Increase in capital expenditure	2,900
NET CHANGE IN EXPENDITURE *(B)*	**3,700**
TOTAL INCREASE IN NET BORROWING *(B-A)*	**24,800**

(1) Based on official estimates. – (2) Estimate of the effects of Decree Law 268 of 30 September 2000. – (3) Includes 2.6 trillion lire of relief granted in Decree Law 268 of 30 September 2000.

cont.

for dependents, employees and the self-employed, and rental payments for principal dwellings. The Irpef tax credit scheme for building renovation works has been extended to 2001 and made to include some new types of expenditure. Parliament also approved the Government's proposed reductions in personal income tax rates for the 2002 and 2003 fiscal years.

As regards firms, Parliament confirmed the reduction in the rate of corporate income tax (Irpeg) from 37 to 36 per cent as of 2001, but raised the amount of payments on account for the latter year from 93 to 93.5 per cent. It basically confirmed the tax credits provided to encourage investment in backward areas and foster employment (while raising the minimum age of eligible new employees from 18 to 25) and reduced the regional tax on productive activities for firms with value added of 350 million lire or less.

As for the measures for firms whose effects will be felt after 2001, Parliament confirmed those serving to: a*) strengthen the Dual Income Tax by eliminating the minimum average rate of 27 per cent;* b*) lower the corporate income tax rate further, to 35 per cent from 2003 onwards; and* c*) introduce relief for trucking firms, fuel distributors and farm operators.*

On the other hand, the introduction of an optional tax regime similar to Irpeg for businesses now subject to Irpef was postponed from 2001 to 2002; the rates of the tax in lieu of income tax was increased from 10 to 15 per cent for marginal businesses and from 1 to 10 per cent for new productive activities; the so-called Visco investment incentive scheme was extended to 2001 for firms subject to Irpeg; the Irpeg payment on account was raised to 98.5 per cent for 2002 and to 99 per cent for 2003; and provision was made for the rates of return used for calculating Dual Income Tax to be differentiated by geographical area, economic sector and firm size.

Parliament confirmed, with the addition of some minor reliefs, the provisions reducing the taxation of electricity for commercial and industrial uses, those concerning VAT and those serving to offset the increase in oil prices, including the extension to 30 June 2001 of the reduction in excise duties on oil products for transportation and heating.

Expenditure

The budget approved by Parliament provides for reductions in expenditure totaling 8.3 trillion lire and 12 trillion of additional outlays, up by respectively 1.1 and 1.8 trillion compared with the Government's original proposals.

Reductions in expenditure. *– The bulk of the savings are to be achieved through a rationalization of intermediate consumption (5.6 trillion lire, as against 7.2 trillion as originally envisaged by the Government).*

Increases in expenditure. *– Compared with the Government's original proposals, the budget approved by Parliament provides for additional expenditure of 1.8 trillion lire (the result of 4.1 trillion of additional expenditure, offset by the downward revision of capital expenditure by 0.9 trillion and current account appropriations by 1.4 trillion). The additional expenditure approved by Parliament comprises:*

a) *0.3 trillion for the renewal of labour contracts;*

b) *1.1 trillion for social security benefits; in particular, the old-age allowance was increased further and an additional 0.1 trillion was allocated for the public employees' supplementary pension scheme;*

c) *1 trillion for social expenditure items, including the increase in the maternity allowance from 300,000 to 500,000 lire and an allocation of funds for the natural disasters that occurred in the autumn of 2000;*

d) *1.7 trillion for health care provisions. The measures include the abolition of user charges for Class A and B drugs and some specialist services and the revision of the system for determining the share of the price of drugs to be charged to the National Health Service.*

the planning framework; expenditure on a current programmes basis in line with the forecast; confirmation of the structural nature of the favourable trend of tax revenue; and effectiveness of the measures to reduce expenditure and raise revenue. Account must also be taken of the spillover effects of the outturn for 2000.

Action must be taken to keep expenditure under strict control, so as to avoid impeding the reduction in the burden of taxation. The beneficial effects of this process, in terms of the incentive to invest and create employment and an improvement in the outlook for growth, will thus become firmly embodied in expectations.

Speeches

Labour in the new economy

Address by Antonio Fazio, Governor of the Bank of Italy
Associazione ELIS
Meeting 2000: Labour at the dawn of the new century

Rome, 7 December 2000

1. Employment in the nineties

The past decade witnessed radical changes in the Italian as in other labour markets. Contract forms were diversified and made more flexible. The sectoral distribution changed, and the employment share of women and of immigrants increased. Workers' educational attainment rose.

At the same time, geographical disparities deepened. The tax burden on payroll employment increased. The average age of workers rose. The needed adaptation of the quality of human capital and investment to the new competitive environment was not achieved.

There were considerable variations in total employment: in 1991, nearly 21.2 million persons were employed, the highest figure ever in Italy.

This came at the culmination of a decade of expansion beginning in 1982 that had increased employment by almost 670,000, or 3.3 per cent. Substantial though it was in absolute terms, the employment gain was quite modest by comparison with the 26 per cent growth of GDP during the same period.

In mid-1991 the trend was abruptly inverted, and a steep decline in the number of persons employed began. Between July 1991 and April 1995 total employment shrank by 1.2 million, or 5.7 per cent. One fourth of the fall came in the second half of 1992. No comparably sharp drop had been recorded since the Second World War.

The brusque contraction of employment was due first of all to the economic crisis of the early nineties, which affected mainly sectors in which employment levels had risen in the years previous.

Large retail chains, thanks to their greater efficiency, began to supplant tiny shops, which had historically provided fall-back employment. There was also a tendency towards downsizing in public corporations, which were obliged to step up productivity and profitability with a view to privatization. There was a sharp slowdown in job creation by business service enterprises.

Public employment diminished by attrition, as a result of a hiring freeze and accelerating retirement.

In manufacturing industry, the severity of the recession was attenuated by the devaluation of the lira in 1992, which permitted the rapid substitution of foreign for domestic demand.

Such a substitution was not feasible in the construction industry, which suffered significant cuts in public works spending, partly because of repression of rampant corruption. The building industry was also progressively weakened by the cessation of population growth.

The crisis was concentrated in the South, where the repercussions of the fall in domestic demand, and public demand in particular, were most severe.

Employment bottomed out in April 1995 at just under 20 million. Since then it has been on an upswing, modest until the end of 1997 and strengthening in the last three years. The number of persons employed rose to 21,130,000 last July, barely under the historic peak of 1991.

This recovery is somewhat surprising given that the increase in economic activity has been disappointing by comparison with other countries and with Italy's own past performance.

The greater responiveness of employment can be ascribed to the growth of more labour-intensive sectors and to the progressive introduction of more flexible employment contracts. The latter have enabled firms to adjust staffing levels promptly to production requirements, to lower the cost of labour by reducing the underutilization of manpower, and to broaden opportunities to supply new goods and services.

These gains, significant as they were, did not prevent the gap with Italy's European partners from widening. Employment expansion in Italy was greater than in Germany but less than in France and the United Kingom and far from the successes of such countries as Denmark or Portugal, to say nothing of the Netherlands, Finland, Spain and Ireland.

The employment rate, i.e. the ratio of persons employed to the population of working age, was 52.3 per cent in Italy in 1999, as against 62 per cent in the European Union and 74 per cent in the United States.

This gap spotlights the Italian economy's limited capacity for growth.

The competitive defects of Italian industry emerged fully in the later nineties.

In the five years from 1995 to 1999, Italian exports grew by 24 per cent while world trade expanded by 39 per cent. Despite the depreciation of the euro this year, Italy has failed to recoup market shares. The elasticity of imports with respect to aggregate demand has increased appreciably. While domestic demand has expanded roughly in line with the European-wide trends, loss of competitiveness has curbed the growth of industrial output, the bulk of which consists of internationally traded goods.

The lesser competitiveness of national products makes Italy less attractive to direct investment by multinational corporations. In 1998 and 1999 direct inward investment came to less than €5 billion, compared with €32 billion in France and €34 billion in Germany, and the flow is dwindling further this year.

The increase in employment has been concentrated in the Centre and North of Italy.

The termination of special social contribution relief raised the cost of labour in the South relative to the rest of the country. Southern employment fell by nearly 600,000, or 9.6 per cent, between the July 1991 peak and the April 1995 trough. Since then the number of persons in work has risen by 230,000, or 4.1 per cent. The package of active labour policy measures instituted in 1998 by Labour Minister Tiziano Treu has made a positive contribution.

Meanwhile, employment in the central and northern regions has increased by 900,000, or 6.3 per cent, to surpass the 1991 peak by nearly 300,000.

The differential in employment rates between the two parts of the country has widened. In the first half of 2000 the gap was 18 percentage points (59.6 per cent in the Centre and North as against 41.7 per cent in the South), compared with 15 points in 1995.

2. The underground economy and irregular work

Irregular economic activity is found even in countries with efficient fiscal and administrative systems and where parties are free to adopt the contractual forms and terms they wish. Such activity is performed in conditions that do not fully comply with social security and workplace safety legislation.

The underground economy in Italy is larger than normal. The situation worsened in the nineties: between 1992 and 1998, the most recent year for which data are available, irregular labour units increased by 10.4 per cent, compared with a decline of 4.3 per cent in regular units. Over the same period the share of irregular employment rose from 13.4 to 15.1 per cent of the total.

Irregular employment increased to some degree in all the main sectors of the economy.

The efforts of government and public authorities to identify and repress illegality in this field have met with limited success; there is little social condemnation of such behaviour.

The spread of the underground economy has been fueled by the mounting tax burden and the rigidity of the rules that govern employment and enterprise.

Irregular activity erodes the tax base and aggravates inequities. Partly because it employs poorly qualified workers, the underground economy tends to produce low-quality products with limited market prospects. The lack of protection afforded worker's rights inhibits investment in human capital.

When underground activity makes up a substantial part of the economy, the operation of the markets is distorted and development potential curtailed.

The strong, highly profitable firms of the Centre and North can more easily bear the burden of high taxes and labour regulations. Workers there are not compelled to forgo their rights in exchange for jobs.

The economy of the South is more vulnerable to the spread of irregular work.

In some sectors the share of under-reported labour (the grey area) is several times higher in the South than in the Centre and North. The differences are explained by the lack of infrastructure and special obstacles to economic enterprise. The result is higher costs and greater business risk. This perpetuates a vicious circle that keeps regional productivity low and impedes the formation of high-tech enterprises. Opportunities for regular employment are reduced and the incentive to accept irregular positions is strengthened.

Under appropriate conditions, the irregular and sometimes discontinuous activity of tiny individual and family enterprises can be transformed into fully regular business activity.

3. A better range of employment contracts

In 1995 workers on non-traditional contracts accounted for 11.2 per cent of total payroll employment; by July 2000 the share had risen to 16 per cent. Of the 1,140,000 additional jobs created between April 1995 and July of this year, 63 per cent were fixed-term or part-time positions.

The spread of these new forms of contact responds to the needs of production. It has been assisted by legislative measures designed to make employment relations more flexible and by active policies to improve the employment opportunities for the weakest strata.

The new contracts widen the range of possibilities offered to firms and workers. Fixed-term contracts are spreading above all in industry, where they are often used as a device for hiring young workers. An Istat survey of October 1999, referring to 1995 and 1997, found that 50 per cent of successful first-time labour market entrants obtained open-ended jobs and 30 per cent fixed-term employment, and the remaining 20 per cent taking up self-employment.

Part-time contracts are widely used in the service sector. They also answer the needs of workers and are commonest among women.

In 1999 the proportion of workers on fixed-term contracts in the South was 14 per cent, compared with the national average of 9.5 per cent. More than half of all workers on fixed-term contracts said they accepted a fixed-term position because there were no permanent job openings.

In the private sector finding a job on favourable conditions in terms of stability of employment and scope for promotion on the basis of skill and experience is tending to become less and less possible.

A segmentation of the labour market is taking shape.

According to Istat, 38 per cent of those who had entered the world of work with a fixed-term contract were still fixed-term employees three years later, 21 per cent had found permanent jobs, 4 per cent had become self-employed, and 37 per cent had joined the ranks of the unemployed or had dropped out of the labour market.

The prospects of those hired on open-ended contracts are much more favourable: after three years only 10.9 per cent of them had ceased enjoying that status and had fallen back on precarious employment, become unemployed or inactive.

The probability of marginalization is higher for workers in the South, for women and for those with a lower level of formal education when entering the labour market.

Precariousness reduces the opportunity to make up for the initial disadvantages with experienced acquired on the job. The marginalization of large portions of the labour force lowers the economy's growth potential, depresses human capital formation.

This drift is particularly pernicious today, when the rapid spread of the new technologies is creating an authentic knowledge economy.

In Spain, employment became much more sensitive to the ups and downs of the business cycle following the introduction of fixed-term labour contracts in 1984. Since the start of the nineties, one third of all workers have been hired on fixed-term contracts.

The consideration that extensive resort to this type of contract can be an obstacle to on-the-job training of workers and cause excessive turnover has prompted a modification of the regulatory framework. Tax incentives have been introduced for new open-ended contracts and the termination of such contracts has been made less onerous, while greater restrictions have been placed on the use of fixed-term contracts.

The possibility of making the rules on employment more consistent with the need to offer workers and employers a better range of contractual solutions has to be examined in Italy as well.

A more harmonious regulation of employment will reduce labour-market segmentation, thus leading to a greater stability and higher quality of employment.

4. More highly skilled employment

The growth in employment in Italy in the last few years has been restricted to relatively skilled workers; the number of traditional jobs with a prevalently manual content has declined.

Between 1995 and 1999 the number of managers and persons working in the professions with a high degree of specialization rose by 14.7 per cent; that of persons with jobs related to natural sciences or administration rose by 11.8 per cent; the number of artisans, production workers and farm workers fell by 8.4 per cent.

The main factor in the shift in the composition of the demand for labour was the introduction of new technologies in many production processes.

The rapidity of the shift necessitated measures impinging directly on employed workers, with dismissals. Turnover alone was not sufficient. The proportion of the unemployed consisting of persons who had lost their jobs increased. Most of the job losses involved unskilled occupations. Income support programmes were activated to alleviate the social distress; the measures for retraining and re-employment proved inadequate.

The share of the population aged 25 to 64 with at least a high school diploma rose from 28 per cent in 1991 to 41 per cent in 1999. However, the number of jobs with a high knowledge content grew less fast than the number of persons with high qualifications.

The level of educational attainment remains lower in Italy than in the other industrial countries. In 1998 the proportion of the 25-64 age-group holding at least a high school diploma was 61 per cent in the OECD countries as a group, 84 per cent in Germany, 86 per cent in the United States and 80 per cent in Japan.

The gap that is opening in Italy between the demand for labour and the supply of more highly qualified job-seekers threatens to further reduce the return on investment in schooling, which is already low by international standards.

The root of the problem lies in the insufficient rate of innovation in the Italian economy. In order to raise the level of collective well-being, there must be an expansion of high-tech sectors, which permit the adequate remuneration of professional skills and thus foster their accumulation.

The spread of the New Economy brings rewards for countries with higher human capital endowment and has differential effects on earnings and employment according to the institutional context.

In economies where wage flexibility is limited, as in many continental European countries, an increase in jobs with a higher knowledge content is accompanied by a reduction in those open to the weaker components of the labour force.

By contrast, in economies with a high degree of regulatory flexibility, such as the United States and the United Kingdom, the spread of new technologies has created job opportunities for all; it has nonetheless been accompanied by growing inequality in the distribution of income. There has been an increase in the number of the working poor, persons with a regular job that nonetheless fails to provide a decent standard of living.

This is something that can be corrected and that does not diminish the achievements of these economies in terms of GDP and employment growth.

Italy, and Europe in general, can preserve the positive features of their welfare and social security systems, while looking to America to borrow the new production methods that can expand the number of jobs and raise their knowledge content.

In the last decade the US economy enjoyed its longest expansion since the Second World War. Between 1991 and 1999 GDP grew by 33 per cent and employment by 13.4 per cent. The growth in employment consisted primarily of workers with a high degree of specialization, whose number increased by 13.2 million in ten years. The expansion of industrial production permitted the creation of 800,000 new manual jobs in industry and transportation.

The spread of automation reduced the number of repetitive, standardized tasks; globalization transferred less skilled phases of production from the United States to other countries; a rising level of educational attainment provided the economy with the skills required.

The positions held by teachers, members of the professions and specialists in physics and medicine increased in number. In a decade there was a twofold increase in the number of persons doing skilled work in connection with information technology and its industrial applications, such as electronic engineers, systems analysts and EDP technicians. The number of managerial positions increased substantially in both the public and the private sector.

Although there was vigorous growth in the employment of persons with higher educational qualifications, at least two thirds of the new jobs created did not require a university degree. In ten years the number of nurses and paramedical technicians nearly doubled.

The widespread and growing availability of "good jobs" reflects not only the expansion of output but also the qualitative transformation of the manner of producing. The increase in skills was driven by the services sector but it also involved manufacturing industry.

Similar developments have occurred in Italy and many other OECD countries, but they have been much less intense. In this respect the differences between the United States and the other industrial countries are pronounced, especially in services and above all the advanced services.

University-educated workers account for 43 per cent of total employment in the services sector in the United States, compared with 19 per cent in Italy. In the most innovative services they account for 70 per cent of the total in the United States and 32 per cent in Italy.

University graduates account for 21 per cent of total farm and industrial employment in the United States, 7 per cent in the OECD countries and 4 in Italy.

In North America the extensive use made of highly qualified workers is strictly bound up with the the spread of new technologies.

Human resources with adequate professional qualifications are needed to invent new products and production processes, and at the same time they facilitate the adoption of innovative methods of production in every sector of the economy. Generalized gains in productivity make it possible to sustain the rise in output, employment and earnings.

The Italian economy's losses of market share are attributable to specialization in traditional products that are exposed to the competition of the emerging economies and for which demand grows slowly.

With the globalization of markets, growth prospects depend on raising product quality. In Europe the share of high-tech exports is 16 per cent; in Japan and the United States it is around 30 per cent; in Italy it is less than 10 per cent.

Convergence towards the industrial structure of the more advanced countries will make it possible to offer new generations of workers better jobs and higher pay. Progress in this direction is not guaranteed; it must be pursued through appropriate economic policy choices.

5. The emerging challenges

We are faced with a new set of challenges; successfully addressing them will require a new labour statute.

Information technology provides the opportunity to reorganize production.

Firms will have to incorporate into the Italian economy the new technologies and organizational arrangements that have been successfully tested elsewhere. The relatively small size of the majority of Italian firms should not constitute a barrier to this transformation.

An appropriate measure of flexibility in labour relations can benefit Italy's development and productive conversion. Closer linkage of salaries to productivity and profitability are the *sine qua non* for boosting entrepreneurship.

Collective bargaining must pay greater attention to the peculiarities of individual firms or groups of firms in order to encourage their development and their ability to generate income and employment. The introduction of new technologies must be facilitated. The reform of the social security system will have to be adapted to the new economic and demographic circumstances.

A new labour statute must aim for long-term strategic cooperation between labour and management.

Far-reaching economic policy action is required to remove the structural problems that prevent the country making full use of its resources.

The certain, significant lowering of the tax burden begun with the Finance Law will help, but it must be accompanied by a curbing of current public spending. In the South, particularly, the infrastructure gap must be narrowed by making full use of European funds and involving private capital. Government, both central and local, must become more efficient.

The emersion of under-reported "grey" labour, its evolution into fully regular activity offering secure prospects to young people, is a valuable objective per se; it is indispensable to the creation of a social environment propitious to economic development.

The fundamental factor in any economic advance is man with his ability to create, design and produce.

The prime duty of schools, firms and vocational training centres is to train new classes of workers to meet the needs of a rapidly changing economic system.

The experience of the more advanced countries shows the very close link between technological innovation, the availability of qualified workers, organizational adjustment and the proper functioning of the markets.

Society is changing fast: the demand for labour is shifting quickly towards the personal services sector, towards goods with a higher technological input, and also towards public goods, such as environmental quality, that satisfy new needs.

A more highly qualified labour force is at once the condition for reorganizing the productive system and an effect of such reorganization. The level of education will improve and the system will capitalize on workers' creative contribution. Possible labour abuses deriving from the overzealous pursuit of efficiency at all costs will have to be opposed.

The commitment to expanding employment must be flanked by efforts to enhance its quality. The creative side of labour has to be developed, its ability to satisfy social needs and promote individual self-fulfilment. Obsessive materialistic visions must be countered by re-emphasizing quality and the human dimension in every activity.

Labour can be seen as a sort of contribution to the work of Creation.

Providing work for all is a constitutional and a moral duty. The economic system must be able to offer good new jobs in the framework of sustainable growth. This is the best way to discharge our responsibilities to the generations of today and of tomorrow.

Finance and recovery in the world economy

Address by the Antonio Fazio, Governor of the Bank of Italy
AIAF - ASSIOM - ATIC - ACIFOREX

Trieste, 3 February 2001

Globally, the growth in the money supply and the value of financial assets reached a peak last spring. The NASDAQ index has subsequently fallen by one half; the S&P 500 index first stopped rising and then, in September, began to decline. The performance of technology shares in Europe has been similar to that of the US market.

All the European stock exchange indexes peaked towards the middle of 2000; they have followed a downward trend since the last few months of last year.

At the beginning of 2000 equities in all the main industrial countries except Japan appeared substantially overvalued in relation to the expected growth in earnings and the risk premium implicit in valuations. A year ago we called for a "virtuous" realignment of the financial market's valuation of firms with the performance of the real economy, to be achieved through robust economic growth.

The increasing divergence in the second half of the nineties between stock market prices and the actual and expected expansion in output was due to the world money supply having grown faster than the economy and to the rise in the velocity of circulation of liquid balances owing to the rapid increase in financial derivatives.

One of the features of the second half of the nineties was the pace of productivity gains in the United States deriving from the spread of new technologies; producer prices and world commodity prices remained stable.

The monetary policies of the leading central banks and the interventions of the international institutions had to cope with the succession of financial crises in Mexico, Asia, Russia and Latin America. The spread of these crises was averted; the worst effects of exchange rate instability and bank failures were kept within limits.

Monetary policies and the expansion in the assets of the financial intermediaries active in international markets brought a steady decline in bond yields; the excess of liquidity was reflected primarily in the rise in share prices.

The abundance of funds and the ensuing large fall in the cost of capital fueled the prolonged expansion in US domestic demand and fostered the recovery in 1999 in output and investment in Asia, Europe and Latin America.

The recovery increased the demand for oil and energy products. From the middle of 2000 onwards the ensuing rise in the oil price caused consumption to slow down in the industrial and oil-importing emerging countries.

We had drawn attention to the danger of not taking advantage of the opportunity offered by the improvement in economic conditions to press ahead, in Italy and in Europe, with structural reforms so as to transform the cyclical recovery into a new phase of sustained growth.

Recent economic developments

In the United States economic activity accelerated in the second half of 1999; the expansion continued in the first half of 2000 at a pace well in excess of the economy's potential growth rate.

Inflation picked up significantly. The tightening of monetary conditions begun in June 1999 was intensified during 2000. The federal funds target rate was raised by 1.75 percentage points between the middle of 1999 and the middle of 2000.

As in the other industrial countries, economic activity slackened in the second half of 2000. In the first half the economy's growth rate was nearly 6 per cent; in the third quarter it fell to 2.2 per cent. The rate of expansion in private investment has fallen from 13 per cent in the first half of last year to 3 per cent. For the first time since the end of 1998 pre-tax corporate earnings have declined.

In the last quarter of 2000 there was a further slowdown in economic growth: GDP growth on an annual basis dropped to 1.4 per cent, reflecting the slowdown in consumption and a contraction of nearly 2 per cent in investment.

The economic recovery in Japan, which had been fueled in part by the expansion of public expenditure, proved uncertain. The positive performance of private investment, which expanded by 4.5 per cent in the first nine months of 2000 after contracting in 1999, contrasted with stagnant consumption. In the third quarter net foreign demand's contribution to growth turned negative as a consequence of the sharp slowdown in exports; sales of capital goods to emerging markets in the region contracted.

There continue to be deflationary pressures on both consumer and producer prices.

In the other Asian countries, and especially those most dependent on the international cycle, the rate of growth declined in the second half of 2000, although it remained relatively high.

In Latin America the economies of the countries with the closest trade links with the United States performed well. Output in Mexico increased by 7 per cent in 2000, as against 3.7 per cent in 1999. Brazil recorded an increase of 4 per cent last year, up from 0.8 per cent the year before.

In Argentina, by contrast, the economic situation deteriorated last summer; the appreciation of the dollar, to which the peso is rigidly pegged, resulted in a further loss of competitiveness in 2000, of about 5 per cent.

In Europe the growth in exports, investment and sales of consumer durables had brought a sharp acceleration in production and job creation in the middle of 1999.

The expansion, which was still strong in the first half of 2000, weakened over the summer. The upturn in inflation diminished households' disposable income.

The repercussions of the rise in the price of oil were more severe in Italy than elsewhere. The impact on production of the slowdown in consumption was partly offset by an acceleration in investment and a build-up of stocks of finished products. The cyclical indicators for the fourth quarter of 2000 confirm the slowdown in growth in Europe and Italy compared with the first half of the year.

The year-on-year increase in GDP of the euro-area countries in 2000 is estimated to have been 3.4 per cent, one percentage point more than in 1999. The acceleration was due to the strong growth in world trade and a recovery in market shares. The growth in Italian exports continues to lag behind that in world trade.

Inflation in the euro area averaged 2.3 per cent in 2000. The core rate, excluding energy and food products, was 1.3 per cent. In Italy the overall rate was 2.6 per cent and the core rate 2 per cent.

The net outflow of private capital from Italy and Europe for direct and portfolio investment continued; it was greatest during the summer months. The capital exports of euro-area residents went primarily to the United States, thus helping to finance its substantial external current account deficit.

Banking systems and financial markets

With today's institutional arrangements, the currencies of the leading countries provide the basis for the multiplication of credit in international markets. The stock of money and liquid assets is difficult to control at world level; its expansion is limited only by the risks and the occurrence of instability in intermediaries or financial systems.

In a crisis the costs imposed by the destruction of savings and the contraction of credit, with the economies directly involved bearing the brunt, are much greater than the benefits reaped in the expansionary phase.

The use of derivatives has increased the scope for hedging, but it has also multiplied the volume of speculative positions.

The increase over the last ten years in the size of intermediaries and their internationalization are a response to the increasingly keen competition in domestic and international markets. Advanced methods are required to manage the risks inherent in organizations which have become more complex and are operating in more open and unstable markets.

Recent studies conducted under the aegis of the finance ministers and central bank governors of the Group of Ten indicate that a further increase in the size of intermediaries as a result of mergers and acquisitions would not necessarily enhance stability. Moreover, in domestic markets concentrations involving large banks may pose problems for competition, with adverse repercussions especially for individuals and small businesses.

In the United States rapid economic growth, the development of the capital markets and extensive activity in foreign markets providing high returns have enabled banks to make substantial profits in recent years.

Lending to all categories of borrowers has increased rapidly. Bankers appear to have shared the optimism prevailing in equity markets, leading in some cases to not entirely realistic estimates of customers' creditworthiness.

Corporate indebtedness, the level of share prices and the sizable exposure to emerging countries may aggravate the difficulties of the economy. Banks have adopted more prudent credit policies in parallel with the slowdown in the United States and the international economy.

The Federal Reserve's recent survey of leading banks has revealed a larger-than-expected deterioration in credit quality. The more selective approach to lending primarily concerns medium-sized and large firms and finance for mergers and acquisitions. The banks reported that they were also being more cautious in granting lines of credit to new customers.

