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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

Since last spring the slowdown in economic activity that began in the United States in the second half of 2000 has spread throughout the world. The turning point in the cycle, initially expected around June, has repeatedly been postponed. In August some leading indicators in the United States and Europe signalled the possibility of a recovery towards the end of the year.

The terrorist attacks of September 11 in the United States are having significant economic repercussions. While the direct effects on US productive capacity have been limited, the impact of the climate of high uncertainty on consumer and business behaviour is likely to be greater. There is a risk that if international tension were to continue demand could be depressed in other countries as well.

The action of the Federal Reserve, which has primarily been aimed at ensuring orderly market conditions, and the budgetary measures taken by the US government are providing a direct stimulus to the economy and helping to bolster confidence. The financial markets of the industrial countries have recouped the initial fall in share prices. The structure of money-market rates points to an improvement in economic activity in the middle of next year.

The slowdown in the world economy

Last spring, the softening of economic activity spread from the United States to Canada, the United Kingdom and continental Europe. Japan slipped back into recession. The expansion in international trade slowed down abruptly, causing a pronounced deceleration in economic activity in the emerging economies, particularly in Asia. In the summer the major stock markets began to weaken further. In Argentina and Turkey, the deterioration in the economic outlook triggered tensions in the financial markets, increasing the burden of servicing their foreign debt.

In the United States, manufacturing output continued to fall in September. The decline in business investment steepened in the second quarter. Although mitigated by large cuts in employment in the manufacturing sector, the contraction in gross profits at non-financial firms continued. Consumption continued to increase rapidly until August. However, as early as July the worsening of labour market conditions had begun to undermine household confidence. In July and August, the significant increase in disposable income resulting from the implementation of the tax rebate plan approved at the end of May led to a recovery in the household saving rate.

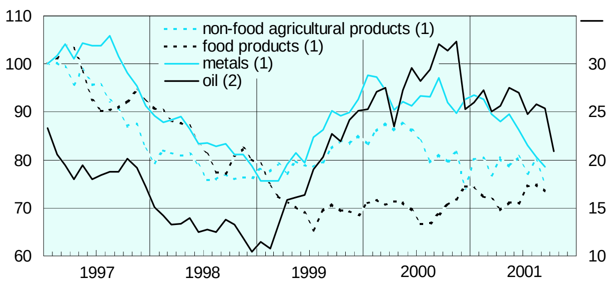
In an economic context marked by widespread weakness, during the summer a number of leading indicators began to signal the possibility of a recovery before the end of the year. The leading indicator of the Conference Board rose strongly between April and July, and in August the National Association of Purchasing Managers Index returned to its highest level since November 2000; in July and August households’ expectations stabilized following the marked improvement in the two previous months.

In Japan economic activity was adversely affected by the decline in foreign demand (especially in the United States) for investment goods and electronic components, of which the country is a major exporter. Since last spring deflation has intensified, and the weakening economy has caused a further deterioration in bank balance sheets.

In the euro area economic activity stagnated in the second quarter, reflecting the weakness of world demand and a fall in investment. Consumption slowed down slightly, despite the tax reliefs granted in some countries and the dissipation of the negative effects of last year's rise in oil prices. The Eurosystem has adopted a more expansionary monetary policy stance since last May. The rate for main refinancing operations was lowered by 0.25 percentage points towards the middle of May and by a further 0.25 points at the end of August. This took place against a background of decelerating consumer prices and, from July, a rise in the euro. During the summer leading indicators in some of the main countries in the euro area signalled the possibility of a recovery in economic activity.

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.

In the first half of 2001 the price of oil fluctuated around a much lower value than that reached in autumn 2000 and then fell to under $25 a barrel in July following the emergence of signs of a sharp deceleration in the world economy (Figure 1). The uncertainty immediately following the terrorist attacks caused prices to surge to almost $29 a barrel, but in the last ten days of September they had already begun to fall below the levels reached prior to those events, reflecting the greater impact of expectations of slower economic growth over that of any supply disruption problems resulting from the announced military action. At the start of November the average price of oil was about $20 a barrel, its lowest level since August 1999. The slowdown in global demand was also reflected in the prices of non-energy raw materials, which fell by 4.8 per cent overall in the first three quarters of 2001, with respect to the corresponding period in 2000. The decline was mainly due to a fall of 7.7 per cent in the price of metals, the component most sensitive to cyclical conditions.

The US economy after September 11

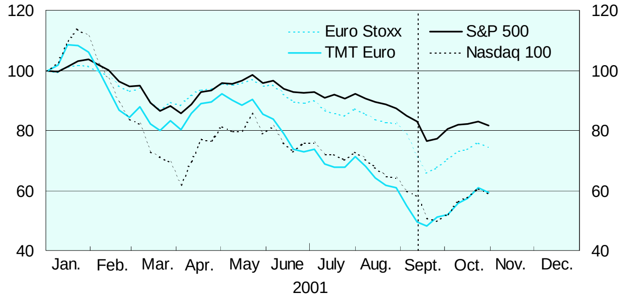
The terrorist attacks harmed specific sectors of the US economy both by destroying productive capacity and increasing costs and by causing demand to contract.

If this highly uncertain climate were to continue, the economic consequences could potentially be much more damaging as economic agents postpone or cut back their consumption and investment plans. The performance of aggregate demand is also tied to that of the stock market. The immediate impact of the events of September 11, in a context of increased volatility, produced a significant fall in share prices (Figure 2). Since the last ten days of the month, however, prices have gradually been recovering. In the days immediately following the attacks, the dollar weakened against the euro and the yen, by between 3 and 4 per cent, and exchange rate volatility increased. The dollar did not play its role as safe haven since, for the first time, the crisis originated in the United States itself. In the weeks that followed, the US currency recovered its losses completely and the volatility returned to pre-attack levels: at the start of November the dollar was worth €0.91 and ¥122.

At the end of June, the date of the most recent survey of household wealth in the United States, losses on stock market investments since the end of March 2000 had not significantly affected gross household wealth, which had fallen by about 3 per cent over the period. The decline of about 10 per cent in financial wealth, which accounted for more than 70 per cent of total wealth, was partially offset by an increase of more than 13 per cent in the value of real estate. The strong performance of the real estate market attenuated the effects of the fall in financial wealth on consumption, partly because US household consumption tends to react more to changes in real estate wealth than to those in the value of financial portfolios.

Figure 2

Stock market indices in the United States and in the euro area
(average weekly data; indices, 1st week of January 2001=100)



Source: Thomson Financial Datastream.
(1) Terrorist attacks of September 11 in the United States.

GDP fell slightly in the third quarter, diminishing by an annualized 0.4 per cent on the previous period, due to a decrease of 11.9 per cent in business investment, which had already fallen by 14.6 per cent in the second quarter, and to the continuing scaling down of stocks (Table 1). Residential investment remained strong, with its recovery since the start of the year sustained by the fall in mortgage interest rates. Net foreign demand made a positive contribution to growth of 0.3 percentage points, with exports falling by 16.6 per cent and imports by 15.2 per cent.

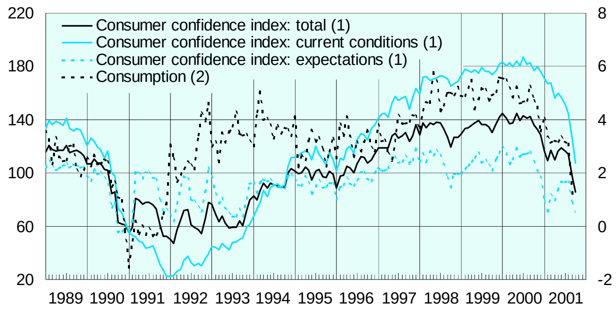
The pronounced slowdown in consumption in the third quarter (to 1.2 per cent from 2.5 per cent in the second) reflected the abrupt contraction of 1.3 per cent between August and September. Household disposable income also fell in September, albeit to a lesser extent (0.6 per cent). The savings rate rose to 4.7 per cent.

In October the household confidence index fell to 85.5 from 97 in September and 114 in August, thus returning to the levels observed at the start of 1994. The fall of 25 per cent with respect to August was the largest since the time of the Gulf War (Figure 3). While in September the worst-hit component of the index was the assessment of the outlook for economic activity in the subsequent six months, in October the additional fall was mainly a result of the concurrent deterioration in the labour market.

The unemployment rate rose to 5.4 per cent in October, from 4.9 per cent in September and 4.2 per cent last January. Payroll employment in the non-agricultural sector fell by more than 400,000, the largest contraction since the beginning of the eighties. The exceptional reduction of 240,000 jobs in the services sector reflected heavy losses in hotels (46,000), air transport (42,000), eating and drinking places (about 40,000) and other sectors directly affected by the consequences of September 11. The serious employment crisis in these industries joins that in the business services sector, which began a number of months ago. Manufacturing industry also registered a large fall in employment (142,000 or 0.8 per cent). The twelve-month decrease in employment rose to 6 per cent, representing the loss of more than 1 million jobs.

Figure 3

Index of consumer confidence and household consumption in the United States



Sources: Conference Board and Bureau of Economic Analysis.
(1) Indices, 1985=100; left-hand scale. – (2) Average monthly data; percentage changes on corresponding period; right-hand scale.

Business confidence also deteriorated significantly. The National Association of Purchasing Managers Index for the manufacturing sector fell abruptly in October (by 7 points, equivalent to a fall of 15 per cent), reaching its lowest level since February 1991.

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							
2000	4.1	4.8	2.7	7.6	–0.1	4.8	–0.8
4th qtr.	1.9	3.2	3.3	0.5	–0.5	2.2	–0.4
2001							
1st qtr.	1.3	3.0	5.3	1.9	–2.6	0.7	0.6
2nd ”	0.3	2.5	5.0	–9.7	–0.4	0.4	–0.1
3rd ”	–0.4	1.2	1.8	–8.4	–0.4	–0.7	0.3
Japan							
2000	1.5	0.5	3.6	0.6	0.1	1.1	0.4
4th qtr.	2.6	–2.5	3.6	19.1	0.1	4.2	–1.4
2001							
1st qtr.	0.5	2.5	. .	–0.1	. .	1.4	–0.9
2nd ”	–3.2	2.0	3.4	–15.0	–0.1	–2.8	–0.4
Euro area							
2000	3.4	2.6	1.9	4.4	. .	2.8	0.6
4th qtr.	2.3	0.8	2.9	–1.0	0.9	1.8	0.6
2001							
1st qtr.	2.0	3.4	2.3	0.2	–2.2	0.1	1.9
2nd ”	0.4	2.4	0.8	–1.5	. .	1.2	–0.7
United Kingdom							
2000	2.9	4.0	1.6	4.9	–0.3	3.4	–0.7
4th qtr.	2.0	3.3	–2.9	15.2	–2.1	2.2	–0.2
2001							
1st qtr.	2.6	4.0	4.0	–12.2	2.5	3.2	–0.6
2nd ”	1.8	5.2	3.0	8.5	–3.7	1.8	. .
3rd ”	(2.4)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .

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 valuables also included. – (4) Contribution to GDP growth with respect to the previous period, at an annual rate, in percentage points. For the United States, calculated following the methodology of the Bureau of Economic Analysis.– (5) Goods and services.

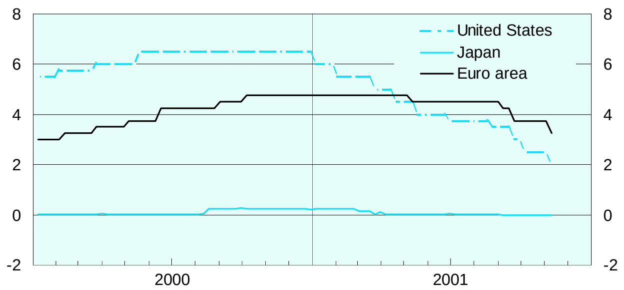
The response of economic policy

The economic policy response to the events of September 11 was immediate and strong. The monetary and supervisory authorities of the major industrial countries acted in concert to ensure the normal operation of the financial markets.

On 17 September the Federal Reserve acted outside the periodic meetings of the Federal Open Market Committee and before the reopening of the US market to lower its target rate for federal funds by 0.5 percentage points to 3 per cent (Figure 4). This move, expected by the markets, was followed on the same day by the Eurosystem, which reduced the rate on main refinancing operations from 4.25 to 3.75 per cent, and by the central banks of Canada, Denmark, Sweden and Switzerland. The following day, the Bank of Japan and the Bank of England also reduced their official rates by 0.15 and 0.25 percentage points respectively. On 2 October the Federal Reserve once again cut the federal funds rate to 2.5 per cent, followed on 4 October by the Bank of England, which reduced its official rate by a further 0.25 points to 4.5 per cent. On 6 November the Federal Reserve reduced the federal funds rate still further, bringing it down to 2 per cent, the lowest level since 1961. It has now been reduced by a total of 4.5 percentage points since the start of the year. On 8 November the Eurosystem lowered its main refinancing rate by 0.5 percentage points to 3.25 per cent and the Bank of England reduced its official rate again, to 4 per cent, the highest level among the leading industrial countries.

Figure 4

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



Source: National statistics.

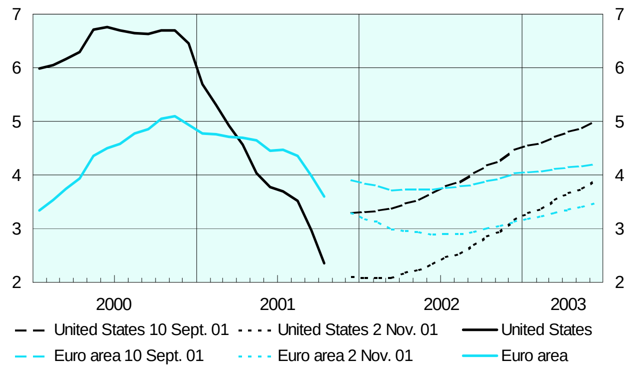
(1) For the United States, federal funds target rate; for Japan, money market overnight rate; for the euro area, rate on main refinancing operations.

Between 10 September and the start of November, the action taken by the monetary authorities caused short-term interest rates to decline significantly in the United States, by 1.2 percentage points, and less markedly in the euro area, by 0.7 points (Figure 5); the decrease was negligible in Japan. In the United States, real short-term rates, which had fallen to below 1 per cent since May, turned negative in October.

Budgetary policy in the United States turned sharply expansionary. In Japan, the need to stabilize the public debt has limited the scope for fiscal stimulus, and in Europe structural deficits have left little room for discretionary measures. In the days following the terrorist attacks, the US Congress approved measures totalling $80 billion: $40 billion for reconstruction and defence, $15 billion for the airlines ($10 billion of which for loan guarantees) and $25 billion in increased discretionary expenditure in the 2002 fiscal year, of which $18 billion for defence. In October Congress was presented with another support plan whose cost was initially estimated by the Administration at between $60 billion and $75 billion. On the revenue side, the plan envisages incentives for firms, bringing forward tax cuts originally approved last May and temporary reductions in compulsory social security contributions for poorer families (who had not benefited from May's tax reliefs). On the expenditure side, the measures provide for increases in benefits for people who have lost their jobs as a result of the terrorist attacks. The House passed an amended version of the package, with measures worth a total of $100 billion, mainly consisting of tax incentives for firms and further tax cuts. In the present climate of great uncertainty, caused mainly by non-economic factors, the effectiveness of tax cuts to sustain short-term demand could be limited. The Senate is considering an alternative plan with a greater emphasis on spending (on health care, infrastructure and defence, as well as support for the unemployed).

Figure 5

United States and the euro area:
3-month spot interest rates and forward rates implied by eurodeposit futures (1)
(monthly averages for spot rates; quarterly data for futures contracts)



Source: Thomson Financial Datastream.

(1) The continuous and dotted lines indicate spot and forward rates respectively.

Including the $110 billion in personal income tax relief for 2001-02 approved last May, the expansionary measures would amount to about $290 billion, or 2.9 per cent of GDP. After the Kobe earthquake in 1995, the Japanese government approved economic support measures totalling almost ¥10 trillion, equal to about 2 per cent of GDP.

According to data recently released by the Administration, in the 2001 fiscal year ending last September, the federal budget surplus including the Social Security surplus (on a cash basis) was $127 billion, or 1.2 per cent of GDP, compared with $236 billion in the previous fiscal year.

The monetary and fiscal expansion in the United States has occurred in the absence of inflationary pressures. The twelve-month rate of increase in consumer prices fell in September to 2.6 per cent from 3.6 per cent in May as the effects of earlier increases in oil prices gradually waned. Excluding the more volatile components of the index, consumer price inflation has remained more or less unchanged since the beginning of the year, at around 2.6-2.7 per cent.

The economic and financial situation in Japan

In the second quarter Japan's GDP fell by an annualized 3.2 per cent on the previous period, when it had expanded by 0.5 per cent. Private investment, which had sustained growth in 2000, accentuated the fall that had begun in the first quarter, with business investment decreasing by 11 per cent and residential investment by 31 per cent. Industrial output continued to decline very rapidly and in September reached its lowest level since January 1994. The decrease in exports, estimated at 12.5 per cent in the first three quarters of the year, played a significant role in the fall in production, especially in the capital goods sector.

The stagnation and subsequent contraction in economic activity since the beginning of the year led to a sharp fall in overall employment, which in September was 1.3 per cent lower than a year earlier. The unemployment rate jumped to its highest level ever at 5.3 per cent, up from 4.7 per cent in March.

Profits at non-financial enterprises fell by 4 per cent in the first six months with respect to the corresponding period of 2000. In manufacturing this trend grew stronger in the second quarter, when profits were 22 per cent lower than a year earlier. The business confidence index, drawn from the Tankan survey in September, showed a further sharp deterioration in expectations compared with June, especially at large manufacturing firms.

Deflationary pressure began to increase last spring. Between March and September the twelve-month rate of change in consumer prices was constantly around –0.8 per cent; that for wholesale prices went from –0.6 per cent to –1.1 per cent. In the summer the twelve-month fall in nominal wages was more than 1 per cent, due in part to lower productivity bonuses. The downward trend in prices began in the summer of 1998 and the authorities expect it to continue for at least another year. Such a long period of deflation, albeit moderate, has not been experienced by any other industrial country in the last fifty years.

The Bank of Japan sought to counter deflation by easing monetary conditions even further. On 14 August the guidelines for operating on the money markets were changed so as to increase balances on financial institutions' current accounts with the central bank from 5 to 6 trillion yen. Monthly purchases of government securities on the secondary market increased from 400 to 600 billion yen. On 18 September, as part of the joint action taken by the monetary authorities of the major countries, the Bank of Japan reduced its discount rate from 0.25 to 0.10 per cent and planned its interventions to keep the balance on central bank current accounts above 6 trillion yen. It also intervened heavily in the foreign exchange market in the last twenty days of the month, selling yen to counter any appreciation; the expansionary effect on domestic liquidity was not sterilized.

The situation of the banking system continued to worsen. The incidence of non-performing loans (not taking account of provisions), which official figures put at 6.6 per cent of total lending last March, has increased in the last six months owing to the recession.

The programme of structural reforms announced by the Government in September provides for more targeted inspections of banks in order to obtain a more accurate picture of non-performing loans. The government agencies responsible for purchasing these loans from the banks should continue to do so until the end of the 2003 fiscal year, which is the deadline for reducing the ratio of unrecoverable loans from the 6.2 per cent of March 2001 to around 3.5-4 per cent for large banks. To date, only a negligible portion of these loans has been transferred from the banks to the government agencies, both because of the constraints imposed on the agencies and because the incentives offered to the banks to dispose of the loans have not proved sufficiently attractive.

According to the supervisory authorities, the banks could encounter serious difficulties in reducing their bad loans significantly by 2004, given the impossibility of improving operating margins and the continuing deterioration of credit quality. Bank balance sheets will also have been hit by the large fall in share prices since May, with significant capital losses reported in the half-yearly financial statements published on 30 September. To limit the effects of variations in securities prices, the Government programme provides for a reduction in shareholdings by imposing a ceiling on the percentage of shares that can be held in a portfolio. It is not yet clear how the objective will be achieved, nor if the Government intends to use the fund of 15 trillion yen appropriated in last March's budget for interventions to support the banking system in the case of systemic crises.

In November the Government approved supplementary budget measures containing structural provisions, notably support for the labour market, totalling about 1 trillion yen.

The economic and financial situation in the emerging countries

The economic slowdown in the industrial countries in the first half of 2001 was reflected in a generalized deterioration in economic conditions in the emerging countries with the exception of China, where growth has remained strong thanks to the country's relative closure to international trade and budgetary support measures. Since last July Turkey and Argentina have suffered repeated bouts of severe financial tension, which spread to Brazil. Following the terrorist attacks of September 11 and again in October, the poorer outlook for Argentina's public finances triggered further tensions in the country and, as a result, in Brazil as well.

The fourth ministerial meeting of the World Trade Organization (WTO), to be held in Doha on 9-13 November, will confirm the entry of China and Taiwan, concluding years of negotiations that have contributed to making China's economy more open and transparent, which will facilitate its complete integration into the world economy. Growth in the emerging countries should be helped by the decision to begin broad multilateral negotiations within the WTO to reduce barriers to international trade in goods and services, especially in a number of sectors of special interest to the developing countries, and to strengthen the system of international rules governing free trade.

The decline in US imports of technology goods and investment goods, which in the first eight months of the year fell at current prices by 5.4 per cent and 8.4 per cent respectively, on the year-earlier period, has had serious repercussions for the emerging Asian economies. Excluding China and India the dollar value of exports from these countries fell on average by about 9 per cent in the first part of 2001 compared with the same period last year (Table 2). The value of exports of technology goods fell in some cases by as much as 20 per cent. In South Korea, where domestic demand also weakened considerably, growth slowed sharply compared with 2000, to 2.7 per cent in the second quarter (Table 3). In Taiwan and in Malaysia, whose economies are also specialized in the production of high-technology goods and very open to trade, GDP declined or stagnated. Among the major Latin American economies, Mexico was the most exposed to the fall in exports to the United States, which account for 25 per cent of the country's GDP: in the second quarter of 2001, output was unchanged on the year-earlier period, owing in part to negative net foreign demand.

Table 2

Exports of selected emerging countries in Asia
(percentages)

	Total exports/ GDP in 2000 (1)	Change in total exports (2)		ICT exports (4)/ Total exports in 2000	Change in ICT exports (2)		Exports to US/ Total exports in 2000
		2000	2001 (3)		2000	2001 (3)	
China	23.1	27.9	7.6	....	....	....	23.5
Hong Kong (5)	14.3	6.1	−14.1	21.3	13.4	−20.0	22.5
India	9.9	17.0	3.3	....	....	....	22.7
Indonesia	40.5	27.4	−1.7	10.4	103.8	....	13.7
Malaysia	110.0	16.1	−6.0	58.8	18.5	−9.0	20.5
Philippines	49.9	8.7	−10.8	58.7	14.1	−17.2	29.3
Singapore	147.4	16.9	−6.9	23.9	−2.3	−11.4	17.3
South Korea	38.4	21.1	−9.3	35.3	38.8	−19.0	22.4
Taiwan	47.6	21.8	−15.4	56.0	28.7	−16.6	23.5
Thailand	55.6	19.7	−3.0	23.6	20.0	−4.8	22.5
Memorandum item:							
Japan	9.7	14.8	−13.3	23.6	19.3	−16.3	30.1

Sources: IMF and Thomson Financial Datastream.
(1) GDP valued at market exchange rates.– (2) Calculated on flows expressed in dollars.– (3) January-April for India; January-July for Hong Kong, Indonesia, Malaysia, the Philippines, South Korea, and Thailand; January-August for China, Japan and Singapore.– (4) ICT: Information and Communications Technology.– (5) Excluding re-exports.

In Turkey and in Argentina, the worsening domestic economic situation led to an abrupt deterioration in their terms of access to the international financial markets in July. Turkey had already experienced a serious financial and exchange rate crisis in February. Compared with recent episodes, the rise in tensions on the international financial markets was more contained. Only Brazil, with its relatively large foreign debt and current account deficit, was hit by speculative pressure, which caused a significant depreciation of its currency.

In Argentina, GDP continued to fall in the second quarter as well, shrinking by 0.5 per cent compared with the previous year. In order to reduce its short-term liquidity requirements, at the beginning of June the Government concluded a swap operation on its sovereign debt for a total of about $30 billion, down from the $67 billion initially offered, on less favourable terms than expected. In July, greater pessimism among international investors triggered severe tensions in the financial markets. The interest rate differential between long-term Argentine dollar-denominated government securities and the corresponding US paper increased to 17 percentage points and that between three-month peso and dollar deposits held by resident banks widened to 25 points indicating, respectively, expectations of insolvency and a devaluation (Figure 6). In an attempt to regain the confidence of international investors at the end of July, the Government introduced a strict rule committing it to balancing the federal budget on a monthly basis.

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 1999 (1)	GDP					Domestic demand (2)				Net exports (3)			
		2000	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2000	2000 Q4	2001 Q1	2001 Q2	2000	2000 Q4	2001 Q1	2001 Q2
Latin America														
Argentina	1.1	−0.6	−2.1	−2.1	−0.5	. . . .	−0.9	−2.6	−2.1	−1.7	0.3	0.5	0.0	1.1
Brazil	2.8	4.5	4.1	4.3	0.8	. . . .	4.6	. . . .	. . . .	. . . .	−0.2	. . . .	. . . .	. . . .
Mexico	1.9	6.9	5.1	1.9	. .	. . . .	8.8	6.0	2.5	0.7	−1.9	−1.0	−0.6	−0.7
Asia														
China	10.8	8.0	7.3	8.1	7.8	7.0	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
India (4)	5.4	5.2	3.8	4.4	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Indonesia	1.3	5.2	5.1	3.2	3.5	. . . .	5.2	11.0	7.6	6.7	0.1	−5.4	−3.9	−2.8
Malaysia	0.4	8.3	6.3	3.1	0.5	. . . .	15.7	11.3	3.3	−1.5	−4.8	−3.2	0.2	1.8
Philippines	0.7	4.0	3.8	3.2	3.3	. . . .	−1.2	3.7	2.8	6.0	5.3	−0.1	0.3	−3.0
South Korea	1.8	8.8	4.6	3.7	2.7	. . . .	6.1	−0.2	−1.2	−0.6	3.5	4.8	4.7	3.2
Taiwan	. . . .	5.9	3.8	0.9	−2.4	. . . .	4.0	0.1	−1.9	−5.4	2.0	3.7	2.8	2.9
Thailand	0.9	4.4	3.2	1.8	1.9	. . . .	4.2	1.5	1.8	−0.7	0.9	2.0	0.3	2.5
Europe														
Poland	0.8	4.1	2.4	2.3	0.9	. . . .	1.3	. . . .	. . . .	. . . .	1.6	. . . .	. . . .	. . . .
Russia	2.5	8.3	6.8	4.9	5.1	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Turkey	1.0	7.1	8.3	−2.0	−9.4	. . . .	9.6	10.3	−10.7	−23.8	−2.9	−2.4	9.9	17.0

Sources: National statistics, World Bank and OECD.

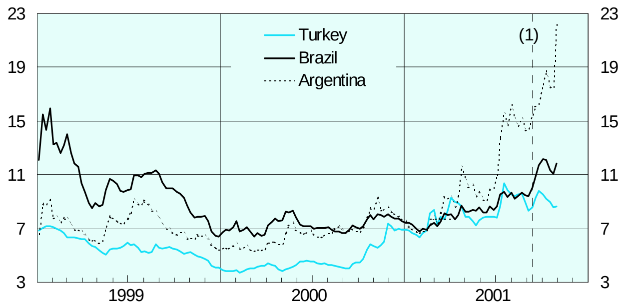
(1) Valued on a PPP basis; percentages. – (2) Includes change in stocks and statistical discrepancies. – (3) Goods and services. Contribution to GDP growth in relation to the same period of the previous year in percentage points. – (4) GDP at factor cost, fiscal year (April to March).

In Brazil, the weakening of foreign demand in a context of stringent monetary and fiscal policy conditions and, since May, of energy rationing due to lower hydroelectric output, caused output growth in the second quarter to slow abruptly to 0.8 per cent with respect to the same period in 2000. The authorities reacted to the depreciation of the currency, which in August had fallen by about 24 per cent since the start of the year, by announcing fiscal rigour and structural reforms. They also tightened monetary conditions further, raising very-short-term interest rates to 21 per cent, from 17 per cent in June.

In mid-August, additional support for Brazil and Argentina was announced by the International Monetary Fund, but this only temporarily eased the pressure on their financial markets. The line of credit agreed with Argentina at the end of 2000 was increased from $14 billion to $22 billion. Of the new funds, the disbursement of $3 billion was made conditional on continued progress in restructuring the country's foreign debt. Brazil was granted a new 15-month stand-by credit amounting to $15.6 billion, replacing the programme approved in December 1998.