The fall in the prices of shares in high-tech sectors has dried up a major source of fee income for intermediaries.

The economic slowdown has also had repercussions on the bond market. The risk premium for bonds issued by firms with a high credit rating widened by about one percentage point in 2000 to 1.3 points; that for bonds with a low rating nearly doubled to 4.3 points.

The premiums have narrowed following the reduction in official rates in January.

Within the euro area, private enterprises intensified their borrowings on the international capital market in 2000. Corporate bond issues exceeded 350 billion euros; syndicated loans to the private sector increased to 230 billion euros. Recourse to the market was led by telecommunications companies.

The growth of the bond market was accompanied by an appreciable widening of yield spreads with respect to government securities. For bonds issued by telecommunications companies, the risk premium had risen to 164 basis points at the end of 2000.

In the Asian emerging countries, where technology companies account for a high proportion of market capitalization, share prices have fallen sharply since March 2000, by 40 per cent in Indonesia and Taiwan, 30 per cent in Korea and Malaysia, and 20 per cent in Thailand.

The increase in corporate indebtedness and greater financial fragility of these countries have undermined the confidence of international investors. This has led to a substantial widening of the yield differentials between dollar-denominated bonds issued by these countries and US Treasuries.

Equity markets have also declined sharply in Latin America, with falls of 20 per cent in Mexico and 30 per cent in Argentina. Financial market tensions in the latter heightened in the last two months of 2000. The yield differential between dollar-denominated Argentine government securities and US Treasuries has widened.

Turkey has experienced serious episodes of financial instability in conjunction with the crisis of its banking system; there have been adverse repercussions on equity prices, interest rates and the exchange rate. The crisis was sparked when international banks cut back their lines of credit to Turkish banks, which were highly exposed to exchange rate risk.

The turbulence in Argentina and Turkey subsided following support interventions coordinated by the International Monetary Fund and marked by the significant participation of the private sector.

The Italian banking system has undergone a wave of mergers and far-reaching restructuring in the last ten years that, starting from a situation marked by low concentration and mainly small banks, has permitted the creation of groups better equipped to face international competition. The liberalization of banking activity and privatizations have helped to increase competition in domestic markets.

The groups that have emerged have improved their profitability by expanding asset management business and reducing staff.

It is now necessary for the leading groups to strengthen their organizational structures and make the improvements competition demands.

They will need to simplify their group and productive structures, rationalize their distribution networks, integrate their information and risk-management systems, and expand their innovative lines of business, especially in services.

In the last three years banks’ profitability has already benefited from action to contain labour costs, the reduction in bad debts and higher revenues from asset management services. In the first half of 2000 banks’ return on equity was 12.4 per cent on an annual basis. Figures for the first three quarters and preliminary data for the fourth confirm the promising outlook for the year as a whole.

Lending continued to expand rapidly in 2000. Exposure to companies operating in high-tech sectors, at interest rates below the average for non-financial firms, more than doubled. Including banks’ holdings of bonds and shares and the guarantees they have issued, the total exposure to these sectors is on the order of 83 trillion lire. The loans granted by the Italian banks that have financed such companies are equal to 30 per cent of their consolidated capital.

The average solvency ratio for the Italian banking system in June 2000 was 10.5 per cent, basically unchanged compared with twelve months earlier. In December 1999 the average value of the ratio for internationally active Italian groups was 9.6 per cent, compared with 12 per cent for competitors in the Group of Ten countries.

The introduction, with the 1988 Basle Capital Accord, of capital requirements related to risk assets fostered a strengthening of banks’ capital bases.

Although the Accord was initially aimed at internationally active banks, the simplicity of its rules has led to its adoption in more than 100 countries.

Extensive revision of the original Accord by the supervisory authorities of the leading countries culminated on 16 January 2001 in the publication of a new capital framework for banks that will come into force in 2004.

The new rules provide for new valuation methods and a more diversified classification of the risks assumed by banks. The capital requirement for credit risk will be based on the assessments of borrowers made by rating agencies or those produced by banks themselves on the basis of their own information. It will take greater account of banks' use of credit risk mitigation techniques. A new charge will be introduced for operational risk.

Supervisors will ensure that banks have systems for managing and monitoring capital adequacy that are appropriate to their overall risk profile; this action will be complemented by market scrutiny on the basis of more extensive disclosure requirements for banks.

The importance of large banks for the stability of the financial system means that they must set aside more capital than the minimum requirements under prudential rules. Especially for intermediaries that borrow in the international markets, high levels of capital strengthen market confidence, *inter alia* with beneficial effects on the cost of funds.

The outlook for the world economy

According to the IMF, the world economy's rate of growth could decline to 3.5 per cent this year, from 4.8 per cent in 2000.

Current forecasts are considerably lower than those published last September.

The very nature of the recovery that began in 1999 and the persistence of deep structural imbalances in some areas had suggested that the rapid pace of world economic expansion would probably not be sustainable.

The plentiful supply of international liquidity made it possible to continue to finance the external imbalances of the United States and the Latin American countries while also fueling the growth of the world economy. However, the rapid increase in demand eventually pushed up energy prices, thereby contributing to the economic slowdown in the United States, Europe and several emerging countries.

In Europe the recovery has been driven by exports. It is necessary to create conditions that will allow domestic demand to grow vigorously.

The return towards more realistic share prices and the adoption of greater prudence in lending by the banking systems most exposed to the emerging countries heighten the need to make the adjustments whose urgency was not recognized in full owing to the cyclical upswing.

In the world's leading economy the spread of innovation is still in progress. The potential growth in output remains high in the long term.

After rising to 5 per cent in 2000, growth in GDP this year may not reach 2.5 per cent. In December the business confidence index fell for the third consecutive month; in January there was also a significant erosion of household confidence.

Both the timing and the extent of the easing of monetary conditions at the beginning of January took the market by surprise; it has presumably served to avoid a collapse in share prices in the United States.

The risk of recession has determined the decidedly expansionary stance of monetary policy. The additional half-point cut in official rates just a few days ago, the possibility of further reductions and especially the clearer intention of using fiscal policy are capable of reviving positive expectations and thus creating the conditions for an upturn.

The sustained expansion in economic activity in the nineties helped to generate the budget surplus and reduce the public debt. In the 2000 fiscal year the federal budget surplus was equal to 2.4 per cent of GDP.

There remains the need to ensure the orderly financing of America's external imbalance. Net inflows of foreign direct investment – more than $250 billion in the three-year period 1998-2000 – make a sudden massive outflow of capital unlikely and attenuate the risk of sharp fluctuations in the value of the dollar.

A rapid recovery of the US economy is essential for the stability of the world's financial markets and the expansion of the global economy.

In Japan the restructuring under way in the major industrial groups, aimed at cutting excess capacity, has permitted their return to profitability and a revival of investment, but it has failed to put the economy back on a path of rapid growth.

Business confidence, which had been recovering strongly, worsened again in December. The high levels reached by the public debt and the budget deficit in 2000 leave little leeway for the use of budgetary policy to boost the economy. The scope for monetary policy support remains limited.

GDP growth is likely to remain close to last year's low figure of 1.6 per cent. Measures to safeguard the stability of the banking system and improve the outlook for growth appear necessary and are under study.

In the euro area the rate of GDP growth in 2001 is expected to be more than half a percentage point lower than in 2000. The outcome will depend on international cyclical developments.

Domestic demand is becoming the crucial factor in sustaining growth. The budgetary measures adopted in several countries with a view to reducing the tax burden on a permanent basis are a step in the right direction only if they are accompanied by a curbing of current expenditure and a strengthening of capital expenditure. Budgetary balance and debt reduction, where appropriate, must be assured.

Taking a broader view, an additional stimulus to growth in European countries will come, under appropriate conditions, from the enlargement of the Union to include central and eastern Europe and some Mediterranean countries.

Over 100 million people would be involved, about one quarter of the area's present population. Average per capita income in the twelve candidate countries is very low, approximately 40 per cent of the average for the Union. Standards of living in these countries vary widely: whereas per capita income is between 20 and 30 per cent of the EU average in Bulgaria, Romania, Latvia and Lithuania, it is close to 70 per cent in Slovenia and is 80 per cent in Cyprus.

All the candidate countries made progress during the nineties in bringing down inflation, which fell from the very high values of the beginning of the decade to 12 per cent in 2000.

Commercial and financial ties with the EU countries have strengthened considerably. In 1999 the exports to the European Union of the twelve countries in question accounted for about 70 per cent of their total exports and consisted mostly of labour-intensive manufactures. In the same year net direct investment in these countries, mostly by EU countries, was equal to almost 5 per cent of their GDP. Foreign investment has fostered the European Union's exports of technologically advanced products and services; at the same time it has helped the beneficiary countries to modernize their capital stock, introduce new technologies and develop management skills.

The entry of these countries into the European Union will intensify the flows of immigrants. The falling birth rates in the countries currently making up the Union call for the entry of additional labour in the medium term. With the support of adequate integration policies, workers coming from the candidate countries, who are relatively well qualified, can be fully inserted into the productive structure and help to sustain growth.

Structural reforms in Italy and other EU countries to increase technological innovation and shift production towards more advanced sectors will prevent "crowding out" and make it possible to reconcile the integration of the new members with increased prosperity throughout the Community.

Conclusions

The price-earnings ratio of the companies of the S&P 500 was 31 at the end of 1999; it declined to 25 in 2000. The expected real rate of return on investment in shares rose from 3.3 to 4 per cent.

In Germany and France the price-earnings ratio dropped from 26 and 25 respectively in 1999 to 21 and 19 in 2000.

In Italy the ratio dropped in the same period from 29 to 23.

In all four markets the price-earnings ratios remain higher than the long-term values that prevailed up to 1995. They may reflect a reduction in the risk premium associated with equity investment.

Other conditions being equal, the greater liquidity of share markets tends to attenuate the fluctuations in the value of individual shares and of portfolios. Savers can diversify their investments widely by using the services of professional asset managers. The depth and resiliency of the markets reduce the risk of loss on the sudden liquidation of portfolios.

Recourse to professionals lowers the costs of investment selection and reassures savers. It is always necessary to correspond to this trust in terms of professional conduct and disclosure to investors.

It is necessary to overcome the slowdown of the international economy and the risks of a worldwide recession. Adverse repercussions on the expected returns on investments must be avoided.

The potential for growth remains high in the largest industrial economy, on whose performance the international cycle depends crucially. It is estimated at around 4 per cent. The diffusion of new forms of organization of production, made possible by information technology and by new technologies, have involved only a part of the economic system; the process can continue in the years ahead.

The expansionary stance of monetary policy and the use of fiscal policy to support demand in the short term and foster investment in the longer run can restart the engine of growth.

For the economies of Latin America, the contribution of North American demand and financing remains fundamental.

In Japan, more resolute deregulation of the economy, the restructuring of production, a greater opening up to foreign businesses and trade with the new industrial economies of the region can increase productivity. Domestic demand, influenced by low demographic growth and the ageing of the population, needs to be supported.

Intermediaries and large banks that operate in international markets are seeking new configurations following the strong growth of the nineties. The banking systems of the countries of the European Union are solid; after the rapid expansion in lending in the past years, a re-examination of the criteria for measuring risk and of the structure and level of capital is necessary.

The potential growth rate of the European economy remains limited by the as yet scant application of new technologies and the slow progress of structural reforms. The expansion will continue, even if more slowly than in 2000, thereby contributing to the stability of the world economy.

An increase in domestic demand can also come from more intense infrastructure investment. It is necessary to press ahead with the steps already taken to remove the rigidities and imbalances that are still present in the labour market, the social security systems and the structure of government budgets. Scope for sustained growth can come from the integration of the economies of central and eastern Europe.

In Italy there is a wide gap between achievable and actual growth.

In 2000 GDP is estimated to have expanded by 2.7 per cent. From the middle of the year onwards consumption was held back by the increase in energy prices; this reduced private sector disposable income significantly, by more than 1 per cent of GDP. Inflation was marginally higher than in the other European countries, but the latest data suggest that a gap could re-open.

Last year exports again expanded less than world trade and the exports of the other EU countries; the increase in sales within Europe was especially small. Non-price factors continue to influence Italy’s export performance and to contribute to the rise in imports.

The increase in employment has been considerable thanks to the innovations in the labour market and the upturn in economic activity. The size of the underground economy has remained basically unchanged and abnormally large by international standards.

Further reform of Italy's labour laws and the agreements between employers and trade unions will have to permit a more flexible adjustment of costs to reflect productivity and individual companies' situations, with account also being taken of the sectors and geographical areas in which they operate.

The recent efforts to raise the volume of public works must be continued, both because of the contribution they make to domestic demand and employment and in order to reduce the infrastructure shortfall in large parts of the country and to increase the efficiency of the economy as a whole.

This raises the issue of the need to improve the functionality of local authorities, to enhance their project development and execution capabilities. Changes must be made to the legal system in order to eliminate regulations and divisions of responsibility that make it hard to bring public works to the starting gate and then through to the finish line. The action already taken to improve the efficiency of government must be followed up.

The improvement in the public finances was interrupted in 2000. The state sector borrowing requirement, net of settlements of past debts and privatization receipts, rose back to 2.2 per cent of GDP, from 1.5 per cent the year before. The overshoot with respect to the estimates included in the Economic and Financial Planning Document was equal to 1 per cent of GDP.

In December the Government presented the update of the Stability Programme for Italy to the European Council and Commission. The target for net borrowing of 0.8 per cent of GDP in 2001 was confirmed.

The results for the borrowing requirement for 2000 make that objective more difficult. Immediate and resolute action is necessary to ensure that it is achieved. The situation of the public finances must be checked month by month. Any overshoots must be corrected. Unfavourable trends in receipts will have to be offset with curbs on disbursements; careful controls on spending are essential in order to avoid having to introduce revenue-side measures.

The growth in GDP in 2001 could be on the order of 2.5 per cent.

The planned reduction in the tax burden will have beneficial effects on domestic demand and growth.

Adjustments in the pension system are necessary in order to ensure its equilibrium in the medium term. More stringent budgetary rules need to be introduced for local authorities.

The planned reduction in the tax burden over the coming years must be credible; it must become part of economic agents' expectations.

Certainty of a reduction in taxation encourages investment and consumption, reduces the disincentives to work and increases our economy's potential rate of growth.

We must put all the time available to us to good use; create the conditions for inserting the Italian economy into the world recovery; strengthen the country's economic and civil development and the prospects of wellbeing for the younger generations and for families.

Financial savings in Italy: instruments, intermediaries and markets

Address by Vincenzo Desario, Director General of the Bank of Italy, to the conference on The New Economy and its impact on finance and insurance
UNIVERSITÀ LUISS - ANIA - IRSA

Rome, 10 January 2001

1. Introduction

This gathering is an opportunity to reflect on the developments and far-reaching changes affecting the savings market and financial intermediaries in Italy.

The experience of the United States in the nineties clearly shows the importance of efficient and developed financial markets for the growth of the economy, income and employment.

In Italy the propensity of households to save, albeit declining, remains higher than in the other leading countries. Demand for financial assets has shifted from bank deposits and short-term securities to equities and long-term bonds.

The asset management industry has grown enormously in the past few years and drawn close to the levels found in the most advanced economies. Macroeconomic trends and legislative reforms have contributed to this progress.

Intermediaries have stimulated and accommodated the inclinations of savers by widening their product ranges and creating new channels of distribution. Intense competition has spurred them to improve the quality of services, brought a lowering of commissions and encouraged internal reorganization designed to enhance operating efficiency and develop specialized expertise.

Greater use is being made of the Internet in order to market financial products, reach new categories of customer and participate in electronic commerce initiatives. The opportunities offered by on-line activities are accompanied on a growing scale by several typical risks of intermediation, particularly the operational and reputational risks connected with distance activity.

Growing demand for equity instruments increases the resources available to finance industrial projects, including those, typical of the high technology sectors, that carry a high risk and offer a deferred return.

The massive purchases of foreign shares by specialized Italian intermediaries have not been balanced by equally large capital inflows to Italy. Foreign investors have tended to prefer Italian government securities.

Italian intermediaries' ability to compete effectively in foreign markets and the need to upgrade our economy's technological level require a further strengthening of the private capital market and the development of corporate finance services comparable to those already widespread in the most advanced financial markets.

2. Financial savings in Italy

The Italian economy's saving rate in 1999 was equal to 21.5 per cent of national income. This was in line with the average for the nineties and compares with the average of 22.5 per cent for the eighties. Today the rate is close to the European average (21.8 per cent) and slightly higher than that for the Group of Seven countries (20.9 per cent).

In the second half of the nineties the improvement in the financial balance of the public sector was accompanied by a decrease in households' propensity to save. In 1999 the proportion of disposable income saved was 13.2 per cent, compared with 16.6 per cent in 1993 and 21 per cent in 1983.

The fall in households' propensity to save can be attributed to the prolonged weak growth in disposable income, and in fact it has been accompanied by a very small rise in consumption. According to recent empirical analyses, the decline has been mitigated by the spread of expectations of smaller pensions, which appears to have encouraged households to step up their accumulation of real and financial assets.

Italy's household saving rate nonetheless remains high by international standards. It is much higher than those of Germany, the United Kingdom and the United States; among the main industrial countries, it is second only to that of France.

The decline in real interest rates, the reduction in the supply of government securities and the expansion in that of asset management services contributed in the second half of the nineties to a major reallocation of households' financial portfolios in favour of equity securities. The progressive integration of financial markets and the elimination of currency segmentation in the euro area have stimulated purchases of foreign securities.

The change in investment choices has been managed by institutional investors. According to the Bank of Italy's survey of household income and wealth, between 1995 and 1998 the proportion of households entrusting their financial savings to investment funds or portfolio management services rose from 5 to 11 per cent, while the proportion of those investing in life insurance products increased from 21.5 to 23.3 per cent.

Ownership of risky financial assets is generally widespread among wealthier households but not everywhere to the same extent. In the United States 87 per cent of the households in the highest quartile of the distribution of wealth held shares either directly or indirectly in 1998. In Italy the corresponding figure was 39 per cent.

Italian households also stand out by international comparison for the low level of their debt. The ratio between households' financial liabilities and assets was 6.6 per cent in Italy at the end of 1999, similar to the figure in Germany but far lower than those in France, Spain and the Anglo-Saxon countries. In the past few years sharply falling interest rates have encouraged vigorous growth in loans to households, primarily for the purchase and renovation of properties and for specific items of consumption.

3. The growth of asset management in Italy

Between the end of 1996 and the third quarter of 2000 assets under management in Italy in individual and collective investment portfolios nearly tripled to 1,940 trillion lire. Investment funds accounted for 58 per cent of the increase and took on a central role in the management of savings.

Households' growing demand for individual and collective asset management services was abetted by the reform of the legislation governing the credit and financial sectors.

The legislative innovations helped new products to succeed, promoted greater efficiency in the financial industry and strengthened the competitiveness of Italian intermediaries in a context of markets open to international competition.

The 1998 Consolidated Law on Financial Intermediation was of fundamental importance to this process.

The new institution it created, the asset management company, constitutes the organizational model for all intermediaries authorized to operate in the different market segments: from individual portfolio management to collective investment vehicles, pension funds and advisory services. It has introduced an element of organizational flexibility allowing banking and financial groups to rationalize their presence in the various sectors of activity and to centralize management functions and separate them from distribution.

The 99 asset management companies operating at the end of 2000 accounted for 74 per cent of the assets under management in individual and collective investment portfolios. A growing number of banking groups delegate these companies to operate their individual portfolio management services and they are also entrusted with a large part of the portfolios of Italy's main insurance companies.

The removal of the procedures for creating new categories from the realm of statute law, with responsibility for establishing their characteristics assigned to the Treasury Minister in July 1999, has fostered product innovation and made new management instruments available.

The formalities have been simplified and the time taken to approve investment fund rules has been appreciably shortened. A set of standard rules has been defined and their adoption by fund management companies will make it possible to minimize the supervisory checks by the Bank of Italy, which is committed to issuing its authorization within twenty days instead of the maximum of four months provided for by law.

In December 2000 the assets of Italian investment funds totaled 880 trillion lire, four times more than at the end of 1996. Units of Italian investment funds, which represented 2 per cent of households' total financial assets at the start of the decade, accounted for 18.5 per cent at the end of 1999.

In the last four years investment funds initially recorded a surge in net subscriptions, followed after 1998 by the ongoing phase marked by more moderate increments and, above all, by a pronounced reallocation of assets among the different categories of fund.

Initially, banks sought to expand their sources of non-interest income by encouraging customers to invest in money market and bond funds that were better able than individual investors to realize capital gains from the convergence of Italian interest rates with those prevailing in the leading European countries.

In 1999 and 2000 the fall in bond prices encouraged a shift of savings into equity funds. In November 2000 equity funds' assets had grown to 38 per cent of the total, a value close to the European average.

Foreign funds, especially Luxembourg and Irish funds, largely established by Italian intermediaries, have become widespread in Italy, partly owing to the difference in tax treatment. In 2000 the net inflow that they recorded, equal to around 72 trillion lire, more than offset the net outflow from Italian funds.

At the end of 2000 there were around 1,000 funds in operation, twice as many as at the end of 1996. The shape of the Italian market is different from that of the other European countries, where the average size of funds is relatively small; for instance, total investment fund assets are only slightly greater in France than in Italy, whereas the number of funds is six times higher.

The larger average size of the funds marketed in Italy is partly a reflection of the still limited extent of product diversification, but this is changing as intermediaries seek to respond better to the needs of different categories of investor.

The product range is also tending to widen with the introduction of highly specialized instruments, to be used in complex portfolios or as components of portfolios modeled on specific goals pursued by individual investors.

Today investment funds often constitute the "raw material" for further forms of asset management, such as insurance policies and individual portfolio management accounts. For the latter, the phenomenon is becoming highly significant; the proportion invested in funds has risen rapidly, reaching 55 per cent last September. Investment fund returns act as the principal parameter in unit-linked insurance policies, which have lately recorded significant rates of growth.

Funds of funds, which foster broader risk diversification by improving the distribution of the investment, are becoming popular and are positioned to compete with unit-linked policies. Some 40 of them were established last year and had assets totaling 9.7 trillion lire at the end of December.

Funds reserved for qualified investors, targeted to institutional customers willing to take on more risk in order to obtain higher returns, are making headway. They are permitted to derogate from the prudential rules for diversifying and limiting risks and allowed greater autonomy in establishing their investor entry and exit procedures. About 20 of these products have been offered so far, although most are sub-funds of just one fund.

Speculative or hedge funds, characterized by particularly high risks and returns, are a third type of innovative product. Unlike the general run of finds, they may take out loans and engage in short-selling. Although only two asset management companies specializing in this sector have been authorized up to now, the market is seeing a spate of initiatives especially on the part of intermediaries that are not members of banking or insurance groups.

Pension funds are gaining ground as a form of collective portfolio management.

"Contractual" pension funds, restricted to specific categories of workers, have significant enrolment considering the short time they have been in operation. At the end of 1999 their members numbered more than 700,000, although their assets were still not much more than 1 trillion lire, since only 6 of the more than 30 funds authorized had gone live. Most of the 17 authorizations issued for management agreements regarded asset management companies and investment firms.

"Open" pension funds have attracted fewer members; the number enrolled does not exceed 140,000. By the end of 1999 authorization had been granted for 88 funds, mainly established by insurance companies and asset management companies, and 61 funds were in operation.

The growth of pension funds could be stimulated by the fiscal measures introduced with Legislative Decree 47 of February 2000, which raised the ceilings for the tax deductibility of contributions for individuals and equated the taxation of the net operating result with that in effect for investment funds, but with a rate reduced from 12.5 to 11 per cent.

Individual portfolio management accounts, which were born as an instrument for higher income investors, have gradually spread to a wider customer base in forms ranging from the specialized and personalized accounts reserved to wealthier investors to those set up on predetermined lines, largely involving investment funds, for smaller amounts. The composition of portfolio management accounts has also changed as government securities have made room for a growing proportion of shares and corporate bonds.

At the end of 1999 individual portfolio management accounts held 7.5 per cent of households' financial assets, compared with 3.2 per cent at the beginning of the nineties. Their growth slowed down in 2000. In September their value exceeded 750 trillion lire, 56 per cent of which under management by banks and one third entrusted to asset management companies.

4. Competition in the Italian asset management market

In the international panorama, Italy's asset management market has attained significant size. Italy is the fourth-largest "producer" in the world, following the United States, Japan and France. Investment funds directly or indirectly controlled by Italian groups account for 18 per cent of the investment fund market in Europe. Two of the five largest European groups are Italian.

At the end of 1999 the Italian market had a high degree of concentration: 10 groups, including 2 headed by insurance companies, controlled 71 per cent of total assets under management. In September of last year Italian banks' market share was 83 per cent, while that of foreign intermediaries was around 10 per cent.

Product innovation is being stimulated as competition grows and investors pay more attention to returns, fee levels and service quality. Use of the Internet threatens the primacy of traditional distribution networks and makes it easier to compare competing offers.

The leading operators are offering an ever-expanding menu of products, including financial instruments issued by other intermediaries, in order to attract customers and secure their loyalty.

The increase in competition has been reflected in pricing. In the investment fund sector, entry fees have dropped substantially: in 1999 the total amount of such fees fell by 11 per cent compared with the preceding year in spite of the increase in subscriptions.

The major investments necessary to acquire a significant position in the asset management market and the importance of marketing networks favour the formation of large intermediaries, particularly bank-related ones with extensive potential customer bases.

Foreign companies are stepping up their efforts to expand in Italy and seeking to overcome the handicap of limited distribution networks. Entry strategies centre on marketing agreements with local intermediaries and on-line distribution. The number of foreign funds sold in Italy jumped from 1,200 to 1,800 last year.

Portfolio reallocation to the benefit of foreign securities is tending to reduce the comparative advantage Italian asset managers derive from their knowledge of domestic issuers. This could affect their ability to compete if it were not accompanied by the acquisition and development of specific skills. The Italian managers of a growing number of funds are engaging major foreign intermediaries to handle specific sectors of investment.

Italian intermediaries' presence in foreign markets is still limited. The decision to locate management activity abroad is often motivated more by advantageous tax treatment than a strategy of international growth. Investment funds established abroad by Italian firms collect nearly all their funds from savers in Italy.

An important step in the direction of a common regime of taxation of non-residents' investment income within the European Union was taken by the Ecofin Council meeting of last November, which agreed a draft directive on the matter. For a transitional period of seven years, twelve countries would implement an information-exchange system, while three (Austria, Belgium and Luxembourg) would apply a withholding tax (equal to 15 per cent for the first three years and 20 per cent thereafter), with three-quarters of the resulting revenue being rebated to the investor's country of residence.

In the Italian market, where competition is now intense, banks still play a central role in the development of investment funds and portfolio management accounts.

In the last three years the banking system has recouped profitability by expanding the supply of services. Income from asset management and securities custody accounts amounted to 12 trillion lire in 1999, an increase of 47 per cent on the preceding year. The rising trend continued in the first half of 2000, when, despite the upturn in net interest income, the share of total gross income attributable to asset management rose to 13 per cent, compared with 10 per cent a year earlier.

In order to increase their ability to compete, Italian banking groups have launched a far-reaching effort to reorganize their production and distribution processes with a view to achieving economies of scale and capitalizing on in-house professional resources.

The amount of assets involved and the growing complexity of management activity have led to a growing separation between portfolio management and the activity of the sales networks, which are focused on helping customers to identify the most appropriate risk-return profile.

Not infrequently, administrative, accounting and internal audit functions are entrusted to specialized arms of the group.

Crucial organizational factors include the ability to define strategic objectives, pursue them consistently with adequate resources, exercise full control over operational and reputational risks, and maintain effective control over outsourced functions.

The Bank of Italy has placed the monitoring of asset management companies' organizational structures at the centre of supervisory action, requiring companies to have the controls and human and technical resources needed to ensure correct performance of the mandates conferred on them by investors. This aspect is particularly important in the case of companies managing innovative funds. Supervisory scrutiny covers the entire production process, from the formulation of management strategies to the valuation of fund units.

5. Banks in the market for insurance products

The share of households' financial assets managed by insurance companies rose to 6 per cent in the nineties. Banks play an important role in this market. Growing ownership links between banks and insurance companies, especially in the field of life insurance, and cross-selling of products are to be found in all the leading countries. The aim of both banks and insurance companies is to diversify the range of products available to households and reduce the incidence of the fixed costs of sales networks.

Bancassurance developed in Europe under the impetus of deregulation in the eighties in France and the United Kingdom; in the United States the legislation prohibiting commercial banks from producing or selling insurance products was repealed in 1999.

Business combinations involving banks and insurance companies have frequently been cross-border and have given rise to some of the largest European conglomerates. Banks have acquired substantial market shares in the distribution of insurance products in Germany, Spain, Portugal and the Nordic countries.

Under Italian law banks can acquire control of insurance companies and vice versa. Cross-selling is permitted, provided the products are standardized and it is carried out under agreements that clearly define the contractual liabilities and risks associated with the instruments being sold.

In Italy bancassurance involves some of the country's biggest intermediaries, including five of the ten largest life insurance companies. In September 2000 banks owned interests in 72 Italian insurance companies, of which 34 engaged in life business and 24 in mixed business; some smaller banks are controlled by insurance companies.

The role of banks in the insurance industry is clearly revealed by their share of total life premium income, which rose from 5 per cent at the beginning of the nineties to 50 per cent in 1999. In that year, according to a survey conducted by the Bank of Italy, life premium income deriving from new policies sold by the banking system amounted to 41 trillion lire; about two thirds of the premium income was generated by large banks that accounted for 56 per cent of bank deposits and bonds. Some 84 per cent of the premium income came from policies issued by insurance companies in which banks owned an interest; the remainder referred to policies sold exclusively under distribution agreements.

In line with Community law, insurance companies are not included in banking groups in Italy nor are their accounts consolidated with those of banks; the same approach has been adopted for the consolidated accounts of insurance companies.

Attention is being drawn in international fora to the need to avoid the dilution of the capital of conglomerates made up of banks and insurance companies as a result of its being used to cover the risks of more than one group company at the same time (a phenomenon known as double gearing). The protection of intermediaries' stability is entrusted to the prudential rules of each sector and the supervision carried out by the competent authorities. Italian law provides for full cooperation between the two authorities involved based on the exchange of information needed to maximize the effectiveness of supervision.

6. The new economy and financial intermediation

The flow of private Italian capital channelled to foreign markets by specialized intermediaries is growing. For the most part the funds are used to buy shares: in September 2000 Italian investment funds held 292 trillion lire of foreign shares, more than three times the value of their holdings of Italian shares, as against a ratio of less than one in 1996.

The inflow of capital from abroad has mainly been invested in government securities. Between the end of 1996 and September 2000, the proportion of public debt securities held by non-residents rose from 16.3 to more than 40 per cent. The proportion of Italian shares held by non-residents remained small, at around 10 per cent.

The pattern of capital movements to and from abroad reveals an inadequate supply of equity and debt instruments on the part of Italian private-sector issuers.

The low market capitalization of the stock exchange is a feature of Italy's financial system, although the value of listed companies has increased considerably in the last few years owing to privatizations and the rise in share prices. At the end of September 2000, the market capitalization of the Italian stock exchange was equal to 73 per cent of GDP, in line with the figure for Germany but less than those for Spain and France, respectively 94 and 118 per cent.

The gap with respect to the other euro-area countries in terms of the number of listed companies continues to widen: in the first 11 months of last year, 11 new companies were listed on the main board and 28 on the Nuovo Mercato. These are large increases compared with the past, but when delistings are included, the number of Italian listed companies rose by only 21, compared with 123 in Germany and 54 in France.

Numerous studies have sought to identify the reasons for the limited growth of the stock exchange and assess its consequences for the efficiency of resource allocation and the transfer of corporate ownership.

It is widely held that the limited presence of institutional investors cannot be invoked as the main reason for the small size of the market and the tax regime has been ruled out as a factor discouraging the ownership of shares. The changes made to the organizational aspects of the stock exchange, stimulated by the competition between financial centres, have increased the liquidity and transparency of transactions.

The studies stress the limited supply of shares; businessmen's fear of losing control and reluctance to disclose the information laid down for listed companies discourage them from going public.

It is necessary to create conditions conducive to the listing of companies with good growth prospects. The objective is to channel the savings made available by the reduction in the government's borrowing requirement and by investors' greater propensity to hold risky assets towards the most dynamic and innovative companies.

New economy firms and those operating in high-tech sectors are marked by high risk-return ratios and their greater difficulty in raising finance by traditional means.

In the United States these companies can obtain adequate financial support by sharing ownership with venture capital companies. These have detailed knowledge of the markets in which the companies they finance operate, have a voice in the most important company decisions, make the release of funds subject to progress in the implementation of corporate plans and obtain resources from closed-end investment funds and institutional and private investors. In 1998 about 60 per cent of the funds raised by such companies came from pension funds, which have a very long time horizon for their investments.

In Europe venture capital business has grown rapidly in the last few years; however, compared with the United States, it has focused less on investments in innovative sectors and newly-born companies.

Closed-end investment funds constitute a vehicle of fundamental importance for the financing of this activity. In Italy a decree issued by the Minister of the Treasury in July 1999 removed some of the restrictions on the maximum equity interests that could be held in each company receiving finance and made it easier for investors to enter and exit such funds. Funds reserved for qualified investors enjoy even greater freedom. The outcome has been an expansion in activity in this field: the number of funds in operation has almost doubled and innovative initiatives have been launched.

In the two years 1998-99, venture capital companies carried out more than 600 transactions in Italy, but less than 20 per cent were in high-tech sectors such as information technology, electronics, communications and biotechnology.

Firms are making increasing use of the bond market in order to lengthen the average maturity of their debt, diversify their sources of financing and reduce the overall cost of their borrowings.

The start of the single currency has boosted the Eurobond market, which issuers find attractive in view of the wide range of investors, the absence of withholding tax on interest income, and the depth guaranteed by the participation of leading banks and important institutional investors.

In 1999 Italian non-financial companies made 32 Eurobond issues for a total of 24 billion euros, with one company accounting for 16 billion. In the first three quarters of 2000 there were 31 issues for a total of 9 billion euros.

The role played by banks in the bond market consists in certifying the creditworthiness of issuers, providing liquidity and placing securities through their branches, which also brings in additional and steadier revenues.

The processes involved in the production and distribution of financial services are undergoing profound changes connected with the increasingly widespread application of information and communication technology. The Internet is accelerating the changes taking place in the financial system.

The situation that is emerging is highly diversified and offers many opportunities, but it is also beset with risks.

Banks and other intermediaries can make extensive use of the Internet to collect, process and transmit information, expand the range of services they supply and participate in the development of e-commerce.

The Internet makes it possible for banks to consolidate and expand their business with existing customers, but even more importantly it allows them to pursue expansion policies in new catchment areas, thanks to the reduction in establishment and transaction costs. On the other hand, it allows operators in the communications and software industries to develop products similar to those offered by the financial sector and thus increase competition in the field of intermediation.

The changes occurring in the ways services are produced and supplied, in the distinguishing features of customers and in the structure of the markets accentuate some of the risks typical of financial intermediation.

Strategic risks are especially important in view of their size and the rapid obsolescence of investments; operational and reputational risks, related to the scope for fraud and procedural inefficiencies, also stand out. Difficulties in performing contracts and malfunctioning of IT systems affect the continuity of services and the certainty of transactions and can jeopardize the relationship of trust with customers.

Today’s increased customer mobility makes the management of interest rate and liquidity risk more complicated; the assessment of creditworthiness is more difficult for distance lending.

Intermediaries’ first line of risk control is provided by their internal checking systems, which must be consistent with the volume and special features of business conducted over the Internet.

The supervisory authorities of the United States and several European countries have adopted ad hoc measures in this field. Particular importance is assigned to the role of intermediaries’ boards of directors, which are required to establish the objectives for Internet business, identify the related risks and put the necessary organizational bulwarks in place.

These criteria are analogous to those underlying the regulations concerning banks’ internal controls issued by the Bank of Italy at the end of 1998, which call on managements to assess entry into new sectors very carefully, especially where these are highly innovative and complex, and to ensure the proper working of their information systems.

7. Conclusions

The Italian financial system is becoming more and more like those of the other leading countries. The lengthening of average life expectancy, the reform of public pension systems, and more widespread familiarity with financial instruments are tending to strengthen the preference for managed assets, encourage investors to look for a high degree of diversification even for small amounts, and stimulate the demand for increasingly complex and sophisticated financial services.

The new economy, taken to mean primarily the innovation in production and distribution brought about by the major changes that have taken place in technology, can increase the efficiency of economic systems, enhance competitiveness, improve the allocation of resources and sustain growth in the long run. At the same time, however, it exposes intermediaries to particularly insidious risks: lending to new economy firms requires highly specialized skills and thorough examination of applications in order to make correct assessments of projects based on expectations that are far from easy to interpret in sectors marked by very variable profitability and rapid technical obsolescence. Prudence appears all the more necessary in the light of the signs of crisis at important e-commerce companies and the high volatility shown by technology stocks.

The share of equity capital in households' portfolios is increasing, as is the share of savings entrusted to specialized managers, and greater use is being made of technologically advanced channels for the distribution of financial instruments.

The central role of innovation and modern technologies in competing successfully in international markets calls for far-reaching changes in the financial management of firms and in the business of intermediaries.

The spread of new technologies is altering the relationship between intermediaries and users of financial services. Customers are better informed and more active; the contractual relationship is becoming more equal; and the importance of personal acquaintance and previous dealings is likely to decline. The competitive challenge is in terms of the degree of customer "satisfaction", in terms of quality of service, product differentiation, the transparency of contractual terms and conditions, and the level of technical security.

In a context marked by fierce competition in international markets firms must innovate in their activities, products and processes.

The key to Italy's growth prospects lies in reconciling a fabric of small and medium-sized enterprises with the need to develop sectors based on advanced technologies and higher capital intensity, which presuppose very large investments with long paybacks.

Banks are required to make good use of the wealth of information they have acquired in years of profitable cooperation with businesses, in order to increase their ability to provide financial market advice and assistance. In their lending, they must combine their knowledge of customers with careful evaluation of the latter's investment projects, in order to select those that deserve to be financed and the most appropriate forms of support.

Intermediaries and firms must be able to operate in a legal and economic context that is certain and provides the security needed to enter into long-term commitments and carry out projects with a long time horizon.

Measures are needed to foster the organizational and operational flexibility of firms, especially small and medium-sized enterprises, and to remove all the restrictions on competition.

Such action is essential in a country called upon to make a special effort to modernize its economic system, so as to put households' savings to good use, raise the potential growth path and increase employment.

Appendix

Statistical tables

The world economy

The Italian economy

Money, credit and interest rates

SYMBOLS AND CONVENTIONS

In the following tables:

— the phenomenon in question does not occur;

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

.. the value is known but is nil or less than half the final digit shown;

( ) provisional;

( ) estimated.

Notes to the statistical tables are on pp. 47a-52a.

Table a1

GDP at constant prices

	Percentage of world GNP in 1998 (1)	1996	1997	1998	1999	2000	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4
	(percentage changes on previous period on an annual basis; seasonally adjusted quarterly data)										
Industrial countries											
United States	21.3	3.6	4.4	4.4	4.2	5.0	8.3	4.8	5.6	2.2	1.1
Japan	8.0	3.5	1.8	−1.1	0.8	. . . .	−5.8	10.0	0.9	−2.4	. . . .
Euro area	16.0	1.4	2.3	2.7	2.5	. . . .	3.8	3.6	3.5	2.5	. . . .
Germany .	*4.9*	*0.8*	*1.4*	*2.1*	*1.6*	*3.0*	*3.5*	*3.9*	*4.8*	*1.1*	*0.8*
France . . .	*3.4*	*1.1*	*1.9*	*3.3*	*3.2*	*3.0*	*4.5*	*2.2*	*2.8*	*2.4*	*3.9*
Italy	*3.2*	*1.1*	*2.0*	*1.8*	*1.6*	*2.9*	*2.3*	*4.4*	*1.0*	*2.4*	. . . .
United Kingdom	3.2	2.6	3.5	2.6	2.3	3.0	3.3	1.2	4.2	3.3	1.3
Canada	1.9	1.5	4.4	3.3	4.5	4.7	5.1	4.8	4.3	4.5	2.6
	(percentage changes on year-earlier period)										
Emerging countries											
Latin America											
Argentina	1.1	5.5	8.1	3.9	−3.4	. . . .	−0.5	0.5	0.2	. .	. . . .
Brazil	2.9	2.7	3.3	0.2	0.8	4.2	3.4	3.8	3.5	5.1	4.4
Mexico	1.9	5.1	6.8	4.8	3.9	6.9	5.4	7.7	7.6	7.3	5.1
Asia											
China	10.2	9.6	8.8	7.8	7.1	8.0	6.8	8.1	8.3	8.2	7.4
South Korea	1.7	6.8	5.0	−6.7	10.7	. . . .	13.0	12.7	9.6	9.2	. . . .
India	5.4	7.8	5.0	6.8	6.4	. . . .	7.2	5.8	6.0	. . . .	. . . .
Indonesia	1.3	7.8	4.7	−13.4	0.5	4.8	5.2	3.6	4.5	5.9	5.0
Malaysia	0.5	10.0	7.5	−7.6	5.8	. . . .	11.0	11.9	8.5	7.7	. . . .
Thailand	0.9	5.9	−1.4	−10.8	4.2	. . . .	6.5	5.1	6.3	2.6	. . . .
Taiwan	. . . .	6.1	6.7	4.6	5.4	6.0	6.4	7.9	5.4	6.6	4.1
Europe											
Poland	0.8	6.0	6.8	4.8	4.1	. . . .	6.2	6.0	5.2	3.3	. . . .
Russia	2.4	−3.4	0.9	−4.9	3.2	. . . .	7.3	8.3	6.7	7.9	. . . .
Turkey	1.1	7.4	7.6	3.2	−5.1	. . . .	−3.4	5.5	6.0	7.4	. . . .

(1) On the basis of purchasing power parities.

Table a2

Industrial production

	1997	1998	1999	2000	August 2000	September 2000	October 2000	November 2000	December 2000	January 2001
	(percentage changes on previous period; seasonally adjusted data)									
Industrial countries										
United States	6.7	4.8	4.1	5.6	0.7	0.3	–0.2	–0.3	–0.5	–0.3
Japan	4.1	–7.2	1.0	5.3	3.4	–3.4	1.5	–0.8	1.8	–3.9
Euro area	4.1	4.3	1.9	5.4	0.4	0.6	–0.1	1.2	2.0	. . . .
Germany	*3.7*	*4.2*	*1.5*	*6.2*	*0.3*	*–0.3*	*–0.9*	*0.6*	. .	. . . .
France	*3.7*	*5.2*	*2.1*	*3.2*	. .	*–0.4*	*0.6*	*0.3*	*0.1*	. . . .
Italy	*3.3*	*1.9*	*0.1*	*3.1*	*1.3*	. .	*–0.7*	*1.1*	*2.2*	. . . .
United Kingdom	1.0	0.8	0.5	1.5	0.4	–0.9	. .	0.1	–0.6	. . . .
Canada	4.4	2.4	4.5	5.6	0.6	–0.4	0.6	–0.2	–0.3	. . . .
	(percentage changes on year-earlier period)									
Emerging countries										
Latin America										
Argentina	10.2	1.4	–5.9	1.4	–0.9	–3.7	–4.5	–3.9	–5.2	–2.0
Brazil	3.9	–2.0	–0.6	6.5	7.8	3.3	7.1	5.0	7.5	. . . .
Mexico	9.3	6.3	4.2	6.6	8.3	6.0	7.1	4.5	–0.5	. . . .
Asia										
China	13.2	9.6	9.9	11.2	12.8	12.0	11.4	10.6	10.4	2.3
South Korea	6.3	–7.6	24.5	16.8	24.8	15.2	11.7	6.5	4.7	0.1
India	5.4	3.4	7.6	6.6	5.2	6.5	6.6	7.2	3.4	. . . .
Indonesia	13.2	–13.3	25.6	. . . .	–	–	–	–	–	–
Malaysia	10.7	–7.2	9.1	19.3	18.4	15.9	20.3	12.3	15.1	. . . .
Thailand	–0.6	–12.0	14.1	3.0	–2.3	1.6	0.8	–1.6	1.5	3.6
Taiwan	7.4	2.7	7.7	7.4	9.5	16.2	7.2	1.6	–3.0	–14.0
Europe										
Poland	11.1	4.7	4.8	7.5	9.2	5.0	7.1	4.7	–2.2	10.1
Russia	1.9	–5.2	8.1	8.8	10.2	7.2	10.4	7.6	2.5	5.3
Turkey	10.0	0.9	–5.2	5.8	17.2	9.7	14.9	11.3	–4.1	6.5

Table a3

Consumer prices

	1996	1997	1998	1999	2000	September 2000	October 2000	November 2000	December 2000	January 2001
	(percentage changes on year-earlier period)									
Industrial countries										
United States	2.9	2.3	1.6	2.2	3.4	3.5	3.4	3.4	3.4	3.7
Japan	0.1	1.7	0.6	−0.3	−0.6	−0.8	−0.9	−0.5	−0.2	0.1
Euro area (1)	2.2	1.6	1.1	1.1	2.3	2.8	2.7	2.9	2.6	2.4
Germany	*1.2*	*1.5*	*0.6*	*0.6*	*2.1*	*2.6*	*2.4*	*2.6*	*2.3*	*2.2*
France	*2.1*	*1.3*	*0.7*	*0.6*	*1.8*	*2.3*	*2.1*	*2.2*	*1.7*	*1.4*
Italy	*4.0*	*1.9*	*2.0*	*1.7*	*2.6*	*2.6*	*2.7*	*2.9*	*2.8*	*2.7*
United Kingdom	2.9	2.8	2.7	2.3	2.1	2.2	2.0	2.2	2.0	1.8
Canada	1.6	1.6	1.0	1.7	2.7	2.7	2.8	3.2	3.2	3.0
Emerging countries										
Latin America										
Argentina	0.2	0.5	0.9	−1.2	−0.9	−0.7	−0.5	−0.7	−0.7	−1.5
Brazil	15.8	6.9	3.2	4.9	7.1	7.8	6.7	6.0	6.0	5.9
Mexico	34.4	20.6	15.9	16.6	9.5	8.9	8.9	8.9	9.0	8.1
Asia										
China	8.3	2.8	−0.8	−1.4	0.3	. .	. .	1.3	1.5	1.5
South Korea	4.9	4.4	7.5	0.8	2.3	3.9	2.8	2.6	3.2	4.2
India	9.0	7.2	13.2	4.7	4.0	3.5	2.7	2.7	3.5	. . . .
Indonesia	8.0	6.2	58.4	20.5	3.7	6.8	7.8	9.1	9.3	8.3
Malaysia	3.5	2.7	5.3	2.7	1.5	1.5	1.9	1.9	1.4	1.5
Thailand	5.8	5.6	8.1	0.3	1.5	2.4	1.7	1.7	1.3	1.3
Taiwan	3.1	0.9	1.7	0.2	1.3	1.6	1.0	2.3	1.7	2.4
Europe										
Poland	19.8	15.1	11.8	7.3	10.1	10.3	9.9	9.3	8.5	7.4
Russia	47.8	14.8	27.6	85.7	20.8	18.6	19.4	19.8	20.2	20.7
Turkey	80.3	85.7	84.6	64.9	54.9	49.0	44.4	43.8	39.0	35.9

(1) As of January 2001, includes Greece.

Table a4

External current account

	1996	1997	1998	1999	2000	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4
					(billions of dollars; seasonally adjusted quarterly data)					
Industrial countries										
United States	−123.3	−140.5	−217.1	−331.5	. . . .	−96.2	−101.5	−105.0	−113.8	. . . .
Japan	65.8	94.2	121.2	106.9	117.3	25.9	34.1	32.1	29.4	23.8
Euro area (1)	. . . .	68.9	34.8	−6.6	−26.7	−6.6	−8.0	−6.3	−5.6	−6.8
Germany	*−8.0*	*−3.1*	*−4.6*	*−19.9*	*−26.8*	*−7.9*	*−1.8*	*−7.2*	*−6.6*	*−11.6*
France	*20.5*	*38.0*	*37.7*	*37.3*	. . . .	*8.5*	*6.5*	*8.7*	*6.9*	. . . .
Italy	*39.5*	*32.3*	*21.7*	*8.3*	*−4.4*	. .	*1.1*	*−1.8*	*−2.6*	*−1.1*
United Kingdom	−0.7	10.8	−0.1	−16.0	. . . .	−1.1	−5.3	−5.3	−4.7	. . . .
Canada	3.4	−10.1	−11.1	−2.3	12.7	−0.2	3.2	2.6	3.1	3.8
					(billions of dollars; quarterly data, not seasonally adjusted)					
Emerging countries										
Latin America										
Argentina	−6.8	−12.3	−14.6	−12.3	. . . .	−3.3	−3.2	−1.4	−2.4	. . . .
Brazil	−23.1	−30.8	−33.6	−25.1	−24.6	−7.8	−4.1	−7.2	−4.5	−8.9
Mexico	−2.3	−7.4	−16.1	−14.1	. . . .	−4.4	−4.6	−3.4	−4.0	. . . .
Asia										
China	7.2	29.7	31.5	15.7	. . . .	–	–	–	–	–
South Korea	−23.0	−8.2	40.4	24.5	. . . .	5.7	1.5	2.7	3.5	. . . .
India	−6.0	−3.0	−6.9	−2.8	. . . .	−0.2	−1.1	−2.3	−1.7	. . . .
Indonesia	−7.7	−4.9	4.1	5.8	. . . .	1.5	1.9	. . . .	. . . .	. . . .
Malaysia	−4.5	−5.9	9.5	12.6	. . . .	2.8	2.8	2.1	. . . .	. . . .
Thailand	−14.4	−3.1	14.3	12.5	9.2	3.3	3.2	1.6	2.2	2.2
Taiwan	6.5	5.5	10.9	7.1	. . . .	1.9	1.1	1.4	2.9	. . . .
Europe										
Poland	−1.4	−4.3	−6.9	−11.6	−9.9	−3.6	−3.5	−2.1	−2.3	−2.0
Russia	11.8	2.1	0.7	25.0	. . . .	10.8	12.0	11.0	10.6	. . . .
Turkey	−2.4	−2.6	2.0	−1.4	−9.3	−1.4	−2.3	−3.3	−1.3	−2.5

(1) Not seasonally adjusted. The figure for services and income up to the end of 1997 are not exactly comparable with those for the subsequent periods.

Table a5

Short-term interest rates

(percentages)

	US	Japan	Euro area	UK	Canada
			Official reference rates *(end-of-period data)*		
1996	5.25	0.50	–	6.00	3.25
1997	5.50	"	–	7.25	4.50
1998	4.75	"	–	6.25	5.25
1999	5.50	"	3.00	5.50	5.00
2000 – Feb.	5.75	"	3.25	6.00	5.25
Mar.	6.00	"	3.50	"	5.50
Apr.	"	"	3.75	"	"
May	6.50	"	"	"	6.00
June	"	"	4.25	"	"
July	"	"	"	"	"
Aug.	"	"	4.50	"	"
Sept.	"	"	"	"	"
Oct.	"	"	4.75	"	"
Nov.	"	"	"	"	"
Dec.	"	"	"	"	"
2001 – Jan.	5.50	"	"	"	5.75
Feb.	"	0.35	"	5.75	"
			Money market rates *(period averages)*		
1997	5.62	0.64	4.37	6.83	3.56
1998	5.47	0.81	3.94	7.34	5.07
1999	5.33	0.31	2.96	5.45	4.92
2000	6.46	0.32	4.39	6.11	5.70
2000 – Feb.	6.01	0.14	3.54	6.15	5.31
Mar.	6.14	0.26	3.75	6.15	5.41
Apr.	6.28	0.13	3.93	6.21	5.52
May	6.70	0.16	4.36	6.23	5.86
June	6.73	0.09	4.50	6.14	5.92
July	6.67	0.33	4.58	6.11	5.88
Aug.	6.61	0.33	4.78	6.14	5.89
Sept.	6.60	0.40	4.85	6.12	5.85
Oct.	6.67	0.57	5.04	6.08	5.84
Nov.	6.65	0.63	5.09	6.00	5.88
Dec.	6.45	0.66	4.94	5.89	5.76
2001 – Jan.	5.62	0.55	4.77	5.76	5.46
Feb.	5.26	0.45	4.76	5.69	5.21

Table a6

Long-term interest rates and share price indices

(period averages)

	US	Japan	Germany	France	Italy	UK	Canada
				Bond rates *(percentages)*			
1997	6.35	2.13	5.64	5.58	6.86	7.13	6.14
1998	5.26	1.30	4.57	4.64	4.88	5.60	5.28
1999	5.64	1.76	4.49	4.61	4.73	5.01	5.54
2000	6.03	1.76	5.26	5.39	5.58	5.33	5.93
2000 – Feb.	6.52	1.83	5.51	5.62	5.73	5.63	6.34
Mar.	6.26	1.82	5.33	5.43	5.58	5.34	6.03
Apr.	5.99	1.75	5.22	5.33	5.47	5.30	5.92
May	6.44	1.71	5.38	5.50	5.66	5.41	6.22
June	6.10	1.69	5.19	5.32	5.51	5.21	5.90
July	6.05	1.73	5.27	5.40	5.59	5.24	5.86
Aug.	5.83	1.77	5.21	5.36	5.56	5.32	5.77
Sept.	5.80	1.88	5.26	5.42	5.63	5.38	5.73
Oct.	5.74	1.83	5.21	5.36	5.58	5.20	5.72
Nov.	5.72	1.76	5.15	5.29	5.55	5.11	5.73
Dec.	5.24	1.62	4.89	5.04	5.30	4.95	5.40
2001 – Jan.	5.16	1.52	4.80	4.94	5.18	4.94	5.42
Feb.	5.10	1.43	4.78	4.93	5.18	4.95	5.43
				Share price indices *(indices, 1995=100)*			
1997	161.13	101.04	159.93	147.34	137.74	135.72	145.65
1998	200.19	85.36	203.53	197.61	220.53	159.43	152.39
1999	244.84	100.39	215.38	242.98	245.52	177.21	159.20
2000	263.38	112.12	276.37	334.81	318.97	184.97	216.68
2000 – Feb.	256.04	124.08	296.60	327.12	320.13	178.93	205.88
Mar.	266.27	120.38	309.74	340.63	337.04	189.80	213.40
Apr.	269.46	120.39	289.19	332.83	309.46	181.91	210.81
May	261.89	116.57	276.43	339.12	316.00	179.79	208.66
June	269.91	113.46	279.46	349.58	321.50	186.91	229.92
July	271.95	112.50	277.30	347.74	327.70	187.35	234.68
Aug.	274.25	108.19	275.13	350.64	325.40	189.10	253.67
Sept.	271.04	107.50	267.17	350.18	327.13	188.97	234.05
Oct.	256.66	104.56	257.44	330.73	316.62	183.15	217.40
Nov.	253.87	100.87	263.01	330.78	331.81	185.19	198.91
Dec.	245.72	96.84	251.87	315.87	312.07	181.51	201.48
2001 – Jan.	246.59	93.06	252.70	311.17	306.75	180.92	210.23
Feb.	241.04	91.13	250.72	301.07	297.40	179.43	....