Figure 6

Yield differentials between dollar-denominated bonds issued by selected emerging countries and corresponding US Treasury bonds
(weekly averages; percentage points)



Source: J.P. Morgan, Thomson Financial Datastream.
(1) Terrorist attacks of September 11 in the United States.

Partly as a result of February's financial crisis, in the second quarter Turkey's GDP contracted by 9.4 per cent with respect to the year-earlier period and inflation continued to rise, reaching a twelve-month rate of about 60 per cent in September. Pressure on the exchange rate began to mount once again despite the severe tightening of monetary conditions. At the start of November, the Turkish lira had depreciated by 57 per cent from its levels prior to the February devaluation.

In Argentina, Brazil and Turkey the effects of the terrorist attacks of September 11 further complicated an already tense financial situation. In the subsequent two weeks, the interest rate differential on long-term dollar-denominated government bonds widened by about 1.5 percentage points.

In the first week of October the financial situation in Argentina deteriorated further because of uncertainty linked to the upcoming national elections and the worsening of the public finances. The leading rating agencies again lowered the country's credit rating.

ECONOMIC DEVELOPMENTS IN THE EURO AREA AND IN ITALY

Production, demand and the balance of payments

Economic activity

Euro-area output growth has been weakening since the second half of 2000. In the first half of this year GDP increased at an annualized rate of 1.7 per cent, compared with 2.4 per cent in the previous six months and 3.4 per cent in 2000 as a whole. Net exports contributed nearly 1 percentage point of the growth in GDP, the result of a small but still positive change in exports and broadly unchanged imports. National demand, which also slowed down, provided the least support for GDP growth since the first half of 1996. Its contribution derived entirely from consumption, which accounted for 1.8 percentage points of the growth in GDP, set against a negative contribution of 0.9 points from the change in stocks and virtually none from gross fixed investment.

The rate of expansion in GDP, which had remained relatively rapid in the first quarter of the year (2 per cent on an annual basis), fell to 0.4 per cent in the second, reflecting the decline in capital formation and the weakness of exports.

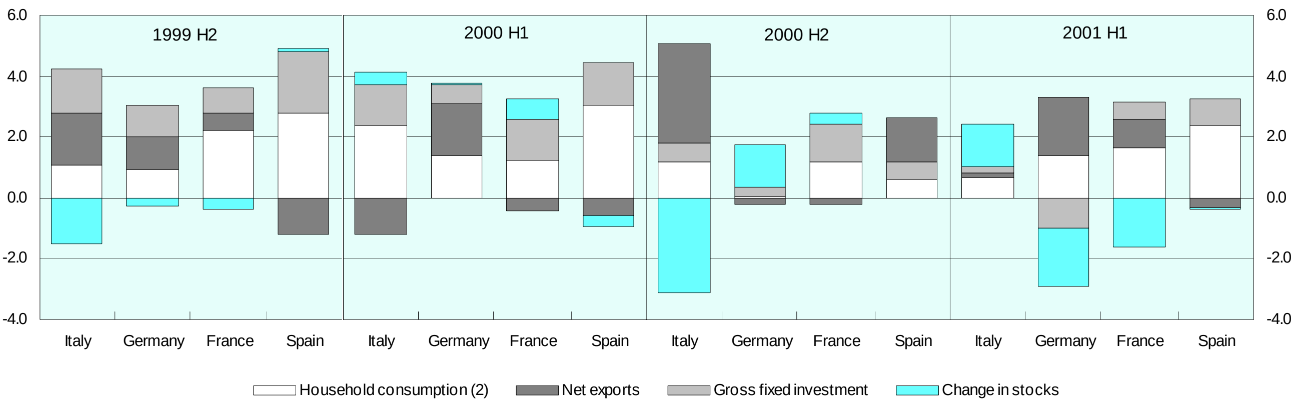
In the weeks preceding the terrorist attacks in the United States, the release of the national accounts data for the second quarter and other data on industrial production and demand during the summer made the magnitude of the economic downturn clearer. Simultaneously, however, the coincident and leading indicators of the business cycle began to show less negative signs, improving the forecasting scenario for Europe and for Italy in particular. The events of September 11 have newly clouded the outlook, making it more uncertain and subject to risk.

During the first six months as a whole economic activity decelerated in Germany and France to annualized growth rates of 0.9 and 1.9 per cent respectively as a consequence of the weakening in domestic demand, which contracted by 1 per cent in Germany and increased by just 1 per cent in France. In Spain GDP expanded at the same rate as in the previous six months (around 3 per cent), despite a slightly negative contribution from net exports (–0.3 percentage points; Figure 7).

Figure 7

Contributions to the growth of GDP in the major euro-area countries (1)

(at constant prices; percentage points)



Source*:* National statistics.

(1) Calculated in relation to the previous period on an annual basis. – (2) Comprises consumption of resident households and non-profit institutions serving households.

Unlike the other countries, Italy recorded a moderate pick-up compared with the previous half year: the annualized increase in GDP was 2.5 per cent, 0.8 percentage points better than the euro area as a whole. With the contribution of net exports basically nil, growth was sustained by domestic demand and particularly by stockbuilding (1.4 points, double the contribution of household consumption; Table 4).

The major euro-area economies recorded a progressive weakening of activity in the first six months. In the second quarter GDP growth slowed down in France and Spain and came to a halt in Italy and Germany (Table 5). In Germany, which had already begun to lose momentum in the second half of 2000, the effects of the continuing contraction in the construction sector were compounded during the first half of 2001 by a decline in manufacturing activity, especially in capital goods production.

In July and August the euro-area index of industrial production remained at its average levels for the preceding two months, as output stagnated in Italy and Germany while rising in France and Spain (Figure 8).

Table 4

Italy: resources and uses of income

(at constant prices, seasonally adjusted data; annualized percentage changes on previous period)

	As a percent-age of GDP in 2000	2000				2001			
		Q3	Q4	H2	Year	Q1	Q2	H1	H1 (1)
Resources									
GDP	–	1.6	3.3	2.1	2.9	3.4	0.1	2.5	–
Imports	28.5	5.2	−0.1	8.0	8.3	6.1	−0.7	2.8	−0.8
Goods	22.0	8.5	−0.8	10.3	8.7	4.7	−4.5	1.0	−0.2
Services	6.4	−5.4	2.3	0.5	6.7	10.9	13.5	9.4	−0.6
Total resources	–	2.4	2.5	3.4	4.1	4.0	−0.1	2.6	–
Uses									
Gross fixed capital formation	20.5	3.6	−0.4	3.0	6.1	3.0	−1.1	1.2	0.2
Construction	8.2	3.3	0.7	2.4	3.6	6.8	0.7	3.7	0.3
Machinery, equipment and sundry products	9.9	5.0	−1.6	3.8	7.3	3.0	−1.8	0.6	0.1
Transport equipment	2.4	−1.1	1.2	2.0	9.9	−9.2	−4.1	−5.4	−0.1
Consumption of resident households	60.2	1.1	1.9	2.0	2.9	0.1	2.5	1.1	0.7
Non-durable goods	26.9	0.3	1.2	0.9	1.8	0.2	3.8	1.4	0.4
Durable goods	7.7	6.9	6.1	8.0	9.7	−5.2	2.0	−0.7	−0.1
Services	26.7	1.6	1.2	1.8	3.2	2.7	1.6	2.1	0.5
Other domestic uses (2)	17.7	−31.5	2.9	−15.3	−3.6	15.9	1.5	8.9	1.5
Total national demand	98.4	−5.2	1.6	−1.2	2.3	3.4	1.6	2.5	2.4
Exports	30.1	31.8	5.5	19.8	10.2	5.9	−4.9	3.0	0.9
Goods	23.9	35.7	3.3	21.0	9.7	3.4	−12.4	−0.8	−0.2
Services	6.2	17.8	14.7	15.2	12.4	16.0	27.3	18.4	1.1

Source*:* Based on Istat data.

(1) Contribution to the growth in GDP in relation to the previous period on an annual basis.– (2) Comprises consumption of general government and non-profit institutions serving households, the change in stocks and valuables, and statistical discrepancies.

Table 5

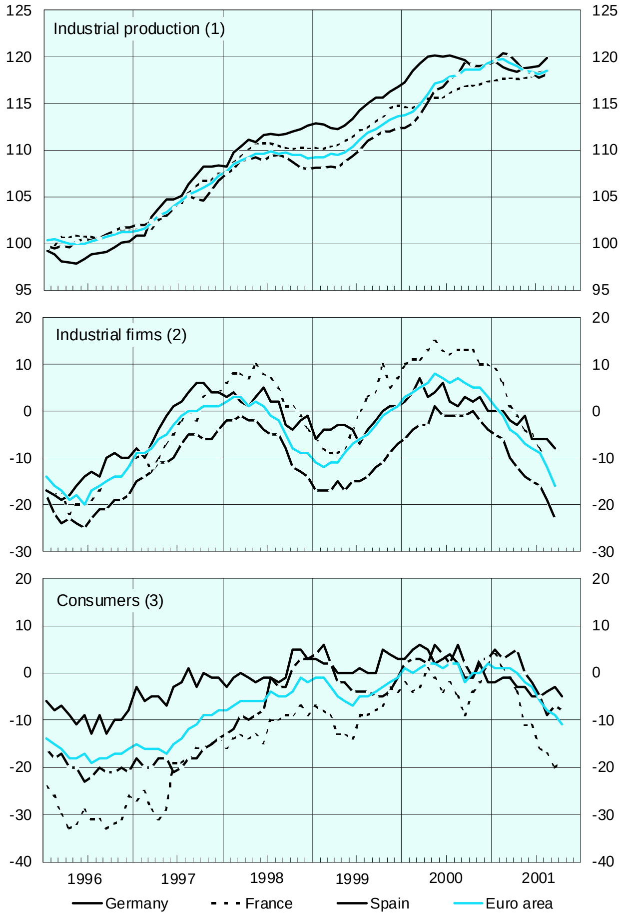
GDP, imports and the main components of demand in the major euro-area countries
(at constant prices, seasonally adjusted data; percentage changes)

	On year-earlier period						On previous period, annualized				
	2000			2001			2000		2001		
	Q3	Q4	Year	Q1	Q2	H1	Q3	Q4	Q1	Q2	H1
						GDP					
Germany	3.2	2.5	3.0	1.8	0.6	1.2	0.5	0.6	1.6	−0.1	0.9
France	3.4	3.1	3.1	2.8	2.3	2.5	3.1	3.2	1.7	1.1	1.9
Italy	2.7	2.6	2.9	2.5	2.1	2.3	1.6	3.3	3.4	0.1	2.5
Spain	3.8	3.6	4.1	3.4	2.9	3.1	2.2	3.9	3.4	1.9	3.2
Euro area	3.2	2.8	3.4	2.4	1.7	2.1	1.9	2.3	2.0	0.4	1.7
						Imports					
Germany	10.2	13.4	10.0	7.0	4.9	5.9	11.7	22.1	−15.0	4.4	−2.1
France	16.9	15.9	14.2	8.6	3.4	6.0	16.1	9.1	−6.1	−3.7	−1.9
Italy	12.2	6.4	8.3	8.3	2.6	5.4	5.2	−0.1	6.1	−0.7	2.8
Spain	10.1	7.2	9.8	5.9	5.2	5.6	10.5	0.5	2.6	7.6	3.3
Euro area	11.5	10.6	10.6	6.8	3.9	5.3	10.7	9.1	−5.2	1.8	−0.1
						Exports					
Germany	13.5	14.3	13.2	9.2	7.4	8.2	14.1	14.3	−0.9	2.8	3.6
France	12.7	14.8	12.6	9.9	3.7	6.7	9.4	11.8	−0.4	−5.2	1.3
Italy	14.0	11.0	10.2	13.4	8.8	11.1	31.8	5.5	5.9	−4.9	3.0
Spain	9.6	11.8	9.6	10.6	5.2	7.8	7.8	17.2	−2.9	−0.3	2.4
Euro area	12.3	12.0	11.9	8.9	5.7	7.2	13.6	10.3	−0.2	−0.2	2.3
						Household consumption (1)					
Germany	1.8	0.7	1.5	1.4	1.2	1.3	−1.1	−1.8	4.2	3.6	2.5
France	2.5	1.9	2.5	2.7	2.6	2.6	3.0	1.0	5.0	1.3	3.1
Italy	3.0	2.9	2.9	1.7	1.4	4.5	1.2	1.9	0.1	2.5	1.1
Spain	3.0	3.1	4.0	2.8	2.3	2.5	−2.4	5.1	4.7	1.8	4.1
Euro area	2.5	1.9	2.6	2.0	1.8	1.9	0.7	0.8	3.4	2.4	2.5
						Gross fixed capital formation					
Germany	2.5	1.7	2.3	−0.7	−2.4	−1.6	4.1	−3.7	−4.4	−5.3	−4.5
France	6.4	7.1	6.1	5.8	3.6	4.7	5.4	7.2	2.7	−0.8	2.9
Italy	6.2	3.8	6.1	2.9	1.3	2.1	3.6	−0.4	3.0	−1.1	1.2
Spain	7.4	1.0	5.7	1.5	4.4	3.0	11.2	−12.2	7.7	13.1	3.6
Euro area	4.2	3.0	4.4	1.5	0.4	0.9	3.9	−1.0	0.2	−1.5	−0.6
						National demand					
Germany	2.1	2.1	2.0	1.0	−0.3	0.4	−0.5	2.6	−3.4	0.3	−1.0
France	4.2	3.2	3.3	2.3	2.2	2.2	4.7	2.3	. .	1.7	1.0
Italy	2.1	1.2	2.3	1.0	0.3	0.6	−5.2	1.6	3.4	1.6	2.5
Spain	4.1	2.4	4.2	2.1	2.9	2.5	3.1	−0.9	5.2	4.4	3.4
Euro area	2.8	2.2	2.8	1.6	1.0	1.3	0.7	1.8	0.1	1.2	0.8

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

Figure 8

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

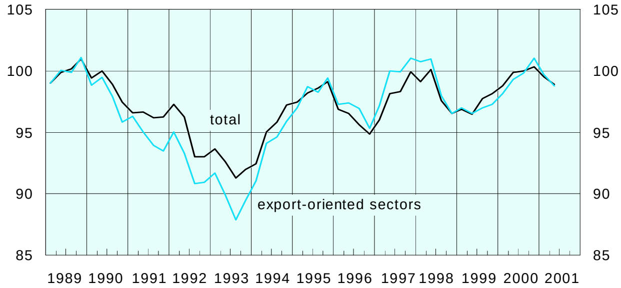


Source: Based on national statistics and European Commission data.
(1) Index, 1995=100. Moving averages for the three months ending in the reference month. Data adjusted for the different number of working days in the month and seasonally adjusted. – (2) Climate of confidence calculated by the European 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 the 5 questions regarding the assessment and expectations concerning the economic situation, both general and personal, and the advisability of purchasing durable goods.

In Italy support for the growth in GDP came from all the main sectors except agriculture, which presumably was affected by the crisis in the livestock industry. The value added at market prices of services increased in real terms at an annualized rate of around 3 per cent in both the first and the second quarters. In industry excluding construction, an acceleration in the first quarter was followed by a sharp decline in the second, in line with the abrupt contraction in orders – more pronounced in the domestic component – that marked the early part of the year and continued in the subsequent months. The ISAE survey showed that stocks of finished products, whose average levels during the first quarter had been considered normal, were excessive in the second. The drop in activity was reflected in a decline in capacity utilization during the first half from the peak reached at the end of last year (Figure 9).

Figure 9

Composite indicator of capacity utilization in Italian industry (1)
(quarterly data; index, 1989=100)

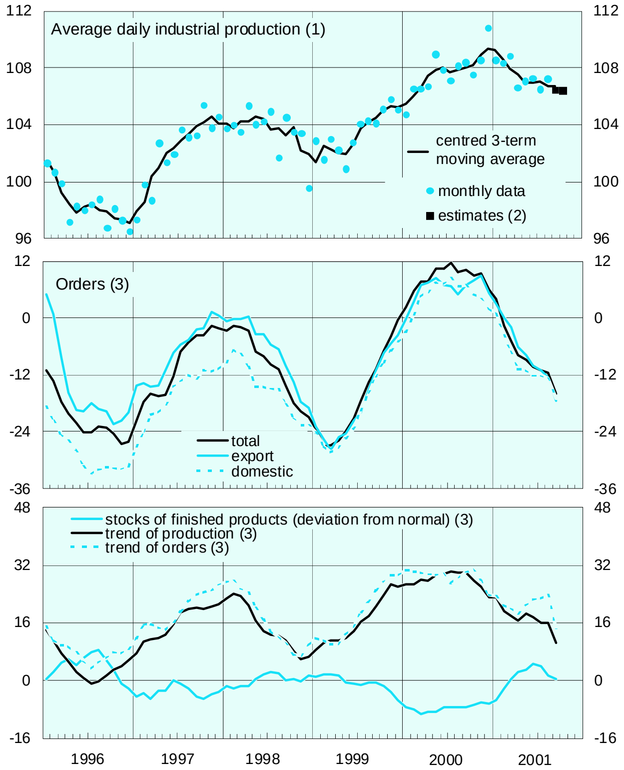


Sources: Based on Istat and ISAE data.
(1) Arithmetic mean of the Bank of Italy (Wharton) and ISAE indicators.

In the third quarter there was a further, slight contraction in industrial output. After turning upwards in May, expectations for demand continued to improve (Figure 10). At the beginning of the summer and on the basis of information predating the events of September 11, the composite leading indicator of the Italian business cycle developed by the Bank of Italy and the ISAE pointed to a bottoming out and a possible recovery early in 2002 (Figure 11). Subsequent data have modified this picture, suggesting that the negative phase might continue. The surveys of industrial firms after the terrorist attacks showed a clear deterioration in forecast demand. In particular, the ISAE survey between the end of September and the first ten days of October recorded the largest drop in twenty years in expectations for orders three to four months ahead. Less pessimistic were the findings of the Bank of Italy survey, which considers firms' expectations over a longer time horizon.

Figure 10

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

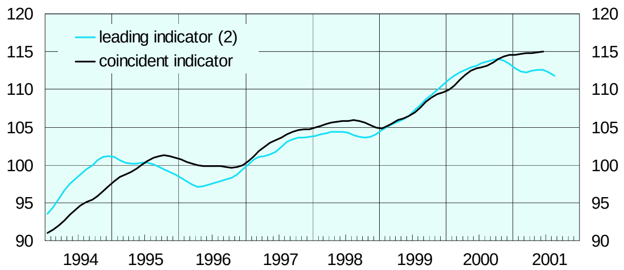


Sources: Based on Istat and ISAE data.

(1) Index, 1995=100. Data adjusted for the different number of working days in the month and seasonally adjusted. – (2) Based on electricity consumption and ISAE indicators. – (3) Moving averages for the three months ending in the reference month of the 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 stocks of finished products.

Figure 11

Indicators of the Italian business cycle (1)
(monthly data; 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. – (2) The performance of the indicator leads that of the economy by an average of 5-6 months.

Household consumption

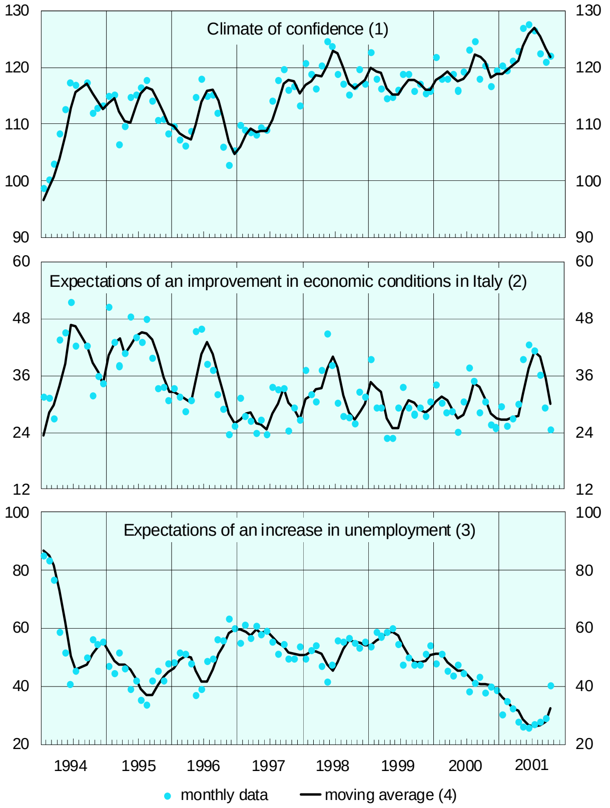
Household consumption in the euro area rose by 2.5 per cent on an annual basis in the first half, with a deceleration from 3.4 per cent in the first quarter to 2.4 per cent in the second. In the first three months of the year it expanded vigorously in all the major countries of the area except Italy; subsequently it maintained rapid growth only in Germany (4.2 per cent in the first quarter and 3.6 per cent in the second). The German pick-up in household consumption, which had stagnated in the second half of 2000, was fueled by the tax reform introduced at the start of the year and the recovery in purchasing power due to the abatement of inflation. In France and Spain, after exceptional gains of 5 and 4.7 per cent respectively in the first quarter, household consumption growth moderated to 1.3 and 1.8 per cent in the second. Nevertheless, in both countries consumption growth was greater than in the second half of 2000, especially in Spain, where it benefited above all from the increase in employment. In France a contribution came from the measures introduced under the three-year plan adopted in 2000 to reduce the tax burden, which is the highest in Europe.

Household consumption in Italy rose at an annual rate of 1.1 per cent in the first half, accounting for only a quarter of the overall growth in GDP. In real terms the increase in spending was the smallest since the second half of 1995, notwithstanding expanding recourse to consumer credit and growth in gross wages and salaries (5.3 per cent in nominal terms compared with the previous six months), which were also boosted by the gain in employment. Additional support for disposable income came from the tax reliefs enacted at the end of last year.

The modest increase in consumption in the first half reflected the halt in growth in the first quarter, which was attributable equally to the sharp drop in spending on durable goods and to the further decline in spending on food products (due to the worsening of the epidemics in the livestock sector). In the second quarter consumption picked up in a general climate of confidence among the most positive in recent history (Figure 12). The recovery was strongest for non-durable goods and it also involved food products. Purchases of durable goods, whose weakness follows a period of robust expansion, recouped only part of their first-quarter decline.

Figure 12

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



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.

Investment and stocks

Capital formation in the euro area, which has been slowing down since the second half of 1999, stagnated in the first half of this year (–0.6 per cent on an annual basis). After remaining nearly flat in the first quarter, gross fixed investment fell by 1.5 per cent in the second. In the first half capital formation was weaker in all the main countries of the area except Spain. The deterioration was especially acute in Germany (–4.5 per cent), where investment in construction, which accounts for more than half of the total, declined by 7 per cent, continuing the contraction that has been under way since the end of 1999 with the completion of the projects undertaken in the eastern states. The situation in Germany was exacerbated in the second quarter by a drop of 7.8 per cent in investment in machinery, equipment and transport equipment, the largest since 1993. Against the background of rapid growth in private consumption, the further downturn in German capital formation would appear to reflect not only the adjustment under way in the construction sector, but also the abrupt worsening in export demand, especially for capital goods. Investment other than construction also slowed down markedly in France, to an annualized growth rate of 3.2 per cent. In Spain investment excluding construction remained broadly unchanged for the second consecutive half-year; the faster growth in total investment in the first half of 2001 was due entirely to construction.

In Italy the annualized rate of growth in investment fell to 1.2 per cent in the first half of the year, compared with 3 per cent in the previous six months, despite lower borrowing costs and easy access to credit. The result mainly reflected a contraction of 5.4 per cent in purchases of transport equipment. The rate of increase in spending on machinery, equipment and intangible fixed assets dropped from 3.8 per cent in the second half of 2000 to 0.6 per cent. Apart from the dimming of the outlook for growth at the beginning of the year, investment decisions may have been postponed until the second half in expectation of new tax incentives. This is suggested by the ISAE surveys of capital goods manufacturers and by the sectoral index of production: the fall in output in the first two quarters was accompanied by an increase in stocks of finished goods and an improvement in expected demand, although the latter appears to have weakened in July and August. According to the Bank of Italy's survey of firms in industry excluding construction completed on 3 October, capital spending plans for the current year call for an increase compared with 2000. Following the introduction of the new tax incentives, 16 per cent of the firms surveyed were found to have revised their planned spending upwards; there was only a slight downward revision as a consequence of the terrorist attacks of September 11.

Investment in construction recorded annualized growth of 3.7 per cent in the first half, fueled by the increase in the non-residential component (7 per cent), whose expansion was exceptionally rapid in the first quarter (14.7 per cent). Residential construction grew by only 1 per cent, less than in the two preceding halves; the result presumably reflects a readjustment of spending after the high rates of growth registered in the last two years thanks to the incentives for building renovation.

The change in stocks and valuables, which also includes statistical discrepancies, accounted for more than half of the increase in GDP in the first half of the year. According to the ISAE surveys, stocks of finished products, which were found to be excessive at the start of the year, gradually fell back to levels considered normal.

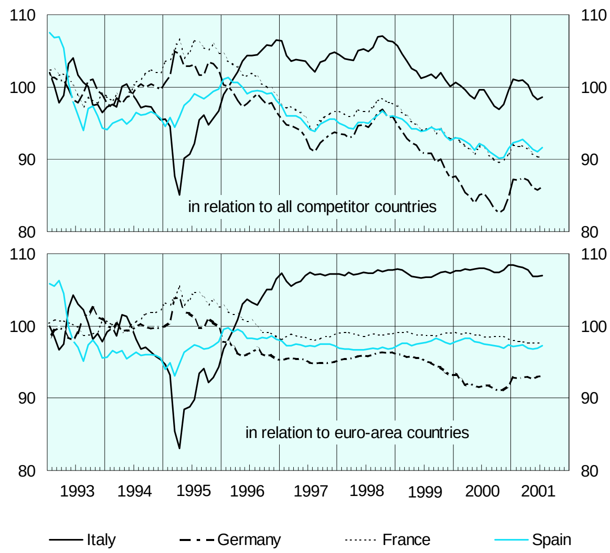
Exports and imports

In the first half of 2001 net exports accounted for more than half of the growth in GDP in the euro area. Both exports and imports decelerated sharply: exports of goods and services at constant prices rose by 2.3 per cent on an annual basis, after three half-years of growth of better than 11 per cent; imports, whose rate of expansion had been on a par with that of exports in the previous year and a half, stagnated over the first six months of 2001, with a large decline in the first quarter partly offset in the second. The rate of growth in exports fell in all the main countries of the area, most markedly in France (from 12.5 to 1.3 per cent), which also recorded a sharp deterioration during the period. In Germany net exports accounted for about two percentage points of the growth in GDP, the largest contribution among the major countries of the area; the result reflects a decrease of 2.1 per cent in imports together with a pronounced slowdown in export growth to 3.6 per cent, compared with 13.1 per cent in the previous six months. However, in Germany both exports and imports resumed growing in the second quarter after contracting in the first.

In Italy exports and imports of goods and services in the first half grew at roughly the same rate (3 and 2.8 per cent respectively on an annual basis), far more slowly than in the previous half-year (19.8 and 8 per cent). The resulting contribution to GDP growth was virtually nil. During the period exports were increasingly affected by the weakening of demand in the main outlet markets. Some support in non-European markets came from the gain in Italian exports' price competitiveness (measured by producer prices of manufactures) which, thanks essentially to the depreciation of the euro, recouped the loss suffered in the closing months of 2000 (Figure 13). The moderation of activity in the first half affected imports of capital goods, which declined considerably according to customs data. Imports of intermediate goods also decelerated.

Figure 13

Indicators of competitiveness in the major euro-area countries (1)
(indices, 1993=100)



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

According to customs data, in the first seven months of 2001 Italy's exports of goods were 6.5 per cent greater in volume than in the corresponding period of 2000 (Table 6), outpacing those of

Germany, France and Spain. Against the background of broadly similar developments in price competitiveness, the larger increase in Italian exports appears to reflect the faster growth in world demand for consumer goods, in which Italian exports are more specialized, than for capital goods.

After stagnating in the past years, in the first seven months of 2001 Italian exports to the rest of the EU grew in volume terms by 6.8 per cent. The recovery involved all the main export sectors and outlet markets. Exports of leather goods and footwear, which had declined in the three preceding years, surged by 13.3 per cent (Table 7), thanks in part to sales in Germany, where consumer spending sustained domestic demand. Total Italian exports to Germany rose by 5.2 per cent; this was less than the increase in exports to other European countries but more than the overall growth in German imports (4.6 per cent), marking a modest recouping of Italy's large losses of market share in the last three years.