Table a7

Ecu/euro exchange rates and the price of gold

	Units of national currency per euro (per ecu until December 1998)								Gold (dollars per ounce)
	US dollar	Japanese yen	Canadian dollar	Pound sterling	Danish krone	Greek dracma (1)	Swedish krone	Swiss franc	
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
1999	1.066	121.32	1.584	0.6587	7.436	325.76	8.808	1.600	290.25
2000	0.924	99.47	1.371	0.6095	7.454	336.63	8.445	1.558	274.45
1998 – 4th qtr.	1.183	141.25	1.823	0.7055	7.477	333.11	9.414	1.608	287.80
1999 – 1st qtr.	1.122	130.75	1.696	0.6868	7.436	322.67	8.975	1.599	279.45
2nd ”	1.057	127.70	1.557	0.6578	7.432	324.96	8.904	1.600	261.00
3rd ”	1.049	118.73	1.558	0.6549	7.437	326.12	8.710	1.602	299.00
4th ”	1.038	108.42	1.528	0.6363	7.437	329.20	8.648	1.600	290.25
2000 – 1st qtr.	0.986	105.50	1.434	0.6144	7.446	332.75	8.495	1.607	276.75
2nd ”	0.933	99.55	1.381	0.6103	7.456	336.21	8.276	1.563	288.15
3rd ”	0.905	97.43	1.341	0.6125	7.460	337.57	8.404	1.544	273.65
4th ”	0.868	95.30	1.325	0.6005	7.454	340.08	8.602	1.516	274.45
2000 – Feb.	0.983	107.64	1.427	0.6147	7.445	333.18	8.511	1.607	293.65
Mar.	0.964	102.59	1.408	0.6106	7.447	333.89	8.388	1.604	276.75
Apr.	0.947	99.92	1.389	0.5980	7.451	335.22	8.267	1.574	275.05
May	0.906	98.09	1.355	0.6015	7.457	336.60	8.241	1.556	272.25
June	0.949	100.71	1.402	0.6293	7.461	336.64	8.318	1.561	288.15
July	0.940	101.39	1.389	0.6230	7.459	336.86	8.407	1.551	276.75
Aug.	0.904	97.76	1.341	0.6071	7.458	337.27	8.392	1.551	277.00
Sept.	0.872	93.11	1.295	0.6077	7.463	338.60	8.415	1.531	273.65
Oct.	0.855	92.75	1.292	0.5893	7.447	339.45	8.524	1.513	264.50
Nov.	0.856	93.26	1.320	0.6004	7.456	340.16	8.629	1.522	269.10
Dec.	0.897	100.61	1.368	0.6134	7.458	340.70	8.662	1.514	274.45
2001 – Jan.	0.938	109.57	1.410	0.6348	7.464	340.75	8.906	1.529	264.50
Feb.	0.922	107.08	1.403	0.6340	7.463	340.75	8.977	1.536	266.70

(1) Following Greece’s adoption of the single currency on 1 January 2001, the value of the dracma for January and February 2001 is given by its irrevocable exchange rate against the euro.

Table a8

Indicators of competitiveness (1)

(period averages; indices, 1993=100)

	US	Japan	Germany	France	Italy	UK	Canada	Switzerland
1995	96.6	103.9	102.8	105.2	92.9	97.2	100.3	108.1
1996	100.2	87.7	98.4	101.7	103.5	101.4	101.0	104.2
1997	105.1	83.1	93.5	96.2	103.9	117.2	101.4	95.8
1998	108.7	79.7	94.8	97.1	105.3	123.8	97.6	97.6
1999	107.0	90.3	91.2	94.8	102.3	124.2	97.5	95.2
2000	112.9	95.2	84.7	91.2	98.9	124.0	97.8	90.0
1998 – 4th qtr.	105.9	84.8	96.3	98.1	106.6	121.1	94.1	99.8
1999 – 1st qtr.	105.4	88.4	93.9	96.7	104.7	122.2	96.1	98.1
2nd "	108.0	85.3	91.8	94.7	102.0	125.5	98.4	95.5
3rd "	108.2	90.4	90.5	94.1	101.5	124.0	97.6	94.5
4th "	106.4	97.0	88.7	93.5	101.0	125.3	97.9	92.8
2000 – 1st qtr.	108.4	95.0	86.6	92.5	100.2	126.6	99.9	90.1
2nd "	111.9	96.3	84.7	91.3	98.9	125.2	98.3	90.3
3rd "	114.1	95.3	84.2	90.8	98.5	122.0	97.5	89.7
4th "	117.3	94.1	83.4	90.1	98.0	122.1	95.4	89.7
1999 – Dec.	106.4	99.2	87.4	92.9	100.1	125.5	98.3	91.6
2000 – Jan.	106.6	96.3	87.7	93.1	100.7	127.2	99.8	90.9
Feb.	109.1	93.0	86.7	92.5	100.2	126.5	100.2	90.1
Mar.	109.6	95.8	85.4	92.1	99.7	126.2	99.7	89.2
Apr.	109.7	97.3	84.9	91.4	98.8	128.5	99.4	90.3
May	112.9	96.0	84.0	90.6	98.3	125.7	98.1	90.1
June	113.0	95.5	85.1	91.8	99.7	121.6	97.3	90.6
July	113.1	93.9	85.3	91.5	99.7	122.2	97.4	90.7
Aug.	113.5	95.2	84.3	90.7	98.4	123.2	97.7	89.6
Sept.	115.8	96.8	83.2	90.1	97.4	120.7	97.3	89.0
Oct.	117.3	95.6	82.6	89.6	97.0	123.6	96.3	89.2
Nov.	117.3	95.5	83.0	89.9	97.6	121.5	95.3	88.8
Dec.	117.3	91.3	84.6	90.8	99.3	121.3	94.7	91.0

(1) Based on the producer prices of manufactures. A rise in the index corresponds to a decrease in competitiveness.

Table a9

Sources and uses of income

(percentage changes on previous period)

	Sources			Uses					
				Gross fixed capital formation			Consumption of resident households	Other domestic uses	Exports
	GDP	Imports	Total	Building	Machinery and equipment, sundry products and vehicles	Total			
				At 1995 prices					
1990	2.0	11.5	3.5	4.3	3.8	4.0	2.1	3.3	7.5
1991	1.4	2.3	1.5	1.6	0.4	1.0	2.9	1.1	-1.4
1992	0.8	7.4	1.9	-1.4	-1.5	-1.4	1.9	0.1	7.3
1993	-0.9	-10.9	-2.7	-6.7	-14.9	-10.9	-3.7	-3.8	9.0
1994	2.2	8.1	3.2	-6.3	6.7	0.1	1.5	3.4	9.8
1995	2.9	9.7	4.1	0.9	10.6	6.0	1.7	-0.8	12.6
1996	1.1	-0.3	0.8	3.6	3.7	3.6	1.2	-2.8	0.6
1997	2.0	10.1	3.5	-2.0	5.5	2.1	3.2	1.7	6.4
1998	1.8	9.0	3.2	-0.2	7.8	4.3	3.1	2.0	3.6
1999	1.6	5.1	2.3	2.8	6.0	4.6	2.3	3.6	. .
2000	2.9	8.3	4.1	3.6	7.8	6.1	2.9	-3.6	10.2
				Implicit prices					
1990	8.2	-1.8	6.5	10.3	3.5	6.6	6.3	9.9	3.0
1991	7.6	0.5	6.4	8.0	4.0	5.9	6.9	7.8	3.9
1992	4.5	1.1	3.8	5.1	2.8	4.0	5.5	2.4	0.9
1993	3.9	14.8	5.8	3.2	4.9	4.1	5.5	4.5	10.4
1994	3.5	4.8	3.6	3.5	3.1	3.2	5.0	1.0	3.3
1995	5.0	11.1	6.1	2.5	5.3	3.9	6.0	4.8	8.8
1996	5.3	-2.9	3.8	2.5	2.9	2.7	4.4	6.9	1.0
1997	2.4	1.4	2.1	2.6	1.3	1.9	2.2	4.8	0.3
1998	2.7	-1.3	1.8	1.7	1.7	1.7	2.1	2.2	1.0
1999	1.6	0.4	1.3	1.5	1.1	1.2	2.1	0.5	. .
2000	2.2	12.7	4.2	3.3	2.0	2.5	2.9	8.8	6.0

Table a10

Industrial production and ISAE business opinion indicators

(seasonally adjusted data)

	Industrial production				ISAE business opinion indicators				
	General index	Consumer goods	Investment goods	Intermediate goods	Level of orders			Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal
					domestic	foreign	total		
	(indices, 1995=100)				*(average balance of monthly responses; percentage points)*				
1993	90.2	91.6	84.6	91.1	–43.2	–21.8	–35.6	2.9	4.6
1994	94.9	96.6	87.8	96.1	–17.9	8.8	–6.9	25.1	–4.3
1995	100.0	100.0	100.0	100.0	–5.7	16.6	1.3	22.0	–1.2
1996	99.1	99.6	102.2	98.1	–29.6	–16.9	–22.8	7.6	3.8
1997	102.4	103.2	103.0	101.9	–14.7	–6.0	–8.5	20.6	–3.1
1998	104.3	103.9	102.8	104.9	–15.7	–8.2	–11.3	15.7	0.3
1999	104.4	105.1	102.4	104.7	–17.3	–16.1	–14.8	19.9	–1.3
2000	107.7	106.1	107.3	108.4	5.1	6.5	8.6	28.3	–7.6
1993 – 1st qtr.	90.9	94.1	87.9	92.0	–45.6	–33.3	–43.2	–2.9	3.3
2nd "	90.4	91.2	83.9	91.6	–45.6	–27.0	–39.9	1.3	7.0
3rd "	89.5	90.7	84.8	89.5	–44.0	–19.7	–34.2	2.5	6.7
4th "	90.0	90.3	81.9	91.4	–37.5	–7.0	–25.1	10.5	1.3
1994 – 1st qtr.	91.4	93.7	82.2	92.3	–31.8	. .	–19.2	18.0	–2.3
2nd "	94.7	97.1	87.1	96.0	–19.2	9.7	–7.6	26.0	–1.0
3rd "	96.0	97.8	90.3	97.2	–15.3	10.0	–5.9	27.9	–4.7
4th "	97.5	97.7	91.6	98.9	–5.1	15.7	4.9	28.6	–9.3
1995 – 1st qtr.	98.9	98.9	95.1	98.5	–2.2	26.3	6.2	23.6	–4.7
2nd "	99.2	99.6	97.7	98.9	–1.5	22.3	5.1	21.7	0.3
3rd "	100.3	100.3	99.9	102.0	–4.8	12.3	1.4	24.0	–1.7
4th "	101.6	101.2	107.3	100.6	–14.4	5.3	–7.4	18.5	1.3
1996 – 1st qtr.	101.1	99.2	104.2	100.5	–24.1	–6.7	–17.8	9.8	5.0
2nd "	98.6	99.4	103.5	97.6	–31.3	–19.3	–24.2	5.3	6.3
3rd "	98.7	99.7	100.7	97.9	–31.8	–20.3	–22.9	6.3	5.7
4th "	98.0	100.0	100.4	96.3	–31.3	–21.3	–26.1	8.9	–2.0
1997 – 1st qtr.	99.0	102.2	101.4	98.7	–20.2	–13.0	–16.2	15.6	–5.0
2nd "	102.1	103.3	103.2	101.5	–14.6	–7.0	–12.2	16.0	. .
3rd "	103.5	103.5	102.3	102.7	–13.0	–3.0	–3.6	24.0	–4.3
4th "	105.0	103.7	105.1	104.8	–10.9	–1.0	–2.1	26.7	–3.0
1998 – 1st qtr.	104.3	103.6	104.1	105.7	–7.2	1.3	–2.1	25.5	–1.7
2nd "	105.1	104.0	104.4	105.8	–14.5	–3.0	–8.2	16.7	1.7
3rd "	104.6	104.7	102.9	104.4	–18.5	–10.7	–14.2	10.4	. .
4th "	103.3	103.5	99.5	103.7	–22.6	–20.3	–20.7	10.1	1.3
1999 – 1st qtr.	103.6	104.5	103.3	104.1	–28.0	–26.3	–27.1	10.1	1.7
2nd "	102.9	103.4	100.9	102.8	–23.4	–21.3	–21.2	14.7	–1.0
3rd "	105.1	107.3	102.0	105.9	–12.7	–11.7	–10.6	25.1	–0.7
4th "	106.2	105.4	103.6	106.1	–5.0	–5.0	–0.4	29.5	–5.3
2000 – 1st qtr.	106.4	103.0	104.7	106.4	4.9	8.7	7.5	29.8	–9.3
2nd "	107.6	106.1	106.1	108.2	7.2	7.3	10.5	29.3	–7.3
3rd "	107.8	106.8	107.3	110.0	6.5	6.3	10.4	30.3	–7.3
4th "	109.1	108.6	111.0	109.2	2.0	3.7	5.9	23.9	–6.3

Table a11

Labour force, employment and unemployment

(thousands of persons and percentages)

	Employment					Unemploy-ment	Labour force	Unemploy-ment rate	Participation rate 15-64 years
	Agriculture	Industry excluding construction	Construction	Other	Total				
1996	1,277	5,125	1,568	12,155	20,125	2,653	22,779	11.6	57.7
1997	1,245	5,096	1,564	12,302	20,208	2,688	22,895	11.7	57.9
1998	1,201	5,186	1,544	12,504	20,435	2,745	23,180	11.8	58.7
1999	1,134	5,175	1,575	12,807	20,692	2,669	23,361	11.4	59.3
2000	1,120	5,149	1,618	13,193	21,080	2,495	23,575	10.6	59.9
1996 – January . . .	1,211	5,106	1,572	11,956	19,845	2,649	22,494	11.8	57.0
April	1,233	5,163	1,538	12,162	20,095	2,708	22,803	11.9	57.8
July	1,321	5,134	1,595	12,295	20,344	2,577	22,921	11.2	58.1
October	1,346	5,097	1,567	12,207	20,217	2,680	22,897	11.7	58.0
1997 – January	1,203	5,038	1,511	12,187	19,939	2,716	22,655	12.0	57.4
April	1,187	5,036	1,549	12,412	20,184	2,752	22,936	12.0	58.1
July	1,282	5,133	1,615	12,396	20,425	2,564	22,989	11.2	58.1
October	1,308	5,178	1,582	12,214	20,282	2,720	23,001	11.8	58.1
1998 – January	1,198	5,148	1,529	12,276	20,151	2,717	22,868	11.9	57.8
April	1,175	5,140	1,522	12,521	20,357	2,807	23,165	12.1	58.8
July	1,219	5,210	1,556	12,654	20,638	2,666	23,304	11.4	59.1
October . . .	1,213	5,247	1,569	12,566	20,595	2,787	23,382	11.9	59.3
1999 – January	1,095	5,173	1,516	12,611	20,395	2,752	23,147	11.9	58.8
April	1,118	5,109	1,566	12,825	20,618	2,729	23,347	11.7	59.3
July	1,165	5,197	1,608	12,923	20,893	2,597	23,490	11.1	59.6
October	1,160	5,221	1,611	12,869	20,861	2,600	23,460	11.1	59.6
2000 – January	1,084	5,088	1,573	12,872	20,617	2,647	23,264	11.4	59.1
April	1,095	5,057	1,596	13,182	20,930	2,545	23,475	10.8	59.7
July	1,137	5,215	1,642	13,328	21,322	2,404	23,726	10.1	60.3
October	1,164	5,235	1,662	13,390	21,450	2,383	23,833	10.0	60.5

Source: Istat, *Indagine sulle forze di lavoro.*

Table a12

National consumer price indices: Italy

(percentage changes on year-earlier period)

	For the entire resident population (1)														WEH (2)
	Goods and services with unregulated prices									Goods and services with regulated prices (4)			Rents	Overall index (6)	Overall index (6)
	Non-food and non-energy products		Services	Total net of food and energy products and those with regulated prices	Food products			Energy products	Total	Energy products	Non-energy products (5)	Total			
		Excluding cars			Processed	Not processed	Total								
Weights (3)	*32.2*	*27.9*	*26.7*	*58.9*	*10.2*	*7.2*	*17.4*	*3.6*	*79.9*	*3.1*	*13.6*	*16.8*	*3.3*	*100.0*	*100.0*
1991	4.5	4.7	7.7	5.9	5.9	7.3	6.6	9.0	6.2	9.1	6.5	7.0	5.9	6.3	6.4
1992	4.0	4.0	7.5	5.5	5.0	5.1	5.0	0.6	5.2	1.3	6.6	5.5	6.5	5.3	5.4
1993	4.7	4.1	5.6	5.1	4.5	–0.2	2.2	5.5	4.4	3.4	6.4	5.8	7.6	4.6	4.2
1994	4.1	3.5	4.3	4.2	4.0	3.1	3.5	3.9	4.0	4.7	3.2	3.5	8.4	4.1	3.9
1995	4.9	4.2	5.2	5.0	6.8	5.4	6.1	7.5	5.4	4.4	3.9	4.0	7.6	5.2	5.4
1996	3.8	3.7	4.4	4.1	4.6	3.7	4.2	4.4	4.1	–0.2	3.5	2.7	8.3	4.0	3.9
1997	1.5	1.8	2.8	2.1	0.8	–0.8	0.0	1.5	1.6	2.3	4.0	3.6	6.6	2.0	1.7
1998	1.9	1.8	2.7	2.2	0.8	1.6	1.2	–2.7	1.8	0.0	2.8	2.2	5.2	2.0	1.8
1999	1.2	1.2	2.6	1.8	0.8	1.1	0.9	4.2	1.8	–2.6	2.0	1.1	3.3	1.7	1.6
2000	1.5	1.4	2.8	2.1	1.2	2.0	1.6	13.2	2.5	9.8	1.6	3.1	2.5	2.5	2.6
1999 – Jan.	1.3	1.3	2.5	1.8	0.8	1.8	1.3	–4.2	1.5	–5.2	2.7	1.1	4.0	1.5	1.3
Feb.	1.1	1.3	2.4	1.7	0.8	2.0	1.3	–2.9	1.4	–5.2	2.7	1.1	4.0	1.4	1.2
Mar.	1.1	1.3	2.3	1.6	0.8	2.1	1.4	–1.2	1.5	–5.5	1.7	0.3	4.0	1.3	1.4
Apr.	1.1	1.3	2.4	1.7	0.8	2.2	1.4	2.2	1.7	–5.6	1.8	0.3	3.4	1.5	1.6
May	1.1	1.2	2.4	1.7	0.6	2.2	1.3	3.2	1.7	–4.8	1.7	0.4	3.4	1.5	1.6
June	1.0	1.2	2.5	1.7	0.6	1.6	1.0	3.3	1.6	–4.9	1.5	0.3	3.4	1.4	1.5
July	1.2	1.2	2.7	1.9	0.6	0.8	0.8	5.1	1.8	–3.3	2.1	1.1	3.2	1.7	1.7
Aug.	1.1	1.2	2.7	1.8	0.6	0.5	0.6	6.3	1.8	–3.2	1.9	1.0	3.2	1.7	1.6
Sept.	1.1	1.2	2.7	1.8	0.7	0.1	0.5	8.6	1.8	0.3	2.0	1.7	3.2	1.8	1.8
Oct.	1.4	1.2	2.8	2.0	0.8	0.1	0.5	9.2	2.0	0.5	2.0	1.7	2.7	2.0	1.8
Nov.	1.4	1.2	2.8	2.1	0.9	0.1	0.6	8.7	2.1	2.9	1.8	2.0	2.7	2.0	2.0
Dec.	1.4	1.2	2.7	2.0	1.0	0.0	0.6	12.6	2.2	2.9	1.8	2.0	2.7	2.1	2.1
2000 – Jan.	1.4	1.2	2.8	2.0	1.0	–0.3	0.5	12.8	2.1	6.0	1.7	2.5	2.8	2.2	2.1
Feb.	1.3	1.2	3.0	2.1	1.1	0.1	0.6	13.7	2.3	5.9	1.8	2.5	2.8	2.4	2.4
Mar.	1.3	1.2	3.1	2.1	1.1	0.3	0.8	16.6	2.4	8.1	1.6	2.7	2.8	2.5	2.5
Apr.	1.3	1.2	2.9	2.0	1.1	0.9	1.0	11.2	2.2	8.0	1.7	2.8	2.2	2.3	2.2
May	1.4	1.3	2.8	2.1	1.2	1.4	1.2	11.4	2.3	10.9	1.8	3.4	2.2	2.5	2.3
June	1.6	1.4	2.9	2.2	1.2	1.8	1.5	14.9	2.6	11.0	2.0	3.6	2.2	2.7	2.7
July	1.5	1.4	2.8	2.1	1.3	2.5	1.8	13.9	2.6	12.2	1.3	3.2	2.5	2.6	2.7
Aug.	1.6	1.4	2.7	2.1	1.3	2.8	1.9	12.1	2.5	12.1	1.5	3.4	2.5	2.6	2.7
Sept.	1.5	1.4	2.6	2.0	1.3	3.3	2.1	14.0	2.6	11.1	1.4	3.1	2.5	2.6	2.6
Oct.	1.5	1.5	2.6	2.0	1.4	3.4	2.2	13.4	2.6	10.3	1.5	3.1	2.4	2.6	2.6
Nov.	1.7	1.7	2.5	2.1	1.4	3.6	2.3	14.6	2.7	11.0	1.6	3.4	2.4	2.7	2.7
Dec.	1.8	1.8	2.6	2.1	1.5	4.5	2.7	9.9	2.6	11.0	1.6	3.3	2.4	2.7	2.7

Source: Based on Istat data.

(1) Indices, 1995=100. – (2) Consumer price index for worker and employee households, excluding tobacco products; 1995=100. – (3) As of January 1999 Istat changes the weights every year on the basis of estimates of households' final consumption in the previous year. The weights shown in the table are those for January 2000. – (4) The calculation of the sub-indices is based on the disaggregation into 209 elementary items. – (5) Includes medicines, for which the reference is to the aggregate calculated by Istat; around one third of this aggregate consists of products in the so-called "C band", the prices of which are not regulated. – (6) Percentage changes published by Istat and calculated on indices rounded to the first decimal place.

Harmonized index of consumer prices: Italy (1)

(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
		Cars		Rents		Processed		Not processed			
							Tobacco products				
Weights	*37.1*	*4.6*	*35.6*	*3.0*	*72.7*	*11.7*	*2.0*	*8.6*	*20.3*	*7.0*	*100.0*
1997	1.7	−1.1	3.3	6.7	2.4	1.2	3.9	−0.7	0.3	1.9	1.9
1998	2.1	3.5	2.8	5.3	2.4	1.4	5.4	1.6	1.5	−1.4	2.0
1999	1.4	0.6	2.5	3.3	1.9	0.9	2.0	1.1	1.0	1.1	1.7
2000	1.7	2.2	2.3	2.4	2.0	1.3	1.1	1.8	1.5	11.6	2.6
1999 – Jan.	1.5	1.2	2.6	4.4	2.0	1.6	5.5	1.8	1.6	−4.6	1.5
Feb.	1.3	−0.9	2.5	4.4	1.9	1.5	5.5	2.0	1.7	−3.9	1.4
Mar.	1.3	−0.9	2.4	4.4	1.8	0.6	0.0	2.1	1.3	−3.1	1.4
Apr.	1.2	−0.9	2.5	3.3	1.8	0.6	0.0	2.1	1.3	−1.4	1.3
May	1.2	−0.6	2.5	3.3	1.8	0.4	0.0	2.0	1.1	−0.5	1.5
June	1.2	−0.6	2.4	3.3	1.8	0.5	0.0	1.5	0.9	−0.5	1.4
July	1.4	1.2	2.6	3.1	2.0	0.9	2.3	0.8	0.9	1.3	1.7
Aug.	1.3	0.2	2.5	3.1	1.9	0.8	2.3	0.5	0.8	1.9	1.6
Sept.	1.3	0.2	2.5	3.1	1.9	1.0	2.3	0.2	0.7	4.8	1.9
Oct.	1.6	2.7	2.5	2.5	2.1	1.1	2.3	0.1	0.7	5.2	1.9
Nov.	1.6	2.7	2.4	2.5	2.0	1.1	2.3	0.2	0.8	6.1	2.0
Dec.	1.6	2.7	2.2	2.5	1.9	1.2	2.3	0.1	0.7	8.0	2.1
2000 – Jan.	1.5	2.7	2.3	2.6	1.9	1.3	2.3	−0.1	0.7	9.6	2.2
Feb.	1.5	2.2	2.5	2.6	2.0	1.3	2.3	0.2	0.8	10.0	2.4
Mar.	1.5	2.2	2.5	2.6	2.0	1.3	2.3	0.3	0.9	12.7	2.6
Apr.	1.5	2.2	2.2	2.2	1.9	1.3	2.3	0.9	1.1	9.8	2.4
May	1.7	2.1	2.2	2.2	1.9	1.4	2.3	1.3	1.3	11.2	2.5
June	1.8	2.9	2.3	2.2	2.1	1.5	2.3	1.7	1.5	13.1	2.7
July	1.7	2.2	2.2	2.3	2.0	1.1	0.0	2.2	1.6	13.1	2.6
Aug.	1.7	2.2	2.3	2.3	2.1	1.2	0.0	2.5	1.7	12.1	2.6
Sept.	1.8	2.2	2.1	2.3	2.0	1.2	0.0	2.9	1.9	12.6	2.6
Oct.	1.8	1.6	2.1	2.3	2.0	1.3	0.0	3.0	2.0	11.9	2.7
Nov.	2.0	1.9	2.1	2.3	2.1	1.4	0.0	3.1	2.1	13.0	2.9
Dec.	2.0	1.9	2.3	2.3	2.2	1.3	−0.3	3.9	2.4	10.4	2.8

Source: Eurostat.
(1) 1996 = 100. Chain index. The weights are updated every year on the basis of households' estimated final consumption in the preceding year. The weights shown in th table are those for January 2000.