The smaller growth in exports to non-EU markets (6 per cent) was largely due to the decline of 0.7 per cent in exports to the United States, reflecting the deterioration in the conditions of the American economy. Sales of furniture and chemicals were affected, since more than a quarter of Italian exports of these products outside the EU goes to the United States. The growth in Italian exports to the emerging countries of Asia was also much smaller than that in total exports to non-EU countries (3.4 against 11.5 per cent in value). The weakening in domestic demand in the emerging countries in question was exacerbated by the repercussions of the fall in their sales of high-tech products to the United States.

Table 6

Italy's exports and imports *cif-fob* by main countries and areas, January-July 2001: 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	**173,770**	**89,745**	**55.2**	**3.3**	**6.8**	**172,225**	**88,947**	**55.9**	**4.2**	**4.5**
France	*39,209*	*20,250*	*12.4*	*2.9*	*7.4*	*33,767*	*17,439*	*11.0*	*4.0*	*1.8*
Germany	*46,274*	*23,899*	*14.7*	*2.6*	*5.2*	*52,851*	*27,295*	*17.1*	*3.2*	*7.1*
United Kingdom	*21,122*	*10,909*	*6.7*	*2.2*	*7.3*	*15,127*	*7,812*	*4.9*	*4.2*	*–3.4*
Spain	*19,687*	*10,168*	*6.2*	*3.4*	*9.5*	*12,928*	*6,677*	*4.2*	*4.6*	*7.2*
Non-EU countries	**141,286**	**72,968**	**44.8**	**5.4**	**6.0**	**136,119**	**70,300**	**44.1**	**9.0**	**2.2**
China	*3,651*	*1,885*	*1.2*	*4.6*	*40.5*	*8,804*	*4,547*	*2.9*	*5.1*	*8.5*
Japan	*5,225*	*2,699*	*1.7*	*2.4*	*5.6*	*8,296*	*4,284*	*2.7*	*4.3*	*4.0*
Russia	*3,445*	*1,779*	*1.1*	*7.1*	*26.2*	*10,115*	*5,224*	*3.3*	*17.7*	*3.2*
United States	*30,341*	*15,670*	*9.6*	*7.0*	*–0.7*	*15,314*	*7,909*	*5.0*	*13.2*	*–6.4*
Total	**315,056**	**162,713**	**100.0**	**4.2**	**6.5**	**308,344**	**159,246**	**100.0**	**5.7**	**4.1**

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 *cif-fob* by geographic area and sector, January-July 2001

(percentage changes on year-earlier period and percentage composition)

	Exports						Imports					
	EU		Non-EU		Total		EU		Non-EU		Total	
	Change	Compo-sition in 2000	Change	Compo-sition in 2000	Change	Compo-sition in 2000	Change	Compo-sition in 2000	Change	Compo-sition in 2000	Change	Compo-sition in 2000
Total	**6.8**	**100.0**	**6.0**	**100.0**	**6.5**	**100.0**	**4.5**	**100.0**	**2.2**	**100.0**	**4.1**	**100.0**
of which:												
Products of agriculture, forestry and fishing	*0.8*	*2.1*	*–0.7*	*0.7*	*0.6*	*1.5*	*–4.9*	*3.2*	*–8.0*	*4.0*	*–6.1*	*3.6*
Food products, beverages and tobacco products	*8.7*	*5.6*	*4.7*	*4.2*	*7.2*	*5.0*	*6.8*	*9.1*	*6.6*	*3.4*	*7.1*	*6.6*
Textiles and clothing	*6.4*	*10.3*	*11.7*	*10.9*	*9.3*	*10.5*	*10.0*	*3.2*	*13.5*	*7.5*	*12.6*	*5.1*
Leather and leather products	*13.3*	*4.0*	*4.0*	*6.5*	*8.4*	*5.2*	*6.7*	*0.8*	*12.8*	*4.0*	*12.0*	*2.2*
Chemicals, chemical products and man-made fibres	*6.7*	*9.4*	*–0.2*	*9.6*	*3.6*	*9.5*	*0.4*	*17.3*	*10.5*	*8.1*	*3.0*	*13.2*
Basic metals and metal products	*11.1*	*9.6*	*17.1*	*6.3*	*13.4*	*8.1*	*12.5*	*9.5*	*2.5*	*11.3*	*8.1*	*10.3*
Machinery and equipment	*5.9*	*17.7*	*12.3*	*21.4*	*9.1*	*19.4*	*15.2*	*8.8*	*3.6*	*6.4*	*11.2*	*7.8*
Electrical machinery and apparatus and optical instruments	*5.1*	*9.7*	*14.6*	*10.0*	*9.7*	*9.8*	*2.7*	*17.7*	*–3.0*	*10.5*	*1.2*	*14.5*
Transport equipment	*3.4*	*13.7*	*–7.0*	*9.6*	*–0.3*	*11.9*	*4.6*	*17.8*	*6.5*	*8.8*	*5.5*	*13.8*
Other manufactured goods (including furniture)	*9.7*	*5.4*	*0.2*	*9.1*	*4.2*	*7.1*	*9.7*	*1.6*	*9.4*	*2.3*	*9.0*	*1.9*

Source*:* Based on Istat data. The indices of volume are with base 1995=100.

In the first seven months the volume of Italian imports grew by 4.1 per cent compared with a year earlier, reflecting the braking effect of the slowdown in economic activity, especially in the second quarter. The crisis in the meat sector reduced imports of livestock, animal products and meat substantially.

More than a third of the growth in imports during the period was due to purchases of metal products and machinery, especially from the rest of the EU and particularly from Germany. Confirming the pattern of recent years, the expansion in Italian imports from Germany (7.1 per cent) again enabled German exporters to increase their market shares in Italy.

The large rise in Italian imports of textiles and clothing and of leather products from non-EU countries (13.5 and 12.8 per cent respectively) may have reflected purchases of semi-processed goods by Italian firms working to meet export demand for finished products. China’s substantial share gains against other exporters to Italy were concentrated in these sectors.

The balance of payments

According to provisional data, the euro area’s external current account deficit for the first eight months declined to €21.8 billion, compared with €45.6 billion in the same period of 2000 (Table 8). The improvement reflects the surge in the trade surplus from €7.8 billion to €35 billion, which more than offset the increase in the deficit on income from €21.7 billion to €32.5 billion.

Table 8

Balance of payments of the euro area

(millions of euros)

	2000			2001	
	H1	Jan.-Aug.	Year	H1	Jan.-Aug.
Current account	**–33,858**	**–45,577**	**–70,092**	**–21,864**	**–21,841**
Goods	2,309	7,779	11,690	20,550	34,977
Services	–4,026	–2,064	–5,223	1,188	2,866
Income	–13,689	–21,733	–27,537	–24,700	–32,471
Current transfers	–18,454	–29,561	–49,025	–18,902	–27,213
Capital account	**6,586**	**7,290**	**11,858**	**6,459**	**7,511**
Financial account	**77,721**	**79,798**	**98,044**	**20,363**	**8,623**
Direct investment	118,099	61,815	15,223	–91,142	–89,940
Portfolio investment	–121,202	–113,690	–102,798	–10,719	8,726
Equity securities	–203,872	–217,888	–242,592	61,711	78,845
Debt securities	82,668	104,196	139,792	–72,427	–70,116
Financial derivatives	7,375	5,188	–1,355	–2,046	–9,899
Other investment	69,880	123,152	172,484	112,193	83,587
Reserve assets	3,572	3,336	14,494	12,071	16,143
Errors and omissions	**–50,451**	**–41,513**	**–39,812**	**–4,958**	**5,707**

Source*:* ECB.

Between January and August net capital outflows on account of direct and portfolio investment amounted to €81.2 billion, compared with €51.9 billion in the first eight months of 2000. A reduction in outward direct investment was counterbalanced by the large decline in inward direct investment, partly the consequence of the acquisition of Mannesman by Vodafone in 2000. In contrast with 2000, there was a net outflow of portfolio investment in non-equity securities (€70.1 billion). On the other hand, there was a net inflow of €78.8 billion in respect of investment in shares, compared with a net outflow of €217.9 billion in the same period of 2000.

Italy's current account deficit in the first eight months amounted to €0.6 billion (1.2 trillion lire), against €2.7 billion (5.3 trillion lire) a year earlier (Table 9). The improvement was due to merchandise trade, whose surplus on an *fob-fob* basis rose from €8.9 billion to €12.2 billion, in contrast with the increase of €1.8 billion in the deficit on income. The surplus on services improved slightly, while the deficit on transfers was virtually unchanged.

The current account balances of the other major euro-area countries also improved. Germany's current account deficit in the first eight months declined from €10 billion to €3 billion; the growth in the trade surplus was partially offset by the deterioration in the balances on income and services. France's current account surplus in the first eight months increased modestly, from €16.8 billion to €18.6 billion, reflecting an improvement in all the items, and particularly in the balance on services. Spain's current account deficit narrowed slightly in the first seven months, while its trade deficit remained broadly unchanged.

Table 9

Italy's balance of payments (1)
(billions of lire and millions of euros)

	2000				2001	
	January-August		Year		January-August	
	lire	euros	lire	euros	lire	euros
Current accoount	**–5,287**	**–2,731**	**–11,794**	**–6,091**	**–1,193**	**–616**
Goods	17,260	8,914	22,794	11,772	23,607	12,192
Exports	316,809	163,618	502,561	259,551	349,807	180,660
Imports	299,549	154,704	479,767	247,779	326,200	168,468
Services	234	121	64	33	1,753	905
Income	–17,289	–8,929	–25,358	–13,096	–20,797	–10,741
Current transfers	–5,492	–2,836	–9,294	–4,800	–5,756	–2,973
Capital account	**1,766**	**912**	**6,179**	**3,191**	**1,198**	**618**
Financial account	**14,671**	**7,577**	**8,301**	**4,287**	**–424**	**–219**
Direct investment	–41	–21	2,225	1,149	–8,272	–4,272
abroad	–10,740	–5,547	–25,884	–13,368	–28,423	–14,679
in Italy	10,700	5,526	28,109	14,517	20,151	10,407
Portfolio investment	–16,478	–8,510	–50,837	–26,255	–8,688	–4,487
Financial derivatives	4,391	2,268	4,843	2,501	–27	–14
Other investment	32,620	16,847	57,991	29,950	15,211	7,856
Reserve assets	–5,822	–3,007	–5,921	–3,058	1,352	698
Errors and omissions	**–11,150**	**–5,758**	**–2,686**	**–1,387**	**420**	**217**

(1) For July and August 2001, provisional data.

Set against a slight worsening of the terms of trade, which deteriorated by 1.4 per cent in the first seven months compared with the same period of 2000, the expansion in Italy's trade surplus reflected larger volume growth in exports than in imports. Against the background of a slowdown in world demand, especially for capital and high-tech goods, Italy's specialization in the production of consumer goods supported exports, which were also helped by a slight depreciation of the euro.

Italy's surplus on services in the first eight months rose to €0.9 billion, compared with €0.1 billion a year earlier (Table a19), thanks to faster growth in receipts than outlays (15.2 as against 13.3 per cent). According to disaggregated data available up to June, the largest contribution came from "other business services", the deficit on which contracted appreciably, reversing the trend of recent years. In the first six months the surplus on foreign travel amounted to €5.9 billion, an increase on the figure for the first half of 2000. While outflows contracted considerably, falling by 3.4 per cent, inflows held at the levels of the previous year thanks to a surge of 13.5 per cent in spending in Italy by American tourists. Flows in respect of air travel are expected to contract sharply in the months ahead owing to the terrorist attacks of September 11; a drastic reduction in tourist travel is likely for the same reason.

Table 10

Italian outward and inward direct investment (1)

(billions of lire and millions of euros)

	1999		2000				2001	
	Year		January-June		Year		January-June	
	lire	euros	lire	euros	lire	euros	lire	euros
Outward								
non-banks	−8,749	−4,518	−4,718	−2,437	−21,785	−11,251	−19,909	−10,282
of which:								
energy products	*−4,404*	*−2,274*	*695*	*359*	*−87*	*−45*	*−1,640*	*−847*
chemical products	*−708*	*−366*	*−896*	*−463*	*−1,199*	*−619*	*−726*	*−375*
machinery and equipment	*−4,760*	*−2,458*	*−2,781*	*−1,436*	*−5,598*	*−2,891*	*−1,278*	*−660*
food products	*−985*	*−509*	*314*	*162*	*317*	*164*	*−920*	*−475*
textile products	*−346*	*−179*	*−119*	*−61*	*−498*	*−257*	*−158*	*−82*
wholesale and retail trade	*−1,413*	*−730*	*−225*	*−116*	*−1,228*	*−634*	*−384*	*−198*
transport services	*−630*	*−325*	*341*	*176*	*−3,322*	*−1,716*	*1,244*	*642*
credit and insurance services	*−3,309*	*−1,709*	*−387*	*−200*	*−2,271*	*−1,173*	*−8,204*	*−4,237*
other market services	*11,466*	*5,921*	*−609*	*−315*	*−4,113*	*−2,124*	*−4,709*	*−2,432*
banks	−3,467	−1,791	−144	−74	−4,099	−2,117	−286	−148
Total	**−12,216**	**−6,309**	**−4,862**	**−2,511**	**−25,884**	**−13,368**	**−20,195**	**−10,430**
Inward								
non-banks	13,977	7,219	8,117	4,192	28,036	14,479	16,723	8,637
of which:								
energy products	*−23*	*−12*	*223*	*115*	*236*	*122*	101	*52*
chemical products	*704*	*364*	*483*	*249*	*1,104*	*570*	*556*	*287*
machinery and equipment	*940*	*485*	*4,402*	*2,273*	*13,088*	*6,759*	*1,067*	*551*
food products	*659*	*340*	*664*	*343*	*928*	*479*	*1,722*	*889*
textile products	*452*	*234*	*53*	*27*	*650*	*336*	*264*	*137*
wholesale and retail trade	*1,166*	*602*	*−4,622*	*−2,387*	*−3,053*	*−1,577*	*1,108*	*572*
transport services	*1,338*	*691*	*100*	*52*	*4,950*	*2,556*	*1,141*	*589*
credit and insurance services	*4,178*	*2,158*	*3,946*	*2,038*	*7,903*	*4,081*	*4,558*	*2,354*
other market services	*2,418*	*1,249*	*1,552*	*802*	*4,522*	*2,336*	*3,818*	*1,972*
banks	−1,416	−731	141	73	73	38	657	339
Total	**12,561**	**6,487**	**8,258**	**4,265**	**28,109**	**14,517**	**17,380**	**8,976**

Source*:* UIC.

(1) The distinction between banks and non-banks refers to the Italian company. The breakdown by branch, available only for non-banks, refers to the branch in which the investment is made.

In the first eight months of 2001 the aggregate balance on Italy's current account and capital account was nil. The financial account showed a deficit of €0.2 billion (400 billion lire), whereas in the same period of 2000 it had been in surplus by €7.6 billion (14.7 trillion lire). The errors and omissions item was therefore positive by €0.2 billion.

Taken together with the outturns of the last three years, the improvement in the balance on the current account and capital account in the first eight months of 2001 shows that the Italian balance of payments, in response to the behaviour of the main external and domestic variables affecting it, appears to swing between modest surpluses and deficits. Accordingly, there are neither persistent increases in net indebtedness nor protracted transfers of resources abroad; the payments situation is not an impediment to the growth of the Italian economy.

Italian direct investment abroad expanded strongly in the first eight months to total €14.7 billion, up from €5.5 billion in the same period of 2000 and more than the total for all of last year. According to sectoral data for the first six months, several major acquisitions in the energy, telecommunications, and banking and insurance sectors contributed to this growth (Table 10). Inward direct investment also increased quite strongly, recording a historic high of €10.4 billion for the first eight months, compared with €5.5 billion in the same period of 2000.

Table 11

Portfolio investment in Italy (1)

(billions of lire and millions of euros)

	2000				2001	
	January-June		Year		January-June	
	lire	euros	lire	euros	lire	euros
Government securities	114,074	58,914	101,788	52,569	69,514	35,901
BOTs	−2,138	−1,104	−5,888	−3,041	11,286	5,829
BTPs	90,723	46,855	108,120	55,839	39,530	20,415
CTEs	−1,253	−647	−1,500	−774	−426	−220
CCTs	10,349	5,345	2,951	1,524	1,524	787
CTOs	. .	. .	. .	. .	. .	. .
CTZs	−8,736	−4,512	−28,175	−14,551	7,440	3,843
Republic of Italy issues	23,265	12,015	24,766	12,791	10,137	5,235
Other government securities	1,863	962	1,514	782	23	12
Bonds	868	448	15,110	7,803	8,182	4,225
Bank securities	−18	−9	6,657	3,438	1,825	942
Equity securities	−23,610	−12,194	−8,938	−4,616	−9,861	−5,093
Other securities	779	402	1,724	891	794	410
Total	**92,093**	**47,562**	**116,341**	**60,085**	**70,453**	**36,386**

(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.

Outward portfolio investment in the period from January to August declined from €64.7 billion to €36.5 billion (Table a20). The breakdown by category of security, which is available up to June, shows a collapse in purchases of equities (from €43.5 billion to €11.3 billion) and an increase in those of other securities (from €4.9 billion to €22.3 billion), coinciding with the broad retreat of share prices. Investment in Italy by non-residents also diminished in the first eight months, falling from €56.2 billion to €32 billion. In the first six months of 2001 there were further net disposals of Italian equities, for the first time now also involving bank shares. The decrease in purchases of other securities reflected the decline in acquisitions of Italian government securities from €58.9 billion to €35.9 billion (Table 11); set against the recovery in investment in Treasury bills, the significant decline in that in Treasury bonds from the exceptional levels of 1999 and 2000 was partly attributable to the reduction in net issues.

Between January and August the item “Other investment” showed a surplus of €7.9 billion, down from €16.8 billion in the same period of 2000. During the first six months the volume of funds raised abroad by Italian banks more than doubled to reach €32.4 billion, whereas their foreign lending fell to €6.6 billion.

The labour market

Employment

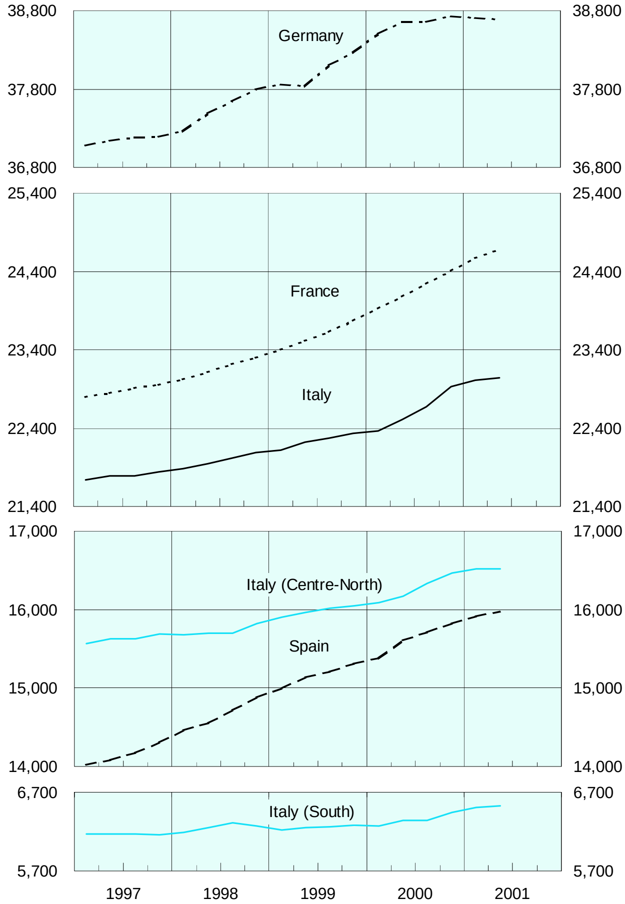
Employment growth slowed down perceptibly in the euro area during the first half of the year, reflecting the slackening of economic activity. Flexible and temporary jobs were affected first and most heavily. Seasonally adjusted national accounts data showed the number of persons employed to have risen by 0.7 per cent, compared with 1 per cent in the second half of 2000. In the second quarter the growth virtually ceased.

In Italy, Spain and France employment grew by between 1 and 1.2 per cent. In Italy and Spain this represented a reduction of more than half a percentage point from the increases of the previous half-year, which had been among the largest in the last two decades (Figure 14). In Germany the number of people employed contracted slightly beginning at the start of the year and in the second quarter was at the same level as a year earlier. There were no signs to suggest that employment there was likely to turn upwards in the second half of the year.

In Italy, the growth in the number of fixed-term employment contracts, whose short duration permits rapid adjustment to economic slowdowns, came to a halt. However, there was a significant increase in the number of permanent full-time jobs, as typically occurs at the culmination of a prolonged period of employment growth. Apparently this development was encouraged by the substantial tax incentives for open-ended hiring enacted at the end of 2000. In France, by contrast, employment growth was accounted for mostly by temporary and fixed-term jobs. In Spain a sharp rise in the demand for labour in construction and services fueled the growth in total employment; the employment rate is now in line with Italy's.

Figure 14

Employment in the main euro-area countries
(seasonally adjusted quarterly data; thousands of persons)



Sources: For Italy, Istat, national accounts (ESA95) and regional estimates; quarterly data partly estimated. For the other countries, Eurostat, national accounts (ESA95); for France, data partly estimated.

In Italy, Istat's quarterly labour force survey found seasonally adjusted employment of 21,528,000 in July, surpassing the previous historical high of July 1991 after five years of uninterrupted expansion. The number of persons employed was 79,000 greater than in January (an increase of 0.4 per cent), recouping the slight contraction registered in April. By comparison with July 2000 employment grew by 390,000 persons, or 1.8 per cent, thanks largely to the rapid expansion recorded in the second half of 2000 (Table 12). In the twelve months the employment rate for the population aged 15-64 rose from 54.1 to 55.1 per cent but is still 8 percentage points lower than in the other EU countries as a group.

As in the past, most of the employment growth involved women (287,000 persons, a gain of 3.7 per cent compared with July 2000). Women's share of total employment thus rose to 37.5 per cent, half a point higher than a year earlier, while the average in the other EU countries is 42 per cent.

Payroll employment expanded by 373,000 or 2.4 per cent in the twelve months to July and self-employment by 17,000 or 0.3 per cent. More than four-fifths of the growth in payroll positions was accounted for by permanent jobs (278,000 full-time and 35,000 part-time). Presumably the tax credit introduced by the Finance Law in October 2000 contributed to this result. The seasonally adjusted share of fixed-term jobs, both full- and part-time, held broadly stable for the third consecutive quarter, after rising for four years.

Table 12

Labour force status of the Italian population

(thousands of persons and percentages)

	1994 (1)		2000 (1)		June 2000		July 2001	
	Number	Percentage share (2)	Number	Percentage share (2)	Number	Percentage share (2)	Number	Percentage share (2)
Employees	**14,356**	**71.2**	**15,131**	**71.8**	**15,286**	**71.7**	**15,659**	**72.1**
open-ended contracts	13,381	66.4	13,601	64.5	13,707	64.3	14,020	64.6
full-time	12,851	63.8	12,748	60.5	12,844	60.2	13,122	60.4
part-time	530	2.6	853	4.0	863	4.0	898	4.1
fixed-term contracts	975	4.8	1,530	7.3	1,579	7.4	1,639	7.5
full-time	682	3.4	1,042	4.9	1,075	5.0	1,142	5.3
part-time	293	1.5	488	2.3	504	2.4	497	2.3
Self-employed	**5,798**	**28.8**	**5,949**	**28.2**	**6,036**	**28.3**	**6,053**	**27.9**
full-time	5,428	26.9	5,511	26.1	5,600	26.3	5,630	25.9
part-time	370	1.8	438	2.1	436	2.0	423	1.9
Total persons in employment	**20,154**	**100.0**	**21,080**	**100.0**	**21,322**	**100.0**	**21,712**	**100.0**
Unemployed	**2,508**		**2,494**		**2,404**		**2,193**	
Labour force	**22,662**		**23,574**		**23,726**		**23,905**	
Non-labour-force	**33,961**		**33,614**		**33,485**		**33,465**	
non-working age (under 15)	8,792		8,272		8,266		8,269	
working age (15-64)	16,563		15,549		15,397		15,218	
not actively seeking work but would be immediately available	*1,288*		*1,211*		*1,226*		*1,143*	
non-working age (65 and over)	8,606		9,794		9,822		9,978	
Population	**56,623**		**57,188**		**57,211**		**57,370**	
Unemployment	**11,1**		**10,6**		**10,1**		**9,2**	
Participation rate (ages 15-64)	**57,4**		**59,9**		**60,3**		**60,7**	
Employment rate (ages 15-64)	**51,0**		**53,5**		**54,1**		**55,1**	

Source: Istat, labour force surveys.
(1) Average of the surveys taken in January, April, July and October. – (2) Of total employment.

Hiring on fixed-term contracts, which increased quite strongly from the end of 1996 to mid-2000, has been slowing down since the fourth quarter of last year. In July 2001 fixed-term workers accounted for 10.5 per cent of payroll positions, just 0.2 percentage points more than in July 2000 (Table 13). Recourse to fixed-term contracts diminished in industry and in wholesale and retail trade, especially in the North-East. However, it increased appreciably for younger workers and in services other than wholesale and retail trade. Overall, this type of contract is still less common than in the rest of Europe.

Table 13

Fixed-term and part-time employees' share of total payroll employment in Italy

(percentages)

	Fixed-term		Part-time	
	July 2000	July 2001	July 2000	July 2001
Men	8.9	9.1	3.6	3.6
Women	12.4	12.5	16.9	16.7
Aged 15-34	15.6	16.0	10.4	10.1
Over 34	6.8	6.9	8.0	8.2
Agriculture	39.5	39.5	18.9	17.8
Industry	6.6	6.4	4.6	4.4
Construction	12.7	12.9	4.2	4.1
Retail and wholesale trade, hotels and restaurants	14.6	14.4	15.5	14.8
Other services	9.1	9.4	9.6	9.8
Total	**10.3**	**10.5**	**8.9**	**8.9**

Source: Istat, labour force surveys.

The growth of part-time jobs has also come to a halt in the past twelve months, with a slight increase in permanent positions offsetting the drop in temporary ones. Overall, part-time employment held at 8.9 per cent of total payroll employment, as in July 2000 (Table 13). The share declined slightly among women and younger workers and in trade. The incidence of part-time work in Italy remains about half the European average.

Sectoral and regional developments in Italy

Seasonally adjusted employment growth in the services sector was quite strong in the first half of the year (an increase of 148,000 persons or 1.1 per cent between January and July). Employment in wholesale and retail trade returned to rapid growth following the stagnation registered in April. The indications available for the third quarter are less favourable. In June, in response to the ISAE business opinion survey only one fifth of large retailers said they intended to increase staff, less than half as many as in December. No significant changes were expected by smaller commercial firms. The large service enterprises, covered by a special Istat survey, reported a pronounced reduction in per capita hours worked during the spring, including a decline in overtime.

Employment in construction expanded for the tenth consecutive quarter. The gain amounted to 28,000 jobs since January (1.7 per cent). According to the ISAE survey in June labour demand was also forecast to remain strong for the subsequent six months.

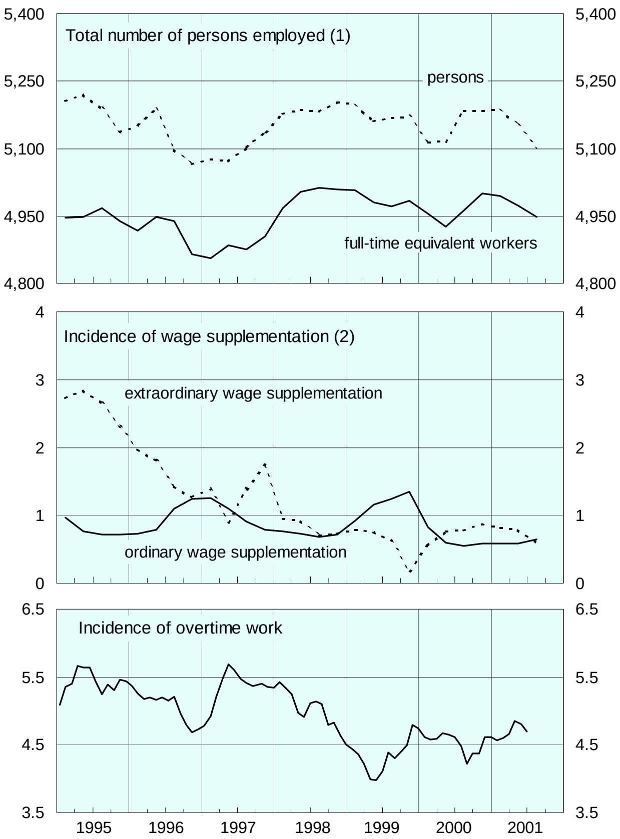
Following a modest expansion in 2000, employment in industry recorded its second consecutive quarterly decline, and in July was 85,000 persons or 1.6 per cent lower than in January (Figure 15). Industrial firms are also more pessimistic than others on the employment outlook. According to the ISAE surveys, the number of firms planning to reduce staff began to rise in mid-2001; expectations of stability were found only in the North-East. In the first half of the year Istat's survey of firms with more than 500 employees found that the number of hours worked per capita (net of wage supplementation) remained constant, as did the incidence of overtime (Figure 15). According to the Bank of Italy survey of industrial firms in September, the largest employment decline in the fourth quarter was expected by large firms. In addition, the difficulties in filling vacancies that emerged in the second half of 2000 have been greatly attenuated.

The increase in employment during the first half of the year involved nearly all parts of the country. In the southern regions there was growth of 0.5 per cent

(30,000 jobs), coming mostly in the second quarter, when the number of persons employed exceeded the level recorded in 1992. The expansion involved construction and all the service industries except banking and insurance.

Figure 15

Employment, wage supplementation and overtime work in industry excluding construction in Italy
(seasonally adjusted data; thousands of persons and percentages)



Sources: Based on Istat, labour force surveys and *Indagine sulle grandi imprese,* and on INPS data.

(1) Quarterly data. The number of full-time equivalent workers is obtained by considering two part-time workers to be equal to one full-time equivalent worker and subtracting the number of workers equivalent to the number of man-hours of wage supplementation granted. – (2) Average number of equivalent employees on ordinary or extraordinary wage supplementation during the quarter as a percentage of the number of full-time equivalent workers. – (3) Monthly data. Total number of overtime hours as a percentage of total number of regular hours in industrial companies with more than 500 employees. Moving averages of the three months ending in the reference period.

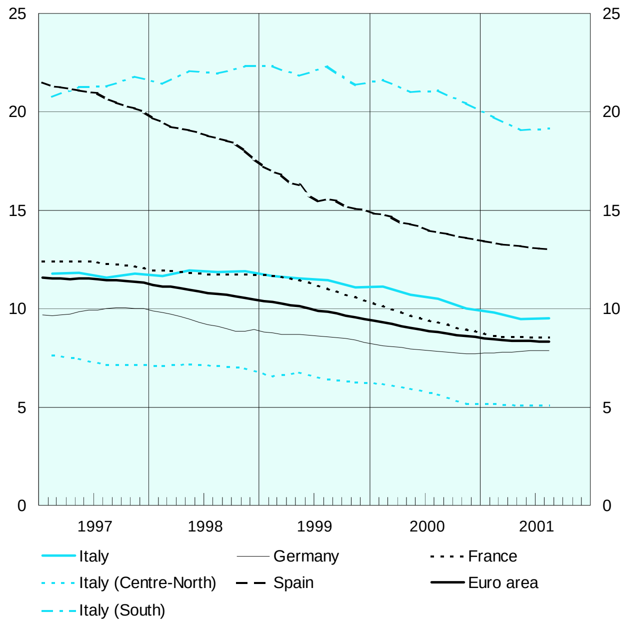
In the North, the number of persons in work began to grow again in the second quarter after stagnating between January and April. The expansion amounted to 0.6 per cent (67,000 jobs) over the six months. Only in the Centre did employment decline (by 18,000 persons or 0.4 per cent).

Unemployment and the labour supply

For the euro area as a whole the decline in the unemployment rate, which had proceeded rapidly since 1997, has essentially ceased this year. Eurostat data put the seasonally adjusted rate at 8.4 per cent in September, just 0.1 points less than in January (Figure 16). Reductions of 0.4 percentage points or more were registered only in Italy, the Netherlands and Spain, while Germany and Portugal actually recorded slight rises, concentrated in the third quarter. In the eastern states of Germany the jobless rate had risen by 0.4 per cent on average in 2000 as well. In France, Eurostat finds the unemployment rate unchanged in the last three quarters, but a different national definition shows a slight rise beginning in June, chiefly among persons under age 25.

Figure 16

Unemployment rates in the euro area
(seasonally adjusted data; percentages)



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

In Italy, the seasonally adjusted unemployment rate measured by Istat was 9.4 per cent in July, down from 9.6 per cent in April and 10.4 per cent in July 2000. The differential vis-à-vis the euro area, which had peaked at 1.7 percentage points at the beginning of 2000, thus narrowed to less than one point. The number of job seekers decreased by 215,000 (8.8 per cent) in the twelve months to July; the sharpest decrease was among workers having lost jobs.

In the North and in the Centre the unemployment rate fell by 0.3 points between January and July, to 3.9 and 7.6 per cent respectively. The decrease was sharper in the South, with a decline of 0.7 points to 19.1 per cent, the lowest since 1995.

Wages, labour costs and industrial relations in Italy, France and Germany

Italy – Contractual earnings in the private sector were an average of 1.6 per cent higher over the first three quarters than in the same period of last year. In real terms they fell by 1.3 per cent. The major contract renewals concluded during the summer continued the policy of wage moderation, notwithstanding the past acceleration in consumer price inflation. The two-year term of national wage agreements, which caused wage inertia during the period of declining inflation, kept the transitory pick-up in prices from being incorporated into the cost of labour. The effectiveness of the tripartite concertation and incomes policies instituted in the early nineties is now being called into question. The new Government has recently proposed a revision of the industrial relations system.

In July, more than six months after the expiration of the old contracts, renewals were signed for the metal and engineering industry and for retail and wholesale trade, the former without the agreement of the largest metalworkers' union. The two contracts cover a total of 3 million workers and are a benchmark for all collective bargaining in the private sector. They provide for average annual raises of about 2.1 or 2.2 per cent in 2001 and 2002. Adding in company-level increments and overtime pay, the increase in total earnings roughly recoups the shortfall between target and actual inflation last year and in the first half of 2001.

According to the national accounts, actual per capita earnings in the private sector were 1.3 per cent higher in the first half of 2001 than a year earlier. In real terms this represents a decrease of 1.7 per cent. In manufacturing, as a result of company-level agreements the increase was 2.2 per cent (Table 14), or about half a point more than contractual increases in that sector (Figure 17).

Table 14

Labour costs and productivity in Italy

(seasonally adjusted; percentage changes on year-earlier period)

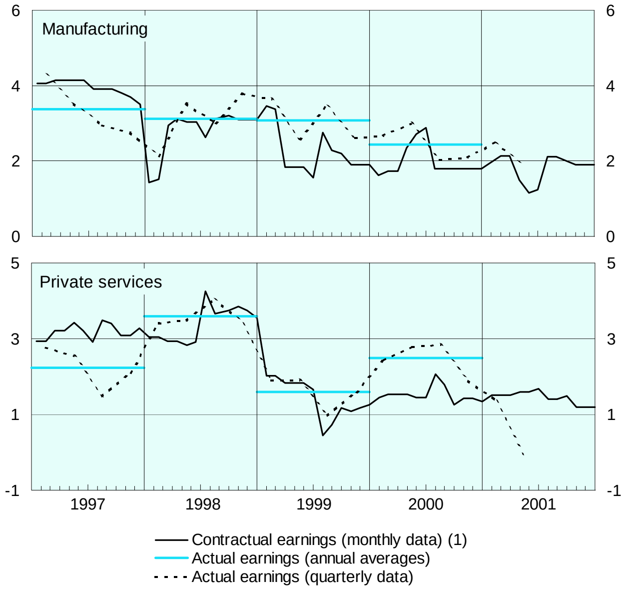
	2000 Average	2000 H1	2000 H2	2001 H1
	Manufacturing industry			
Productivity (1)	3.2	4.5	2.0	1.6
Per capita earnings (2)	2.4	2.8	2.1	2.2
Per capita labour costs (3)	2.7	3.2	2.2	1.9
Unit labour costs (4)	−0.5	−1.2	0.3	0.3
Labour's share of value added (5)	67.2	67.1	67.4	66.8
	Private services			
Productivity (1)	0.4	0.8	..	0.3
Per capita earnings (2)	2.5	2.6	2.4	0.6
Per capita labour costs (3)	2.7	2.9	2.5	0.4
Unit labour costs (4)	2.3	2.1	2.5	0.1
Labour's share of value added (5)	51.4	51.2	51.5	50.0
	Total economy			
Productivity (1)	1.4	2.0	0.9	0.3
Per capita earnings (2)	3.1	3.4	2.8	2.1
Per capita labour costs (3)	2.9	3.3	2.6	1.9
Unit labour costs (4)	1.5	1.3	1.7	1.6
Labour's share of value added (5)	62.7	62.6	62.8	62.0

Source: Istat, national accounts (ESA95).

(1) Value added at "base prices" and at 1995 prices per standard labour unit. – (2) Earnings per standard employee labour unit. – (3) Per standard employee labour unit. – (4) Per standard unit of output. – (5) Percentages. Earnings of self-employed workers are imputed by multiplying the share of labour in value added (at base prices) by the ratio of total employment to payroll employment. Gross of indirectly measured services of financial intermediation.

Figure 17

Per capita contractual and actual earnings in Italy
(seasonally adjusted; percentage changes on year-earlier period)



Source: Istat, national accounts and *Indagine sulle retribuzioni contrattuali*.
(1) From September 2001, estimates.

The Bank of Italy survey in September reported that more than half of Italian industrial firms with at least 50 employees will grant company wage increments this year on top of those specified by their respective national contracts. Among firms with fewer than 100 employees this fraction is only one-third, and one-fourth among firms located in the South. Year-on-year, increments at company level should account for between 0.6 and 0.8 percentage points of the total increase in actual earnings. Their number and size are comparable to those granted last year, despite the increased uncertainty due to the delay in renewing major nationwide labour contracts.

In manufacturing, the slow rise in wages and continuing rapid gains in productivity resulted in a twelve-month increase in unit labour costs of 0.3 per cent for the first half of the year. There was a further modest reduction in labour's share of value added from the historically low level of the previous year.

In private services the national accounts registered a decline in per capita earnings in the second quarter; the rate of increase over the corresponding period of the previous year thus fell from 2.4 per cent in the second half of 2000 to 0.6 per cent in the first half of 2001 (Table 14). This slowdown was statistically accentuated by contractual changes in the monthly distribution of annual earnings in the banking and communications industries. The rate of increase in per capita earnings in the other segments of private services also fell in the first half of the year owing to the late renewal of the national contract for the wholesale and retail trade. On average for the year, per capita earnings in private services should increase by about 2 per cent, in line with contractual wage growth.

Germany – Industrial relations in Germany also rely on concertation between the social partners. Collective bargaining is now conducted within the limits set by the tripartite national “Alliance for Jobs” of January 2000. Many of the contracts signed in 2000 lengthened wage agreements from one to two years, in order to give firms greater certainty on costs. On the basis of the raises under those agreements and the renewals in the first half of 2001, covering about one fifth of the payroll workforce, contractual wage increases will presumably ease from 2.4 per cent in 2000 to 2 per cent this year, even though the inflation rate is currently 2.8 per cent and productivity growth only slightly less. Overall, the decline in labour's share of value added under way since 1993 can be expected to continue. For 2000-01, industry-wide contracts for the first time provide for smaller increases in the eastern than in the western states, especially in construction, thus halting the narrowing of regional wage differentials.

In the last two years bargaining has shifted significantly to the company level. In addition to the traditional company or group agreements, more than a quarter of local plants took advantage of clauses allowing derogation from the national industry-wide contracts. Derogations were widely used both to raise the limit on working hours during cyclical and seasonal production peaks and to reduce standard working hours in cases of company difficulties. Only limited use was made of derogations for wage matters. The recent agreement at Volkswagen provides for the hiring of 5,000 workers for the start-up of a new production line in exchange for highly flexibile utilization of the workforce. Granting the new workers adequate training and wages only slightly above the contractual minimum, management has gained the power to make broad changes in working hours and shifts depending on production targets and quality standards.

France – The three-year-old trend to more decentralized bargaining, traditionally less common than in Italy or Germany, strengthened in the first half of the year. Industry-level bargaining diversified geographically, and company-level agreements covered more than 4 million workers, for the first time involving an appreciable number of firms with fewer than 50 employees. Company-level agreements frequently called for small additional wage increments, prompted in part by the unexpected increase in inflation in 2000. In some segments the increase in hourly earnings has come to more than 4 per cent. In July the Government raised the minimum hourly wage by 4 per cent; for workers already on the 35-hour week the increase was smaller. Considering the historically high profit share and the low incidence of minimum-wage-based earnings on overall labour costs, the Government estimates that these increases will not result in significant inflationary pressure.

Prices and costs

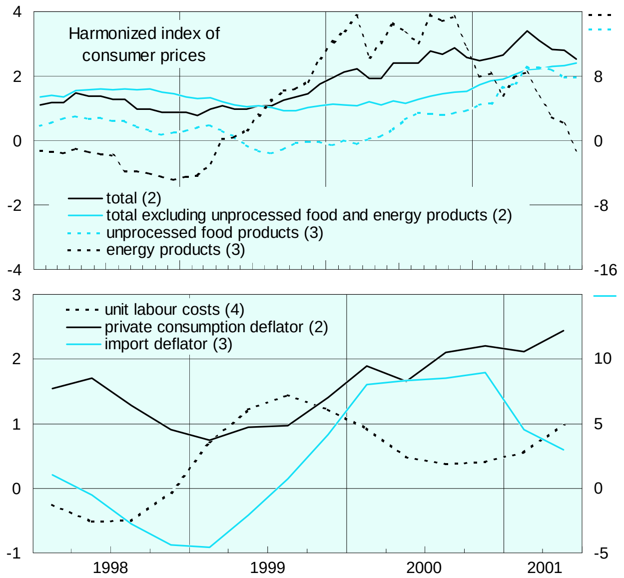
An overview

Consumer price inflation in the euro area remained above 2 per cent in the first nine months of 2001. In the summer, the easing of tensions in the oil markets and the dissipation of increases in the prices of some food products caused a sharp decline in inflation: the twelve-month increase in the harmonized consumer price index, which had peaked at 3.4 per cent in May, fell to 2.5 per cent in September (Figure 18). In Italy, inflation fell from 3 per cent in April to 2.6 per cent in September.

Figure 18

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.

In the euro area, core inflation, measured as the twelve-month change in the index excluding energy products and unprocessed food, rose from 1.7 per cent in January to 2.3 per cent in July. In Italy it jumped from 2.1 to 2.5 per cent in April, pushed up by large increases in car insurance premiums among other things. More recently, against a background of weakening demand, the rise in core inflation has slowed in the euro area and in Italy, reflecting the gradual attenuation of the indirect effects of higher prices of imported inputs on consumer prices.

Internal cost components helped contain inflation pressures in the euro area once again this year. The growth in unit labour costs, which were an average of 1.5 per cent higher in the four major euro-area countries in the first half of 2001 than in the year-earlier period, remained subdued despite the smaller productivity gains associated with the slowdown in economic activity.

The *Consensus Forecasts* survey of expectations in October, after the terrorist attack in the United States, showed a downward revision of forecasts for economic growth in the euro area and an improvement in the inflation outlook for 2002. Forecasters expect inflation to fall below 2 per cent by the end of the second quarter of next year. This is borne out by the stability of oil futures at the very low levels reached in September.

Expected inflation over more distant time horizons has remained below 2 per cent during the year both in the euro area as a whole and in Italy.

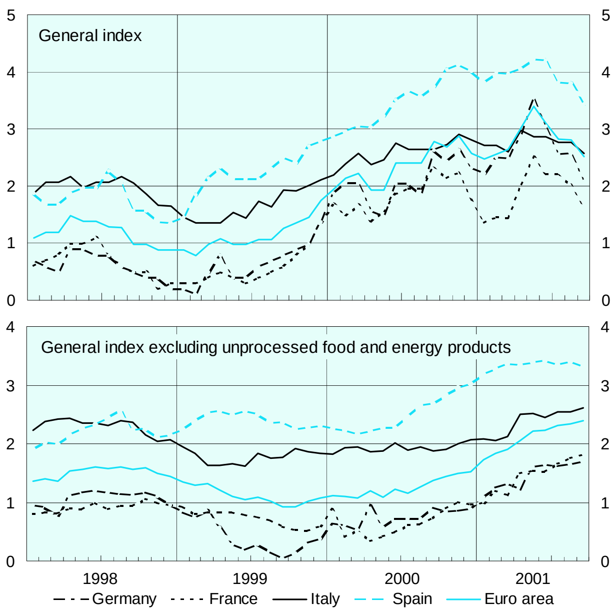
Consumer prices

Consumer price inflation in the euro area peaked in the second quarter of the year. The rise was caused by the temporary surge in oil prices, which was amplified by the appreciation of the dollar, and by the exceptional increases in food prices related to livestock epidemics. Consumer price inflation declined in the euro area and Italy in the summer (Figure 19). The fall in oil prices (by 9.8 per cent between May and August) led to an abrupt drop in the consumer prices of energy products, which was less sharp in Italy than in the area as a whole (Tables a13 and a14). Pressures on the prices of unprocessed food products, which rose by 6.1 per cent in the first half of the year in the euro area and 4.4 per cent in Italy, abated in the third quarter: in September the twelve-month increase was 7.8 per cent in the euro area, down from a high of 9.1 per cent in June; in Italy the rate declined from 6.8 per cent in July to 6.3 per cent in September.

Figure 19

Harmonized consumer price indices in the main euro-area countries

(*twelve-month percentage changes*) (1)



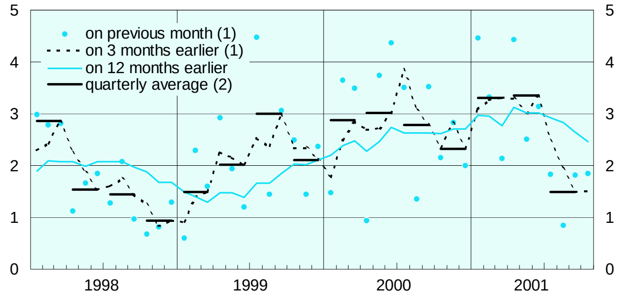
Source: Based on Eurostat data.

In Italy, figures for a sample of cities in October pointed to a decline in consumer price inflation, measured by the general consumer price index, to 2.5 per cent, from 2.6 per cent in September. The annualized three-month increase in the seasonally-adjusted general index remained below 2 per cent for the third month in a row (Figure 20).

Figure 20

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.

Producer prices in Italy anticipated by a number of months the waning of the indirect effects of the rise in the prices of imported inputs on final prices: the twelve-month rate of increase in the prices of final consumption goods excluding food and energy products and vehicles began to fall in March (Table a16).

In the euro area, about half of the rise in core inflation in the first nine months of the year is attributable to the prices of processed food products, whose twelve-month rate of increase went from 1.6 per cent in January to 3.5 per cent in September. The effect of external price pressures dissipated in the last few months of the period. The shift in demand from meat to other processed food products probably underlies the surge in the prices of dairy products, whose twelve-month rate of increase rose from 2.5 per cent in January to 6.3 per cent in September. This rise and the increase in tax on tobacco products (which are included in this item) explain the acceleration in the prices of processed food products.

The differential between consumer price inflation in Italy and the euro-area average reached a low of minus 0.3 percentage points in the second quarter of the year, whereas it had been positive by 0.1 points in the first. The result can be ascribed to the lower responsiveness of energy products in Italy to fluctuations in oil prices. In recent months the decline in the latter and the appreciation of the euro have reversed the trend, causing the differential to return to its level of the start of the year (Figure 19).

Excluding energy products and unprocessed food, the inflation differential between Italy and the euro area as a whole fell from 0.7 percentage points in 2000 to an average of 0.3 points in the first nine months of this year. About 0.2 points of the decrease can be attributed to the elimination of health service co-payments for pharmaceuticals in Italy. Excluding drug prices, the core-inflation differential vis-à-vis Germany and France remained at about 1 percentage point in the first nine months. The size of the gap is partly attributable to domestic costs, which continue to rise more rapidly in Italy.

Since April, when the one-year freeze on car insurance premiums expired, the differential in the growth of service prices between Italy and the euro-area average, equal to 0.2 percentage points in the first quarter, has returned to the pre-freeze level, standing at 0.6 points in the third quarter. The telecommunications sector, which has been undergoing liberalization in many European countries for some years now, continues to make a smaller contribution to curbing inflation than it does in Germany and France. In these countries, the prices of telephone services declined by 3.8 and 6.2 per cent respectively in the year to September, compared with a fall of 2.9 per cent in Italy. In hotel and restaurant services, prices rose by 3.7 per cent over the same period in Italy, compared with 1.5 per cent in Germany and 2.2 per cent in France.

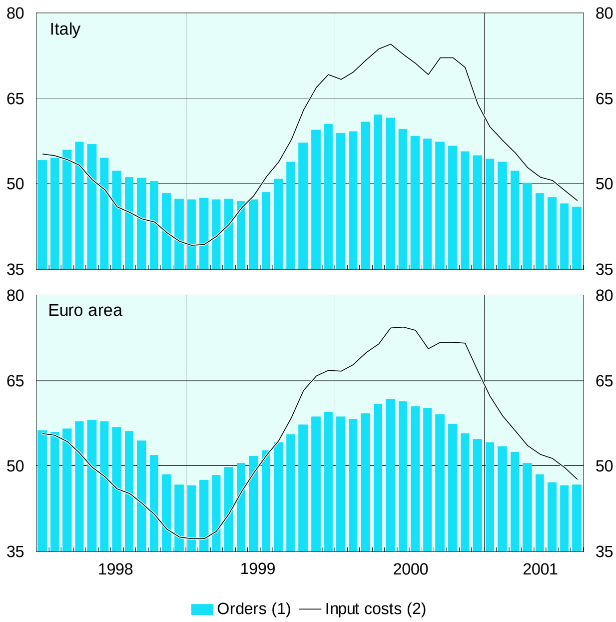
Producer prices and their determinants

The slowdown in the producer prices of manufactures since the end of last year intensified in the main euro-area countries as pressures on the cost of imported inputs subsided and demand gradually weakened (Figure 21). In the euro area, the twelve-month rate of growth in the general index of producer prices fell from a peak of 6.7 per cent in October 2000 to 1.7 per cent in September 2001; in Italy, it declined from 6.8 to 0.4 per cent.

Figure 21

Demand and input costs for manufacturers

(*percentages*)



Source: Reuters. Monthly survey conducted by Reuters of a sample of manufacturing firms in the euro area.

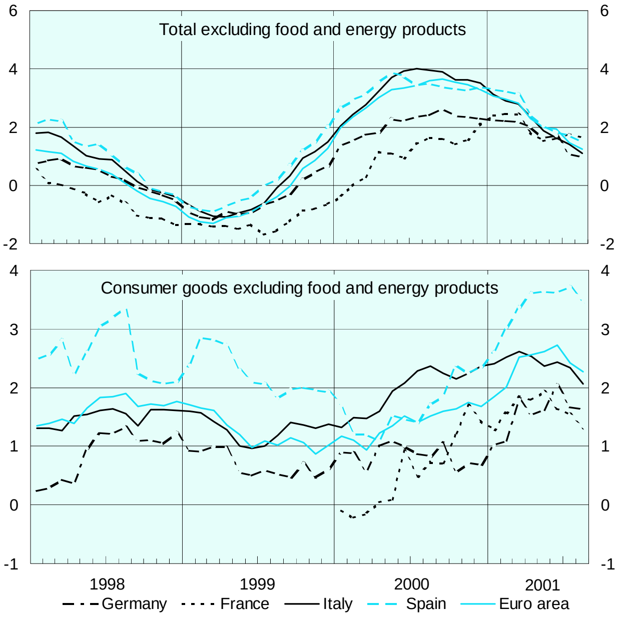
(1) Percentage balance between positive replies (“high”, “increasing”) and negative replies (“low”, “decreasing”) by firms regarding the level of orders. - (2) Purchasing managers of the firms in the sample are asked to give their assessment of the behaviour of the prices paid for productive inputs with respect to the previous month. An index level higher (lower) than 50 indicates an increase (decrease) in input costs in relation to the previous month.

The decrease reflected the deceleration in the prices of intermediate goods. In August, the twelve-month increase in the prices of intermediate energy products was 1.4 per cent in the euro area and nil in Italy, compared with 12.1 and 18.4 per cent, respectively, in January. The fall of 5 per cent in the prices of non-energy raw materials between the second quarter of 2000 and the same period this year – caused by the gradual deterioration in the outlook for world demand – was reflected in the prices of non-energy intermediate goods. In the euro area the twelve-month rate of increase in these prices gradually declined, from 4.5 per cent in January to 0.3 per cent in August; in Italy it decreased from 3.9 to 0.7 per cent.

The slowdown in the prices of intermediate goods was transmitted with a lag of several months to the other components of the producer price index. In the euro area the twelve-month rate of increase in the producer prices of consumer goods excluding processed food products, energy products and transport equipment declined in July and August to stand at 2.3 per cent, compared with 2.7 per cent in June; in Italy, it fell to 2.1 per cent in August, from 2.6 per cent in March (Figure 22).

Figure 22

Producer prices in the main euro-area countries
(*twelve-month percentage changes*)



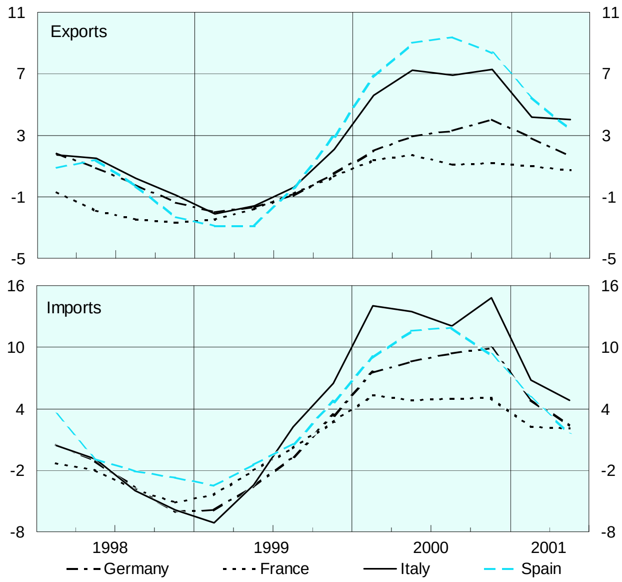
Source: Based on Eurostat data.

The survey of industrial firms in the euro area conducted by the European Commission suggests that the positive developments in producer prices should continue in the coming months, in line with expectations of a further reduction in imported input costs and the less favourable outlook for orders.

The weakening of world demand in the first half of the year caused export prices to slow down in the major euro-area countries. In Italy, the rate of increase on the previous half-year in the implicit export deflator fell from 2.7 per cent in the second half of 2000 to 1.4 per cent in the first half of this year; a similar pattern was observed in the other countries (Figure 23). In the first six months of the year, the nominal effective exchange rate of the euro, weighted by Italy's export shares in non-EU markets, strengthened by 4.2 per cent with respect to the previous period, prompting Italian exporters to contain their price increases: the average unit values of Italian exports to those markets rose by 1 per cent. In European markets, Italian firms raised their prices by an average of 1.9 per cent, slightly less than the mark-ups applied by domestic producers.

Figure 23

Main euro-area countries: import and export deflators
(*percentage changes on year-earlier quarter*)



Sources: Based on Eurostat and Istat data.

Changes in oil prices were reflected in import prices in the main euro-area countries: in Italy, the increase in the import deflator compared with a year earlier dropped from 14.8 per cent in the last quarter of 2000 to 6.8 per cent in the first quarter of 2001; it declined less markedly in the second quarter, to 4.8 per cent.

Costs and profit margins

In the first half of the year the domestic costs of euro-area firms continued to dampen inflationary pressures. However, the deceleration in productivity growth slowed the decline in unit labour costs in the main euro-area countries (Table 15).

Table 15

Unit labour costs, cost of labour per employee and productivity
(percentage changes) (1)

	Cost of labour per employee (2)		Labour productivity		of which: Value added (3)		of which: Employees (2)		Unit labour costs	
	2000	2001 Q2	2000	2001 Q2	2000	2001	2000	2001 Q2	2000	2001 Q2
					Industry excluding construction					
Italy	2.7	2.1	3.4	2.5	3.5	3.0	0.1	0.5	–0.7	–0.5
Germany	2.1	2.3	5.1	4.0	5.4	4.3	0.3	0.3	–2.8	–1.7
France	1.2	0.9	2.5	0.8	3.8	2.7	1.2	1.9	–1.3	0.1
Spain	3.0	3.5	0.7	0.5	4.0	3.3	3.3	2.8	2.3	3.0
Euro 4 (4)	2.2	2.1	3.9	2.5	4.7	3.6	0.7	1.0	–1.7	–0.4
					Services					
Italy	3.1	2.4	0.6	0.2	3.0	3.1	2.3	2.8	2.4	2.2
Germany	0.8	1.4	0.9	1.2	3.6	2.9	2.7	1.7	. .	0.2
France	2.0	1.9	0.1	–0.1	3.1	2.8	3.0	2.9	1.9	2.0
Spain	3.4	3.1	1.1	0.6	4.1	3.7	3.0	3.1	2.3	2.5
Euro 4 (4)	1.7	1.8	0.7	0.5	3.5	3.0	2.8	2.5	1.1	1.3
					Total economy					
Italy	2.9	2.3	1.4	0.6	2.9	2.8	1.5	2.2	1.5	1.7
Germany	1.2	1.7	1.9	1.9	3.6	2.7	1.6	0.8	–0.7	–0.2
France	1.7	1.5	0.6	0.1	3.1	2.7	2.5	2.6	1.0	1.5
Spain	3.4	3.3	1.0	0.6	4.1	3.8	3.1	3.1	2.4	2.7
Euro 4 (4)	1.8	1.7	1.4	0.9	3.5	2.8	2.1	2.0	0.3	0.9

Source: Based on Eurostat data.