Table a14

Harmonized consumer price indices in the euro area (1)

(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
		Cars		Rents		Processed		Not processed			
							Tobacco products				
Weights	*32.8*	*4.5*	*37.4*	*6.3*	*70.2*	*12.6*	*2.3*	*8.2*	*20.8*	*9.0*	*100.0*
1997	0.5	–0.6	2.4	2.8	1.5	1.4	5.6	1.4	1.4	2.8	1.6
1998	0.9	1.5	2.0	2.1	1.4	1.4	4.0	1.9	1.6	–2.6	1.1
1999	0.7	0.5	1.5	1.7	1.1	0.9	3.2	0.0	0.5	2.2	1.1
2000	0.7	1.2	1.7	1.3	1.3	1.2	3.3	1.7	1.4	13.4	2.3
1999 – Jan.	0.9	1.3	1.7	1.9	1.3	1.3	4.7	1.1	1.2	–4.4	0.8
Feb.	0.8	0.6	1.6	1.8	1.2	1.3	4.5	1.5	1.3	–4.4	0.8
Mar.	0.8	0.6	1.7	1.8	1.3	1.1	3.5	1.7	1.3	–2.9	1.0
Apr.	0.7	0.2	1.6	1.7	1.2	1.1	3.7	1.1	1.1	0.1	1.1
May	0.6	0.1	1.5	1.7	1.1	0.7	2.0	0.4	0.6	0.3	1.0
June	0.6	0.2	1.5	1.7	1.1	0.7	2.0	–0.7	0.1	1.2	0.9
July	0.6	0.2	1.6	1.7	1.1	0.7	2.4	–1.4	–0.1	2.9	1.1
Aug.	0.6	0.1	1.5	1.6	1.1	0.6	2.4	–1.6	–0.3	4.7	1.2
Sept.	0.5	0.2	1.4	1.6	1.0	0.6	2.4	–1.1	–0.1	6.2	1.2
Oct.	0.5	0.8	1.3	1.5	0.9	0.8	3.6	–0.4	0.3	6.3	1.4
Nov.	0.6	0.9	1.5	1.5	1.0	0.9	3.5	–0.3	0.4	7.1	1.5
Dec.	0.6	0.8	1.5	1.5	1.1	1.0	3.8	–0.3	0.5	10.1	1.7
2000 – Jan.	0.7	1.1	1.6	1.3	1.2	1.0	3.5	–0.5	0.4	12.1	1.9
Feb.	0.5	1.0	1.6	1.3	1.1	1.0	3.6	–0.1	0.6	13.6	2.0
Mar.	0.6	0.9	1.5	1.3	1.1	1.0	3.6	–0.5	0.4	15.3	2.1
Apr.	0.5	0.9	1.8	1.3	1.2	1.0	3.5	0.2	0.7	10.4	1.9
May	0.6	1.1	1.5	1.3	1.1	1.1	3.6	0.6	0.8	12.2	1.9
June	0.6	1.1	1.7	1.3	1.2	1.1	3.8	1.5	1.2	14.7	2.4
July	0.6	1.3	1.7	1.3	1.2	1.1	3.5	2.6	1.7	13.6	2.4
Aug.	0.6	1.2	1.7	1.2	1.3	1.2	3.5	3.3	2.0	12.2	2.3
Sept.	0.8	1.2	1.7	1.3	1.4	1.4	3.7	3.3	2.1	15.8	2.8
Oct.	0.9	1.2	1.8	1.3	1.4	1.3	2.4	3.3	2.1	14.7	2.7
Nov.	1.0	1.2	1.8	1.3	1.5	1.4	2.7	3.5	2.3	15.3	2.9
Dec.	1.1	1.4	1.8	1.2	1.5	1.4	2.4	3.8	2.4	11.3	2.6

Source: Eurostat.
(1) Weighted average of the harmonized indices of the euro-area countries. The weights shown in the table are those for January 2000.

Harmonized index of consumer prices: main euro-area countries

(percentage changes on year-earlier period)

	ITALY		GERMANY		FRANCE		SPAIN		EURO AREA (1)	
	Total	Total net of fresh food and energy products	Total	Total net of fresh food and energy products	Total	Total net of fresh food and energy products	Total	Total net of fresh food and energy products	Total	Total net of fresh food and energy products
1997	1.9	2.3	1.5	1.3	1.3	1.1	1.9	1.9	1.6	1.5
1998	2.0	2.3	0.6	1.1	0.7	0.9	1.8	2.2	1.1	1.4
1999	1.7	1.8	0.6	0.4	0.6	0.7	2.2	2.4	1.1	1.1
2000	2.6	1.9	2.1	0.7	1.8	0.6	3.5	2.5	2.3	1.2
1999 – Jan. . . .	1.5	2.0	0.2	0.8	0.3	0.9	1.5	2.3	0.8	1.3
Feb. . . .	1.4	1.8	0.1	0.7	0.3	0.8	1.8	2.4	0.8	1.2
Mar. . . .	1.4	1.6	0.5	0.9	0.4	0.8	2.1	2.5	1.0	1.2
Apr. . . .	1.3	1.6	0.8	0.6	0.5	0.8	2.3	2.5	1.1	1.2
May . . .	1.5	1.6	0.4	0.3	0.4	0.8	2.1	2.4	1.0	1.0
June . .	1.4	1.6	0.4	0.2	0.3	0.8	2.1	2.5	0.9	1.0
July . . .	1.7	1.8	0.6	0.3	0.4	0.7	2.1	2.5	1.1	1.1
Aug. . . .	1.6	1.8	0.7	0.2	0.5	0.7	2.3	2.3	1.2	1.0
Sept. . .	1.9	1.8	0.8	0.0	0.6	0.6	2.5	2.3	1.2	0.9
Oct. . . .	1.9	1.9	0.9	0.1	0.8	0.5	2.4	2.2	1.4	0.9
Nov. . . .	2.0	1.9	1.0	0.3	1.0	0.5	2.7	2.2	1.5	1.0
Dec. . .	2.1	1.8	1.4	0.4	1.4	0.6	2.8	2.3	1.7	1.1
2000 – Jan. . . .	2.2	1.8	1.9	0.6	1.7	0.9	2.9	2.2	1.9	1.2
Feb. . . .	2.4	1.9	2.1	0.6	1.5	0.4	3.0	2.3	2.0	1.1
Mar. . . .	2.6	1.9	2.1	0.5	1.7	0.5	3.0	2.2	2.1	1.1
Apr. . . .	2.4	1.8	1.6	0.9	1.4	0.3	3.0	2.3	1.9	1.2
May . . .	2.5	1.9	1.5	0.6	1.6	0.4	3.2	2.3	1.9	1.1
June . .	2.7	2.0	2.0	0.7	1.9	0.5	3.5	2.3	2.4	1.2
July . . .	2.6	1.9	2.0	0.7	2.0	0.6	3.7	2.5	2.4	1.2
Aug. . . .	2.6	1.9	1.8	0.7	2.0	0.6	3.6	2.7	2.3	1.2
Sept. . .	2.6	1.9	2.6	0.9	2.3	0.7	3.7	2.7	2.8	1.4
Oct. . . .	2.7	1.9	2.4	0.8	2.1	0.9	4.0	2.9	2.7	1.4
Nov. . . .	2.9	2.0	2.6	0.9	2.2	1.0	4.1	3.0	2.9	1.5
Dec. . .	2.8	2.1	2.3	0.9	1.7	1.0	4.0	3.0	2.6	1.5

Source: Eurostat.
(1) Weighted average of the 11 euro-area countries.

Table a16

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

(percentage changes on year-earlier period)

	Consumer goods		Investment goods excl. vehicles	Vehicles	Intermediate goods		Total excl. food and energy products and vehicles	Overall index
	Excl. food and energy products and vehicles	Food products			Non-energy products	Energy products		
Weights	*18.4*	*14.5*	*8.3*	*3.3*	*41.0*	*14.5*	*67.7*	*100.0*
1998	1.5	1.8	1.7	2.4	0.2	−5.1	0.8	0.1
1999	1.3	−0.1	0.9	1.2	−1.1	−1.0	−0.2	−0.3
2000	2.0	1.3	1.0	1.8	4.6	24.2	3.4	6.0
1999 – Jan.	1.6	0.7	1.4	2.2	−2.1	−9.3	−0.7	−1.6
Feb.	1.6	0.8	1.1	1.7	−2.5	−8.8	−0.9	−1.8
Mar.	1.4	0.1	1.1	1.2	−2.7	−8.0	−1.1	−1.8
Apr.	1.3	−0.3	1.0	1.9	−2.6	−6.7	−1.1	−1.6
May	1.0	−0.6	1.0	1.4	−2.3	−5.9	−0.9	−1.4
June	1.0	−0.8	1.0	1.5	−2.1	−5.1	−0.8	−1.4
July	1.0	−0.3	0.9	1.0	−1.7	−1.3	−0.6	−0.6
Aug.	1.2	−0.1	0.9	−0.1	−0.9	0.7	−0.1	0.0
Sept.	1.4	−0.4	0.8	0.0	−0.3	5.0	0.3	0.8
Oct.	1.4	−0.1	0.6	1.3	0.8	6.5	0.9	1.6
Nov.	1.3	0.2	0.7	1.2	1.2	10.2	1.1	2.2
Dec.	1.4	0.1	0.7	1.2	1.7	13.0	1.5	2.8
2000 – Jan.	1.3	0.4	0.9	1.4	2.6	17.2	2.0	3.8
Feb.	1.5	0.4	1.1	1.4	3.2	20.5	2.4	4.6
Mar.	1.5	0.8	1.0	2.0	3.8	24.4	2.8	5.5
Apr.	1.6	1.5	0.8	2.2	4.6	21.1	3.2	5.4
May	1.9	2.0	0.9	2.2	5.2	25.3	3.7	6.4
June	2.1	1.8	1.0	2.3	5.5	27.5	3.9	6.9
July	2.3	1.1	1.1	1.9	5.5	26.6	4.0	6.7
Aug.	2.4	1.0	1.0	1.7	5.3	24.7	3.9	6.5
Sept.	2.2	1.4	1.1	1.7	5.3	26.2	3.9	6.7
Oct.	2.1	1.3	1.0	1.7	4.9	27.5	3.6	6.8
Nov.	2.2	1.4	1.1	1.7	4.8	26.3	3.6	6.7
Dec.	2.3	2.0	1.1	1.7	4.6	22.6	3.5	6.2

Source: Based on Istat data.
(1) Classification according to the economic use of the products. The weights shown in the table relate to base 1995=100.

Table a17

Index of producer prices of manufactures sold in the domestic market: main euro-area countries

(percentage changes on year-earlier period)

	GERMANY					**FRANCE** (2)				
	Consumer goods excl. food and energy products and vehicles	Intermediate goods		Total excl. food and energy products and vehicles	Overall index	Consumer goods excl. food and energy products and vehicles	Intermediate goods		Total excl. food and energy products and vehicles	Overall index
		Non-energy	Energy				Non-energy	Energy		
Weights (1)	*(13.0)*	*(30.8)*	*(19.4)*	*(58.3)*	*(100.0)*	*(17.4)*	*(28.7)*	*(12.8)*	*(60.2)*	*(100.0)*
1998	1.0	−0.2	−3.5	0.3	−0.4					
1999	0.8	−1.7	−2.0	−0.7	−1.0					
2000	0.7	3.7	10.4	2.1	3.3	0.5	4.4	25.4	2.4	5.6
1999 – July	0.7	−2.1	−1.1	−0.8	−1.0					
Aug.	0.8	−1.7	−0.1	−0.7	−0.7					
Sept.	0.6	−1.0	−0.2	−0.4	−0.5					
Oct.	0.5	−0.1	1.7	0.1	0.2					
Nov.	0.7	0.4	3.6	0.3	0.7					
Dec.	0.6	1.1	5.3	0.5	1.1					
2000 – Jan.	0.7	1.9	8.2	1.2	2.0	−0.3	2.3	26.3	1.0	4.1
Feb.	0.8	2.5	8.8	1.4	2.4	−0.4	3.0	28.5	1.3	4.7
Mar.	0.5	3.1	7.4	1.7	2.4	−0.2	3.4	28.4	1.7	5.2
Apr.	0.8	3.6	5.5	1.9	2.1	0.0	4.3	23.0	2.2	5.0
May	0.8	4.0	6.8	2.3	2.7	0.1	4.7	27.4	2.4	5.7
June	0.8	4.2	8.0	2.3	2.9	0.5	5.0	29.1	2.5	6.0
July	1.0	4.3	9.6	2.4	3.3	0.8	5.1	24.6	2.9	5.7
Aug.	0.8	4.4	10.2	2.4	3.5	1.0	5.4	23.4	3.0	5.8
Sept.	0.7	4.6	14.0	2.6	4.3	1.0	5.4	28.6	3.0	6.7
Oct.	0.3	4.2	16.5	2.2	4.6	1.1	4.9	29.2	2.9	6.8
Nov.	0.4	4.0	16.6	2.1	4.7	1.1	4.8	24.4	2.8	6.2
Dec.	0.3	3.8	13.1	2.2	4.2	1.5	4.6	13.5	2.9	4.8
	SPAIN					**EURO 4** (3)				
Weights (1)	*(19.8)*	*(30.6)*	*(16.7)*	*(61.7)*	*(100.0)*	*(16.2)*	*(32.5)*	*(16.2)*	*(61.3)*	*(100.0)*
1998	1.0	0.9	−7.3	0.9	−0.7					
1999	1.2	−1.2	2.5	−0.1	0.7					
2000	1.5	4.1	21.3	3.1	5.4	1.0	4.1	19.1	2.6	4.8
1999 – July	0.9	−1.4	2.6	−0.2	0.7					
Aug.	1.1	−0.9	6.5	0.0	1.4					
Sept.	1.2	−0.4	9.8	0.5	2.4					
Oct.	1.3	0.8	10.3	1.0	2.7					
Nov.	1.4	3.1	12.0	1.4	3.1					
Dec.	1.3	3.0	15.2	1.8	3.8					
2000 – Jan.	1.3	4.8	18.3	2.4	4.5	0.6	2.5	16.4	1.5	3.3
Feb.	1.1	4.9	21.6	2.7	5.1	0.7	3.1	18.3	1.8	3.8
Mar.	1.3	4.8	24.7	2.8	5.7	0.6	3.5	19.1	2.1	4.2
Apr.	1.5	5.6	22.2	3.3	5.7	0.9	4.2	15.8	2.4	4.0
May	1.5	6.0	21.5	3.7	5.8	0.9	4.7	18.4	2.8	4.7
June	1.4	5.3	23.5	3.5	5.2	1.1	4.8	20.0	2.9	5.0
July	1.5	4.4	21.8	3.2	5.4	1.3	4.8	19.1	3.0	5.0
Aug.	1.5	4.2	19.2	3.2	5.1	1.3	4.9	18.3	3.0	5.0
Sept.	1.5	3.4	22.3	3.1	5.5	1.2	4.8	21.9	3.0	5.6
Oct.	1.9	2.6	24.0	2.9	6.0	1.1	4.4	23.6	2.8	5.9
Nov.	1.7	0.9	21.8	2.9	5.7	1.2	4.1	21.7	2.7	5.7
Dec.	2.0	2.0	15.9	3.2	5.0	1.3	4.0	15.7	2.8	4.9

Sources: Based on Eurostat data and national statistics.

(1) With reference to 1995=100 for the three countries. – (2) Disaggregated data for France are available from January 1999 onwards. – (3) Weighted average (based on GDP) of data for Germany, France, Italy and Spain.

Table a18

Average unit values in lire of imported and exported manufactures: Italy (1)

(percentage changes on year-earlier period)

	Imports			Exports		
	EU countries	Non-EU countries	Total	EU countries	Non-EU countries	Total
1997	−0.2	3.7	1.4	−0.8	2.1	0.5
1998	0.3	−7.2	−2.7	0.0	2.0	1.0
1999	−2.0	0.8	−1.0	−0.4	−0.2	−0.3
1999 – Jan.	−2.2	−13.4	−6.6	−1.0	0.2	−0.4
Feb.	3.3	−13.5	−7.3	−1.2	−1.7	−1.4
Mar.	4.0	−13.2	−7.7	−1.9	−2.1	−2.0
Apr.	4.0	−11.0	−6.7	−1.9	−3.2	−2.4
May	−3.6	−7.8	−5.3	−1.5	−2.4	−1.9
June	−3.4	−4.7	−3.9	−0.9	−1.9	−1.4
July	−2.4	−1.7	−2.2	−1.0	−0.1	−0.7
Aug.	−1.7	2.7	0.1	−0.8	0.2	−0.4
Sept.	−1.0	5.6	1.6	−0.1	0.1	0.0
Oct.	−0.4	9.9	3.5	0.8	0.6	0.7
Nov.	−0.4	12.4	4.3	1.5	1.7	1.5
Dec.	−0.1	17.6	6.3	1.6	3.4	2.3
2000 – Jan.	1.8	21.1	9.0	2.4	4.0	3.0
Feb.	3.6	25.3	11.8	2.7	5.5	3.8
Mar.	5.4	28.7	14.3	3.6	6.3	4.7
Apr.	5.0	28.7	13.8	3.7	7.3	5.1
May	5.8	28.4	14.3	4.2	8.0	5.8
June	6.6	26.8	14.3	4.3	8.6	6.1
July	6.7	25.3	13.9	4.2	7.9	5.8
Aug.	6.8	23.2	13.2	4.0	7.4	5.5
Sept.	7.2	21.9	13.0	4.1	8.0	5.8
Oct.	7.5	23.1	13.8	4.7	9.7	6.8
Nov.	7.9	26.4	15.3	4.3	10.6	7.0

Source: Based on Istat data.
(1) For monthly data, moving averages for the three months ending in the reference period.

Table a19

Balance of payments: current account and capital account

	Current account							Capital account			
				Transfers					Transfers		
				Private		Public				Public	
	Goods	Services	Income		Emigrants' remittances		EU institutions	Intangible assets	Private		EU institutions
	(billions of lire)										
1997	(68,107)	(13,234)	(−19,238)	(−1,098)	(55)	(−6,003)	(−5,088)	(165)	(−101)	(5,577)	(6,320)
1998	(63,096)	(8,528)	(−20,896)	(−1,796)	(−226)	(−11,099)	(−11,501)	(−234)	(−92)	(4,681)	(5,320)
1999	42,682	2,381	−19,976	−1,775	−369	−8,086	−9,070	−6	−14	5,361	6,198
2000	(22,556)	(3,120)	(−26,068)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
1999 – 4th qtr.	8,936	−991	−6,369	−930	−87	−1,522	−1,792	52	−7	1,560	2,162
2000 – 1st qtr.	3,179	−2,762	−3,884	−440	−75	318	−943	−142	12	1,035	1,276
2nd ”	2,776	1,688	−8,858	−189	−87	−3,115	−3,319	−39	192	457	510
3rd ”	10,766	3,765	−6,869	−492	−109	−2,423	−2,496	−39	13	1,538	1,557
4th ”	(5,835)	(429)	(−6,458)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
2000 – Jan. . . .	−1,108	34	−1,579	−231	−40	−448	−834	−47	43	569	636
Feb. . .	1,355	−1,726	−1,066	−175	−25	1,048	551	−49	−5	162	252
Mar. . .	2,932	−1,069	−1,238	−35	−9	−282	−660	−45	−27	305	388
Apr. . . .	741	561	−2,562	243	−28	−643	−791	−31	98	199	227
May . . .	300	783	−2,534	69	−24	−808	−830	25	−21	235	256
June . .	1,735	343	−3,762	−501	−34	−1,664	−1,698	−33	115	22	27
July . . .	7,753	2,022	−2,818	−204	−39	−829	−852	−16	−46	161	161
Aug. . .	3,445	56	−2,064	−41	−44	−1,256	−1,277	−31	55	127	127
Sept. . .	−433	1,687	−1,987	−246	−27	−338	−366	8	4	1,250	1,269
Oct. . . .	2,716	166	−2,287	−31	−38	−1,032	. . . .	−42	69	45	. . . .
Nov. . .	(2,494)	(1,094)	(−2,961)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Dec. . .	(625)	(−831)	(−1,210)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
	(millions of euros)										
2000	(11,649)	(1,611)	(−13,463)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
2000 – 1st qtr.	1,642	−1,426	−2,006	−227	−38	164	−487	−73	6	535	659
2nd ”	1,434	872	−4,575	−97	−45	−1,609	−1,714	−20	99	236	263
3rd ”	5,560	1,944	−3,547	−254	−56	−1,251	−1,289	−20	7	795	804
4th ”	(3,014)	(222)	(−3,335)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
2000 – Jan. . . .	−572	17	−816	−119	−21	−231	−431	−25	22	294	329
Feb. . .	700	−891	−551	−90	−13	541	285	−25	−3	84	130
Mar. . .	1,514	−552	−639	−18	−5	−146	−341	−23	−14	157	200
Apr. . . .	383	290	−1,323	125	−15	−332	−409	−16	50	103	117
May . . .	155	404	−1,309	36	−12	−418	−429	13	−11	122	132
June . .	896	177	−1,943	−259	−18	−859	−877	−17	59	11	14
July . . .	4,004	1,044	−1,455	−105	−20	−428	−440	−8	−24	83	83
Aug. . .	1,779	29	−1,066	−21	−23	−649	−660	−16	29	66	66
Sept. . .	−224	871	−1,026	−127	−14	−175	−189	4	2	646	655
Oct. . . .	1,403	86	−1,181	−16	−19	−533	. . . .	−22	36	23	. . . .
Nov. . .	(1,288)	(565)	(−1,529)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Dec. . .	(323)	(−429)	(−625)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .

Table a20

Balance of payments: financial account

	Direct investment		Portfolio investment		Other investment		Financial derivatives	Change in reserve assets
	abroad	in Italy	assets	liabilities	assets	liabilities		
				(billions of lire)				
1997	(−17,986)	(6,296)	(−87,358)	(128,298)	(−62,347)	(20,519)	(270)	(−22,770)
1998	(−28,494)	(6,766)	(−158,240)	(188,526)	(−69,746)	(29,826)	(348)	(36,977)
1999	−12,260	12,266	−235,243	189,480	−59,103	69,549	3,419	13,746
2000	(−25,425)	(23,923)	(−168,068)	(119,354)	(5,255)	(50,566)	(2,455)	(−5,921)
1999 – 4th qtr.	−8,932	2,997	−48,879	50,943	−27,158	32,620	2,600	−507
2000 – 1st qtr.	−3,530	6,043	−49,789	53,296	−10,309	11,383	1,340	−5,950
2nd ”	−1,022	−2,881	−44,782	39,624	−7,534	18,631	2,680	2,213
3rd ”	−9,757	4,550	−42,168	15,318	16,964	14,352	−792	−4,512
4th ”	(−11,116)	(16,210)	(−31,329)	(11,116)	(6,134)	(6,200)	(−773)	(2,327)
2000 – Jan.	−1,458	753	−13,844	29,627	−10,406	−1,810	397	−271
Feb.	−1,975	3,088	−11,652	19,657	1,874	−7,623	1,214	−2,109
Mar.	−97	2,202	−24,292	4,012	−1,777	20,817	−271	−3,570
Apr.	314	1,080	−5,563	1,142	4,206	−1,501	991	718
May	507	−2,819	−18,414	10,955	−13,054	22,207	885	1,332
June	−1,843	−1,142	−20,805	27,526	1,315	−2,076	804	163
July	−3,592	8,254	−20,495	−3,251	25,133	−10,770	−298	−2,122
Aug.	−1,971	−5,458	−11,165	19,322	−19,245	18,257	583	37
Sept.	−4,194	1,754	−10,508	−753	11,075	6,864	−1,077	−2,426
Oct.	−2,997	4,579	−3,793	−10,123	−3,013	13,097	2,602	−306
Nov.	(−4,430)	(3,822)	(−16,549)	(24,114)	(2,678)	(−14,369)	(596)	(2,546)
Dec.	(−3,689)	(7,809)	(−10,986)	(−2,875)	(6,469)	(7,472)	(−3,971)	(87)
				(millions of euros)				
2000	(−13,131)	(12,355)	(−86,800)	(61,641)	(2,714)	(26,115)	(1,268)	(−3,058)
2000 – 1st qtr.	−1,823	3,121	−25,714	27,525	−5,324	5,879	692	−3,073
2nd ”	−528	−1,488	−23,128	20,464	−3,891	9,622	1,384	1,143
3rd ”	−5,039	2,350	−21,778	7,911	8,761	7,412	−409	−2,330
4th ”	(−5,741)	(8,372)	(−16,180)	(5,741)	(3,168)	(3,202)	(−399)	(1,202)
2000 – Jan.	−753	389	−7,150	15,301	−5,374	−935	205	−140
Feb.	−1,020	1,595	−6,018	10,152	968	−3,937	627	−1,089
Mar.	−50	1,137	−12,546	2,072	−918	10,751	−140	−1,844
Apr.	162	558	−2,873	590	2,172	−775	512	371
May	262	−1,456	−9,510	5,658	−6,742	11,469	457	688
June	−952	−590	−10,745	14,216	679	−1,072	415	84
July	−1,855	4,263	−10,585	−1,679	12,980	−5,562	−154	−1,096
Aug.	−1,018	−2,819	−5,766	9,979	−9,939	9,429	301	19
Sept.	−2,166	906	−5,427	−389	5,720	3,545	−556	−1,253
Oct.	−1,548	2,365	−1,959	−5,228	−1,556	6,764	1,344	−158
Nov.	(−2,288)	(1,974)	(−8,547)	(12,454)	(1,383)	(−7,421)	(308)	(1,315)
Dec.	(−1,905)	(4,033)	(−5,674)	(−1,485)	(3,341)	(3,859)	(−2,051)	(45)

Table a21

State sector borrowing requirement

	Budget: Receipts (1)	Budget: Payments (–)	Budget: Balance	Treasury operations	Treasury operations: *of which:* "Collection accounts"	Lending by the Deposits and Loans Fund and other operations (2)	Gross borrowing requirement	Settlements of pasts debts (–)	Privatization receipts (–)	Net borrowing requirement
					(billions of lire)					
1996	550,320	681,799	–131,479	4,009	–	–8,677	–136,147	–13,502	6,226	–128,871
1997	622,037	600,295	21,742	–53,304	–	480	–31,081	409	21,179	–52,670
1998	595,727	657,514	–61,787	11,336	–	2,446	–48,005	–4,769	15,277	–58,513
1999	684,688	743,953	–59,265	63,662	–231	–3,720	677	–12,118	43,839	–31,044
2000	680,174	715,127	–34,953	13,692	–2,181	–6,851	–28,111	–8,904	29,951	–49,158
1999 – 1st qtr.	131,401	138,587	–7,186	–19,909	484	–945	–28,039	–1,929	548	–26,658
2nd "	135,350	173,501	–38,151	–2,856	–773	–1,994	–43,001	–2,590	238	–40,649
3rd "	165,333	170,555	–5,222	22,514	3,640	–601	16,692	–5,054	. .	21,745
4th "	252,604	261,310	–8,705	63,912	–3,582	–181	55,026	–2,546	43,053	14,518
2000 – 1st qtr.	141,715	158,354	–16,639	–1,030	–1,300	–2,274	–19,943	–5,992	42	–13,993
2nd "	135,634	160,688	–25,054	7,082	33,418	–258	–18,231	–638	78	–17,671
3rd "	171,424	147,419	24,005	–37,584	–28,317	–1,575	–15,155	–294	140	–15,001
4th "	231,401	248,666	–17,265	45,225	–5,981	–2,743	25,218	–1,981	29,692	–2,494
					(millions of euros)					
1999	353,612	384,219	–30,608	32,879	–119	–1,921	350	–6,259	22,641	–16,033
2000	351,281	369,332	–18,052	7,072	–1,126	–3,538	–14,518	–4,599	15,469	–25,388
1999 – 1st qtr.	67,863	71,574	–3,711	–10,282	250	–488	–14,481	–996	283	–13,768
2nd "	69,902	89,606	–19,704	–1,475	–399	–1,030	–22,208	–1,338	123	–20,994
3rd "	85,388	88,084	–2,697	11,628	1,880	–310	8,620	–2,610	. .	11,230
4th "	130,459	134,955	–4,496	33,008	–1,850	–94	28,418	–1,315	22,235	7,498
2000 – 1st qtr.	73,190	81,783	–8,593	–532	–671	–1,174	–10,300	–3,095	22	–7,227
2nd "	70,049	82,989	–12,939	3,657	17,259	–133	–9,415	–329	40	–9,126
3rd "	88,533	76,135	12,397	–19,411	–14,625	–814	–7,827	–152	72	–7,747
4th "	119,509	128,425	–8,916	23,357	–3,089	–1,417	13,024	–1,023	15,335	–1,288

(1) Includes tax revenue booked in the budget accounts; owing to the lags with which these amounts are booked, they do not correspond to the taxes actually received in the reference period (see the methodological notes). – (2) Includes the borrowing requirement of ANAS and other minor entities.