(1) The figure for the second quarter of 2001 is calculated as the change on the year-earlier period of the moving average for four quarters ending in the reference period. – (2) For Italy and Spain, standard labour units. – (3) Value added at 1995 prices. – (4) Average of the figures for Italy, Germany, France and Spain.

In Italy, Istat's indicators of input and output prices show that manufacturers passed higher costs through to final prices. In the first half of the year the rate of increase in the output deflator for industry excluding construction on the year-earlier period was similar to that for unit variable costs, leaving unit profit margins broadly unchanged. In line with these findings, the gross operating profit of industry excluding construction remained at the high levels of the previous year. The national accounts of the other main euro-area countries show similar developments in the share of profits.

The information available on the service sector is not as complete as that for industry. A comparison of the rate of increase in consumer prices for services and that in unit labour costs, which are the main cost component in this sector, shows that unit profit margins actually widened slightly in the first half of the year in Italy and the euro area as a whole.

Wage growth in industry excluding construction remained moderate in Italy and the other main euro-area countries. Between the second quarter of 2000 and the second quarter of this year, unit labour costs in this sector in the main countries of the area showed a decline of 0.4 per cent (calculated as the average of the four periods ending in the reference quarter in order to smooth the data), although this was less than the fall of 1.7 per cent in 2000. The change was the result of slower productivity growth, which decreased from 3.9 to 2.5 per cent for the group as a whole and from 2.5 to 0.8 per cent for France, where the growth in value added had already fallen sharply in the first quarter.

In the second quarter, unit labour costs in services (computed as for industry) were 2 per cent higher than in the corresponding period of 2000 in Italy and France. The strong rise in new employment in the sector (2.8 and 2.9 per cent respectively) was reflected in stagnant productivity.

Inflation expectations

Professional forecasters revised their projections for inflation in the main euro-area countries in 2001 upwards following the acceleration in consumer prices in the second quarter. In January the *Consensus Forecasts* survey showed expected inflation of 2.2 per cent for Italy and 2.0 per cent for the euro area; in October the corresponding figures were 2.8 and 2.7 per cent (Table 16).

Table 16

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

	January 2001		October 2001	
	2001	2002	2001	2002
Germany	1.7	1.5	2.6	1.7
France	1.4	1.4	1.7	1.5
Italy	2.2	1.8	2.8	1.7
Spain	2.9	2.6	3.7	2.7
Euro area	2.0	1.7	2.7	1.8

Source: *Consensus Forecasts*.

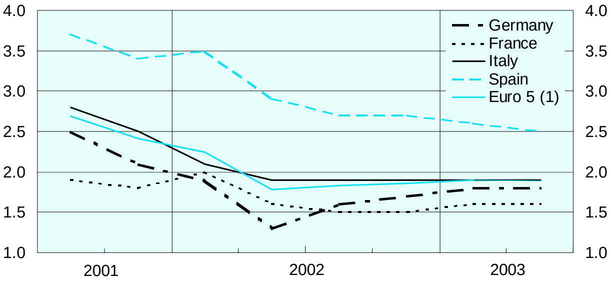
The most recent information signals an easing of inflationary pressures in 2002. The terrorist attack in the United States has so far prompted a slight downward revision in inflation expectations for next year. The participants in the *Consensus Forecasts* survey in October expected inflation to average 1.8 per cent in the euro area and 1.7 per cent in Italy. compared with 1.9 per cent in the September survey.

Forecasters predict that the twelve-month rate of increase in consumer prices in the main euro-area countries will decline over the next two quarters and stabilize at a level below 2 per cent in the second quarter of 2002 (Figure 24).

The quarterly survey of a sample of Italian firms conducted jointly by the Bank of Italy and *Il Sole 24 Ore* in September did not show any major change in the amount by which firms intend to raise prices (an average of 2 per cent for the subsequent 12 months. compared with 1.9 per cent in the previous three surveys). Among the factors affecting consumer price inflation in Italy. the impulse of labour costs and raw materials has abated since the June survey. while the contribution of demand has turned negative.

Figure 24

Inflation expectations for the subsequent 8 quarters measured by *Consensus Forecasts* in September 2001
(*twelve-month percentage changes*)



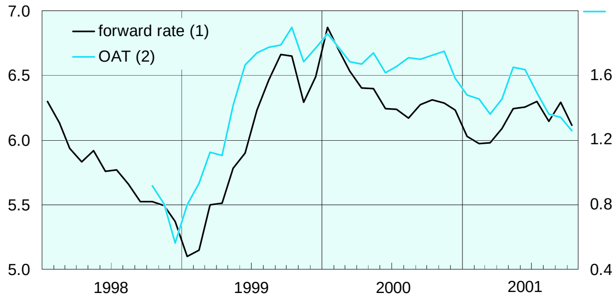
Source: *Consensus Forecasts.*

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

The responses to the Bank of Italy's survey of a sample of Italian firms in September suggest that repricing in euros will have a modest impact on pricing policies.

Figure 25

Long-term inflation expectations for the euro area implicit in interest rates
(*percentages and percentage points*)



Source: Based on *Thomson Financial Datastream* data.

(1) Average of 1-year forward rates between 6 and 9 years ahead implicit in the yield curve of 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.

In the financial markets. the indicators of inflation expectations over the longer run (nine years) confirm the view that the rise in inflation this year is temporary. The difference between the nominal and real yields on French Treasury bonds (derived from index-linked securities) decreased to less than 1.4 percentage points in October (Figure 25).

THE PUBLIC FINANCES IN THE EURO AREA AND IN ITALY

The overall picture

In several euro-area countries it appears likely that the budget outcome for this year will fall short of the targets set in the stability programme updates submitted between September 2000 and January 2001, with a consequent interruption of the improvement in the area’s public finances that began in 1993. This result can be attributed to the combined effect of the slowdown in economic activity and the tax and social security contribution reliefs granted in the last two years.

In Italy the Forecasting and Planning Report for 2001, published in September 2000, set a target of 0.8 per cent of GDP for general government net borrowing. The Quarterly Report on the Borrowing Requirement published in April 2001 set a new target of 1 per cent of GDP, while in July the Economic and Financial Planning Document returned to the target of 0.8 per cent but estimated the deficit for the year on a current programmes basis at 1.9 per cent.

In September, with account taken of the corrective measures adopted in the meantime, the Forecasting and Planning Report for 2002 estimated that general government net borrowing in 2001 would be 1.1 per cent of GDP (Figure 26). The achievement of this result depends on there being effective action to curb disbursements and substantial proceeds from the sale of real estate.

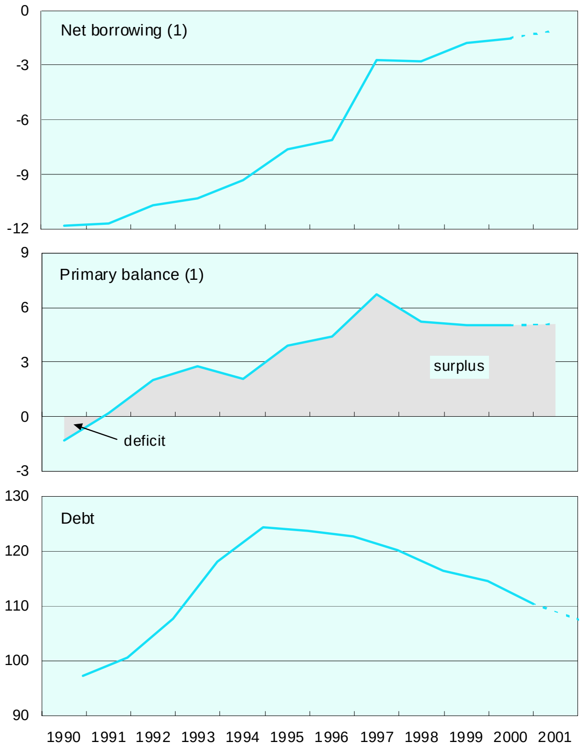
In view of the pattern shown by the borrowing requirement during the year, the gap between this aggregate and net borrowing is set to remain large.

Results and objectives for the euro area

The stability programme updates submitted between September 2000 and January 2001 indicated a gradual reduction in general government net borrowing for the euro area, with balance being reached in 2003. The ratio of the budget deficit to GDP was forecast to fall by 0.1 percentage points in 2001 to 0.6 per cent and by 0.3 points in both 2002 and 2003 (Table 17). The targets were set in an economic context that was more favourable than it is now and many euro-area countries revised their growth forecasts for 2001 upwards.

Figure 26

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



Sources: Based on Istat data and, for debt, Bank of Italy data. For 2001, forecasts from *Relazione previsionale e programmatica* for 2002.

(1) Excludes the proceeds of the sale of UMTS licences (which amounted in 2000 to 26.75 trillion lire or 1.2 per cent of GDP).

Table 17

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

	2000		2001		2002	
	Euro area	EU	Euro area	EU	Euro area	EU
Net borrowing						
Stability and convergence programmes	0.7	0.2	0.6	0.2	0.3	0.1
EU Commission (April 2001)	0.7	0.0	0.8	0.3	0.4	0.0
OECD (May 2001)	0.7	0.2	0.8	0.4	0.4	0.1
IMF (October 2001)	0.8	0.3	1.1	0.6	1.0	0.7
Cyclically-adjusted net borrowing						
OECD (May 2001)	0.6	0.1	0.7	0.3	0.5	0.2
IMF (October 2001)	0.7	0.2	0.7	0.3	0.4	0.2
Expenditure and revenue (EU Commission, April 2001)						
Expenditure	48.0	47.0	47.3	46.5	46.7	46.0
of which: interest payments	*4.1*	*3.8*	*3.9*	*3.6*	*3.7*	*3.4*
Revenue	47.3	46.9	46.6	46.3	46.3	46.0
Debt						
Stability and convergence programmes	70.9	64.5	68.0	61.8	66.2	60.0
EU Commission (April 2001)	70.4	64.5	67.8	61.7	65.6	59.3
IMF (October 2001)	71.4	....	69.7	....	68.4	....

Sources: Stability and convergence programme updates submitted between September 2000 and January 2001; EU Commission, *Spring Forecasts*, April 2001; OECD, *Economic Outlook*, May 2001; and IMF, *World Economic Outlook*, October 2001.

(1) Weighted averages based on GDP. The figures for the euro area include Greece from 2000 onwards. The proceeds of sales of UMTS are excluded; for the euro area these are estimated to have amounted in 2000 and 2001 to respectively 1.1 and 0.1 per cent of GDP (EU Commission), 1 and 0.2 per cent (OECD) and 1 and 0.1 per cent (IMF).

As the year advanced and the outlook for growth deteriorated, evidence appeared pointing to a less favourable budget outcome for 2001 and a consequent halt to the improvement in the euro-area balance of the last few years.

In the spring the European Commission estimated that the area's general government net borrowing would rise slightly, to 0.8 per cent of GDP; some countries were expected to record a significant divergence from their targets. By contrast, the Commission's forecasts for 2002 were basically consistent with the targets indicated in the stability programme updates. The forecasts published by the OECD in May were in line with those of the Commission.

The forecasts published in October by the IMF indicated a larger deterioration in the euro-area balance (0.3 percentage points) even though they did not consider the effects of the terrorist attacks of September 11. Cyclically-adjusted net borrowing was expected to remain stable at 0.7 per cent of GDP. Since interest payments were expected to decline, this implied a slight deterioration in the cyclically-adjusted primary surplus.

For 2002 the IMF forecast showed net borrowing virtually unchanged in relation to GDP, together with an improvement of 0.3 percentage points in the cyclically-adjusted deficit, owing in part to a further decline in the ratio of interest payments (see box for a discussion of the different methods of cyclical adjustment in use).

In France the budget proposals for 2002 presented in September indicated that net borrowing in 2001 would be 1.4 per cent of GDP, an increase of

0.4 percentage points with respect to the original target; the target for 2002 was raised from 0.6 to 1.4 per cent. In Germany the report prepared in October by the six leading economic research institutes indicated that net borrowing in 2001 would be 2.5 per cent of GDP, an overshoot of about 1 percentage point; for 2002 the report indicated a deficit of 2 per cent of GDP (compared with the figure of 1 per cent in Germany's stability programme update).

According to the IMF, in the two years 2001-02 the euro-area debt ratio will come down by around 3 percentage points, compared with the 5 points indicated by the stability programme updates.

Budgetary policy in Italy

The Economic and Financial Planning Document presented in June 2000 set a target of 1 per cent for the ratio of general government net borrowing to GDP. The primary surplus ratio was expected to remain unchanged at 5.2 per cent (Table 18). This scenario was based on a real growth rate of 2.8 per cent in 2000 and 2.9 per cent in 2001.

Table 18

Italian public finance targets and estimates for 2001 (1)

(billion of lire)

	Net borrowing requirement (2)		General government			*Memorandum items*	
	State sector	Public sector	Net borrowing	Primary surplus	Interest payments	Real GDP growth rate	Nominal GDP
Targets							
Economic and Financial Planning Document (June 2000)	–32,000	....	–23,700	122,300	146,000	2.9	2,337,300
as a percentage of GDP	*–1.4*		*–1.0*	*5.2*	*6.2*		
Economic and Financial Planning Document Update and the Forecasting and Planning Report (September 2000)	–32,750	....	–19,500	124,500	144,000	2.9	2,339,900
as a percentage of GDP	*–1.4*		*–0.8*	*5.3*	*6.2*		
Stability Programme Update (3) (December 2000)	....	....	....	....	....	2.9	....
as a percentage of GDP			*–0.8*	*5.4*	*6.2*		
Estimates on a current programmes basis							
Quarterly Report on the Borrowing Requirement (April 2001)	–51,700 (3)	–57,800 (3)	–24,500	124,000	148,500	2.5	2,378,000
as a percentage of GDP	*–2.2*	*–2.4*	*–1.0*	*5.2*	*6.2*		
Economic and Financial Planning Document (July 2001)	....	–72,100 (3)	–45,000	108,400	153,400	2.3	2,379,100
as a percentage of GDP		*–3.0*	*–1.9*	*4.6*	*6.4*		
Forecasting and Planning Report (September 2001) Economic and Financial Planning Document Update (October 2001)	–49,500 (3)	....	–27,000	119,800	146,800	2.0	2,370,800
as a percentage of GDP	*–2.1*		*–1.1*	*5.1*	*6.2*		

(1) Rounding may cause discrepancies in totals. – (2) Net of settlements of past debts and privatization receipts. – (3) The Economic and Financial Planning Document published in July 2001 made no change to the targets established for general government in the Stability Programme Update. The supplement to the Economic and Financial Planning Document indicated a state sector borrowing requirement of 46 trillion lire (1.9 per cent of GDP). – (4) The estimates do not include tax refunds to be paid during the year via the Post Office, estimated at 5 trillion lire in the April 2001 Quarterly Report on the Borrowing Requirement and at 9 trillion in the September 2001 Forecasting and Planning Report.

The cyclical adjustment of general government budget balances

A method for estimating the cyclical component of EU countries' general government budget balances has recently been developed by the European System of Central Banks.[1] It follows a two-stage procedure. First the trend growth paths of the main macroeconomic variables influencing the public finances are estimated as a basis for calculating the cyclical deviations. Then the cyclical component of each budget item is calculated as the product of three factors: the percentage deviation from trend of the macroeconomic variable that influences the item most directly, the item's elasticity with respect to that variable, and the amount of the item.

The OECD, the IMF and the European Commission also calculate the cyclical component of the budget with a two-stage procedure, but they consider a single macroeconomic variable, GDP, and the elasticities of the various budget items with respect to GDP.

The method developed by the ESCB is more highly disaggregated and is thus able to take account of the effects on the public finances of changes in the composition of demand and the distribution of income. The budget items most subject to cyclical fluctuations are identified as expenditure connected with unemployment, indirect taxes, direct taxes on households and firms, and social security contributions. The macroeconomic variables considered are the number of unemployed and three national accounts aggregates (consumption, companies' gross operating profits and gross earnings), whose definition is close to that of the tax bases of the main revenue items. Since gross earnings affect both direct taxes on households and social security contributions, in order to take account of the progressiveness of personal income tax, a distinction is made between the cyclical deviations of per capita gross earnings and those of employment.

The trend values of the macroeconomic variables are estimated with the Hodrick-Prescott statistical filter (which is also used by the European Commission for GDP). This is a statistical approach: the trend value in a given year is set equal to the average of the values of the preceding and subsequent years, weighted with symmetrically decreasing weights as the distance from the reference year increases. The distribution of these weights is determined using a discretionary smoothing parameter. In order to calculate the trend value of the last observations, the original series is extended with forecasts. The cyclical deviations calculated with the filter have the property of cancelling each other out on average over the estimation period as a whole; the choice of the value of the smoothing parameter defines the length of the subperiods over which this property is approximately preserved. Use of the filter is inappropriate in the presence of structural changes in the economy.

By contrast, the OECD and the IMF calculate trend (or potential) GDP with estimation procedures that use

cont. ➤

In September 2000 the Economic and Financial Planning Document Update showed a larger-than-expected rise in tax revenue and increased the estimate for 2001 of this aggregate on a current programmes basis by more than 26 trillion lire. The additional revenue was deemed to be of a structural nature and was used almost entirely to finance tax and social security contribution reliefs on top of those already introduced in the previous year.

The Forecasting and Planning Report for 2001 took account of the foregoing changes and set moreambitious targets for net borrowing (0.8 per cent of GDP) and the primary surplus (5.3 per cent). According to the official estimates, the improvement in the balance on a current programmes basis made it possible to achieve these targets with a budget that, including the latest reliefs, would increase the deficit by 25 trillion lire, as a consequence of a reduction in revenue of more than 21 trillion and an increase in expenditure of nearly 4 trillion.

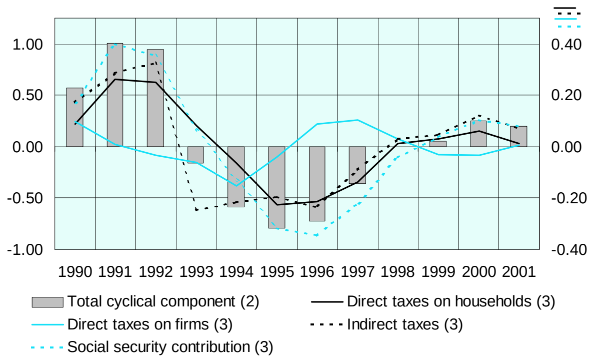
The new targets were confirmed in the Stability Programme Update submitted to the European Commission in December 2000.

production functions. This approach, based on economic analysis of the determinants of growth, requires explici tmethodological choices to be made regarding issues subject to uncertainty on both theoretical and empirical grounds, e.g. the appropriate form of the production function, the definition of normal employment, and the treatment of growth not explained by factor dynamics.

The method developed by the ESCB is not substantially different from that already used by the Bank of Italy.[2] The only significant difference, which in any case has been eliminated starting with the Bank's Annual Report for the Year 2000, concerns the value of the Hodrick-Prescott filter's smoothing parameter, which has been reset from 100 (the value also used by the European Commission) to 30. This revision has reduced the weight of the comparatively long fluctuations included in the cyclical component, but nonetheless ensures that fluctuations with a length of eight years or less are almost completely excluded from the trend component and attributed to the cyclical component.

On the basis of the ESCB's method, the economic cycle had positive effects on the budget balance in the first three years of the nineties (amounting to an average of 0.9 per cent of GDP). Between 1993 and 1995 the economic situation worsened and the cyclical component showed increasingly negative values of up to 0.8 per cent of GDP. In the subsequent years the adverse impact of short-term conditions gradually decreased, reflecting in particular the significant growth in payroll employment. In 2000 the effects of the cycle were positive, amounting to just over 0.2 per cent of GDP. According to preliminary estimates,the cyclical component will remain positive but be slightly smaller this year (see figure).

Cyclical component of Italy's general government budget balance (1)
(as a percentage of GDP)



(1) The graph does not show the cyclical component of expenditure connected with unemployment, which is quantitatively unimportant.

(2) Left-hand scale.

(3) Right-hand scale.

[1] *See* European Central Bank Working Paper *no. 77, 2001.*

[2] *See S. Momigliano and A. Staderini, "A New Method of Assessing the Structural Budget Balance: Results for the Years 1995-2000", in Banca d'Italia,* Indicators of Structural Budget Balances, *Rome 1999.*

In the early months of 2001 the results for the borrowing requirement were unfavourable, partly owing to the fall in the yield of the tax on income from managed assets. The borrowing requirement for 2000 also proved to be higher than estimated in the Forecasting and Planning Report published in September of that year (1.5 per cent of GDP, as against 1.3 per cent).

In April 2001 the Quarterly Report on the Borrowing Requirement estimated net borrowing for the year at 1 per cent of GDP and reduced the forecast real growth rate to 2.5 per cent. The estimate of the state sector borrowing requirement was also revised upwards, from 32.8 to 51.7 trillion lire net of settlements of past debts and privatization receipts.

In July the Government presented the Economic and Financial Planning Document for the years 2002-06. The key aims of budgetary policy were to reduce the tax burden and curb the deficit; the target of a balanced budget in 2003 was confirmed.

For 2001 the Planning Document confirmed the targets set in December 2000 for general government net borrowing (0.8 per cent of GDP) and the primary surplus (5.4 per cent).

The performance of the public finances nonetheless led the Government to increase the estimate of net borrowing on a current programmes basis to 1.9 per cent of GDP. Compared with the figures in the Quarterly Report on the Borrowing Requirement, the primary surplus was expected to be smaller (down from 5.2 to 4.6 per cent) and interest payments larger (up from 6.2 to 6.4 per cent); the expected outturn for the public sector net borrowing requirement was raised from 57.8 to 72.1 trillion lire.

Since the new estimates were based on the assumption that the borrowing requirement would remain significantly larger than net borrowing and in view of the difficulty of forecasting the items causing the gap, the Planning Document contained a second estimate of net borrowing on a current programmes basis, equal to 2.7 per cent of GDP.

In the light of the trend emerging in the public finances, the weakening of economic activity and the limited time available for corrective measures, the Planning Document indicated that it would be difficult to achieve the target of 0.8 per cent of GDP for the budget deficit.

In the subsequent months the Government took action to curb expenditure on goods and services, adopted measures to boost economic activity and bring irregular activities into the open (which was expected to produce additional revenue already this year), drew up plans for accelerating the sale of government real estate, and concluded an agreement with the regions for an increase in the central government contribution to the cost of health care.

The action to boost economic activity includes a tax incentive, valid from July 2001 to the end of 2002, for business investment. In the same way as the incentive in force between 1994 and 1996, the new one allows businesses to deduct 50 per cent of capital spending in excess of the average for the five preceding years from their taxable income. The scope of the incentive has been extended to include staff training costs on the one hand and the self-employed, banks and insurance companies on the other. The same measure also seeks to encourage the regularization of firms' and workers' tax and social security positions. Specifically, provision is made for a condonation scheme covering past taxes and social security contributions and a preferential regime for employers and employees for the next three years. Lastly, in September the Government issued a decree law to encourage the regularization and repatriation of assets held abroad in violation of the so-called tax monitoring rules for natural persons and other taxpayers treated as such.

During the summer the results for the borrowing requirement began to improve. In addition to the effects of the action taken by the Government, they benefited from the receipts of the one-off tax on the revaluation of corporate fixed assets (which in the first nine months amounted to around 9.6 trillion lire, compared with the official forecast of 1.9 trillion) and from those of the tax on capital gains arising from the sale of companies (7.1 trillion, compared with 1.3 trillion in the corresponding period of 2000); the good performance of corporate income tax also contributed.

At the end of September, with account taken of the foregoing factors, the Forecasting and Planning Report for 2002 estimated that net borrowing in 2001 would be 1.1 per cent of GDP. Achieving this result depends on the expenditure-curbing measures adopted in the second half of the year proving effective and substantial receipts from the sale of real estate.

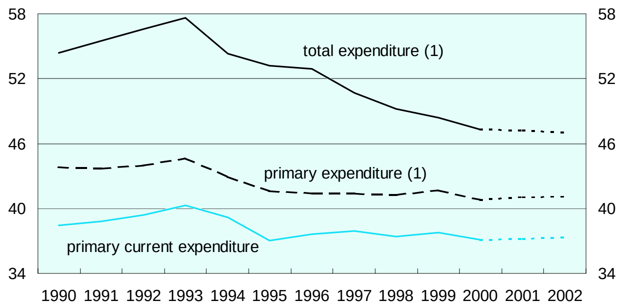
According to the Planning Document, the primary surplus will rise from 5 per cent of GDP in 2000 to 5.1 per cent, the tax burden decline from 42.4 to 42.1 per cent, and primary current expenditure rise from 37.1 to 37.2 per cent (Figure 27).

The performance of the public finances during the year

In the first ten months of the year the state sector borrowing requirement, net of settlements of past debts and privatization receipts, was 74.1 trillion lire, compared with 59.1 trillion in the corresponding period of 2000 (Table 19). This gap appears likely to narrow in the last part of the year, since the borrowing requirement in the last two months of 2000 was boosted by the tax and social security contribution reliefs granted in that period. It should be noted that the comparison is not completely homogeneous because, with effect from this year, the state sector borrowing requirement is given excluding some tax refunds paid in cash (4.2 trillion via the Post Office).

Figure 27

General government expenditure
(as a percentage of GDP)



Sources: Based on Istat data. For 2001 and 2002, forecasts from *Relazione previsionale e programmatica* for 2002.

(1) Excludes the proceeds of the sale of UMTS licences (which amounted in 2000 to 26.75 trillion lire or 1.2 per cent of GDP).

Compared with the corresponding periods of 2000, state sector tax receipts increased by 1.3 per cent in the first nine months of this year and state sector expenditure by 4.3 per cent in the first six months (see box).

In the first nine months of 2001 general government net borrowing, measured on the financing side, was 58.2 trillion lire (again excluding the above-mentioned 4.2 trillion of tax refunds); in the corresponding period of 2000 it was 57.4 trillion.

An indication of the performance of the public finances on a cash basis is given by that of the rolling twelve-month borrowing requirement. After showing a downward trend until the middle of 2000, this aggregate rose almost continuously until the early months of 2001 (Figure 28). The pattern was the same for the borrowing requirement of both the state sector and general government and led to both indicators returning to their levels in 1998, when net borrowing was higher.

In 2000 the divergence between the general government borrowing requirement, net of settlements of past debts and privatization receipts, and the sector's net borrowing was more than 38 trillion lire.

During the nineties no such divergence was recorded.

Considering the performance of the borrowing requirement in 2001, the Planning Document's prediction that net borrowing will be 1.1 per cent of GDP appears to be based on the assumption that there will again be a wide gap between the two aggregates.

Table 19

Main public finance indicators
(billions of lire and, in brackets, millions of euros)

	1998	1999	2000	2001 (1)
		Net state sector borrowing requirement (2)		
Jan.-Oct.	77,287	62,200 *(32,124)*	59,106 *(30,526)*	74,057 *(38,247)*
		Net general government borrowing requirement (2)		
Jan.-Sept. . . .	58,572	56,083 *(28,964)*	57,413 *(29,652)*	58,170 *(30,042)*
		Gross general government borrowing requirement		
Jan.-Sept. . . .	52,789	64,870 *(33,503)*	64,077 *(33,093)*	63,028 *(32,551)*
		General government debt		
September . .	2,437,394	2,501,243 *(1,291,784)*	2,529,363 *(1,306,307)*	2,578,156 *(1,331,507)*
December . . .	2,417,461	2,457,694 *(1,269,293)*	2,493,283 *(1,287,673)*	–

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

The public debt

The Forecasting and Planning Report published in September 2001 indicated a ratio of public debt to GDP of 107.5 per cent in 2001, a fall of 3 percentage points compared with 2000, instead of the target of 5.5 points set in the Stability Programme Update.

State sector tax revenue and expenditure

Tax revenue in the first nine months of the year

State sector tax receipts amounted to 427.7 trillion lire (€220.9 billion) in the first nine months of the year, 1.3 per cent more than in the corresponding period of 2000 (Table 1). Receipts of direct taxes increased by 3.4 per cent, while those of indirect taxes declined by 1.2 per cent.

The increase in direct tax receipts was due to the one-off tax on the revaluation of corporate fixed assets, which yielded 9.6 trillion lire. Excluding this item, direct tax receipts decreased as a consequence of the following changes in the main items: tax on interest income and capital gains fell by about one quarter or 7.5 trillion, while personal income tax rose by 1.3 per cent or 2.2 trillion and corporate income tax by 11.9 per cent or 3.6 trillion.

The drop in receipts of the tax on interest income and capital gains was due to the managed assets component, which fell from 15.2 to 0.8 trillion as a result of the downturn in share prices. By contrast, the tax on interest income from bank deposits rose by 3 trillion and that on capital gains arising from the sale of companies by 5.8 trillion. In the first case the increase was due to the exhaustion of the tax credits that banks had matured from the second half of 1996 onwards and in the second it was mostly of a temporary nature and reflected the elimination of the possibility to pay the related liability in five annual instalments.

The increase in personal income tax was curbed by the reliefs granted in the budget for 2001 (estimated at 15.6 trillion lire for the year as a whole). In the first nine months the tax withheld on employee incomes increased by 3 per cent or 3.7 trillion, partly as a result of the renewal of public employees labour contracts; self-assessed personal income tax grew by 2.7 per cent or 0.6 trillion.

The rise in corporate income tax benefited from the good performance of profits in 2000. Another positive factor was the postponement of the amounts payable at the end of 2000 to early this year. The reliefs introduced in the budget for 2001 will affect this year's payments on account, most of which fall due in the last few months.

Turning to indirect taxes, only VAT recorded an increase, rising by 3.9 per cent or 4.6 trillion lire.

Excise duties on oil products dropped by 3.5 per cent or 1 trillion lire. Other excise duties and sales tax fell by 17.2 per cent or 1.9 trillion, partly as a result of the reduction in the taxation of electricity for commercial and industrial uses introduced in the budget for 2001.

Table 1

State sector tax revenue (1)
(*billions of lire and millions of euros*)

	2001 January-September lire	2001 January-September euros	% composition	% change on 2000
Direct taxes	**237,403**	**122,608**	**55.5**	**3.4**
Personal income tax	165,954	85,708	69.9	1.3
of which: payroll withholdings	*127,095*	*65,639*		*3.0*
balances	*10,297*	*5,318*		*11.1*
payments on account	*11,534*	*5,957*		*-3.8*
Corporate income tax	34,319	17,724	14.5	11.9
of which: balances	*15,893*	*8,208*		*21.3*
payments on account	*18,062*	*9,328*		*4.9*
Tax on interest income and capital gains	23,743	12,262	10.0	-24.0
of which: interest income on bank deposits	*4,497*	*2,323*		*204.5*
income from managed assets	*807*	*417*		*-94.7*
Other (3)	13,387	6,914	5.6	251.4
of which: tax on the revaluation of corporate fixed assets	*9,637*	*4,977*		*-*
Indirect taxes	**190,269**	**98,266**	**44.5**	**-1.2**
VAT (4)	120,878	62,428	63.5	3.9
Other business taxes	18,720	9,668	9.8	-1.0
Excise duties on oil products	27,402	14,152	14.4	-3.5
Other excise duties and sales taxes	9,234	4,769	4.9	-17.2
Monopolies	9,861	5,093	5.2	-7.5
Lotteries	4,174	2,156	2.2	-41.0
TOTAL TAX REVENUE	**427,672**	**220,874**	**100.0**	**1.3**

Sources: Based on Bank of Italy and Ministry of the Economy and Finance data.

(1) The tax receipts of the State budget shown in this table do not correspond to the amounts actually paid. In fact the monthly flows are observed at the time they are included in the budget accounts, which, as of May 1998, does not coincide with the time they are paid. From that date the main taxes are paid without distinction into a single account with the Treasury and only later allocated to the individual items of the budget. The data are net of accounting transactions with the regional governments of Sicily and Sardinia. – (2) Provisional. – (3) Includes receipts of inheritance tax, which are recorded under "Business taxes and duties" in the State budget, and of the tax on the revaluation of corporate fixed assets. – (4) Includes the receipts accruing to the EU.

cont.

Revenue from lotteries contracted substantially, from 7.1 to 4.2 trillion lire.

Expenditure in the first half of the year

In the first six months of the year state sector expenditure amounted to 365.2 trillion lire (€188.6 billion), 4.3 per cent more than in the corresponding period of 2000 (Table 2). Interest payments grew by 14.6 per cent or 9 trillion, while primary expenditure increased by 2.1 per cent or 6.1 trillion.

Among the primary current expenditure items, spending on goods and services fell by 11.2 per cent or 1.4 trillion lire. Wages and salaries contracted by 6.2 per cent or 4.2 trillion, mainly as a result of the reduction of 6.8 trillion in the supplementary contribution to the financing of the State Sector Employees' Social Security Institute (INPDAP).

Current transfers increased by 2.2 per cent or 3.4 trillion. Those to social security institutions grew by 5.5 per cent or 2.4 trillion, primarily as a consequence of the increase in transfers to INPDAP in connection with the above-mentioned reduction in the supplementary contribution and the increase of 1.4 trillion in the costs incurred by the National Social Security Institute (INPS) following its takeover of railway workers' pensions. Current transfers were reduced by 2.3 trillion deriving from the securitization of INPS receivables and 0.85 trillion from asset sales. Transfers to the regions rose by 8.1 per cent or 4.9 trillion; the item does not include the amounts paid to cover the deficits accumulated by the health service up to 1999; these transfers rose from 0.7 to 5.1 trillion and are included under settlements of past debts. There was a significant contraction of 2.7 trillion in transfers to enterprises, primarily payments to Ferrovie dello Stato S.p.A. and Poste Italiane S.p.A.

Tax refunds jumped from 11.8 to 20.1 trillion lire. In addition to refunds for 2001, the item includes part of the amounts paid in respect of earlier years (excluding payments in securities and, as of this year, those made via the Post Office). Considering all tax refunds, there was an increase of 42.3 per cent, from 16.8 to 23.9 trillion.

Table 2

Main expenditure items of the state sector
(*billions of lire and millions of euros*)

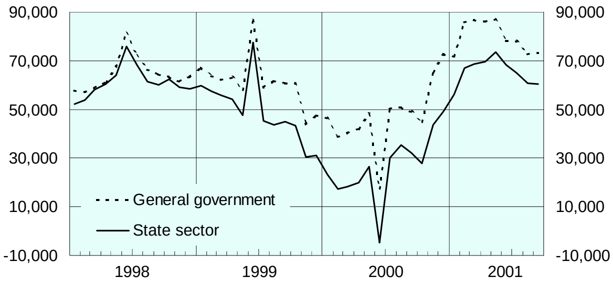
	2001 H1		% change on 2000
	lire	euros	
Current payments (1)	**328,790**	**169,806**	**4.6**
Wages and salaries	63,554	32,823	−6.2
Goods and services	10,978	5,670	−11.2
Current transfers to:	155,649	80,386	2.2
social security institutions	*46,774*	*24,157*	*5.5*
regions	*66,138*	*34,157*	*8.1*
municipalities and provinces	*13,362*	*6,901*	*5.1*
households	*4,095*	*2,115*	*−4.8*
enterprises	*12,227*	*6,315*	*−18.2*
recipients abroad	*3,588*	*1,853*	*−45.8*
other	*9,465*	*4,888*	*16.8*
Interest payments	70,423	36,370	14.6
Tax refunds	20,130	10,396	70.4
Other	8,056	4,163	−7.4
Capital expenditure	**22,478**	**11,609**	**−2.6**
of which: fixed investments	*4,288*	*2,215*	*58.4*
transfer payments	*17,627*	*9,104*	*−10.2*
Financial expenditure	**13,968**	**7,214**	**9.6**
of which: equity investments	*6,500*	*3,357*	*5.7*
loans and advances	*6,380*	*3,295*	*19.8*
TOTAL EXPENDITURE	**365,236**	**188,629**	**4.3**

Source: *Relazione trimestrale di cassa*, 30 June 2001.
(1) Net of accounting transactions with the regional governments of Sicily and Sardinia.

Capital expenditure showed a small contraction. An increase in central government direct investment of 58.4 per cent or 1.6 trillion lire was accompanied by a decrease in transfer payments of 10.2 per cent or 2 trillion. Financial expenditure grew by 9.6 per cent or 1.2 trillion, owing mainly to the growth in loans and advances.

Figure 28

Twelve-month cumulative borrowing requirements (1)
(billions of lire)



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

The figures published in the Report imply an increase in the debt of 56 trillion lire (2.3 per cent of GDP) in 2001, compared with that of 36 trillion (1.6 per cent of GDP) in 2000. The increase is due to net borrowing equal, as stated above, to 1.1 per cent of GDP (1.5 per cent in 2000) and amounts not included in net borrowing equal to around 1.2 per cent of GDP (0.1 per cent in 2000). The growth of 5 per cent in nominal GDP (5.2 per cent in 2000) lowers the debt ratio by 5.3 percentage points (5.7 points in 2000).

In the first nine months of 2001 general government debt grew by 85 trillion lire, compared with 72 trillion in the corresponding period of 2000. The change in the debt reflects the net issue of liabilities; the movement in the exchange rate of the euro did not have a material effect, whereas in the first 9 months of 2000 it increased the lira value of the liabilities denominated in dollars, yen and Swiss francs by nearly 9 trillion. The net issues of liabilities financed the borrowing requirement (63 trillion) and augmented the Treasury’s assets held with the Bank of Italy by 22 trillion. In the first nine months of 2000 the borrowing requirement was 64 trillion and was financed by net issues of liabilities amounting to 61 trillion and withdrawals from the Bank of Italy amounting to 3 trillion. In 2001 settlements of past debts increased the borrowing requirement by 13.2 trillion, compared with 6.9 trillion in the corresponding period of 2000, while privatization receipts reduced it by 8.4 trillion, compared with 0.26 trillion.

The increase in the debt should be offset in part in the last few months of the year in view of the expected results for the borrowing requirement in the last quarter and the possibility of drawing on the funds deposited with the Bank of Italy.

THE SINGLE MONETARY POLICY, FINANCIAL INTERMEDIARIES AND MARKETS IN ITALY AND IN THE EURO AREA

Monetary developments in the euro area and in Italy

The monetary policy stance in the euro area has tended to be expansionary over the course of the year as the risk of inflation has subsided and economic activity has slowed down. Official rates were reduced further in the summer. The rate on main refinancing operations, which was lowered by 0.25 percentage points on 10 May and again on 30 August, stood at 4.25 per cent at the start of September (Figure 29).

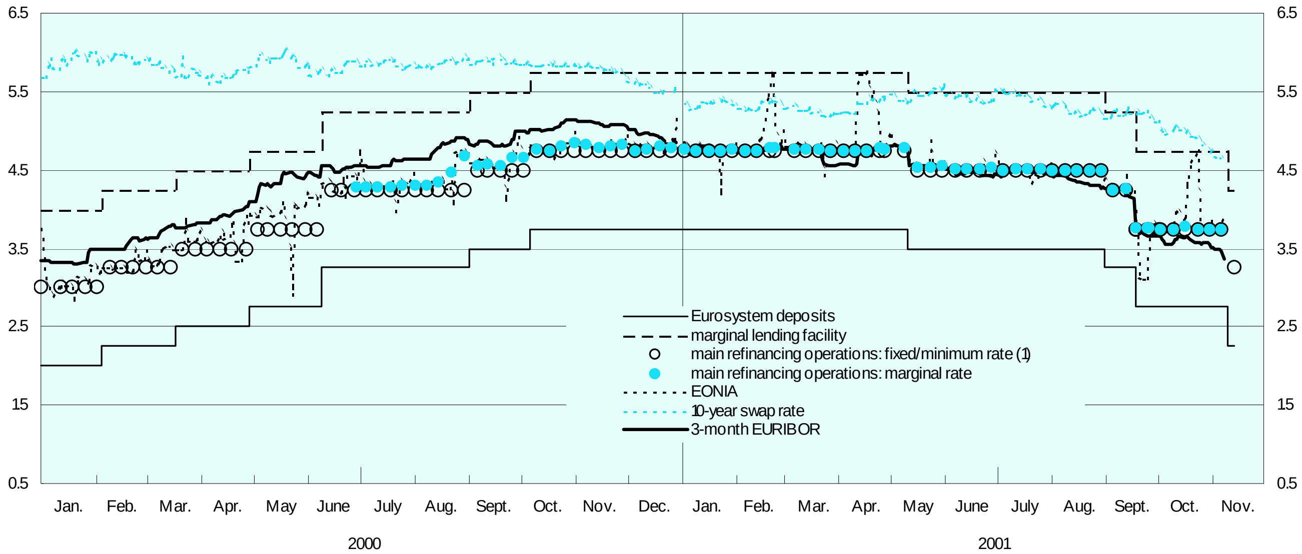
The refinancing rate was lowered by an additional 0.5 points to 3.75 per cent on 17 September, following the terrorist attacks in the United States; on the same day the Federal Reserve reduced its target for the federal funds rate by 0.5 points. The Eurosystem also took exceptional concerted action with the Federal Reserve and the other major central banks to ensure that the financial markets had sufficient liquidity for normal operations: on 12 and 13 September two fine-tuning operations amounting to €69.3 billion and €40.5 billion respectively were conducted at a fixed rate of 4.25 per cent; on 13 September the ECB carried out a currency swap worth $50 billion with the Federal Reserve to meet the urgent dollar requirements of euro-area banks operating in the United States.

The Eurosystem reduced the main refinancing operations rate by another half point on 8 November, to 3.25 per cent.

In the euro area inflationary pressures gradually eased from the middle of the year onwards, reflecting the fall in the prices of raw materials, the deterioration

Figure 29

Official interest rates and money and financial market rates in the euro area
(daily data; percentages)



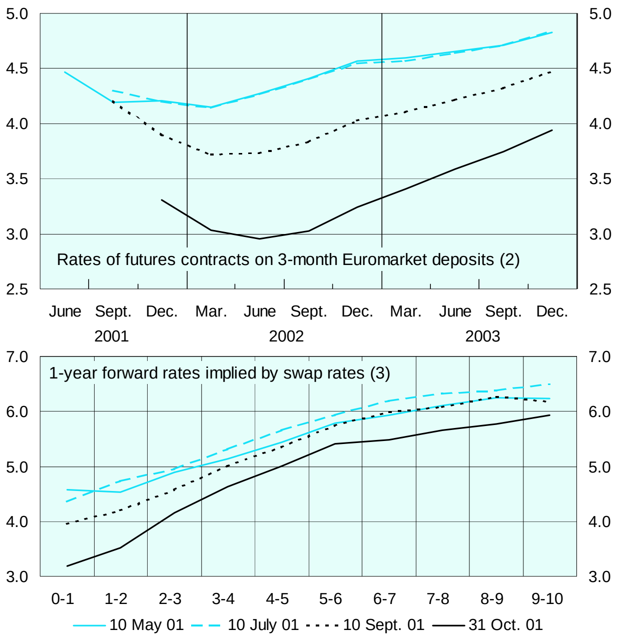
Sources: ECB; Reuters; Telerate.
(1) Fixed rate until 21 June 2000; thereafter, minimum.

in cyclical conditions and wage moderation. The stabilization of the exchange rate of the euro against the other leading currencies also contributed to the decline in inflation.

The 3-month euro interbank deposit rate followed the decline in the Eurosystem's official rates, falling 1.3 percentage points to 3.5 per cent over the first ten months of the year, and the yield curve for futures on 3-month Euromarket deposits shifted steadily downwards (Figure 30). The revision of market expectations reflected the weakening of economic activity in the euro area and around the world. The effect of the terrorist attacks was strongest at the shorter maturities. The term structure indicates expectations of a further decline in yields in the first half of 2002.

Figure 30

Euro forward yield curve (1)
(*percentages*)



Source: Reuters.

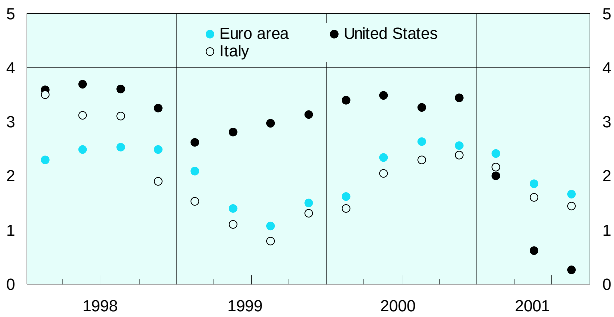
(1) Each curve relates to the contract date indicated in the legend. – (2) The horizontal axis shows the settlement dates for the futures contracts to which the yields refer. – (3) The horizontal axis shows the period to which the yield refers, expressed in years from the contract date indicated; the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

Long-term euro yields fell by about 0.4 percentage points in the last quarter of 2000 and have continued to decline this year. After fluctuating between 5.3 and 5.5 per cent in the first half of the year, rates on 10-year interest rate swaps decreased to 4.7 per cent in October. Between June and October yields on 10-year benchmark euro-area government bonds fell by 0.7 points to 4.6 per cent. In the United States, where the slowdown in productive activity has been more pronounced, yields fell even more sharply, and the return on 10-year benchmark bonds in dollars, which had been about equal to that in euros, was 0.2 points lower in October.

In the euro area the real short-term interest rate (the nominal 3-month rate less expected inflation) fell to about 1.6 per cent in the third quarter, one percentage point lower than at the end of last year (Figure 31). Real short-term yields are now historically low, even compared with similar cyclical phases in the past. The real short-term rate in the United States, which was less than 0.5 per cent in the third quarter, is now slightly negative. The differential between real rates in euros and in dollars, which reflects the more aggressive lowering of official rates by the Federal Reserve, is in line with the expected growth differential between the two areas.

Figure 31

Real 3-month interest rates (1)
(*percentages*)



Sources: Based on data from Reuters, *Consensus Forecasts* and OECD.

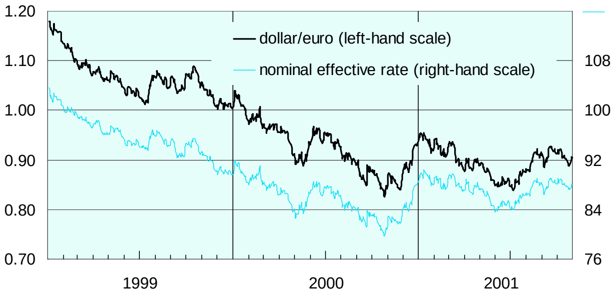
(1) Nominal 3-month interest rates on Euromarket deposits (average of daily data in the last month of the quarter), deflated using inflation expectations measured by the quarterly *Consensus Forecasts* survey. For the euro area, until December 1998, 3-month LIBOR rates for France, Germany, Italy and Spain weighted using each country's GDP; from January 1999 onwards, 3-month EURIBOR.

The yield on France's 10-year bonds indexed to consumer prices, which is an indicator of the real long-term rate in the euro area, fluctuated between 3.3 and 3.5 per cent over the course of the year. Long-term rates calculated on the basis of the nominal yield on 10-year swaps and inflation expectations were similar. Between the end of 2000 and the end of October, the yield on 10-year CPI-linked Treasury bonds in the United States fell by 0.9 points to 2.8 per cent.

After depreciating further in the first half of the year, the euro appreciated during the summer in conjunction with the deterioration of economic conditions in the United States (Figure 32). It reached a low against the dollar in July before strengthening in August and September, returning to levels close to those of the end of 2000. In October the euro was 2.7 per cent higher in nominal effective terms than in December 2000, owing in part to its appreciation against the yen (3.2 per cent).

Figure 32

Dollar/euro exchange rate and nominal effective exchange rate of the euro
(*daily data*)

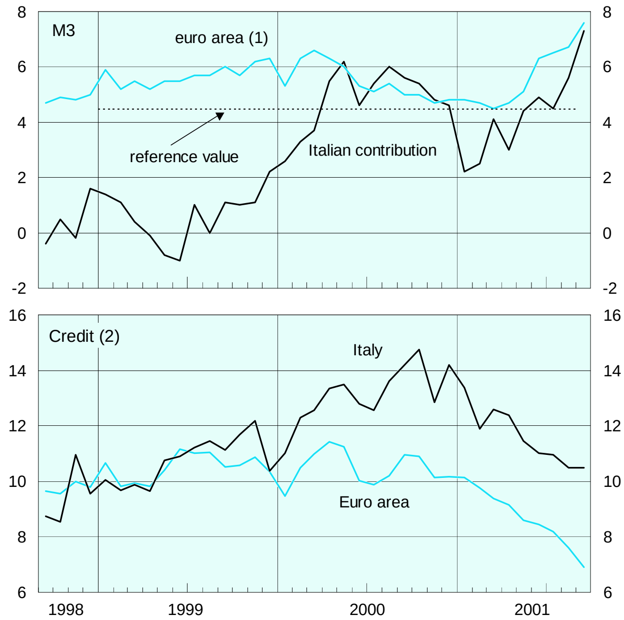


Sources: ECB and Bank of Italy.

In May the European Central Bank released the new data for the euro area's M3 money supply, excluding purchases of investment fund shares by non-residents. Statistical studies are under way to measure non-residents' holdings of other marketable instruments (money market instruments and debt securities with original maturities of up to two years), which should also be removed from the aggregate. According to the new data, the decline in the 12-month rate of increase of M3 that began in April 2000 continued in the early months of 2001. In March the rate came into line with the reference value of 4.5 per cent (Figure 33). Beginning in April, growth accelerated, registering twelve-month rates of 6.7 per cent in August and 7.6 per cent in September, compared with 4.8 per cent in December 2000; the quarterly moving average rate of increase was 6.9 per cent in September. Seasonally adjusted monthly figures show that M3 had begun to grow rapidly again in January, partly reflecting the increase in inflation until the summer. The pick-up in the aggregate also coincided with the fall in share prices, which made short-term instruments more attractive. In September, the greater uncertainty following the terrorist attacks also contributed to the increase.

Figure 33

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



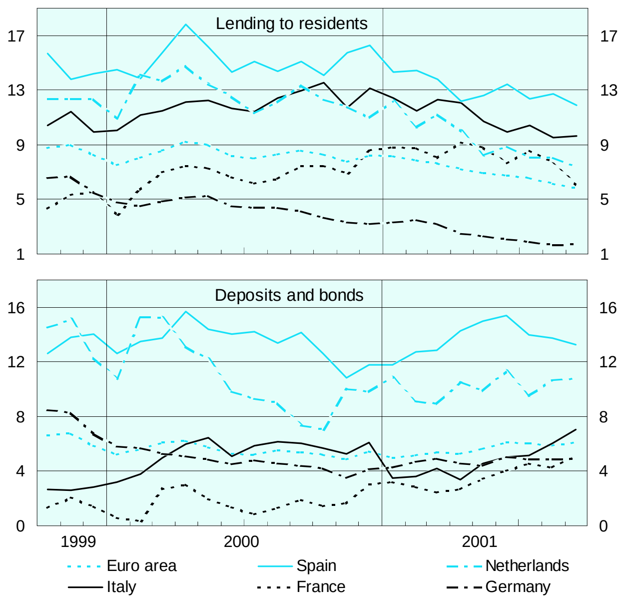
Sources: ECB and Bank of Italy.

(1) M3 growth in the euro area is calculated on the basis of seasonally adjusted data corrected for calendar effects; see ECB press release of 26 July 2001. – (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.

Within the M3 aggregate, there was an increase in the rate of growth of overnight deposits (from 3 to 8.5 per cent since January), deposits redeemable at notice of up to three months and marketable instruments. By contrast, currency in circulation contracted significantly (down 11 per cent in September). The imminent introduction of euro banknotes and coins may have prompted holders of cash, especially non-residents, to convert it into other instruments ahead of time. The shift may have been to other assets included in M3 (hence not affecting the aggregate) and to foreign-currency assets. Since December 2000, the contraction in euro-area currencies has been accompanied by a corresponding increase in cash holdings of dollars and Swiss francs. Econometric analysis shows that trends in the three aggregates in recent months have diverged significantly from the patterns of the past.

Figure 34

Bank lending and funding in the major euro-area countries (1)
(monthly data; twelve-month percentage changes)



Sources: Based on ECB data and national statistics.
(1) Lending and funding 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, other revaluations, exchange rate variations and any other changes which do not arise from transactions.

The acceleration in the money supply stood in contrast to the slowdown in bank lending to the private sector, whose twelve-month growth rate decreased from 10.1 per cent in December to 6.9 per cent in September. Growth in total bank credit in the euro area slowed down from 8.2 to 5.8 per cent over the same period (Figure 34). The decline is attributable to the weakening of economic activity and the fall in the demand for loans, which had been fueled by corporate events including mergers and acquisitions.

The behaviour of monetary instruments in Italy was similar to that in the euro area as a whole. After slowing down abruptly in January, Italy's portion of the M3 aggregate began to accelerate again in February. The twelve-month rate of growth rose to 7.3 per cent in September. Currency in circulation continued to decelerate, from growth of 6.2 per cent in December to a contraction of 0.5 per cent in September, while marketable instruments continued to expand rapidly.

The growth in credit to Italian residents has slowed down during the year. In September the twelve-month increase in bank lending to the private sector was 10.5 per cent, compared with 14.4 per cent in December last year (Table 20). Total financing to the private sector (which includes bond issues and foreign financing) increased by 12.4 per cent in the twelve months to June, according to the latest available data. Domestic bond offerings also surged, increasing by 56 per cent in the year to June, although they still account for only a small share of total private sector financing.

Households' financial saving and corporate financing

Financial accounts data for the first six months of 2001 show an improvement in the financial balances of households and firms by comparison with the first half of 2000. The financial surplus of Italian households amounted to €45.1 billion, more than twice as much as in the same period a year earlier (Table 21).

On the assets side, the most rapid growth was in medium and long-term securities, whose domestic and foreign components increased by €51.9 billion, compared with €9.3 billion in January-June 2000. The decline in the stock market slowed the growth in shares from €14 billion to €6.5 billion. Investment fund units contracted, with holdings of Italian funds decreasing by €6.5 billion and those of foreign funds by €3.1 billion, compared with increases of €2.1 billion and €7.6 billion respectively in the first six months of 2000. Shares and investment fund units decreased from 44.2 per cent of households' total financial assets in June 2000 to 39.7 per cent this year.

Among liabilities, medium and long-term debt increased by €9.9 billion, compared with a rise of €15 billion in the first half of last year.

The borrowing requirement of non-financial enterprises, which increased sharply in 2000, has decreased in 2001 as investment has slackened. In the first six months of the year the sector's financial deficit came to €6 billion, compared with €17.4 billion in the first half of 2000. Borrowing diminished, with domestic liabilities increasing by €15.4 billion, compared with €28.6 billion in the year-earlier period. Shares and other equity liabilities increased by €6.8 billion, as against €2.9 billion in the first six months of 2000.

The rate of growth in firms' foreign assets increased sharply.

Table 20

Credit and financial assets in Italy (1)

(*end-of-period data; percentages*)

	Total credit						Financial assets (3)					
		General govern-ment debt (2)	Total finance the private sector (4)					Domestic				Foreign
				Bank lending	Bonds	Loans from abroad			Monetary assets, other deposits and Treasury bills	Medium and long-term securities	Other financial assets (5)	
						12-month percentage changes						
1999 – Dec. . .	**6.2**	**1.2**	**13.7**	10.6	3.7	33.9	**7.1**	**–2.4**	–1.9	–2.2	–12.6	**41.4**
2000 – Dec. . .	**6.8**	**1.3**	**14.4**	14.4	18.7	13.8	**5.4**	**3.4**	2.9	4.8	–3.6	**9.6**
2001 – Jan. . .	**7.4**	**2.7**	**13.7**	13.5	16.7	14.6	**5.8**	**4.0**	1.7	7.6	–2.7	**9.6**
Feb. . .	**7.2**	**3.0**	**12.8**	12.2	5.2	16.4	**6.1**	**4.4**	2.3	7.6	–1.5	**9.9**
Mar. . .	**7.6**	**3.1**	**13.5**	13.1	14.6	15.6	**6.3**	**5.0**	3.6	7.1	–0.4	**8.9**
Apr. . . .	**7.5**	**3.0**	**13.5**	12.9	10.4	16.9	**6.2**	**4.3**	2.8	6.4	0.5	**10.2**
May . .	**7.6**	**3.4**	**13.4**	11.5	37.0	20.7	**6.2**	**5.4**	3.9	7.7	–1.1	**8.0**
June . .	**7.0**	**3.0**	**12.4**	10.6	56.0	17.5	**6.0**	**5.3**	3.9	7.6	–3.3	**7.5**
July . . .	. . . .	**3.1**	. . . .	11.3	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Aug. . .	. . . .	**2.3**	. . . .	10.4	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Sept. . .	. . . .	**2.3**	. . . .	10.5	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
						Percentage shares of stocks						
1999 – Dec. . .	**100.0**	**57.6**	**42.4**	34.6	0.6	7.2	**100.0**	**69.0**	37.3	29.6	2.1	**31.0**
2000 – Dec. . .	**100.0**	**54.9**	**45.1**	36.7	0.7	7.7	**100.0**	**68.1**	36.4	29.7	2.0	**31.9**
2001 – June . .	**100.0**	**54.9**	**45.1**	36.2	0.9	8.0	**100.0**	**67.0**	35.3	30.2	1.5	**33.0**

(1) 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 financial asset-holding sector comprises all Italian residents other than MFIs and central government. – (4) Euro-area residents other than MFIs and central governments: households, non-financial corporations, insurance corporations, non-profit institutions serving households, non-money-market funds, other financial institutions. Corresponds to the "Other residents" sector in the harmonized statistics of the ESCB. – (5) Includes companies' surety deposits and shares held by non-money-market funds.