Table a22

Financing of the general government borrowing requirement

	Medium and long-term securities	Short-term securities	Central bank financing other than securities purchases	Lending by banks	PO deposits	Foreign loans	Other	Borrowing requirement
	(billions of lire)							
1996	126,429	−27,174	17,674	−3,171	12,798	15,632	12	142,200
1997	100,578	−81,771	−2,585	3,315	11,641	7,230	93	38,500
1998	81,251	−35,371	15,963	−3,886	6,400	−12,128	364	52,592
1999	50,022	−34,948	−13,953	3,778	17,496	−6,400	218	16,213
2000	36,996	−33,805	15,858	−5,473	8,840	23,741	3,039	49,196
1999 – 1st qtr. . . .	33,848	−347	−4,003	−105	5,843	−6,212	168	29,191
2nd "	39,229	−4,910	5,276	1,132	2,893	6,694	43	50,357
3rd "	15,880	−10,353	−15,789	−2,973	4,031	−5,171	−16	−14,391
4th "	−38,935	−19,337	563	5,725	4,729	−1,711	24	−48,943
2000 – 1st qtr. . . .	31,034	−8,930	−1,438	−7,676	3,578	7,486	655	24,709
2nd "	26,754	−5,977	−11,444	830	469	15,563	724	26,919
3rd "	−3,830	2,340	13,434	−3,924	789	2,522	553	11,884
4th "	−16,962	−21,238	15,305	5,298	4,004	−1,829	1,106	−14,316
	(millions of euros)							
1999	25,834	−18,049	−7,206	1,951	9,036	−3,305	113	8,374
2000	19,107	−17,459	8,190	−2,826	4,565	12,261	1,570	25,408
1999 – 1st qtr. . . .	17,481	−179	−2,068	−54	3,018	−3,208	87	15,076
2nd "	20,260	−2,536	2,725	585	1,494	3,457	22	26,007
3rd "	8,202	−5,347	−8,155	−1,535	2,082	−2,671	−8	−7,432
4th "	−20,108	−9,987	291	2,957	2,442	−884	12	−25,277
2000 – 1st qtr. . . .	16,028	−4,612	−743	−3,964	1,848	3,866	339	12,761
2nd "	13,817	−3,087	−5,910	429	242	8,037	374	13,902
3rd "	−1,978	1,209	6,938	−2,027	407	1,302	286	6,138
4th "	−8,760	−10,969	7,904	2,736	2,068	−944	571	−7,394

Table a23

General government debt

(face value at end of period)

	Medium and long-term securities excluding central bank	BOTs and BTEs excluding central bank	PO deposits	Lending by banks	Other domestic debt	Debt issued abroad	Borrowing from central bank (1)	Total (EU definition)	Claims on central bank	Total	*Memorandum item*: state sector debt
						(billions of lire)					
1995	1,204,460	407,144	151,759	119,536	3,844	119,473	204,061	2,210,277	−74,184	2,136,093	2,073,726
1996	1,367,009	381,599	164,557	116,365	3,995	126,752	171,018	2,331,296	−56,459	2,274,836	2,206,397
1997	1,501,014	287,195	176,198	119,680	4,133	142,914	154,834	2,385,969	−58,997	2,326,972	2,251,070
1998	1,591,963	265,927	182,598	115,794	4,490	130,296	123,326	2,414,394	−43,168	2,371,226	2,290,802
1999	1,647,615	231,208	200,094	119,572	4,588	136,877	115,018	2,454,973	−57,098	2,397,875	2,300,037
2000	1,675,381	197,238	208,934	114,100	7,587	163,299	121,788	2,488,326	−38,518	2,449,808	2,345,971
1999 – Mar.	1,626,833	265,809	188,441	115,688	4,533	128,866	118,722	2,448,892	−47,225	2,401,667	2,319,635
June ...	1,666,731	260,898	191,335	116,820	4,568	137,590	116,789	2,494,731	−41,872	2,452,859	2,363,427
Sept. ...	1,681,575	250,544	195,365	113,847	4,551	133,682	118,894	2,498,459	−57,663	2,440,796	2,349,090
Dec. ...	1,647,615	231,208	200,094	119,572	4,588	136,877	115,018	2,454,973	−57,098	2,397,875	2,300,037
2000 Mar.	1,672,985	222,279	203,672	111,896	5,252	148,215	120,043	2,484,342	−55,813	2,428,528	2,334,122
June ...	1,697,903	216,152	204,141	112,726	5,933	163,228	121,979	2,522,061	−67,258	2,454,803	2,355,308
Sept. ...	1,693,593	218,492	204,930	108,802	6,486	172,064	121,863	2,526,229	−53,823	2,472,406	2,376,974
Dec. ...	1,675,381	197,238	208,934	114,100	7,587	163,299	121,788	2,488,326	−38,518	2,449,808	2,345,971
						(millions of euros)					
1999	850,922	119,409	103,340	61,754	2,369	70,691	59,402	1,267,888	−29,489	1,238,399	1,187,870
2000	865,262	101,865	107,905	58,928	3,918	84,337	62,898	1,285,113	−19,893	1,265,220	1,211,593
1999 – Mar.	840,189	137,279	97,322	59,748	2,341	66,554	61,315	1,264,747	−24,389	1,240,358	1,197,992
June ...	860,795	134,743	98,816	60,333	2,359	71,060	60,316	1,288,421	−21,625	1,266,796	1,220,608
Sept. ...	868,461	129,395	100,898	58,797	2,350	69,041	61,404	1,290,346	−29,780	1,260,566	1,213,204
Dec. ...	850,922	119,409	103,340	61,754	2,369	70,691	59,402	1,267,888	−29,489	1,238,399	1,187,870
2000 Mar.	864,024	114,798	105,188	57,789	2,712	76,547	61,997	1,283,055	−28,825	1,254,230	1,205,474
June ...	876,894	111,633	105,430	58,218	3,064	84,300	62,997	1,302,536	−34,736	1,267,800	1,216,415
Sept. ...	874,668	112,841	105,838	56,191	3,350	88,863	62,937	1,304,688	−27,797	1,276,891	1,227,605
Dec. ...	865,262	101,865	107,905	58,928	3,918	84,337	62,898	1,285,113	−19,893	1,265,220	1,211,593

(1) From December 1998 the item “Borrowing from central bank” refers exclusively to the accounts of the Bank of Italy (and not to the consolidated accounts of the Bank of Italy and the UIC) since that month saw the completion of the transfer of the reserves held by the UIC to the Bank of Italy in conformity with Legislative Decrees 43/1998 and 319/1998 and the UIC’s securities portfolio is included under “Medium and long-term securities excluding central bank”. At 31 December 1998 borrowing from UIC is estimated to have amounted to around 2.3 trillion lire.

Table a24

ECB interest rates

DATE ANNOUNCED	Standing facilities			Main refinancing operations			*Memorandum item*: official reference rate for instruments linked to the former official discount rate		
	Date effective	Deposit facility	Marginal lending facility	With effect from	Fixed rate *(for fixed rate tenders)*	Minimum bid rate *(for variable rate tenders)*	Order issued by the Governor: Date issued	Order issued by the Governor: Date effective	Rate
22.12.1998	1.1.1999	2.00	4.50	7.1.1999	3.00	–			
22.12.1998	4.1.1999	2.75	3.25	–	–	–			
22.12.1998	22.1.1999	2.00	4.50	–	–	–	23.12.1998	28.12.1998	3.00
8.4.1999	9.4.1999	1.50	3.50	14.4.1999	2.50	–	9.4.1999	14.4.1999	2.50
4.11.1999	5.11.1999	2.00	4.00	10.11.1999	3.00	–	6.11.1999	10.11.1999	3.00
3.2.2000	4.2.2000	2.25	4.25	9.2.2000	3.25	–	4.2.2000	9.2.2000	3.25
16.3.2000	17.3.2000	2.50	4.50	22.3.2000	3.50	–	18.3.2000	22.3.2000	3.50
27.4.2000	28.4.2000	2.75	4.75	4.5.2000	3.75	–	28.4.2000	4.5.2000	3.75
8.6.2000	9.6.2000	3.25	5.25	15.6.2000	4.25	–	10.6.2000	15.6.2000	4.25
8.6.2000	–	–	–	28.6.2000	–	4.25	–	–	–
31.8.2000	1.9.2000	3.50	5.50	6.9.2000	–	4.50	1.9.2000	6.9.2000	4.50
5.10.2000	6.10.2000	3.75	5.75	11.10.2000	–	4.75	6.10.2000	11.10.2000	4.75

Table a25

Treasury bill yields and interbank rates (1)

(percentages)

	Gross Treasury bill yields (2)					Interbank rates (3)				
	"Mini" BOTs	3-month BOTs	6-month BOTs	12-month BOTs	Average	Overnight	1-month	3-month	6-month	12-month
1996	–	8.61	8.48	8.31	8.46	9.10	8.99	8.82	8.66	8.42
1997	–	6.40	6.36	6.26	6.33	7.02	6.98	6.88	6.74	6.46
1998	–	4.96	4.59	4.37	4.59	5.23	5.19	4.99	4.68	4.34
1999	–	2.77	2.98	3.13	3.01	2.74	2.85	2.95	3.04	3.12
2000	4.76	4.09	4.52	4.68	4.53	4.12	4.23	4.39	4.56	4.76
1999 – Jan.	–	3.14	2.97	3.10	3.07	3.11	3.12	3.10	3.02	3.05
Feb.	–	3.04	3.01	3.02	3.02	3.13	3.10	3.07	3.01	3.02
Mar.	–	3.03	2.94	3.06	3.01	2.94	3.04	3.03	3.00	3.07
Apr.	–	2.61	2.58	2.70	2.63	2.70	2.67	2.68	2.68	2.68
May	–	2.57	2.57	2.67	2.61	2.54	2.54	2.56	2.57	2.65
June ...	–	2.58	2.71	2.78	2.70	2.54	2.59	2.62	2.67	2.81
July	–	2.50	2.86	2.99	2.82	2.52	2.63	2.68	2.89	2.96
Aug.	–	2.49	2.91	3.20	2.94	2.46	2.61	2.69	3.05	3.27
Sept. ...	–	2.45	2.92	3.19	2.94	2.45	2.58	2.72	3.11	3.28
Oct.	–	3.06	3.43	3.57	3.40	2.49	2.75	3.36	3.44	..
Nov.	–	3.03	3.37	3.53	3.35	2.93	3.07	3.45	3.49	3.72
Dec.	–	–	3.45	3.69	3.57	3.05	3.53	3.47	3.55	3.84
2000 – Jan.	–	3.27	3.55	3.89	3.62	3.03	3.14	3.34	3.53	4.01
Feb.	–	3.35	3.78	4.01	3.79	3.28	3.35	3.53	3.72	4.04
Mar.	–	3.60	3.99	4.22	4.03	3.52	3.58	3.74	3.94	..
Apr.	–	3.89	4.17	4.27	4.15	3.68	3.77	3.93	4.09	4.39
May	–	4.26	4.56	4.67	4.53	3.90	4.15	4.36	4.59	4.89
June ...	–	–	4.58	4.94	4.80	4.30	4.37	4.51	4.72	5.01
July	–	4.25	4.73	4.97	4.73	4.31	4.42	4.59	4.87	5.10
Aug.	–	4.42	5.01	5.07	4.91	4.43	4.58	4.77	5.02	..
Sept. ...	–	4.72	4.94	5.21	5.02	4.60	4.69	4.86	5.05	..
Oct.	4.56	–	5.11	5.09	4.99	4.76	4.85	5.04	5.11	5.21
Nov.	4.97	5.02	4.99	5.13	5.04	4.83	4.93	5.10	5.13	5.27
Dec.	–	–	4.78	4.64	4.72	4.83	4.95	4.95	4.94	4.91
2001 – Jan.	–	4.69	4.63	4.47	4.57	4.76	4.81	4.77	4.67	4.54
Feb.	–	4.58	4.70	4.46	4.58	5.02	4.80	4.75	4.66	4.57

(1) Before tax; the annual values are obtained as the arithmetic mean of the monthly data. – (2) Weighted average of the compound allotment rates at auction. – (3) Weighted monthly average of the rates on transactions concluded on the Interbank Deposit Market (MID).

Table a26

Bank interest rates: funds raised from resident customers in lire/euros

	Deposits			Certificates of deposit			Bonds	
	Current account average	Overall average	Maximum	Average for stocks	Average for issues with maturities of less than 6 months	Average for issues with maturities of from 18 to 24 months	Average for stocks	Average for fixed rate issues
1997	3.36	4.19	5.79	6.63	4.95	4.73	7.15	5.07
1998	1.70	2.29	3.72	5.05	3.11	3.05	5.57	3.74
1999	1.22	1.52	2.89	3.85	2.40	2.99	4.45	4.68
2000 – Jan.	1.30	1.56	3.07	3.81	2.43	2.97	4.49	4.04
Feb.	1.28	1.55	3.02	3.75	2.47	3.06	4.49	4.38
Mar.	1.34	1.59	3.13	3.72	2.54	3.14	4.50	4.80
Apr.	1.42	1.64	3.35	3.72	2.61	3.22	4.55	4.55
May	1.48	1.69	3.51	3.73	2.73	3.31	4.58	4.47
June	1.58	1.78	3.83	3.75	2.86	3.62	4.66	4.66
July	1.71	1.89	4.13	3.77	3.05	3.64	4.68	4.80
Aug.	1.76	1.94	4.20	3.81	3.13	3.68	4.70	5.01
Sept.	1.85	2.00	4.34	3.86	3.22	3.67	4.75	4.86
Oct.	1.94	2.08	4.51	3.89	3.39	3.75	4.73	4.79
Nov.	2.02	2.15	4.65	3.92	3.51	3.84	4.82	4.73
Dec.	2.08	2.20	4.71	3.94	3.52	3.82	4.87	4.76
2001 – Jan.	(2.09)	(2.19)	(4.68)	(3.89)	(3.50)	(3.77)	(4.83)	(4.60)

Table a27

Bank interest rates: loans to resident customers in lire/euros

	Stocks				Disbursements		ABI prime rate
	Minimum for short-term loans	Average for short-term loans	Average for current account facilities	Average for medium and long-term loans	Average for medium and long-term loans to enterprises	Average for medium and long-term loans to consumer households	
1997	6.12	9.01	9.60	9.42	6.90	9.38	8.88
1998	3.80	6.70	7.35	7.50	4.53	6.17	6.38
1999	3.03	5.55	6.37	5.89	4.58	5.50	6.25
2000 – Jan.	3.14	5.57	6.37	5.96	4.73	5.59	6.25
Feb.	3.21	5.63	6.47	5.96	5.02	5.91	6.50
Mar.	3.31	5.71	6.55	5.97	4.93	5.96	6.75
Apr.	3.44	5.84	6.68	6.03	4.96	5.93	6.75
May	3.57	6.04	6.85	6.07	5.35	6.10	7.00
June	3.75	6.23	7.09	6.15	5.57	6.20	7.50
July	4.08	6.46	7.27	6.33	5.65	6.31	7.50
Aug.	4.23	6.43	7.25	6.36	5.71	6.65	7.50
Sept.	4.40	6.63	7.47	6.41	5.57	6.62	7.75
Oct.	4.54	6.83	7.69	6.52	6.01	6.68	8.00
Nov.	4.64	6.90	7.73	6.54	6.02	6.61	8.00
Dec.	4.71	6.88	7.65	6.53	5.79	6.51	8.00
2001 – Jan.	(4.73)	(6.87)	(7.63)	(6.56)	(5.95)	(6.92)	8.00

Table a28

Banks and money market funds: balance sheet

(end-of-period data)

Assets

	Cash	Loans							Holdings of		
		Residents of Italy			Residents of other euro-area countries			Rest of the world	Residents of Italy		
		MFIs	General government	Other sectors	MFIs	General govern-ment	Other sectors		MFIs	General government	Other sectors
											(billions
1997	*(10,845)*	*(310,105)*	*(119,028)*	*(1,245,461)*	*(87,647)*	*(48)*	*(13,850)*	*(202,214)*	*(49,665)*	*(352,337)*	*(4,459)*
1998	11,914	263,005	118,860	1,337,337	119,509	66	20,902	161,562	63,500	364,567	5,576
1999	11,908	299,649	122,295	1,474,123	111,732	87	24,699	130,948	73,203	342,418	10,454
2000 – Sept. ..	9,825	324,486	111,641	1,594,233	103,118	213	29,700	134,766	84,294	301,851	13,991
Oct. ...	10,214	352,781	111,647	1,610,920	107,569	213	29,201	134,199	82,443	303,896	13,490
Nov. ...	10,864	372,008	113,717	1,637,519	105,103	217	30,560	133,242	82,288	295,713	13,782
Dec. ...	13,579	363,453	118,976	1,667,812	113,775	215	30,535	134,199	84,011	282,883	15,366
2001 – Jan. ...	(9,923)	(326,755)	(117,166)	(1,665,167)	(103,902)	(240)	(31,370)	(130,398)	(78,783)	(288,187)	(15,564)
											(millions
2000 – Sept. ..	5,074	167,583	57,658	823,355	53,256	110	15,339	69,601	43,534	155,893	7,226
Oct. ...	5,275	182,196	57,661	831,971	55,555	110	15,081	69,308	42,578	156,949	6,967
Nov. ...	5,611	192,126	58,730	845,708	54,281	112	15,783	68,814	42,498	152,723	7,118
Dec. ...	7,013	187,708	61,446	861,353	58,760	111	15,770	69,308	43,388	146,097	7,936
2001 – Jan. ...	(5,125)	(168,755)	(60,511)	(859,987)	(53,661)	(124)	(16,201)	(67,345)	(40,688)	(148,836)	(8,038)

Liabilities

	Deposits					
	Residents of Italy			Residents of other euro-area countries		
	MFIs	Central government	Other general government/ other sectors	MFIs	Central government	Other general government/ other sectors
						(billions
1997	*(266,036)*	*(10,711)*	*(1,131,289)*	*(151,507)*	*(167)*	*(15,095)*
1998	268,036	13,902	1,104,516	166,271	188	19,516
1999	351,133	15,339	1,114,360	191,019	74	11,875
2000 – Sept. ..	353,772	13,471	1,113,450	207,812	1,288	14,266
Oct. ...	373,144	12,911	1,123,689	216,283	775	14,019
Nov. ...	394,186	13,229	1,096,758	210,562	1,373	12,661
Dec. ...	399,466	13,484	1,158,219	208,352	66	13,616
2001 – Jan. ...	(345,493)	(14,381)	(1,120,581)	(219,650)	(2,815)	(13,620)
						(millions
2000 – Sept. ...	182,708	6,957	575,049	107,326	665	7,368
Oct.	192,713	6,668	580,337	111,701	400	7,240
Nov.	203,580	6,832	566,428	108,746	709	6,539
Dec.	206,307	6,964	598,170	107,605	34	7,032
2001 – Jan. ...	(178,432)	(7,427)	(578,732)	(113,440)	(1,454)	(7,034)

Table a28

securities other than shares				Shares and other equity					Fixed assets	Remaining assets	Total assets
Residents of other euro-area countries			Rest of the world	Residents of Italy		Residents of other euro-area countries		Rest of the world			
MFIs	General government	Other sectors		MFIs	Other sectors	MFIs	Other sectors				
of lire)											
(1,892)	*(2,473)*	*(1,961)*	*(19,874)*	*(34,425)*	*(26,347)*	*(4,726)*	*(6,363)*	*(4,788)*	*(84,778)*	*(527,562)*	*(3,110,851)*
3,758	6,737	3,168	32,175	55,902	32,584	8,200	6,574	5,844	86,348	265,137	2,973,223
8,401	5,964	9,430	34,636	75,613	41,653	9,832	10,055	8,909	86,588	286,508	3,179,102
7,234	10,127	10,376	33,939	80,990	49,818	10,729	15,089	13,641	86,191	300,455	3,326,709
7,497	10,173	10,535	33,153	80,890	50,705	10,677	15,374	14,344	88,107	331,027	3,408,964
7,728	10,558	10,971	32,409	82,003	52,787	10,665	15,616	14,609	88,129	310,796	3,431,283
7,174	8,870	10,369	29,803	79,006	51,574	11,515	15,953	14,170	89,616	306,033	3,448,886
(6,870)	(11,060)	(10,165)	(27,116)	(78,305)	(51,933)	(11,134)	(15,879)	(13,953)	(89,382)	(296,650)	(3,379,901)
of euros)											
3,736	5,230	5,359	17,528	41,828	25,729	5,541	7,793	7,045	44,514	155,172	1,718,102
3,872	5,254	5,441	17,122	41,776	26,187	5,514	7,940	7,408	45,457	170,961	1,760,583
3,991	5,453	5,666	16,738	42,351	27,262	5,508	8,065	7,545	45,515	160,512	1,772,110
3,705	4,581	5,355	15,392	40,803	26,636	5,947	8,239	7,318	46,283	158,053	1,781,201
(3,548)	(5,712)	(5,250)	(14,004)	(40,441)	(26,821)	(5,750)	(8,201)	(7,206)	(46,162)	(153,207)	(1,745,573)

Rest of the world	Money market fund shares/units	Debt securities issued	Capital and reserves	Remaining liabilities	Total liabilities
of lire)					
(255,775)	*(7,143)*	*(396,409)*	*(195,958)*	*(680,760)*	*(3,110,852)*
245,892	9,240	486,065	210,173	449,426	2,973,224
262,825	25,297	525,800	228,993	452,384	3,179,102
300,116	17,938	569,248	247,171	488,180	3,326,711
316,772	17,742	570,472	246,958	516,198	3,408,964
310,487	18,096	574,433	247,380	552,122	3,431,283
305,369	19,508	585,685	239,962	505,161	3,448,886
(310,642)	(21,295)	(586,612)	(243,501)	(501,308)	(3,379,903)
of euros)					
154,997	9,264	293,992	127,653	252,124	1,718,103
163,599	9,163	294,624	127,543	266,594	1,760,583
160,353	9,346	296,670	127,761	285,147	1,772,110
157,710	10,075	302,481	123,930	260,894	1,781,201
(160,433)	(10,998)	(302,960)	(125,758)	(258,904)	(1,745,574)

Table a29

Banks: deposits and bonds

(end-of-period data)

	Deposits in euros and euro-area currencies Residents of Italy					Debt securities issued in euros and euro-area currencies	
	Overnight	Deposits with agreed maturity		Deposits redeemable at notice	Repos	up to 2 years	over 2 years
		up to 2 years	over 2 years				
				(billions of lire)			
1997	*(591,935)*	*(198,435)*	*(57,999)*	*(118,868)*	*(143,230)*	*(20,859)*	*(374,401)*
1998	663,885	138,825	44,958	118,397	115,537	33,546	448,318
1999	730,349	111,428	32,134	118,420	96,877	21,833	495,594
2000 – Sept.	727,290	100,258	23,822	109,998	125,062	20,395	540,181
Oct.	731,060	99,424	22,885	108,743	134,077	21,252	540,312
Nov.	705,344	96,678	22,188	107,693	137,810	20,923	544,586
Dec.	774,516	94,662	21,340	110,575	132,137	24,782	552,457
2001 – Jan.	(729,631)	(91,479)	(19,405)	(107,666)	(145,669)	(25,613)	(553,589)
				(millions of euros)			
2000 – Sept.	375,614	51,779	12,303	56,809	64,589	10,533	278,980
Oct.	377,561	51,348	11,819	56,161	69,245	10,976	279,048
Nov.	364,280	49,930	11,459	55,619	71,173	10,806	281,255
Dec.	400,004	48,889	11,021	57,107	68,243	12,799	285,320
2001 – Jan.	(376,823)	(47,245)	(10,022)	(55,605)	(75,232)	(13,228)	(285,905)

Table a30

Banks: loan and securities portfolios

(end-of-period data)

	Loans to residents of Italy						Loans to non-residents of Italy	Bad debts and unpaid and pro-tested bills	*Memorandum item:* bad debts: estimated realizable value
	Short-term		Medium and long-term		Total				
		of which: in lire/euros		*of which:* in lire/euros		*of which:* in lire/euros			
					(billions of lire)				
1997	624,660	562,740	604,554	573,885	1,229,214	1,136,625	25,445	124,820	74,149
1998	662,046	597,060	650,804	624,099	1,312,849	1,221,159	30,163	125,064	70,792
1999	711,360	668,286	743,535	734,791	1,454,898	1,403,077	35,728	116,627	59,558
2000 – Sept.	787,992	731,196	789,286	779,310	1,577,276	1,510,506	41,688	110,383	52,622
Oct.	797,064	734,892	796,825	786,550	1,593,889	1,521,442	43,754	110,447	52,649
Nov.	818,916	759,055	805,031	794,854	1,623,948	1,553,909	44,006	109,912	52,796
Dec.	843,902	792,446	819,259	809,479	1,663,163	1,601,925	42,908	100,498	47,537
2001 – Jan.	*(847,664)*	. . . .	*(816,552)*	. . . .	*(1,664,216)*	. . . .	. . . .	. . . .	. . . .
					(millions of euros)				
2000 – Sept.	406,964	377,631	407,632	402,480	814,595	780,111	21,530	57,008	27,177
Oct.	411,649	379,540	411,526	406,219	823,175	785,759	22,597	57,041	27,191
Nov.	422,935	392,019	415,764	410,508	838,699	802,527	22,727	56,765	27,267
Dec.	435,839	409,264	423,112	418,061	858,952	827,325	22,160	51,903	24,551
2001 – Jan.	*(437,782)*	. . . .	*(421,714)*	. . . .	*(859,496)*	. . . .	. . . .	. . . .	. . . .