Table 21

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

	Households (2)			Non-financial enterprises		
	Flows		Stocks	Flows		Stocks
	Jan.-June 2000	Jan.-June 2001	June 2001	Jan.-June 2000	Jan.-June 2001	June 2001
Assets						
Cash and sight deposits	−4,298	−11,162	373,943	3,358	4,863	101,662
Other deposits	−2,830	2,111	266,029	2,281	−217	10,943
Short-term securities	−6,607	280	22,346	899	825	253
Medium and long-term securities	7,533	41,030	457,888	−644	−5,951	32,606
of which: government	*1,227*	*21,072*	*226,129*	*−966*	*−2,810*	*19,325*
Investment fund units	2,088	−6,523	386,259	29	−91	5,372
Shares and other equities	4,080	6,375	510,249	6,572	12,572	508,511
External assets	17,771	8,370	238,032	8,647	16,862	281,855
of which: short-term securities	*25*	*0*	*864*	*4*	*39*	*1,849*
medium and long-term securities	*1,775*	*10,903*	*89,893*	*−579*	*1,025*	*20,487*
shares and other equities	*9,941*	*100*	*97,751*	*1,532*	*10,111*	*134,092*
investment fund units	*7,561*	*−3,127*	*44,173*	*6*	*223*	*10,180*
Other financial assets (3)	19,924	15,764	359,663	−9,970	−11,645	224,906
Total assets	**37,661**	**56,245**	**2,614,409**	**11,172**	**17,218**	**1,166,108**
Liabilities						
Short-term debt (4)	1,517	338	56,903	16,665	8,755	318,934
of which: bank	*1,405*	*211*	*56,092*	*12,759*	*3,953*	*288,374*
Medium and long-term debt (5)	15,047	9,936	217,705	10,298	11,538	272,140
of which: bank	*14,047*	*8,577*	*196,467*	*10,332*	*8,941*	*210,300*
Shares and other equities	–	–	–	9,481	4,295	890,497
External liabilities	–	–	–	−18	7,853	289,067
of which: shares and other equities	*–*	*–*	*–*	*−6,606*	*2,471*	*137,806*
Other financial liabilities (6)	789	857	23,060	−7,874	−9,190	297,274
Total liabilities	**17,353**	**11,131**	**297,668**	**28,552**	**23,251**	**2,067,912**
Balance	**20,308**	**45,114**	**2,316,741**	**−17,380**	**−6,033**	**−901,804**

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 and domestic trade credit; for households also includes pension funds. – (4) Includes finance provided by factoring companies and repos; for enterprises, also includes banker's acceptances. – (5) Includes finance provided by leasing companies; for households, also includes consumer credit from financial corporations. For enterprises, also includes bonds. – (6) Includes severance pay and pension funds; for enterprises, also includes trade credit and domestic derivatives.

Banking in Italy

Although the growth in bank lending in Italy slowed down it continued to outpace that in the euro area as a whole, sustained by strong corporate demand for loans (see box). As domestic funding was still expanding slowly, Italian banks increased their net borrowing abroad and reduced their securities portfolios (Table 22).

Italian banks' net interest income increased in the first half of 2001, owing mainly to the expansion in lending. Total revenues fell slightly as income from services declined.

Lending to residents increased by 9.7 per cent in the twelve months to September, compared with 13.1 per cent in 2000 (Table 23). The slowdown mainly involved short-term credit and affected every area of the country. Trends in the various sectors of economic activity continued to differ significantly (Table 24).

Lending to non-financial companies continued to increase rapidly (by 10.2 per cent in the twelve months to September), thanks to the strong, albeit weakening, demand for funds in the service and energy sectors. More moderate growth was seen in lending to manufacturing industry (7.3 per cent in September) and construction (6.9 per cent). The

Table 22

Assets and liabilities of Italian banks (1)

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

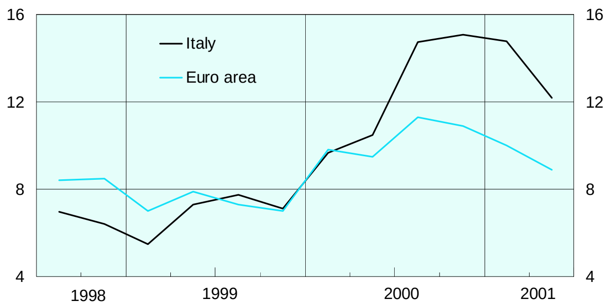
	1999	2000	2001 (2)			September 2001	
			Q1	Q2	Q3	Stocks	12-month % change
Assets							
Securities	−5.4	−16,0	−25.9	4.9	−7.4	181,695	−13.9
of which: government securities	*−6.8*	*−20.3*	*−31.7*	*7.9*	*−12.2*	*131,693*	*−17.9*
Loans	10.0	13.1	9.7	4.2	10.4	951,909	9.7
of which: (3) *short-term (a)*	*6.5*	*18.5*	*14.1*	*−0.5*	*11.1*	*448,292*	*10.5*
medium and long-term (b)	*13.2*	*10.1*	*7.4*	*10.6*	*12.3*	*448,890*	*10.4*
(a)+(b)	*9.8*	*14.2*	*10.8*	*4.8*	*11.7*	*897,182*	*10.4*
repos	*30.5*	*−18.3*	*−25.0*	*35.6*	*−82.1*	*5,430*	*0.3*
bad debts (4)	*−7.2*	*−13.8*	*5.2*	*−45.8*	*0.3*	*45,115*	*−20.8*
Memorandum item: bad debts at estimated realizable value	*−16.2*	*−20.1*	*−6.3*	*−47.6*	*28.5*	*21,878*	*−19.5*
External assets	−15.2	1.6	22.8	−8.4	2.8	205,478	7.0
Liabilities							
Domestic funding (5)	2.9	6.1	1.1	8.2	12.5	936,375	7.0
Deposits	0.6	4.0	−5.0	7.6	13.8	608,883	5.1
of which: (6) *current accounts*	*10.0*	*6.0*	*−8.8*	*9.4*	*26.2*	*408,765*	*6.6*
with agreed maturity	*−22.2*	*−16.1*	*−21.7*	*−10.5*	*−17.3*	*56,589*	*−15.9*
redeemable at notice	*0.0*	*−6.6*	*−6.2*	*−1.8*	*1.9*	*54,787*	*−3.5*
repos	*−16.3*	*35.8*	*35.3*	*20.6*	*−4.0*	*81,959*	*26.8*
Bonds (5)	8.0	10.7	13.9	9.5	10.2	327,492	10.8
External liabilities (2)	4.3	11.6	50.4	6.7	−10.0	299,637	12.3

(1) The figures for September 2001 are provisional. The percentage changes are adjusted to take account of reclassifications, other revaluations, exchange rate variations and any other changes which do not arise from 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 write-offs or assignments of claims. – (5) Includes bonds held by non-residents. – (6) Excluding central government.

The recent trend in bank lending and corporate debt

Since April 1999 the twelve-month rate of growth in bank lending in Italy has been constantly above the euro-area average. Initially this reflected the faster expansion in lending to households and subsequently, from mid-2000 onwards, that in lending to firms. The growth in the latter was particularly rapid in Italy in the second half of 2000, amounting to 15.1 per cent in the twelve months to December, compared with 7.1 per cent a year earlier (see figure).

Bank lending to non-financial firms in Italy and the euro area
(twelve-month percentage changes)



Sources: Based on ECB data and national statistics.

The sharp rise in loans to businesses is explained only in part by the behaviour of the determinants of credit demand. Econometric analyses show that in 2000 the growth in investment, the change in corporate self-financing and the fall in the opportunity cost of bank credit (measured by the spread between the interest rate on loans and money market rates) were consistent with growth in corporate loans of around 9 per cent, just over half the rate actually recorded.

Corporate events involving some large companies help to explain the growth in bank loans. In 2000 loans to firms with total bank debt of more than €103.3 million (200 billion lire) increased by more than €27 billion. Their share of the total stock of loans rose from 18.5 to 22.3 per cent (see table), primarily owing to disbursements to companies in the energy sector, telecommunications and other market services.

The difference between credit growth predicted on the basis of the traditional determinants and actual growth diminished in the course of 2001, falling to nil in the third quarter. This was partly due to greater recourse to Eurobond issues on the part of the companies involved in corporate events; the average spreads on these issues were larger than in the two preceding years. According to information collected by Capital Data, bond issues by private-sector non-financial companies in Italy amounted to just over €11 billion in 2000; in the first nine months of 2001 they exceeded €20 billion.

The developments of the last two years mark a halt in the reduction in financial leverage recorded in the second half of the nineties. The decline had occurred in connection with an improvement in profitability, which had increased firms' internal sources of financing and made it easier for them to raise equity capital. From 1996 onwards the fall in interest rates made a very substantial contribution to reducing firms' financial expense, thereby accentuating the improvement in self-financing. The ratio of firms' financial debt to GDP reached its low for the decade in December 1998 (50.6 per cent according to the financial accounts).

The fall in indebtedness is confirmed by the figures for firms surveyed by the Company Accounts Data Service. The ratio of financial debt to the sum of financial debt and shareholders' equity fell by more than 5 percentage points between 1994 and 1999. In the same period the ratio of bank debt to earnings before interest

cont.

recourse of several large groups to international financial markets was reflected in a pronounced slowdown in Italian bank credit to financial holding companies.

Credit to households grew by 10.8 per cent in the twelve months to September, compared with 13.3 per cent in 2000. In the first three quarters of this year, new mortgages for home purchases totalled *expense and tax declined from 3.3 to 2.5. Large companies accounted for most of the contraction.*

In 2000 the ratio of financial debt to GDP rose to 57.9 per cent. Limiting the analysis to listed companies, the median value of the ratio of debt to gross earnings rose from 2.6 to 3.3 but was still lower than in 1994, when it was 4. In 2000 twenty per cent of listed companies had debt equal to at least seven times earnings, roughly the same as in the mid-nineties.

Bank lending to non-financial firms in Italy, by total amount of bank borrowing (1)
(percentage changes and millions of euros)

	Twelve-month changes in stocks			
	up to 0.258 million euros (0.5 billion lire)	0.258-5.164 million euros (0.5-10 billion lire)	5.164-103.291 million euros (10-200 billion lire)	over 103.291 million euros (200 billion lire)
1999				
June	11.0	5.2	6.7	10.8
September	9.7	5.4	7.5	12.0
December	8.8	5.8	8.1	7.6
2000				
March	13.6	7.2	9.9	10.8
June	6.9	7.0	10.8	16.6
September	5.1	8.0	13.1	35.9
December	2.5	8.1	13.8	38.2
2001				
March	−10.5	6.1	11.3	59.7
June	−4.4	6.4	11.5	37.1
Memorandum item: Stocks at June 2001	76,040	298,554	309,561	216,506
Percentage share of total lending to firms				
December 1999	10.0	36.3	35.2	18.5
December 2000	8.9	34.1	34.7	22.3
June 2001	8.4	33.1	34.4	24.0

Sources: Central Credit Register and supervisory statistical returns.

(1) Excluding bad debts and repurchase agreements. The percentage changes are not adjusted to take account of reclassifications, other revaluations, exchange rate variations or any other changes which do not arise from transactions.

€19.5 billion, slightly less than in the same period of 2000. Credit for the purchase of consumer durables expanded much more rapidly than in 2000, especially at medium and long term.

Loan quality continued to improve. In September the stock of bad debts was €12 billion or 20.8 per cent less than a year earlier. The ratio of bad debts to total lending fell by nearly 2 percentage points to 4.8 per cent

Table 23

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					
	Stocks	% change	Stocks	% change	Stocks	% change	Stocks	% change	Stocks	% change	Stocks	% change	Stocks	% change
							Euro area (5)							
2000 – June	5,226.2	3.8	1,596.1	7.4	2,078.1	5.3	1,291.3	−2.5	167.3	0.4	2,478.1	8.5	6,663,0	8.2
July	5,224,7	3.6	1,594,6	8.0	2,088,5	4.6	1.284.6	−3.2	172.0	4.9	2,502.5	8.9	6,689.6	8.0
Aug.	5,222,3	3.9	1,566.4	8.1	2,120.2	5.7	1,279.6	−3.5	169.4	4.0	2,529.4	9.0	6,696.3	8.3
Sept.	5,258.6	4.2	1,577.0	6.7	2,124.2	6.2	1,272.3	−3.8	171.4	6.5	2,550.2	7.8	6,777.8	8.6
Oct.	5,273.7	4.1	1,577.0	6.6	2,141.3	5.9	1,263.5	−4.2	170.6	8.2	2,574.0	7.4	6,822.7	8.3
Nov.	5,287.3	3.9	1,594.9	5.6	2,148.8	6.1	1,256.2	−4.4	173.5	9.3	2,570.2	7.0	6,865.1	7.8
Dec.	5,377.9	4.4	1,648.9	7.2	2,159.7	5.4	1,276.8	−4.1	174.9	21.5	2,563.2	7.8	6,909.2	8.2
2001 – Jan.	5,464.0	3.2	1,613.2	2.1	2,211.7	6.9	1,329.7	−4.0	213.8	24.9	2,594.7	8.8	7,015.3	8.2
Feb.	5,480.4	3.4	1,614.6	2.6	2,223.1	6.5	1,323.4	−3.8	215.8	22.4	2,630.5	9.1	7,028.2	7.9
Mar.	5,519.0	3.6	1,624.1	2.6	2,242.6	7.0	1,322.8	−3.1	225.9	15.3	2,662.1	9.2	7.097.8	7.6
Apr.	5,554.6	3.6	1,653.5	2.4	2,241.2	6.7	1,323.8	−2.5	224.9	13.2	2,675.5	8.8	7,129.0	7.2
May	5,590.5	4.3	1,677.0	4.5	2,242.9	5.5	1,322.4	−1.9	237.3	18.5	2,706.9	8.5	7,144.2	6.9
June	5,625,3	4.9	1,716.0	6.2	2,240.4	5.5	1,330.7	−0.9	225.8	22.1	2,725.6	8.7	7,195.2	6.8
July	5,609.5	4.8	1,699.0	5.4	2,241.9	5.3	1,333.5	−0.2	226.4	19.1	2,737.3	8.7	7,198.6	6.6
Aug.	5,598.0	4.8	1,666.9	5.5	2,254.2	4.6	1,337.2	0.5	233.9	25.0	2,733.7	8.1	7,169.8	6.2
Sept.	5,659.6	5.3	1,735.2	9.2	2,237.2	3.8	1,341.9	1.4	229.3	21.1	2,741.0	7.7	7,216.9	5.8
							Italy (6)							
2000 – 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	10.7	922.8	13.1
2001 – Jan.	586.0	0.5	384.8	0.1	63.0	−16.8	55.6	−8.3	75.2	38.7	302.7	9.9	920.2	12.4
Feb.	582.9	0.6	381.0	0.4	62.6	−15.7	54.9	−7.8	77.4	32.7	306.8	9.8	919.6	11.5
Mar.	590.9	1.8	386.7	0.9	61.1	−17.7	54.5	−7.1	81.6	42.7	312.6	9.2	934.3	12.3
Apr.	595.0	0.5	393.2	−0.1	60.3	−18.3	54.5	−6.6	79.9	35.6	315.0	9.4	940.4	12.1
May	608.1	2.3	399.5	1.8	60.3	−17.5	54.0	−6.7	87.3	36.7	316.9	9.3	931.2	10.7
June	605.6	2.6	402.2	3.3	59.6	−17.3	54.0	−6.0	82.5	29.8	319.9	9.9	946.4	9.9
July	602.7	2.2	399.0	3.2	57.9	−19.0	54.2	−5.6	84.8	25.4	322.8	11.3	952.8	10.4
Aug.	598.4	3.3	388.7	2.8	57.6	−16.8	54.3	−5.2	90.7	34.4	325.3	11.6	945.0	9.5
Sept.	608.9	5.1	408.8	6.6	56.6	−15.9	54.8	−3.5	82.0	26.8	327.5	10.8	951.9	9.7

(1) End-of-period data; the percentage changes are adjusted to take account of reclassifications, other revalutations, exchange rate variations and any other changes which do not arise from transactions. The data are consistent with those published in the *Monthly Bulletin* of the ECB. – (2) Denominated in euros and other cuttencies. – (3) Total; 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.

Table 24

Lending, bad debts and interest rates of Italian banks by sector of economic activity (1)

(percentages)

	General govern-ment	Finance and insurance compa-nies	Enterprises						Households		Total
				Holding companies	Non-financial enterprises						
						Manufac-turing industry	Construc-tion	Services	Consumers	Sole propri-etorships	
					12-months percentage changes in lending (2)						
1999 – December .	2.8	17.5	6.0	2.1	6.3	4.2	2.0	11.6	21.6	7.6	9.8
2000 – June	−3.6	24.0	10.0	17.5	9.5	6.0	5.7	12.5	19.3	9.7	12.0
December .	−2.7	25.3	15.6	32.9	14.5	9.7	8.8	19.2	13.3	8.1	14.2
2001 – June	0.5	15.5	12.3	7.2	12.6	7.2	7.2	17.2	10.1	5.1	11.0
September .	−3.5	22.7	10.2	10.8	10.2	7.3	6.9	10.9	10.8	4.8	10.4
					12-month percentage changes in bad debts (3)						
1999 – December .	214.1	−23.1	−6.1	−8.9	−6.0	−2.6	−2.8	−10.1	−8.8	−5.0	−7.2
2000 – June	−44.7	−15.3	−8.7	−19.4	−8.4	−1.8	−10.2	−10.5	−10.2	−7.4	−8.9
December .	−6.3	−12.2	−16.2	−44.0	−15.5	−8.4	−21.7	−14.1	−9.1	−12.8	−13.8
2001 – June	83.6	−28.4	−24.1	−44.6	−23.6	−21.9	−24.7	−24.5	−17.6	−18.4	−21.7
September .	88.8	−30.2	−22.5	−41.2	−22.1	−20.5	−23.1	−23.3	−18.8	−17.5	−20.8
					Ratio of bad debts to total lending (4)						
1999 – December .	0,1	1.1	8.0	3.6	8.3	5.7	19.0	7.6	8.0	17.9	7.4
2000 – June	0.1	0.9	7.3	2.7	7.6	5.5	17.0	6.9	7.2	16.6	6.7
December .	0.1	0.8	6.0	1.5	6.3	4.8	14.4	5.6	6.5	14.9	5.7
2001 – June	0.1	0.6	5.0	1.4	5.2	4.1	12.6	4.6	5.4	13.4	4.8
September .	0.1	0.6	5.0	1.4	5.2	4.1	12.3	4.5	5.3	13.2	4.8
					Interest rates on short-term loans (5)						
1999 – December .	4.61	3.37	5.63	3.52	5.76	5.33	7.19	6.08	7.30	8.41	5.37
2000 – June	6.46	4.21	6.30	4.49	6.42	6.12	7.66	6.66	7.62	8.50	6.10
December .	5.46	5.12	7.00	5.21	7.14	6.84	8.44	7.36	8.36	9.33	6.68
2001 – June	5.31	5.08	7.10	5.47	7.18	6.87	8.46	7.39	8.43	9.76	6.83
					Interest rates on medium and long-term loans (5) (6)						
1999 – December .	3.32	4.00	4.19	3.20	4.22	3.88	5.11	4.29	4.67	5.11	4.05
2000 – June	5.43	4.71	4.53	1.88	5.11	4.99	5.56	5.09	5.29	5.74	4.73
December .	5.67	5.46	5.72	4.91	5.80	5.66	6.13	5.79	6.23	6.48	5.85
2001 – June	5.38	3.90	5.86	4.98	5.90	5.81	6.09	5.89	5.86	6.14	5.51
					Percentage composition of lending						
2000 – September .	7.0	10.8	55.6	3.6	52.0	19.8	5.8	22.1	20.4	6.2	100.0
2001 – September .	6.2	12.0	55.4	3.6	51.8	19.2	5.7	22.2	20.5	5.9	100.0

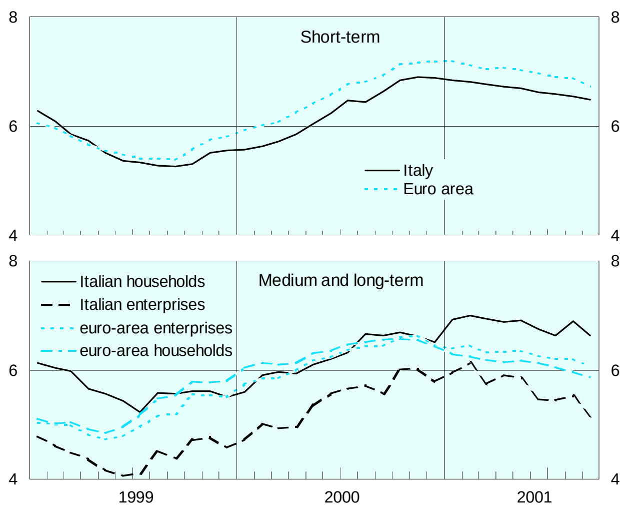
(1) The data on loans exclude repos, bad debts and other minor items included in the aggregate. – (2) Net of changes due to reclassifications and exchange rate variations. – (3) Not adjusted for the effects of write-offs or assignments of claims. – (4) The denominator includes bad debts. – (5) Source: Central Credit Register. – (6) Rates applied on disbursements made in the quarter. Excludes loans at subsidized rates.

(5.7 per cent in December 2000). Securitizations totalling about €7 billion in the first half of the year contributed to the decline. The flow of new bad debts remained small, at 1 per cent of total lending in the twelve months to June. At the end of September, bank lending to the industries on which the repercussions of the terrorist attacks were heaviest (insurance, air transport and tourism) amounted to less than 1 per cent of total lending (about €8 billion) and was not highly concentrated with individual banks.

Credit conditions remained easy. The take-up of overdraft facilities stayed at the fairly low levels reached at the end of 2000.

Figure 35

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



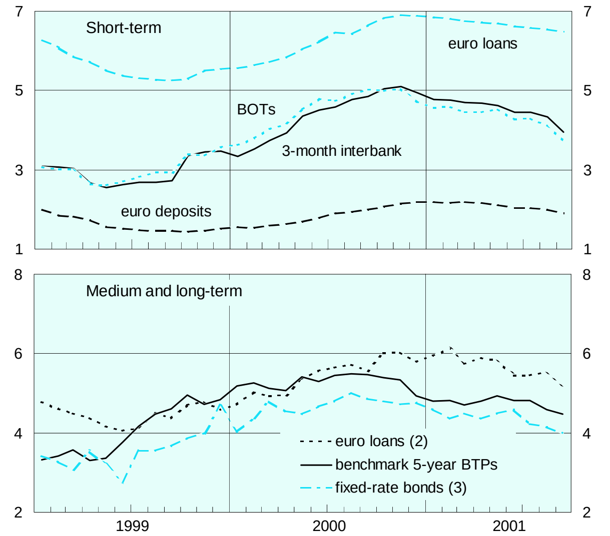
Sources: Based on statistics for 10-day periods and ECB data.

(1) Weighted averages of national interest rates notified to the central banks. As the curves are based on non-harmonized data, they indicate trends rather than the relative level of rates. For short-term loans, the rate for Italy refers to overall lending at maturities up to 18 months; that for the euro area regards loans to enterprises at maturities up to 12 months. For medium and long-term lending to households, the rate for Italy refers to new lending at maturities above 18 months (including lending to finance the purchase of consumer durables); that for the euro area mainly consists of lending for home purchases.

As in the past, the adjustment of bank rates to the decline in money market yields was gradual. In the first nine months the average lending rate fell by 0.4 points to 6.5 per cent (Figure 35), in line with the decrease in the euro area as a whole. The differential between the average lending rate of Italian banks and the 3-month interbank rate widened by 0.6 points to 2.5 (Figure 36).

Figure 36

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



Source: Statistics for 10-day periods.

(1) Rates refer to operations in lire, euros 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.

In the first nine months of the year, the rate on new medium and long-term loans to firms fell by 0.6 points, as in the rest of the euro area, to 5.2 per cent. The rate on medium and long-term loans to households (which include home loans and consumer credit at maturities of more than 18 months) was 6.6 per cent in September, close to its level of last December.

Bank funding increased by 7 per cent in the twelve months to September, compared with a year-on-year rise of 6.1 per cent in 2000. The growth in current account deposits remained slow until August before accelerating sharply in September, when the twelve-month rate of increase jumped from 2.8 to 6.6 per cent. Repurchase agreements continued to expand rapidly (by 26.8 per cent in the twelve months to September), as did bonds (10.8 per cent), especially subordinated paper, which soared by 42.3 per cent. About 14 per cent of unsubordinated bonds issued in the first three quarters (€9.5 billion) was placed on the Euromarket, compared with 20 per cent a year earlier.

Bank deposit rates were also adjusted gradually to changing monetary conditions. In the first nine months, the average deposit rate at Italian banks fell from 2.2 to 1.9 per cent. In the euro area the rate on term deposits of up to one year fell by 0.7 points.

The banks' net liabilities towards non-residents, excluding exchange rate variations, increased by €19.2 billion, or 33.7 per cent on an annualized basis, through September. The increase mainly involved the larger banks, which redistributed part of the funds they raised on the domestic interbank market, strengthening their net creditor position vis-à-vis other Italian banks.

The decline in banks' securities holdings over the last three years continued in the first half of 2001, although more slowly than before. In the twelve months to September the ratio of securities to total lending fell from 23.6 to 20.6 per cent, nearly 6 percentage points below the euro-area average.

Banks' earnings contracted slightly in the first half. The increase of 8.8 per cent in net interest income on the corresponding period of 2000 almost entirely offset the fall of 13.2 per cent in other income caused by the decline in net commissions on services and income from securities and foreign exchange trading. Gross income was 1.4 per cent lower than in the first half of 2000. Operating costs rose by 3.5 per cent, with staff costs increasing by 2.2 per cent and the number of employees by 1.1 per cent. Net profit diminished by 3.5 per cent. Return on equity, which is calculated on the sum of profits, the results of Italian banks' foreign branches and allocations to reserves, was equal to 12.4 per cent on an annualized basis (compared with 12.2 per cent in the first half of 2000 and 11.6 per cent in 2000 as a whole).

The bond markets

Issues of Italian government securities have increased in 2001, reflecting the rise in the borrowing requirement. In the first nine months of the year net issues of government securities amounted to €40.2 billion, about €5.7 billion more than in the same period of 2000 (Table 25). Net issues of Treasury bills were especially large, at €21.2 billion, as against net redemptions of €6.5 billion in the first three quarters of last year. Since the fourth quarter of 2000, under certain circumstances it has been possible to reopen Treasury bill auctions for specialist dealers on the MTS, the screen-based market in government securities. Securities with maturities of less than three months have also been issued, in order

Table 25

Issues of Italian government securities (1)

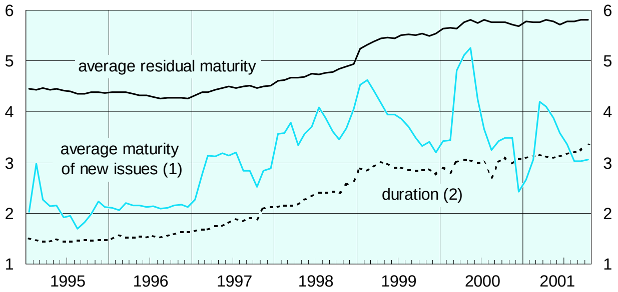
(millions of euros and, in brackets, billions of lire)

	2000	2000 Jan.-Sept.	2001 Jan.-Sept.	2000	2000 Jan.-Sept.	2001 Jan.-Sept.
	Gross issues (2)			**Net issues (3)**		
BOTs	164,650	131,000	149,790	–17,550	–6,500	21,180
CTZs	33,317	30,908	30,594	–22,462	–14,414	–7,426
CCTs	19,870	16,020	20,904	–7,860	–4,970	223
BTPs	106,737	92,779	94,365	47,626	46,567	22,210
Other	1,167	1,167	. .	–577	–577	–1,501
Total	325,741	271,874	295,652	–824	20,106	34,686
Republic of Italy issues	19,614	19,614	17,853	13,804	14,356	5,481
Total government securities	345,355 *(668,701)*	291,488 *(564,399)*	313,505 *(607,030)*	12,980 *(25,133)*	34,462 *(66,728)*	40,167 *(77,774)*

(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.