	Securities: book value							
	Italian government securities					Other securities		Total
		BOTs and BTEs	CTZs	CCTs	BTPs		*of which:* bonds issued by banks	
				(billions of lire)				
1997	345,196	33,707	19,489	187,493	99,094	50,848	49,749	396,045
1998	342,429	48,480	21,132	167,538	101,158	64,069	63,215	406,499
1999	307,613	33,623	18,025	145,507	105,575	72,643	67,072	380,256
2000 – Sept.	265,881	19,603	18,538	131,078	90,120	76,887	69,607	342,768
Oct.	267,163	18,617	17,759	131,599	92,304	75,842	68,542	343,002
Nov.	258,577	17,037	16,369	129,658	88,586	76,047	68,434	334,624
Dec.	247,033	15,192	15,140	128,464	82,485	77,981	69,777	325,015
				(millions of euros)				
2000 – Sept.	137,316	10,124	9,574	67,696	46,543	39,709	35,949	177,025
Oct.	137,978	9,615	9,172	67,965	47,671	39,169	35,399	177,146
Nov.	133,544	8,799	8,454	66,963	45,751	39,275	35,343	172,819
Dec.	127,582	7,846	7,819	66,346	42,600	40,274	36,037	167,856

Table a31

Italian investment funds: securities portfolios and net assets (1)

(end-of-period balance sheet values)

	Residents							
	Government securities					Bonds	Shares	Total
		BOTs	CTZs	BTPs	CCTs			
	(billions of lire)							
1997	197,079	15,511	62,975	72,322	41,905	5,691	39,409	242,179
1998	374,283	29,846	67,942	193,648	76,601	8,063	76,326	458,671
1999	312,830	14,086	42,515	177,955	73,801	15,513	86,439	414,784
2000 (2)	245,140	7,960	18,462	164,995	49,613	14,245	85,736	345,121
1998 – 4th qtr. . .	374,283	29,846	67,942	193,648	76,601	8,063	76,326	458,671
1999 – 1st qtr. . .	365,758	24,502	57,836	201,115	77,693	8,667	74,523	448,947
2nd ” . .	375,245	21,378	53,815	205,758	89,324	12,104	64,426	451,774
3rd ” . .	356,955	15,626	52,721	198,892	85,109	13,728	63,132	433,817
4th ” . .	312,830	14,086	42,515	177,955	73,801	15,513	86,439	414,784
2000 – 1st qtr. . .	270,576	16,681	31,004	149,842	68,505	15,829	90,799	377,205
2nd ” . .	263,722	15,527	26,480	159,522	57,954	16,818	90,532	371,073
3rd ” (2)	249,215	14,007	21,886	154,261	54,518	16,588	89,595	355,398
4th ” (2)	245,140	7,960	18,462	164,995	49,613	14,245	85,736	345,121
1999 – Dec.	312,830	14,086	42,515	177,955	73,801	15,513	86,439	414,784
2000 – Jan.	292,323	16,178	37,316	161,973	72,484	15,219	82,816	390,356
Feb.	274,027	15,920	36,586	146,285	70,786	15,403	105,474	394,906
Mar.	270,576	16,681	31,004	149,842	68,505	15,829	90,799	377,205
Apr.	271,022	15,047	28,930	156,788	66,205	16,088	86,638	373,749
May	263,447	17,026	25,663	154,021	62,540	16,179	86,917	366,542
June	263,722	15,527	26,480	159,522	57,954	16,818	90,532	371,073
July	257,532	14,416	23,688	160,492	54,463	16,834	90,968	365,333
Aug.	258,424	13,763	24,068	161,363	54,694	16,565	93,899	368,890
Sept. (2) .	249,215	14,007	21,886	154,261	54,518	16,588	89,595	355,398
Oct. (2) . .	245,345	12,200	20,528	151,800	56,160	16,627	94,207	356,179
Nov. (2) . .	248,594	9,765	19,562	160,875	53,840	16,933	92,656	358,183
Dec. (2) . .	245,140	7,960	18,462	164,995	49,613	14,245	85,736	345,121
	(millions of euros)							
2000 – 1st qtr. . .	139,741	8,615	16,012	77,387	35,380	8,175	46,894	194,810
2nd ” . . .	136,201	8,019	13,676	82,386	29,931	8,686	46,756	191,643
3rd ” (2)	128,709	7,234	11,303	79,669	28,156	8,567	46,272	183,548
4th ” (2)	126,604	4,111	9,535	85,213	25,623	7,357	44,279	178,240
2000 – Jan.	150,972	8,355	19,272	83,652	37,435	7,860	42,771	201,602
Feb.	141,523	8,222	18,895	75,550	36,558	7,955	54,473	203,952
Mar.	139,741	8,615	16,012	77,387	35,380	8,175	46,894	194,810
Apr.	139,971	7,771	14,941	80,974	34,192	8,309	44,745	193,025
May	136,059	8,793	13,254	79,545	32,299	8,356	44,889	189,303
June	136,201	8,019	13,676	82,386	29,931	8,686	46,756	191,643
July	133,004	7,445	12,234	82,887	28,128	8,694	46,981	188,679
Aug.	133,465	7,108	12,430	83,337	28,247	8,555	48,495	190,516
Sept. (2) .	128,709	7,234	11,303	79,669	28,156	8,567	46,272	183,548
Oct. (2) . .	126,710	6,301	10,602	78,398	29,004	8,587	48,654	183,951
Nov. (2) . .	128,388	5,043	10,103	83,085	27,806	8,745	47,853	184,986
Dec. (2) . .	126,604	4,111	9,535	85,213	25,623	7,357	44,279	178,240

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

Table a31

Non-residents		Other financial assets	Total portfolio	Net assets	*Memorandum items:*		
	shares				gross sales	net sales	
			(billions of lire)				
88,629	38,973	161	330,969	368,432	287,470	143,377	 1997
208,230	84,069	215	667,117	720,823	631,523	313,085	 1998
452,353	241,921	519	867,654	920,311	702,725	118,646	 1999
464,751	262,033	3,836	813,708	876,759	652,286	−13,485	. . . . (2) 2000
208,230	84,069	215	667,117	720,823	116,255	38,525	. . . . . 4th qtr. – 1998
290,439	102,700	558	739,944	814,372	182,643	80,266	. . . . . 1st qtr. – 1999
345,620	132,090	542	797,939	873,893	196,365	51,982	. . . . . 2nd ”
375,458	154,685	536	809,810	880,013	159,330	15,008	. . . . . 3rd ”
452,353	241,921	519	867,654	920,311	164,387	−28,609	. . . . . 4th ”
501,773	297,227	521	879,498	945,273	256,135	−5,665	. . . . . 1st qtr. – 2000
486,207	281,373	362	857,640	918,429	160,363	−2,766	. . . . . 2nd ”
503,105	291,893	519	859,022	919,771	117,722	−2,432	. . . . . 3rd ” (2)
464,751	262,033	3,836	813,708	876,759	118,066	−2,623	. . . . . 4th ” (2)
452,353	241,921	519	867,654	920,311	66,921	−1,005	. . . . Dec. – 1999
453,149	250,817	511	844,018	904,542	79,288	−7,428	. . . . Jan. – 2000
483,980	284,868	511	879,398	942,553	92,885	−1,152	. . . . Feb.
501,773	297,227	521	879,498	945,273	83,962	2,916	. . . . Mar.
495,883	295,297	515	870,144	939,267	52,829	1,559	. . . . Apr.
474,096	272,015	401	841,038	917,194	54,188	−926	. . . . May
486,207	281,373	362	857,640	918,429	53,346	−3,398	. . . . June
495,499	284,941	360	861,193	917,116	38,127	−1,900	. . . . July
522,564	310,829	490	891,945	941,209	34,349	463	. . . . Aug.
503,105	291,893	519	859,022	919,771	45,247	−995	. . . . Sept. (2)
507,886	300,217	474	864,537	925,049	44,507	−902	. . . . Oct. (2)
475,441	269,260	455	834,079	894,055	41,614	−327	. . . . Nov. (2)
464,751	262,033	3,836	813,708	876,759	31,945	−1,394	. . . . Dec. (2)
			(millions of euros)				
259,144	153,505	269	454,223	488,193	132,283	−2,926	. . . . . 1st qtr. – 2000
251,105	145,317	187	442,934	474,329	82,821	−1,428	. . . . . 2nd ”
259,832	150,750	268	443,648	475,022	60,798	−1,256	. . . . . 3rd ” (2)
240,024	135,329	1,981	420,245	452,808	60,976	−1,354	. . . . . 4th ” (2)
234,032	129,536	264	435,899	467,157	40,949	−3,836	. . . . Jan. – 2000
249,955	147,122	264	454,171	486,788	47,971	−595	. . . . Feb.
259,144	153,505	269	454,223	488,193	43,363	1,506	. . . . Mar.
256,102	152,508	266	449,392	485,091	27,284	805	. . . . Apr.
244,850	140,484	207	434,360	473,691	27,986	−478	. . . . May
251,105	145,317	187	442,934	474,329	27,551	−1,755	. . . . June
255,904	147,160	186	444,769	473,651	19,691	−981	. . . . July
269,882	160,530	253	460,651	486,094	17,740	239	. . . . Aug.
259,832	150,750	268	443,648	475,022	23,368	−514	. . . . Sept. (2)
262,301	155,049	245	446,496	477,748	22,986	−466	. . . . Oct. (2)
245,545	139,061	235	430,766	461,741	21,492	−169	. . . . Nov. (2)
240,024	135,329	1,981	420,245	452,808	16,498	−720	. . . . Dec. (2)

Table a32

Italian investment funds: net purchases of securities (1)

	Residents				
	Government securities				
		BOTs	CTZs	BTPs	CCTs
			(billions of lire)		
1997	69,733	−10,928	42,201	29,429	7,563
1998	174,057	13,558	2,101	122,413	34,888
1999	−35,571	−8,992	−23,326	−3,065	908
2000 (2)	60,721	−5,629	−22,242	−10,489	−21,824
1998 – 4th qtr.	40,298	4,721	−6,394	38,205	4,200
1999 – 1st qtr.	−1,123	−2,403	−9,232	8,616	2,951
2nd ”	16,236	−556	−3,818	7,987	12,305
3rd ”	−11,397	−4,672	−1,232	−1,652	−3,714
4th ”	−39,289	−1,361	−9,046	−18,017	−10,634
2000 – 1st qtr.	−37,477	2,571	−9,414	−26,025	−4,486
2nd ”	−3,667	−836	−4,475	11,618	−9,726
3rd ” (2) . . .	−14,191	−1,452	−4,785	−5,077	−2,990
4th ” (2) . . .	−5,387	−5,911	−3,571	8,996	−4,624
1999 – Dec.	−11,651	−1,396	−3,007	−4,715	−2,413
2000 – Jan.	−17,091	2,095	−4,409	−13,674	−986
Feb.	−16,863	−236	−76	−15,043	−1,485
Mar.	−3,522	711	−4,930	2,693	−2,014
Apr.	1,272	−1,592	−2,085	7,716	−2,202
May	−5,669	2,134	−3,174	−1,458	−3,398
June	730	−1,377	784	5,360	−4,126
July	−6,123	−1,168	−2,827	1,088	−3,394
Aug.	1,350	−503	343	1,079	467
Sept. (2)	−9,420	219	−2,300	−7,244	−64
Oct. (2)	−3,642	−1,824	−1,361	−2,302	1,857
Nov. (2)	2,548	−2,262	−1,030	8,068	−2,205
Dec. (2)	−4,291	−1,824	−1,179	3,230	−4,273
			(millions of euros)		
2000 – Jan.	−8,827	1,082	−2,277	−7,062	−509
Feb.	−8,709	−122	−39	−7,769	−767
Mar.	−1,819	367	−2,546	1,391	−1,040
Apr.	657	−822	−1,077	3,985	−1,137
May	−2,928	1,102	−1,639	−753	−1,755
June	377	−711	405	2,768	−2,131
July	−3,162	−603	−1,460	562	−1,753
Ago.	697	−260	177	557	241
Sept. (2)	−4,865	113	−1,188	−3,741	−33
Oct. (2)	−1,881	−942	−703	−1,189	959
Nov. (2)	1,316	−1,168	−532	4,167	−1,139
Dec. (2)	−2,216	−942	−609	1,668	−2,207

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

Table a32

			Non-residents		Other financial assets	Total portfolio	
Bonds	Shares	Total		shares			
			(billions of lire)				
1,690	6,363	77,786	53,524	19,992	−1,559	129,751	 1997
2,116	17,649	193,823	119,253	41,734	20	313,095	 1998
5,602	−10,305	−40,274	161,950	79,364	8	121,683	 1999
1,148	−3,865	−63,438	68,161	76,856	126	4,849	. . . . (2) 2000
623	1,326	42,247	12,340	4,233	−83	54,504	. . . . . 4th qtr. − 1998
−571	−5,518	−7,213	65,461	6,864	21	58,270	. . . . . 1st qtr. − 1999
3,090	−8,653	10,673	42,751	17,930	−4	53,420	. . . . . 2nd ”
1,493	864	−9,040	34,725	23,406	−2	25,683	. . . . . 3rd ”
1,592	3,003	−34,694	19,010	31,164	−8	−15,692	. . . . . 4th ”
327	−7,643	−44,792	26,521	35,411	6	−18,265	. . . . . 1st qtr. − 2000
1,050	2,827	209	14,416	10,746	69	14,694	. . . . . 2nd ”
−339	−77	−14,607	14,268	12,435	45	−294	. . . . . 3rd ” (2)
110	1,028	−4,248	12,952	18,265	6	8,710	. . . . . 4th ” (2)
203	951	−10,497	9,594	12,472	2	−900	. . . . Dec. − 1999
−244	−2,014	−19,349	6,163	13,397	. .	−13,186	. . . . Jan. − 2000
105	−1,280	−18,038	10,400	14,325	. .	−7,639	. . . . Feb.
465	−4,349	−7,406	9,958	7,689	6	2,558	. . . . Mar.
236	−796	713	−881	4,670	−3	−171	. . . . Apr.
151	960	−4,558	4,006	−815	92	−460	. . . . May
660	2,662	4,053	11,290	6,891	−20	15,323	. . . . June
95	153	−5,875	8,450	4,777	28	2,603	. . . . July
−422	−937	−10	4,949	5,968	10	4,949	. . . . Aug.
10	707	−8,723	867	1,690	7	−7,848	. . . . Sept. (2)
−35	1,698	−1,979	2,372	7,691	−12	381	. . . . Oct. (2)
285	654	3,487	2,986	3,224	−5	6,468	. . . . Nov. (2)
−145	−1,324	−5,760	7,491	7,350	23	1,754	. . . . Dec. (2)
			(millions of euros)				
−126	−1,040	−9,993	3,183	6,919	. .	−6,810	. . . . Jan. − 2000
54	−661	−9,316	5,371	7,398	. .	−3,945	. . . . Feb.
240	−2,246	−3,825	5,143	3,971	3	1,321	. . . . Mar.
122	−411	368	−455	2,412	. .	−89	. . . . Apr.
78	496	−2,354	2,069	−421	48	−237	. . . . May
341	1,375	2,093	5,831	3,559	−10	7,914	. . . . June
49	79	−3,034	4,364	2,467	14	1,344	. . . . July
−218	−484	−5	2,556	3,082	5	2,556	. . . . Aug.
−5	365	−4,505	448	873	4	−4,053	. . . . Sept. (2)
−18	877	−1,022	1,225	3,972	−6	197	. . . . Oct. (2)
147	338	1,801	1,542	1,665	−3	3,340	. . . . Nov. (2)
−75	−684	−2,975	3,869	3,796	12	906	. . . . Dec. (2)

Table a33

Portfolio management services (1)

(end-of-period market values)

		Government securities			Bonds		Shares	
		BOTs	BTPs	CCTs	Italian	Foreign	Italian	Foreign
				(billions of lire)				
1999 - 4th qtr.								
Banks	129,763	4,818	64,070	44,172	12,267	25,499	20,575	8,875
Securities firms	21,077	2,350	9,988	6,616	2,994	5,372	6,103	4,908
Asset management cos	60,997	1,114	43,487	11,465	13,216	9,757	13,673	5,430
Total . . .	**211,837**	**8,282**	**117,545**	**62,253**	**28,477**	**40,628**	**40,351**	**19,213**
2000 - 1st qtr.								
Banks	104,638	4,248	50,370	37,451	9,713	26,022	18,892	8,801
Securities firms	25,152	1,807	14,199	6,576	2,511	6,115	5,584	5,789
Asset management cos	73,096	1,233	49,871	17,883	21,841	9,414	18,385	8,924
Total . . .	**202,886**	**7,288**	**114,439**	**61,910**	**34,067**	**41,550**	**42,861**	**23,514**
2000 - 2nd qtr. (2)								
Banks	97,240	3,478	47,692	34,483	10,353	24,230	18,338	9,157
Securities firms	20,916	1,197	11,436	6,235	2,066	5,563	5,325	4,076
Asset management cos	82,785	1,595	55,682	20,897	25,613	10,083	21,175	6,756
Total . . .	**200,941**	**6,269**	**114,810**	**61,615**	**38,032**	**39,876**	**44,839**	**19,988**
2000 - 3rd qtr. (2)								
Banks	93,576	3,094	47,812	32,872	9,829	23,878	17,634	10,078
Securities firms	18,524	310	11,401	5,305	2,194	5,394	5,283	2,923
Asset management cos	82,721	1,820	55,836	20,703	26,641	10,762	21,479	8,037
Total . . .	**194,822**	**5,224**	**115,049**	**58,880**	**38,664**	**40,033**	**44,395**	**21,038**
				(millions of euros)				
1999 - 4th qtr.								
Banks	67,017	2,488	33,089	22,813	6,335	13,169	10,626	4,584
Securities firms	10,885	1,214	5,158	3,417	1,546	2,774	3,152	2,535
Asset management cos	31,502	575	22,459	5,921	6,825	5,039	7,062	2,804
Total . . .	**109,405**	**4,277**	**60,707**	**32,151**	**14,707**	**20,983**	**20,840**	**9,923**
2000 - 1st qtr.								
Banks	54,041	2,194	26,014	19,342	5,016	13,439	9,757	4,545
Securities firms	12,990	933	7,333	3,396	1,297	3,158	2,884	2,990
Asset management cos	37,751	637	25,756	9,236	11,280	4,862	9,495	4,609
Total . . .	**104,782**	**3,764**	**59,103**	**31,974**	**17,594**	**21,459**	**22,136**	**12,144**
2000 - 2nd qtr. (2)								
Banks	50,220	1,796	24,631	17,809	5,347	12,514	9,471	4,729
Securities firms	10,802	618	5,906	3,220	1,067	2,873	2,750	2,105
Asset management cos	42,755	824	28,757	10,792	13,228	5,207	10,936	3,489
Total . . .	**103,777**	**3,238**	**59,294**	**31,821**	**19,642**	**20,594**	**23,157**	**10,323**
2000 - 3rd qtr. (2)								
Banks	48,328	1,598	24,693	16,977	5,076	12,332	9,107	5,205
Securities firms	9,567	160	5,888	2,740	1,133	2,786	2,728	1,509
Asset management cos	42,722	940	28,837	10,692	13,759	5,558	11,093	4,151
Total . . .	**100,617**	**2,698**	**59,418**	**30,409**	**19,968**	**20,676**	**22,928**	**10,865**

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

Table a33

Investment fund units		Other financial assets	Total portfolio	Total managed funds	*Memorandum items:*		
Italian	Foreign				gross inflow	net inflow	
			(billions of lire)				
							1999 - 4th qtr.
192,359	23,280	2,003	414,621	429,867	46,366	−7,160	. . . . Banks
32,084	17,717	380	90,635	94,485	−27,309	−84,380	. . . . . . Securities firms
62,778	1,426	2,331	169,608	174,388	123,822	112,779	Asset management cos
287,221	**42,423**	**4,714**	**674,864**	**698,740**	**142,879**	**21,239**	. . . **Total**
							2000 - 1st qtr.
225,945	26,980	381	421,373	439,125	71,421	4,502	. . . . Banks
35,620	22,989	649	104,409	108,110	28,031	13,478	. . . . . . Securities firms
75,706	2,738	2,411	212,515	220,061	34,878	19,889	Asset management cos
337,271	**52,707**	**3,441**	**738,298**	**767,295**	**134,331**	**37,870**	. . . **Total**
							2000 - 2nd qtr. (2)
226,183	32,138	2,356	419,996	434,941	32,552	2,294	. . . . Banks
31,945	22,834	573	93,297	95,518	9,933	−10,263	. . . . . . Securities firms
88,296	3,778	2,423	240,909	247,585	43,268	30,936	Asset management cos
346,424	**58,751**	**5,352**	**754,202**	**778,044**	**85,752**	**22,968**	. . . **Total**
							2000 - 3rd qtr. (2)
229,220	38,098	3,042	425,354	437,539	28,644	−4,319	. . . . Banks
23,360	26,167	345	84,189	87,083	9,801	1,925	. . . . . . Securities firms
95,578	4,122	3,230	252,571	261,956	17,494	6,984	Asset management cos
348,157	**68,388**	**6,616**	**762,114**	**786,578**	**55,939**	**4,590**	. . . **Total**
			(millions of euros)				
							1999 - 4th qtr.
99,345	12,023	1,034	214,134	222,008	23,946	−3,698	. . . . Banks
16,570	9,150	196	46,809	48,798	−14,104	−43,579	. . . . . . Securities firms
32,422	736	1,204	87,595	90,064	63,949	58,246	Asset management cos
148,337	**21,910**	**2,435**	**348,538**	**360,869**	**73,791**	**10,969**	. . . **Total**
							2000 - 1st qtr.
116,691	13,934	197	217,621	226,789	36,886	2,325	. . . . Banks
18,396	11,873	335	53,923	55,834	14,477	6,961	. . . . . . Securities firms
39,099	1,414	1,245	109,755	113,652	18,013	10,272	Asset management cos
174,186	**27,221**	**1,777**	**381,299**	**396,275**	**69,376**	**19,558**	. . . **Total**
							2000 - 2nd qtr. (2)
116,814	16,598	1,217	216,910	224,628	16,812	1,185	. . . . Banks
16,498	11,793	296	48,184	49,331	5,130	−5,300	. . . . . . Securities firms
45,601	1,951	1,251	124,419	127,867	22,346	15,977	Asset management cos
178,913	**30,342**	**2,764**	**389,513**	**401,826**	**44,287**	**11,862**	. . . **Total**
							2000 - 3rd qtr. (2)
118,382	19,676	1,571	219,677	225,970	14,794	−2,230	. . . . Banks
12,064	13,514	178	43,480	44,975	5,062	994	. . . . . . Securities firms
49,362	2,129	1,668	130,442	135,289	9,035	3,607	Asset management cos
179,808	**35,319**	**3,417**	**393,599**	**406,234**	**28,890**	**2,371**	. . . **Total**

Table a34

Italian components of euro-area monetary aggregates: residents of Italy and the rest of the euro area

(end-of-period stocks)

	Currency in circulation	Current account deposits	Total	Deposits with agreed maturity up to 2 years	Deposits redeemable at notice up to 3 months	Total
			(billions of lire)			
1998	124,968	685,856	810,824	165,213	233,773	1,209,810
1999 – July	127,435	706,667	834,102	131,597	231,729	1,197,428
Aug.	123,802	679,252	803,053	131,249	232,526	1,166,828
Sept. . . .	124,911	693,632	818,543	129,588	233,548	1,181,679
Oct.	126,574	707,128	833,702	127,781	235,715	1,197,199
Nov.	126,566	690,034	816,600	126,324	235,244	1,178,167
Dec.	139,335	754,904	894,240	127,301	249,508	1,271,048
2000 – Jan.	130,054	755,895	885,949	123,298	248,528	1,257,775
Feb.	128,993	743,965	872,958	124,554	246,226	1,243,737
Mar.	130,461	751,606	882,067	123,552	244,849	1,250,467
Apr.	134,295	772,180	906,475	121,236	243,719	1,271,430
May	132,506	768,059	900,565	121,276	244,591	1,266,432
June	134,434	762,299	896,734	120,467	242,807	1,260,008
July	136,781	760,041	896,821	121,029	242,702	1,260,552
Aug.	133,039	744,304	877,343	116,994	243,032	1,237,368
Sept. . . .	134,161	751,848	886,009	116,850	240,910	1,243,768
Oct.	134,304	756,729	891,033	117,157	240,261	1,248,452
Nov.	135,603	728,942	864,545	113,711	238,931	1,217,187
Dec.	147,962	798,276	946,238	111,548	243,552	1,301,337
2001 – Jan.	136,224	753,460	889,684	110,156	240,642	1,240,482
			(millions of euros)			
2000 – Jan.	67,167	390,387	457,554	63,678	128,354	649,587
Feb.	66,619	384,226	450,845	64,327	127,165	642,337
Mar.	67,377	388,172	455,550	63,809	126,454	645,813
Apr.	69,357	398,798	468,155	62,613	125,870	656,639
May	68,433	396,670	465,103	62,634	126,321	654,058
June	69,430	393,695	463,124	62,216	125,400	650,740
July	70,641	392,528	463,170	62,506	125,345	651,021
Aug.	68,709	384,401	453,110	60,422	125,516	639,047
Sept. . . .	69,288	388,297	457,585	60,348	124,419	642,353
Oct.	69,362	390,818	460,180	60,507	124,085	644,771
Nov.	70,033	376,467	446,500	58,727	123,398	628,625
Dec.	76,416	412,275	488,691	57,610	125,784	672,085
2001 – Jan.	70,354	389,130	459,483	56,891	124,281	640,655

Table a34

Repos	Money market fund shares/units and money market paper	Debt securities up to 2 years	Total monetary liabilities	Contribution to euro-area money		
				M1	M2	M3
			(billions of lire)			
117,130	9,240	32,486	1,368,666	799,373	1,198,359	1,356,893
111,344	11,461	25,940	1,346,172	824,925	1,188,251	1,336,458
113,123	12,421	25,198	1,317,570	794,034	1,157,809	1,307,477
107,040	14,230	23,816	1,326,765	809,676	1,172,813	1,315,937
106,911	15,161	21,821	1,341,091	825,171	1,188,667	1,330,505
110,396	15,192	22,090	1,325,846	806,777	1,168,345	1,313,548
98,274	25,297	21,636	1,416,256	882,912	1,259,721	1,403,421
105,587	25,479	21,030	1,409,872	876,515	1,248,341	1,399,057
113,127	24,844	21,020	1,402,728	863,925	1,234,705	1,391,911
111,225	23,915	20,352	1,405,960	873,220	1,241,620	1,394,895
114,258	24,747	19,811	1,430,246	896,279	1,261,234	1,417,616
123,942	20,087	19,530	1,429,990	891,144	1,257,012	1,417,624
123,266	19,165	19,691	1,422,130	887,514	1,250,788	1,410,524
131,184	18,395	19,460	1,429,592	886,116	1,249,847	1,416,796
132,139	18,164	19,525	1,407,197	867,710	1,227,736	1,395,371
126,584	17,938	19,271	1,407,560	876,889	1,234,649	1,396,826
134,394	17,742	20,089	1,420,677	881,510	1,238,928	1,409,808
137,987	18,096	19,732	1,393,002	854,296	1,206,938	1,381,540
132,254	19,508	23,455	1,476,554	933,193	1,288,293	1,462,706
145,917	21,295	23,901	1,431,594	880,261	1,231,059	1,421,693
			(millions of euros)			
54,531	13,159	10,861	728,138	452,682	644,715	722,553
58,425	12,831	10,856	724,449	446,180	637,672	718,862
57,443	12,351	10,511	726,118	450,981	641,243	720,403
59,010	12,781	10,232	738,661	462,890	651,373	732,137
64,010	10,374	10,086	738,528	460,238	649,192	732,142
63,662	9,898	10,169	734,469	458,363	645,978	728,475
67,751	9,500	10,050	738,322	457,641	645,492	731,714
68,244	9,381	10,084	726,756	448,135	634,073	720,649
65,375	9,264	9,953	726,944	452,875	637,643	721,400
69,409	9,163	10,375	733,718	455,262	639,853	728,105
71,264	9,346	10,191	719,426	441,207	623,331	713,506
68,303	10,075	12,114	762,576	481,954	665,348	755,424
75,360	10,998	12,344	739,357	454,617	635,789	734,243

Financial assets: residents of Italy

(end-of-period stocks)

	Total monetary assets	Other deposits	BOTs		Medium and long-term securities			
					Government securities		Other debt securities	
				held by non-money-market funds		held by non-money-market funds		held by non-money-market funds
				(billions of lire)				
1998	1,349,536	113,359	(124,591)	26,879	(821,107)	320,019	(416,139)	7,595
1999 – May	1,322,847	105,452	(93,299)	17,747	(834,640)	343,903	(435,586)	8,699
June ...	1,338,896	105,494	(88,612)	18,496	(833,877)	338,399	(437,691)	10,071
July	1,334,242	105,110	(77,970)	17,350	(836,203)	332,173	(439,850)	11,796
Aug. ...	1,308,076	104,655	(72,244)	15,539	(830,918)	334,872	(441,090)	11,976
Sept. ...	1,317,770	104,390	(67,847)	14,705	(835,498)	329,615	(438,145)	13,195
Oct.	1,333,131	103,813	(68,246)	15,208	(827,087)	313,158	(444,696)	13,427
Nov. ...	1,315,844	102,921	(69,167)	14,245	(805,034)	300,218	(449,003)	14,678
Dec. ...	1,405,064	102,079	(69,012)	11,610	(778,247)	284,024	(454,971)	14,900
2000 – Jan.	1,399,234	*(100,927)*	(59,654)	10,473	(745,617)	262,629	(452,163)	14,630
Feb. ...	1,390,266	*(99,686)*	(56,607)	9,994	(738,867)	245,308	(459,509)	15,054
Mar. ...	1,393,916	*(99,711)*	(57,122)	10,535	(747,328)	240,114	(464,322)	15,468
Apr.	1,422,062	*(98,610)*	(53,062)	9,376	(758,108)	243,084	(472,011)	15,725
May	1,419,656	*(98,263)*	(55,246)	11,411	(758,404)	236,514	(475,306)	15,930
June ...	1,411,916	*(97,925)*	(56,372)	10,329	(754,748)	238,406	(476,569)	16,457
July	1,418,271	*(97,097)*	(56,199)	9,570	(764,544)	233,368	(477,015)	16,470
Aug. ...	1,394,758	*(96,041)*	(56,288)	9,425	(773,110)	234,136	(481,429)	16,182
Sept. ...	1,394,167	*(95,026)*	(62,622)	9,560	(775,364)	224,647	(486,424)	16,276
				(millions of euros)				
2000 – Jan.	722,644	*(52,124)*	(30,808)	5,409	(385,079)	135,637	(233,523)	7,556
Feb. ...	718,013	*(51,483)*	(29,235)	5,162	(381,593)	126,691	(237,317)	7,775
Mar. ...	719,897	*(51,496)*	(29,501)	5,441	(385,963)	124,008	(239,802)	7,988
Apr.	734,434	*(50,928)*	(27,404)	4,842	(391,530)	125,543	(243,774)	8,121
May	733,191	*(50,748)*	(28,532)	5,893	(391,683)	122,149	(245,475)	8,227
June ...	729,194	*(50,574)*	(29,114)	5,334	(389,795)	123,126	(246,127)	8,499
July	732,476	*(50,146)*	(29,024)	4,942	(394,854)	120,525	(246,358)	8,506
Aug. ...	720,332	*(49,601)*	(29,070)	4,868	(399,278)	120,921	(248,637)	8,357
Sept. ...	720,027	*(49,077)*	(32,342)	4,937	(400,442)	116,020	(251,217)	8,406

Other domestic assets held by non-money-market funds	Other financial assets	Total domestic financial assets	External financial assets		Total financial assets	*Memorandum item:* shares/units of investment funds	
				held by non-money-market funds			non-money-market investment funds
			(billions of lire)				
76,325	(1,706)	(2,902,763)	(601,425)	213,991	(3,504,188)	720,823	711,583
66,202	(1,742)	(2,859,768)	(779,782)	323,012	(3,639,550)	862,289	853,804
64,008	(1,745)	(2,870,323)	(819,535)	345,136	(3,689,858)	873,893	863,272
60,200	(1,722)	(2,855,297)	(839,717)	351,345	(3,695,014)	871,506	860,045
62,220	(1,725)	(2,820,928)	(866,281)	369,187	(3,687,209)	885,040	872,619
62,781	(1,721)	(2,828,152)	(876,365)	374,184	(3,704,517)	880,014	865,784
61,116	(1,723)	(2,839,813)	(909,514)	392,076	(3,749,327)	870,814	855,653
69,460	(1,719)	(2,813,149)	(953,174)	417,565	(3,766,323)	886,361	871,169
86,440	(1,752)	(2,897,565)	(988,702)	448,669	(3,886,267)	920,311	895,014
82,816	(1,766)	*(2,842,177)*	(1,004,262)	449,733	(3,846,439)	904,542	879,063
104,810	(1,767)	*(2,851,512)*	(1,042,364)	480,416	(3,893,876)	942,553	917,709
90,752	(1,773)	*(2,854,923)*	(1,075,371)	498,303	(3,930,295)	945,274	921,359
86,639	(1,775)	*(2,892,267)*	(1,092,686)	492,047	(3,984,953)	939,267	914,520
86,916	(1,762)	*(2,895,552)*	(1,063,715)	471,591	(3,959,267)	917,194	897,108
90,532	(1,760)	*(2,889,822)*	(1,076,361)	483,651	(3,966,183)	918,429	899,264
90,968	(1,762)	*(2,905,856)*	(1,101,591)	492,915	(4,007,447)	917,116	898,721
93,900	(1,763)	*(2,897,288)*	(1,139,771)	519,659	(4,037,059)	941,209	923,045
89,595	(1,778)	*(2,904,976)*	(1,134,512)	500,504	(4,039,487)	919,770	901,833
			(millions of euros)				
42,771	(912)	*(1,467,862)*	(518,658)	232,268	*(1,986,520)*	467,157	453,998
54,130	(912)	*(1,472,683)*	(538,336)	248,114	*(2,011,019)*	486,788	473,957
46,869	(916)	*(1,474,445)*	(555,383)	257,352	*(2,029,828)*	488,193	475,842
44,745	(917)	*(1,493,731)*	(564,325)	254,121	*(2,058,057)*	485,091	472,310
44,889	(910)	*(1,495,428)*	(549,363)	243,556	*(2,044,791)*	473,691	463,317
46,756	(909)	*(1,492,468)*	(555,894)	249,785	*(2,048,363)*	474,329	464,431
46,981	(910)	*(1,500,749)*	(568,924)	254,569	*(2,069,674)*	473,651	464,151
48,495	(910)	*(1,496,325)*	(588,642)	268,381	*(2,084,967)*	486,094	476,713
46,272	(918)	*(1,500,295)*	(585,926)	258,488	*(2,086,221)*	475,022	465,758

Table a36

Credit: residents of Italy

(end-of-period stocks)

	Finance to "other residents"					
	Bank credit	Bonds placed domestically		Total domestic finance	External finance	Total
	A	B	held by Italian MFIs	C=A+B	D	E=C+D
			(billions of lire)			
1998	1,337,337	(23,464)	5,586	(1,360,800)	(154,422)	(1,515,223)
1999 – May	1,359,364	(18,305)	5,781	(1,377,669)	(166,594)	(1,544,263)
June	1,401,684	(18,506)	5,944	(1,420,190)	(202,697)	(1,622,887)
July	1,412,513	(20,104)	6,809	(1,432,617)	(202,999)	(1,635,616)
Aug.	1,400,962	(19,129)	7,142	(1,420,091)	(206,203)	(1,626,295)
Sept. . . .	1,402,966	(20,999)	9,553	(1,423,965)	(206,212)	(1,630,177)
Oct.	1,408,515	(22,914)	10,119	(1,431,429)	(212,532)	(1,643,961)
Nov.	1,459,661	(21,156)	10,269	(1,480,816)	(227,512)	(1,708,328)
Dec.	1,474,178	(24,521)	10,553	(1,498,699)	(223,906)	(1,722,605)
2000 – Jan.	1,484,157	(21,260)	11,230	(1,505,417)	(223,915)	(1,729,331)
Feb.	1,499,058	(22,174)	12,382	(1,521,232)	(223,586)	(1,744,818)
Mar.	1,513,850	(23,298)	12,232	(1,537,147)	(225,137)	(1,762,285)
Apr.	1,529,540	(25,796)	13,773	(1,555,336)	(226,913)	(1,782,249)
May	1,535,179	(24,604)	13,994	(1,559,782)	(226,019)	(1,785,802)
June	1,571,390	(24,763)	12,135	(1,596,153)	(232,715)	(1,828,868)
July	1,581,113	(25,204)	13,876	(1,606,317)	(243,819)	(1,850,136)
Aug.	1,584,077	(24,791)	13,885	(1,608,868)	(243,973)	(1,852,841)
Sept. . . .	1,594,237	(23,916)	14,108	(1,618,153)	(243,166)	(1,861,320)
			(millions of euros)			
2000 – Jan.	766,503	(10,980)	5,800	(777,483)	(115,642)	(893,125)
Feb.	774,199	(11,452)	6,395	(785,651)	(115,472)	(901,123)
Mar.	781,838	(12,032)	6,317	(793,870)	(116,274)	(910,144)
Apr.	789,942	(13,322)	7,113	(803,264)	(117,191)	(920,455)
May	792,854	(12,707)	7,227	(805,560)	(116,729)	(922,290)
June	811,555	(12,789)	6,267	(824,344)	(120,187)	(944,532)
July	816,577	(13,017)	7,167	(829,593)	(125,922)	(955,515)
Aug.	818,107	(12,803)	7,171	(830,911)	(126,002)	(956,913)
Sept. . . .	823,355	(12,352)	7,286	(835,706)	(125,585)	(961,291)

Table a36

	General government debt			Credit		Memorandum item: shares placed domestically, held by Italian MFIs
		held domestically		Total domestic	Total	
F	G		held by Italian MFIs	G+C	E+F	
(billions of lire)						
2,414,394	2,284,098		606,539	(3,644,898)	(3,929,617)	35,717
2,481,114	2,345,444		608,638	(3,723,113)	(4,025,377)	47,848
2,494,731	2,357,141		607,462	(3,777,331)	(4,117,618)	45,416
2,488,741	2,358,411		596,748	(3,791,028)	(4,124,358)	45,317
2,486,314	2,352,224		593,899	(3,772,315)	(4,112,608)	41,251
2,498,459	2,364,777		600,819	(3,788,742)	(4,128,635)	42,479
2,496,710	2,362,264		605,609	(3,793,693)	(4,140,671)	42,422
2,490,504	2,353,859		589,728	(3,834,676)	(4,198,832)	47,080
2,454,973	2,318,096		581,126	(3,816,794)	(4,177,578)	55,299
(2,447,349)	(2,309,911)		572,034	(3,815,328)	(4,176,680)	55,675
(2,463,352)	(2,319,874)		571,073	(3,841,106)	(4,208,170)	61,032
(2,484,342)	(2,336,127)		566,198	(3,873,274)	(4,246,626)	64,288
(2,502,727)	(2,352,898)		569,214	(3,908,233)	(4,284,977)	66,006
(2,505,347)	(2,346,175)		559,402	(3,905,957)	(4,291,149)	66,750
(2,522,061)	(2,358,834)		558,652	(3,954,987)	(4,350,929)	69,992
(2,507,271)	(2,345,188)		547,900	(3,951,505)	(4,357,407)	71,299
(2,521,194)	(2,353,277)		540,112	(3,962,145)	(4,374,035)	65,768
(2,526,229)	(2,354,165)		538,360	(3,972,319)	(4,387,549)	64,076
(millions of euros)						
(1,263,950)	(1,192,970)		295,431	(1,970,452)	(2,157,075)	28,754
(1,272,215)	(1,198,115)		294,934	(1,983,766)	(2,173,339)	31,520
(1,283,055)	(1,206,508)		292,417	(2,000,379)	(2,193,199)	33,202
(1,292,551)	(1,215,170)		293,975	(2,018,434)	(2,213,006)	34,089
(1,293,904)	(1,211,698)		288,907	(2,017,259)	(2,216,193)	34,474
(1,302,536)	(1,218,236)		288,520	(2,042,580)	(2,247,068)	36,148
(1,294,897)	(1,211,189)		282,967	(2,040,782)	(2,250,413)	36,823
(1,302,088)	(1,215,366)		278,944	(2,046,277)	(2,259,000)	33,966
(1,304,688)	(1,215,825)		278,040	(2,051,531)	(2,265,980)	33,092

Table a37

Supervisory capital and capital adequacy (on a consolidated basis) (1)
(billions of lire)

	Core capital	Supplementary capital		Supervisory capital	Solvency ratio (percen-tages)	Excess capital	Capital shortfalls		
			subordinated liabilities				Number of banks	Amount	Percentage of excess risk assets (2)
December 1997									
Banks in the Centre and North	153,362	34,815	21,169	180,257	11,20	53,470	5	1,912	1.39
Banks in the South	13,107	2,468	1,715	15,191	13,89	6,531	7	93	0.07
Total	**166,469**	**37,283**	**22,884**	**195,448**	**11,36**	**60,001**	**12**	**2,005**	**1.46**
June 1998									
Banks in the Centre and North	156,555	41,530	27,447	191,031	11,43	57,846	4	508	0.36
Banks in the South	12,957	2,340	1,590	14,926	13,98	6,386	2	4	. .
Total	**169,512**	**43,870**	**29,037**	**205,957**	**11,58**	**64,232**	**6**	**512**	**0.36**
December 1998									
Banks in the Centre and North	158,681	42,673	29,840	193,056	11,22	55,634	3	222	0.15
Banks in the South	12,536	2,150	1,607	14,334	13,29	5,718	4	11	0.01
Total	**171,217**	**44,823**	**31,447**	**207,390**	**11,34**	**61,352**	**7**	**233**	**0.16**
June 1999									
Banks in the Centre and North	165,800	45,131	32,891	201,853	10,82	52,738	6	165	0.11
Banks in the South	10,374	1,720	1,237	11,879	14,13	5,160	2	5	. .
Total	**176,174**	**47,151**	**34,128**	**213,732**	**10,96**	**57,898**	**8**	**170**	**0.11**
December 1999									
Banks in the Centre and North	161,946	47,554	39,675	200,891	10,39	48,857	8	2,578	1.60
Banks in the South	11,225	1,600	1,318	12,593	15,12	5,932	2	4	. .
Total	**173,171**	**49,154**	**40,993**	**213,484**	**10,59**	**54,789**	**10**	**2,582**	**1.60**
June 2000									
Banks in the Centre and North	169,348	52,889	45,120	213,125	10,40	50,321	5	1,214	0.71
Banks in the South	10,555	1,511	1,283	11,830	14,18	5,158	1	1	–
Total	**179,903**	**54,400**	**46,403**	**224,955**	**10,54**	**55,479**	**6**	**1,215**	**0.71**

(1) For banks not belonging to a banking group, the data are obtained from the reports they submit on a solo basis. – (2) Capital shortfalls multiplied by 12.5 and divided by the risk-weighted assets of the banking system.

Notes to the statistical tables

Table a1

Sources: IMF, OECD, Eurostat, Istat and national statistics.

For India, GDP at factor cost (fiscal year: April-March).

Table a2

Sources: IMF, Eurostat, Istat and national statistics.

For Italy, see the notes to Table a10.

For China, industrial value added. For Indonesia and Thailand, manufacturing.

Table a3

Sources: IMF, Eurostat, Istat and national statistics.

For the euro area, Germany, France and Italy, harmonized consumer prices. For the United Kingdom, consumer prices excluding mortgage interest.

Table a4

Sources: IMF, ECB and national statistics.

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

Table a5

Sources: ECB and national statistics.

Official reference rates. For the United States, federal funds target rate; for Japan, discount rate; for the euro area, rate for main refinancing operations; for the United Kingdom, base rate; for Canada, official bank rate.

Money market rates. For the United States, rate on 3-month CDs; for Japan, 3-month call rate (uncollateralized); for the euro area, 3-month Euribor (until December 1998, based on national statistics); for the United Kingdom, 3-month interbank rate; for Canada, rate on 3-month prime corporate paper.

Table a6

Source: National statistics.

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

Share indices (1995=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 a7

Source: IMF for the gold price.

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 the Bank's *Bollettino Economico*, no. 30, February 1998.

Table a9

Source: Istat.

Based on the European system of national accounts ESA95. The item "Other domestic uses" includes consumption of general government and non-profit institutions serving households, changes in inventories and valuables, and statistical discrepancies.

Table a10

Sources: Based on Istat and ISAE data.

The indices of industrial production are adjusted for variations in the number of working days. The seasonal adjustment of the general index of production and that of the indices of production by economic use are carried out separately using the TRAMO-SEATS procedure; the aggregate index may therefore differ from the weighted mean of the disaggregated indices. For the period up to January 1995, the seasonal adjustment procedure is applied to series obtained by shifting directly from indices with base 1990=100 to indices with base 1995=100. Raw data are shown for the level of foreign orders and for stocks of finished goods.

Table a12

Source: Istat.

As of February 1992, the consumer price index for worker and employee households excludes tobacco products (Law 81/1992). As of January 1999, both the consumer price index for the entire resident population and that for worker and employee households are chain indices with December of the previous year as the calculation base. The reference year for the indices remains 1995 (1995=100). The item “Goods and services with regulated prices” includes the unregulated price of cylinder gas among energy prices since the disaggregation into 209 elementary items does not permit its exclusion.

Table a17

Source: Istat.

The sub-indices reported in the table are constructed on the basis of the data published by Eurostat to obtain aggregates that are comparable across countries and analogous to those used for the analysis of consumer price inflation (see the box “Nuovi indicatori dei prezzi alla produzione nell’area dell’euro”, in the Bank’s *Bollettino Economico*, no. 35, October 2000).

Table a21

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, it includes VAT refunds channeled through taxpayers’ tax accounts. 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 main taxes are paid without distinction into a single account at the Treasury and subsequently allocated among the different budget items. The receipts shown in this table are based on data collected at the time they are booked in the budget accounts; accordingly, they do not include any balances at the Treasury deriving from delays in the booking of receipts. Furthermore, owing to the new method of paying taxes 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 item “Treasury operations” includes transactions vis-à-vis the Treasury Ministry (net of accounting items vis-à-vis the budget) and minor items vis-à-vis the Bank of Italy and the UIC. The flows shown in the subitem “Collection accounts” show the changes in receipts pending the allocation of central government taxes, the share of Irap due to the regions and the social security contributions paid using the single mandate procedure but due to INPS. A negative flow indicates that the amounts booked in the month exceeded the revenue received and vice versa. The interest on postal savings certificates is determined on a cash basis. The additional borrowing of “ANAS, Forests and other bodies” includes 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 a22

The table shows the financing of the general government borrowing requirement. “Foreign loans” comprise only those raised abroad directly; they do not include loans contracted indirectly via banks, which are included under “Lending by banks”, 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 item “Central bank financing” includes the Treasury’s overdraft with the Bank of Italy, a suspense account and the Treasury payments account (see Law 483/1993) and the sinking fund for the redemption of government securities (see Laws 432/1993 and 110/1997). 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.

Some of the criteria for the classification of bank loans have been revised in this issue of the Bulletin. The revision, which has been carried out for the entire series of bank loans, has resulted in the attribution to general government of some loans that were previously classified as being to persons outside that sector.

Table a23

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 central bank", "BOTs and BTEs excluding central bank" and "Borrowing from central bank" include only 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 also include the BTPs issued in connection with the closure of the Treasury's current account with the Bank of Italy. 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. The stocks of lending by banks are based on automated prudential returns. "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 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. From December 1998 the item "Borrowing from central bank" refers exclusively to the accounts of the Bank of Italy (and not to the consolidated accounts of the Bank of Italy and the UIC) since that month saw the completion of the transfer of the reserves held by the UIC to the Bank of Italy in conformity with Legislative Decrees 43/1998 and 319/1998. The UIC's securities portfolio is included under "Medium and long-term securities excluding central bank". The figures for the last year are provisional.

Some of the criteria for the classification of bank loans have been revised in this issue of the Bulletin. The revision, which has been carried out for the entire series of bank loans, has resulted in the attribution to general government of some loans that were previously classified as being to persons outside that sector.

Table a24

The interest rates on the "deposit facility" and the "marginal lending facility" are set by the Governing Council of the ECB and represent respectively the lower limit and the upper limit of the corridor of official interest rates.

On 8 June the Governing Council of the ECB announced that, starting from the operation to be settled on 28 June 2000, the main refinancing operations of the Eurosystem would be conducted as variable rate tenders, applying the multiple rate auction procedures. It also decided to set a minimum bid rate for these operations.

Under Legislative Decree 213/1998, as of 1 January 1999, for a period of not more than 5 years, the Bank of Italy periodically determines "the reference rate for instruments linked to the former discount rate", which replaces the latter. The reference rate is modified by an order issued by the Governor taking account of the changes involving the monetary instrument used by the ECB that the Bank of Italy considers to be the closest equivalent to the official discount rate.

Table a25

The average Treasury Bill rate is the average, weighted on the basis of the quantities allotted, of the allotment rates of the auctions of mini-BOTs and three, six and twelve-month BOTs. As of January 1999, the 360-day year is used instead of the 365-day year.

The interbank rates (overnight and at one, three six and twelve months) are observed daily on the Interbank Deposit Market (MID) are weighted average bid-ask rates.

Tables a26 and a27

The annual data refer to the month of December.

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 indication “lire/euros” means that as of January 1999 the figures include amounts in euros and other euro-area currencies.

Table a28

This table refers to the statistical returns submitted to the European Central Bank by Italian banks and money market funds. Since the start of the third phase of Economic and Monetary Union, intermediaries subject to statistical reporting requirements in the euro area have been known as Monetary Financial Institutions (MFIs). The category comprises central banks, credit institutions and all other resident financial institutions whose business consists in receiving deposits and/or close substitutes for deposits from institutions other than MFIs and in granting credit and/or making investments in securities for their own account. For further details, see the Methodological Appendix and the notes to the tables of the “Monetary Financial Institutions: Banks and Money Market Funds” Supplement to the Statistical Bulletin.

For the period from December 1995 to May 1998, the time series are estimated drawing on supervisory returns; as of June 1998 data are reported by banks in accordance with the new harmonized definitions adopted by the ESCB for the euro area as a whole. “Loans” include repo assets and bad debts. “Deposits” include current account deposits, deposits with agreed maturities and redeemable at notice, and repo liabilities. “Debt securities” include subordinated liabilities. The item “Capital and reserves” is made up of share capital, reserves, provisions for general banking risks and the balance of prior-year profits and losses.

Table a29

The data refer to all the banks resident in Italy.

The annual data refer to the month of December.

Deposits refer to those of other general government and other sectors. Current account deposits include banker’s drafts but not current account time deposits. Deposits with agreed maturity include certificates of deposit, current account time deposits and savings account time deposits. Deposits redeemable at notice consist of ordinary savings account deposits.

Bonds comprise all the debt instruments issued by banks, including subordinated liabilities. As of December 2000, reverse convertibles are included in the series with maturities up to two years.

Table a30

The data refer to all the banks resident in Italy.

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.

The indication “lire/euros” means that as of January 1999 the figures include amounts in euros and other euro-area currencies.

Table a31

“Other financial assets” include CDs, banker’s acceptances and commercial paper. The difference between “Net assets” and “Total portfolio” consists of other net assets (mainly current accounts and repos). SICAVs are included. Funds of funds are not included. Rounding may cause discrepancies in totals.

Table a32

“Other financial assets” include CDs, banker’s acceptances and commercial paper. Funds of funds are not included. Rounding may cause discrepancies in totals.

Table a33

The amounts shown for “Banks” refer to the portfolio management services they provide directly. Owing to changes introduced in July 2000 in the statistical reports submitted by investment firms (SIMs), there is a break in the data concerning these intermediaries in the third quarter of 2000. “Other financial assets” include CDs, banker’s acceptances and commercial paper. “Net inflow” is calculated as the sum of monthly flows.

Table a34

All the items refer to the liabilities included in M3 of Italian MFIs and the Post Office towards the “money holding sector” of the entire euro area. This sector, adopted by the ESCB in the harmonization of national statistics, comprises all the residents of the euro area apart from MFIs and central governments. Accordingly, it includes “other general government” (local authorities and social security funds) and “other residents” (non-money-market investment funds, other financial institutions, non-financial corporations, insurance corporations, households, and non-profit institutions serving households).

"Currency in circulation" comprises Bank of Italy banknotes and Treasury coins. "Current account deposits" comprise current accounts held with resident MFIs and the Post Office; bank CDs redeemable within 24 months are included under "Deposits with agreed maturities up to 2 years"; freely available PO deposit book accounts and ordinary PO savings certificates are included under "Deposits redeemable at notice up to 3 months". Money market paper includes atypical securities and banker's acceptances liabilities. Money market funds are defined as collective investment funds whose shares/units are close substitutes for deposits in terms of liquidity and/or which invest in tradable debt securities with a residual maturity of up to one year.

The contributions to the euro-area monetary aggregates are obtained by summing the relevant items and deducting Italian MFIs' holdings of: banknotes and coin in lire and the other euro-area currencies, for M1, and bonds issued by MFIs resident in the rest of the euro area, for M3. For further details on the methods used to compile these statistics, see "Note metodologiche e informazioni statistiche – Aggregati monetari e creditizi dell'area dell'euro: le componenti italiane" in the series Supplements to the *Statistical Bulletin*, Volume X, no. 33, 12 June 2000.

Table a35

All the items refer to the financial assets of the Italian "money holding sector" (see the note to Table a34); the share of each item held by non-money-market funds is shown separately.

"Total monetary assets" comprise currency in circulation, current account deposits, deposits with agreed maturity up to 2 years, deposits redeemable at notice up to 3 months, repos, money market fund shares/units and money market paper, and debt securities up to 2 years.

"Other deposits" comprise deposits with agreed maturity over 2 years, deposits redeemable at notice over 3 months and forward PO savings certificates, which are measured on the basis of the price at issue.

"Government securities" comprise CCTs, BTPs, CTZs, CTEs and other medium and long-term government securities at face value. The item refers to securities acquired outright; it excludes the securities acquired by the money holding sector under repos but includes those sold.

"Other financial assets" include enterprises' surety deposits; "Other financial assets held by non-money-market funds" include shares issued by residents in Italy.

Table a36

The items refer to "other residents" and "general government", which have replaced respectively the "non-state sector" and the "state sector" in the statistics compiled until December 1998 (see "Note metodologiche e informazioni statistiche – Aggregati monetari e creditizi dell'area dell'euro: le componenti italiane" in the series Supplements to the *Statistical Bulletin*, Volume X, no. 33, 12 June 2000).

"Bonds placed domestically" are those issued by "other residents" after deducting the amounts held by residents of the rest of the euro area and the rest of the world.

"External finance" comprises the loans disbursed to "other residents" and the debt securities thereof bought at issue by residents of the rest of the euro area and the rest of the world.

"General government debt" is stated at face value and is calculated, in accordance with the EU definition, gross of the Treasury's claims on the Bank of Italy (balances on the Treasury payments account, the sinking fund for the redemption of government securities and other smaller accounts) since December 1998, and of claims on the Bank of Italy and the UIC for the preceding period.

Table a37

Source: Supervisory reports.

The data refer to supervisory capital calculated on a consolidated basis and the corresponding solvency ratio.

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.

Paid-in capital, reserves, provisions for general banking risks and innovative capital instruments – 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, hybrid capital instruments 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 banking groups and banks not belonging to a group to satisfy a minimum capital requirement of 8 per cent, defined as 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.

The solvency ratio figures take account of the prudential requirements for market risks.

For India, GDP at factor cost (fiscal year: April-March).

List of abbreviations

ABI	—	*Associazione bancaria italiana* Italian Bankers' Association
BI	—	*Banca d'Italia* Bank of Italy
BOT	—	*Buoni ordinari del Tesoro* Treasury bills
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
ICI	—	*Imposta comunale sugli immobili* Municipal property tax
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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