Figure 37

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.

to cope with temporary liquidity needs. Net issues of Treasury bonds totalled €22.2 billion, compared with €46.6 billion in the same period of 2000. International issues by the Italian Treasury also declined, from €14.4 billion to €5.5 billion. Net issues of Treasury credit certificates came to €200 million, as against net redemptions of €5 billion in the first nine months of 2000, while net redemptions of zero-coupon certificates declined from €14.4 billion to €7.4 billion. The change in the composition of issues had a limited impact on the residual maturity of public debt, which remained at about five years and ten months (Figure 37). Owing in part to the fall in short-term yields, the duration of listed securities increased slightly, to three years and four months.

Government securities were mainly purchased by Italian households and foreign investors, while banks and investment funds reduced their holdings (Table 26).

The yield differential between Italian 10-year benchmark Treasury bonds and German Bunds of the same maturity did not vary greatly. After reaching a maximum of 0.5 percentage points in the first quarter,

Table 26

Stocks and net purchases of securities issued by residents in Italy, by subscriber (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			
					Net purchases January-June 2001				
Central bank	–78	–200	1,288	–74	. .	936	1	937	127
Banks	3,384	–2,752	–4,347	1,156	–359	–2,918	–4,067	–6,985	1,788
Investment funds	3,860	–5,019	–1,663	–10,035	–147	–13,004	–494	–13,498	913
Other investors (3)	11,253	3,624	4,037	41,484	5,125	65,523	29,869	95,392	52
of which: non-residents (4)	*5,829*	*3,843*	*787*	*20,415*	*5,027*	*35,901*	*4,225*	*40,126*	. . . .
Total	**18,419** ***(35,664)***	**–4,347** ***(-8,417)***	**–685** ***(-1,326)***	**32,531** ***(62,989)***	**4,619** ***(8,944)***	**50,537** ***(97,853)***	**25,309** ***(49,005)***	**75,846** ***(146,858)***	**2,880** ***(5,576)***
					Stocks at end-June 2001				
Central bank	. .	. .	7,084	15,669	40,484	63,237	204	63,441	6,462
Banks	9,651	4,912	47,858	36,112	7,721	106,254	32,918	139,172	7,123
Investment funds	8,206	4,870	23,388	73,575	2,932	112,971	7,301	120,272	34,676
Other investors (3)	102,654	49,911	156,890	500,578	80,319	890,352	278,746	1,169,098	611,824
of which: non-residents (4)	*66,302*	*29,142*	*49,977*	*268,563*	*79,485*	*493,469*	. . . .	*493,469*	. . . .
Total	**120,511** ***(233,342)***	**59,693** ***(115,582)***	**235,220** ***(455,449)***	**625,934** ***(1,211,977)***	**131,456** ***(254,534)***	**1,172,814** ***(2,270,885)***	**319,169** ***(617,997)***	**1,491,983** ***(2,888,882)***	**660,085** ***(1,278,103)***

(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) Provisional figures.

it narrowed to 0.4 points in the spring and about 0.35 points in September. The differential between 3-year bonds and the Bund remained below 0.3 points.

Daily turnover on the MTS market increased to €9.2 billion in the first three quarters of the year, compared with €7.4 billion in the same period of 2000. Trading in repos continued to expand rapidly. Daily turnover in Italian government securities on the EuroMTS market in London, which handles trading in the benchmark government securities of the euro-area countries, remained high at about €1.7 billion, equal to 43.5 per cent of total transactions on that exchange.

On the Eurex market daily turnover in futures on the 10-year Bund increased by 16 per cent from its average in 2000, to more than €75 billion. Forward trading in this instrument accounted for 99 per cent of all transactions involving derivatives on euro-area government securities in September.

Issues of medium and long-term bonds by euro-area enterprises on domestic markets and the Euromarket began to rise again after contracting at the end of last year. Gross issues amounted to €583 billion in the first half of 2001, compared with €482 billion a year earlier. Net of redemptions, the amount of funds raised came to €236 billion, compared with €195 billion in the first six months of 2000. Italian firms also continued to raise funds through bond issues: in the first nine months of 2001 gross issues amounted to €123 billion, net issues to €71 billion (€93 billion and €42 billion in 2000). Of this, securitization operations by banks, financial companies and government agencies contributed €19.3 billion, compared with €7.6 billion in the first nine months of 2000.

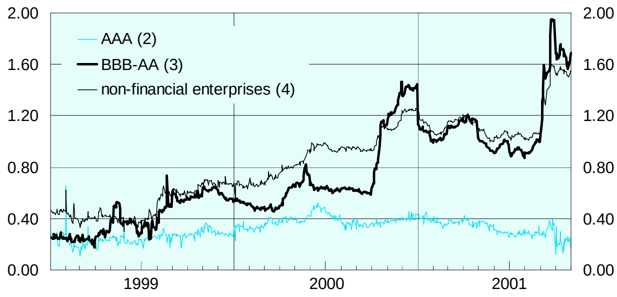
Gross Eurobond issues by private sector companies from the euro area amounted to €302 billion in the first nine months of the year (Table 27). As in the previous two years, the increase involved both financial enterprises and non-financial firms. Among the latter, car manufacturers and telecommunications companies accounted for respectively 31 and 18 per cent of the total, compared with 11 per cent for each industry in 2000. In part, Eurobond issuance reflected telecommunications companies' need to refinance short-term loans taken out in previous months. By contrast, issues to finance mergers and acquisitions were sharply lower at €66.4 billion in the first six months of the year in the main euro-area countries, compared with an average of €115.4 billion in the same period in the previous two years.

Eurobond issues by Italian firms totalled €52.3 billion in the first nine months of 2001, more than in all of 2000. Issues by non-financial firms amounted to €20.1 billion. The number of firms issuing Eurobonds for the first time also increased.

The yield differential between private sector Eurobonds and government securities, which narrowed in the first eight months of 2001, widened rapidly beginning at the end of August (Figure 38) in connection with the steep fall and heightened volatility of equity prices. It increased further following the terrorist attacks of September 11, especially for securities issued by telecommunications companies and firms in cyclical industries such as automobiles, hotels and electronic components. At the end of October the average differential was around 1.6 points, about 0.3 percentage points more than at the start of the year. The differential registered by A-rated telecommunications securities peaked at 1.7 points in mid-September before narrowing to 1.3 points (Figure 39).

Figure 38

Yield differentials for Eurobonds issued by non-financial enterprises (1)
(daily data; percentage points)



Source: Bank of Italy calculations based on Merrill Lynch indices.
(1) Yields on fixed-rate euro-denominated Eurobonds with a residual term to maturity of not less than one year issued by non-financial enterprises resident in countries whose long-term foreign currency debt has a rating not lower than BBB3 or BBB–. The yield curve for government securities is estimated on the basis of French and German securities. Differentials are adjusted for the value of redemption options (option-adjusted spreads). – (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 bonds issued by the non-financial sector and government securities.

Table 27

Gross 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)

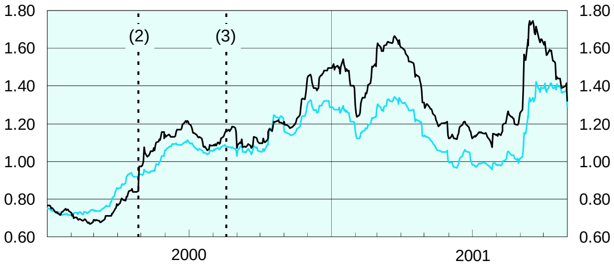
	1995	1996	1997	1998	1999	2000	2000 Jan.-Sept.	2001 Jan.-Sept.	2001 Q1	2001 Q2	2001 Q3
Italy											
Gross issues *(number of operations)*	22	27	32	41	105	188	125	186	53	94	39
(millions of euros) . . .	2,662	4,281	5,337	8,861	45,860	46,613	36,783	52,275	15,254	28,200	8,821
of which: non-financial enterprises (millions of euros)	*213*	*446*	*1,695*	*4,041*	*24,102*	*11,032*	*9,943*	*20,127*	*3,785*	*14,722*	*1,620*
Rated issues (2) *(percentage share)*	20	49	25	24	81	56	54	62	60	62	67
France											
Gross issues *(number of operations)*	83	90	91	65	178	245	188	194	75	66	53
(millions of euros) . . .	7,988	10,598	15,131	11,737	45,594	49,990	38,960	44,580	13,859	22,486	8,234
of which: non-financial enterprises (millions of euros)	*829*	*1,507*	*3,793*	*3,816*	*28,753*	*25,398*	*20,760*	*27,426*	*9,802*	*11,999*	*5,625*
Rated issues (2) *(percentage share)*	56	89	45	59	58	42	43	57	46	62	58
Germany											
Gross issues *(number of operations)*	123	238	250	291	588	663	503	341	150	102	89
(millions of euros) . . .	14,303	36,358	37,508	48,072	111,035	126,012	106,815	94,219	47,724	26,501	19,994
of which: non-financial enterprises (millions of euros)	*895*	*3,482*	*4,047*	*4,980*	*15,444*	*27,041*	*25,590*	*34,717*	*17,834*	*13,342*	*3,542*
Rated issues (2) *(percentage share)*	31	59	62	55	68	64	63	72	77	60	76
Euro area											
Gross issues *(number of operations)*	536	689	723	702	1,406	1,795	1,333	1,261	485	460	316
(millions of euros) . . .	51,850	89,298	96,916	116,596	312,561	375,139	295,949	301,956	119,010	127,023	55,923
of which: non-financial enterprises (millions of euros)	*3,188*	*8,181*	*12,879*	*20,959*	*91,459*	*104,623*	*91,397*	*100,585*	*36,265*	*51,166*	*13,154*
Rated issues (2) *(percentage share)*	39	63	50	51	71	60	57	69	71	68	68

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

(1) Medium and long-term Eurobonds issued by private sector borrowers belonging to groups resident in the country or area indicated, at face value; includes 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 conversion 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.

Figure 39

Yield differentials between euro-area corporate bonds 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 not lower 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).

The stock markets and investment funds

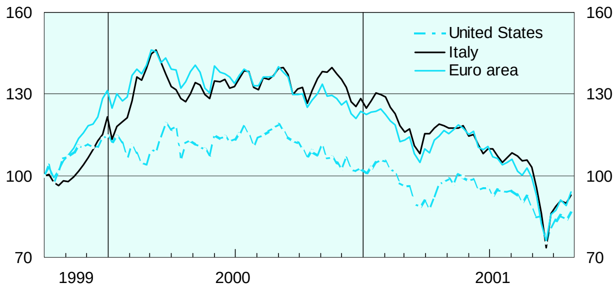
Share prices have been falling on all the main euro-area stock markets since May, resuming the trend that began in September 2000 (Figure 40). The slump in equities came in conjunction with signs of a slowdown in economic activity, which grew more pronounced in the spring, prompting a downward revision of corporate earnings forecasts.

The drop of 29.8 per cent in Italian share prices in the first eight months of the year was slightly larger than that experienced by the other main euro-area markets (27.1 per cent in Germany, 26.7 per cent in France and 13.3 per cent in Spain). In Italy, the slide was more pronounced in the banking sector (36 per cent), reflecting fears of declining revenues from financial services.

The decline in the prices of euro-area technology stocks (information technology, electronics, telecommunications and media) was quite substantial (42 per cent) as a result of investors' drastic revision of expectations for earnings growth. Markets for younger companies, which are dominated by firms in technology sectors, fell precipitously: the Italian Nuovo Mercato plummeted by 51.9 per cent, the German Neuer Markt by 62.5 per cent and the French Nouveau Marché by 67.8 per cent.

Figure 40

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.

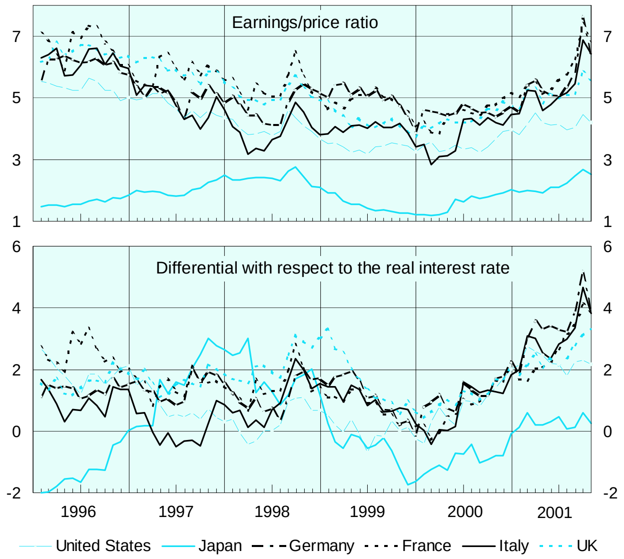
The fall in share prices in the days immediately following the terrorist attacks (17.3 per cent in the euro area) primarily affected the sectors of insurance, banking, air transportation and consumer goods most sensitive to cyclical conditions, where the profit outlook for firms deteriorated markedly. The steps taken by the monetary authorities in the United States and Europe and the fiscal measures adopted by the US government helped restore market confidence, and by the end of October the main European stock indices were nearly back to where they had been before September 11.

The earnings/price ratio increased on all the main stock markets, reflecting the sharp drop in share prices, which outweighed the decline in the profits of listed companies (Figure 41). At the end of October, the differential between this ratio and the real long-term interest rate had widened again to more than 3 percentage points, close to its level in the first half of the nineties. Financial analysts have significantly lowered their projections for the short-term earnings growth of listed firms. The downward revision of forecasts for the longer term has been smaller.

Since the start of the year turnover on the Italian stock market has been considerably lower than in 2000, reflecting the fall in prices. Turnover on the main market has dropped by 23 per cent, while that on the Nuovo Mercato has fallen by 46 per cent.

Figure 41

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



Sources: 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.

In the first nine months of 2001, 15 Italian companies were admitted to listing (21 in 2000). Of these, four joined the Nuovo Mercato, compared with 14 in the same period of last year. New listings and share issues by firms already listed raised €3.1 billion, less than half the amount in the corresponding period of 2000 (€7.6 billion).

The total capitalization of listed Italian companies was about €524 billion at the end of September, a drop of 35.5 per cent since the end of 2000. As a proportion of GDP it fell from 70 to 43 per cent, compared with 49 per cent in Germany, 74 per cent in Spain and 80 per cent in France.

Investment funds recorded a gross inflow of savings amounting to €234.8 billion in the first nine months of the year, €119.5 billion less than in the corresponding period of 2000 (Table 28). Gross fund-raising by Italian funds came to €162.1 billion, compared with €275 billion in the year-earlier period.

Table 28

Net assets and fund-raising of investment funds controlled by Italian intermediaries (1)
(*millions of euros and, in brackets, billions of lire*)

	2000	2000 Jan.-Sept.	2001 Jan.-Sept.
	Net assets *(end-of-period data)*		
Italian funds	449,931	472,178	386,634
Foreign funds (2)	94,770	93,781	96,522
Total	**544,701** (1,054,688)	**565,959** (1,095,849)	**483,156** (935,520)
	Net fund-raising		
Italian funds	−6,895	−5,540	−22,954
Foreign funds	36,056	29,864	13,044
Total	**29,161** (56,464)	**24,324** (47,098)	**-9,910** (−19,189)
	Gross fund-raising		
Italian funds	335,768	275,018	162,115
Foreign funds	100,201	79,247	72,644
Total	**435,969** (844,154)	**354,265** (685,952)	**234,759** (454,557)

Sources: Bank of Italy and Assogestioni.
(1) The figures refer to harmonized investment funds. The data for the third quarter of 2001 are provisional. - (2) Value of units subscribed by Italian investors.

The funds registered net redemptions of €9.9 billion, as against net subscriptions of €24.3 billion in the same period of 2000. The market share of foreign funds controlled by Italian intermediaries increased further, with a net inflow of €13 billion.

Net subscriptions were concentrated in money-market funds (€16.9 billion) and shorts-term bond funds (€18.6 billion), while other bond funds recorded net redemptions of more than €17.5 billion. The prolonged slump in share prices undermined demand for equity funds, which registered net redemptions of €14.1 billion; balanced and flexible funds had net redemptions of a similar amount.

The average twelve-month return on Italian investment funds was negative in August (by 14 per cent overall and 28.4 per cent for equity funds alone). The decline continued in September with the abrupt fall in share prices in the wake of the terrorist attacks, the twelve-month decrease widening to about 15 per cent. As a result of falling share prices and large-scale redemptions, the net assets of Italian investment funds declined to €386.6 billion at the end of September, a decrease of 14.1 per cent since the end of 2000.

SHORT-TERM ECONOMIC PROSPECTS

The world economy

The world economy and international trade have slowed down sharply in 2001. Forecasts during the summer, supported by some leading indicators, showed recovery coming at the end of the year. The turning point of the cycle has been moved back since then; in the wake of the terrorist attacks and the ensuing military response in Afghanistan, the major economic research centres now place it around the middle of 2002. Uncertainty about the timing and strength of the recovery has increased in any case.

In the United States the slight expansion in economic activity in the first half gave way in the third quarter to a contraction attributable mainly to the decline in investment and stocks; consumption, already decelerating rapidly, fell in September. The highly uncertain environment has prompted American consumers to put off purchases of durable goods and to increase precautionary saving. The demand for services such as travel, dining out and recreational activities has decreased. The latest indicators, especially those for the labour market, show that activity has remained weak into the fourth quarter, when, according to the main private forecasters, GDP will fall further. On average for 2001, growth is expected to be on the order of 1 per cent (Table 29).

In Japan the economy is burdened by the effects of the fragile condition of banks and firms, by the deterioration in the labour market and by the persistence of deflation. Output is likely to continue to contract in the final months of the year; GDP is expected to decline by 0.5 per cent in 2001 as a whole.

In the euro area production is forecast to be broadly stagnant in the second half, with average growth for 2001 close to 1.5 per cent.

The further fall in prices on all stock markets provoked by the attacks of September 11th was already recouped by the first half of October. Share prices received support from the prompt easing of monetary conditions by the Federal Reserve, the Eurosystem and other central banks, and from the announcement of robust expansionary fiscal measures in the United States. At the start of November the Euro Stoxx index of euro-area equities and the Standard & Poor’s 500 index in the United States were back to their levels of the first ten days of September.

The emerging economies are forecast to grow by around 3 per cent in 2001. For some countries the terms of external financing have become even more burdensome in the past few weeks. At the start of November the Argentine authorities announced a public debt restructuring plan accompanied by measures aimed at curbing the budget deficit. It appears the restructuring will be carried out by means of a swap of public debt securities paying interest of 7 per cent, lower than the interest rate of approximately 10 per cent on the securities in circulation; the maturity and prices of the new paper are still uncertain.

The forecasts of the international organizations available at this time predate September 11th. Scenarios subsequent to that date have been developed by private forecasters on the assumption that the international tensions will dissipate rapidly and that exchange rates and the price of oil will remain at the levels of the beginning of September. They indicate that the US economy should start growing again in the first half of 2002, after a recession similar in duration and depth to that of the early 1990s. The recovery is expected to gather momentum during the year, with rapid growth to be recorded in the last quarter. Nevertheless, the increase in GDP over the year as a whole is expected to be just above 1 per cent, reflecting the negative results of the closing months of 2001.

Table 29

Forecast performance of selected macroeconomic variables
(percentage changes on previous year)

	2001				2002			
	Consensus Forecasts	Deutsche Bank	Goldman Sachs	Salomon Smith Barney	Consensus Forecasts	Deutsche Bank	Goldman Sachs	Salomon Smith Barney
GDP (1)								
United States	1.0	1.0	1.0	0.9	1.2	0.9	0.5	1.0
Japan	–0.5	–0.6	–0.6	–0.5	–0.4	–1.4	–0.2	–1.8
Euro area	1.7	1.4	1.7	1.6	1.8	1.1	1.7	1.1
Emerging economies	–	–	2.9	–	–	–	4.1	–
of which: Asia	–	*5.3*	*3.3*	–	–	*6.5*	*4.5*	–
Latin America	*1.0*	*1.0*	*0.8*	–	*2.5*	*2.9*	*3.1*	–
Consumer prices								
United States	3.0	3.2	3.0	2.9	2.1	2.0	2.0	1.5
Japan	–0.8	–0.7	–0.5	–0.7	–0.9	–1.2	–0.5	–1.7
Euro area (2)	2.7	2.6	2.6	2.7	1.8	1.7	1.5	1.7
Emerging economies	–	–	4.7	–	–	–	4.3	–
of which: Asia	–	*2.6*	*3.0*	–	–	*3.0*	*3.0*	–
Latin America	*5.6*	*5.1*	*5.3*	–	*5.0*	*4.5*	*4.9*	–
Oil price								
WTI oil ($ per barrel)	27.2 (3)	–	26.4	–	24.4 (4)	–	20.9	–

Sources*:* Consensus Forecasts. 8 October 2001; Deutsche Bank, *Global Economics Research,* November 2001; Goldman Sachs, *The International Economic Analyst,* September/October 2001; Salomon Smith Barney, 31 October 2001.

(1) At constant prices. – (2) For Deutsche Bank. Goldman Sachs and Salomon Smith Barney, harmonized consumer prices. – (3) Average of the first 10 months of 2001. – (4) Forecasts for October 2002.

For the euro area the forecasts for growth in 2002 range between 1.1 and 1.8 per cent; the expansion should gradually gain pace, benefiting, among other things, from the revival of exports.

In Japan output and prices are expected to decline again in 2002.

In the emerging economies, by contrast, an acceleration in economic activity, fostered by the recovery of world trade, is expected.

The expansionary fiscal action in the United States and the monetary easing by the major central banks are providing fuel to the economy; they are helping to improve the climate of confidence.

The uncertainties of the forecasting scenario derive mainly from the risk that international tension will not abate and will continue to weigh on the behaviour of consumers. Predicting the magnitude of such effects is very difficult. Any attempt to quantify them would be arbitrary, owing to the nature of the events in course and the absence of directly comparable episodes in recent history. If the industrial economies do not recover relatively soon, the weakness of raw materials prices could become more accentuated, affecting numerous emerging economies that are already penalized by the drying up of foreign trade and investment.

Economic developments in the euro area and in Italy

Economic activity has been decelerating in the euro area since the end of last year. In the second

The introduction of euro banknotes and coins

From 1 January 2002, euro banknotes and coins will begin to circulate in the twelve countries that have adopted the single currency. This marks a fundamental step in the process of European integration, which had been powerfully renewed in June 1988 when the Hannover European Council asked the Delors Committee to draw up proposals for the creation of an Economic and Monetary Union. In 1992 the proposals were incorporated into the Maastricht Treaty. On 1 January 1999, eleven European Union Member States (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain) adopted the euro, irrevocably fixing the conversion rate with their respective national currencies. At the same time, the Eurosystem assumed responsibility for the single monetary policy. On 1 January 2001, Greece also adopted the euro.

The dual circulation of cash in euros and the national currencies will be allowed in the twelve euro-area countries for a period not exceeding two months. In eight countries, including Italy, national notes and coins will cease to be legal tender on 1 March. In the other four countries, this will happen sooner. In Italy euro banknotes will be available from automated teller machines (the Bancomat and Postamat systems) from the early hours of 1 January 2002. During the dual circulation period, lira cash can be changed into euros at no charge in banks and post offices and at branches of the Bank of Italy.

From 28 February 2002 until 1 March 2012 it will be possible to exchange lire for euros at no charge at branches of the Bank of Italy. It will also be possible to exchange lire at banks and post offices for a period that has yet to be decided.

Banknotes in the national currencies of the other eleven countries in the area can be exchanged for euros at no charge at branches of the Bank of Italy until 31 March 2002. This service may also be offered at banks and post offices as in the past. After that date, banknotes can be exchanged at the respective central banks for a fairly long period or indefinitely, depending on the country.

From 1 January 2002, contracts and capital and financial assets must be denominated in euros. The single currency must also be used for payment orders and cheques, promissory notes and other credit instruments. Instruments issued in lire prior to 1 January 2002 will be payable in euros at the fixed conversion rate.

Prices should not increase as a result of conversion (the neutrality principle). Community law provides that sums converted from national currencies into euros will be rounded to the second decimal point. Amounts will be rounded up if the third decimal point is equal to or greater than 5; otherwise they will be rounded down. The economic ministers of the euro-area countries have guaranteed neutrality in the conversion of regulated prices and public service charges. Trade associations have promised to monitor the situation and prevent price rises as a result of the changeover. In this regard, there have been positive signs from the survey of the industrial sector conducted by Bank of Italy branches and from the joint Bank of Italy-Il Sole 24 Ore *survey of inflation expectations with a sample of firms in industry and services. In both cases, the majority of firms replied that they had not made any substantial changes to their prices in view of the changeover, nor did they intend to do so. Unless the parties to an agreement have arranged differently, the introduction of the euro will not modify any previously agreed terms of contract, nor can it be invoked as a cause for rescinding a contract.*

The cash changeover has required the production in Europe of about 15 billion banknotes and 50 billion metal coins to be completed by the end of the year. The banknotes, produced by fourteen public and private printing works (in Italy, by the Bank of Italy), are identical for all countries in the area. There are seven denominations: 5, 10, 20, 50, 100, 200 and 500 euros,

cont. ➤

of different sizes and predominant colours. To combat counterfeiting, the banknotes incorporate various visible security features, such as watermarks, a vertical thread and a holographic feature which differs according to denomination. With the same aim in mind, a database is being set up as part of a monitoring system to store technical and statistical data on counterfeit euro banknotes and coins, and a counterfeit analysis centre is being established with experts and specialized equipment.

The coins, with eight individual face values (1, 2, 5, 10, 20 and 50 cents; 1 and 2 euros) also have different sizes and colours. They have been produced by fifteen mints in eleven countries (in Italy by the State Printing Works and the Mint, under the responsibility of the Ministry of the Economy and Finance). One side of the coins is common, while the other varies from country to country. The coins minted in each country will be legal tender throughout the area.

In order to ensure an orderly and secure cash changeover, the Governing Council of the European Central Bank (ECB) established that as of 1 September 2001 early consignments of the new money could be made to credit institutions (frontloading) and then from these to certain groups of operators, namely large commercial chains and other retailers (sub-frontloading). Actual procedures will be decided at national level.

In Italy frontloading also involves the postal system. It began on 1 September 2001 for coins and 1 November for banknotes, managed by the Ministry of the Economy and Finance and the Bank of Italy respectively. The delivery of coins to the large retail chains began on 1 October 2001, to be followed on 1 December 2001 by banknotes in the denominations of 5, 10 and 20 euros. Retailers can obtain coins and 5-euro banknotes as of 15 December. From this date members of the public will also be able to buy standard sets of coins at banks and post offices, but the new banknotes will only be made available as of 1 January 2002.

The Bank of Italy has for some time been preparing to replace cash, in collaboration with the Ministry of the Economy and Finance, the Euro Committee, the Italian Banking Association and the Post Office. To this end, the Bank has increased production and distribution capacity, modifying the banknote production cycle and adopting new technologies, notably as regards quality management and control. Other activities directly linked to the introduction of the euro are also in their final stages: a review of the legal framework, including the preparation of implementing instructions regarding the changeover for banks and the postal system; the modification of the remaining electronic procedures in lire; changes to operational processes; training of staff directly involved in handling cash in banks, post offices and large retail outlets. Within the Cash Changeover Coordination Committee, the ECB and the central banks of the twelve countries are coordinating the operations to be carried out in the dual circulation period.

The Euro 2002 Information Campaign, run by the ECB and the national central banks, is under way. The campaign is intended to inform citizens about the appearance, denominations and security features of the banknotes and coins and about the changeover procedures, and is complementary to the initiatives of the individual Member States. In this regard, the Bank of Italy has created a network of public and private operators to distribute information on the euro to their own staff and customers, to complement the information campaign run by the Euro Committee of the Ministry of the Economy and Finance; arranged for the distribution to all Italian households of informative material prepared by the ECB and the Bank of Italy; and established contacts with the media to strengthen the process of institutional communication. Further information is available on the Bank of Italy's website (www.bancaditalia.it) and in the euro section of the ECB's website (www.euro.ecb.int).

quarter output growth nearly halted, reflecting the slowdown in household consumption and the negative contribution of investment and net exports. Exports decreased by 0.2 per cent on an annual basis. In the first six months employment was 0.7 per cent higher than a year earlier, compared with a gain of 1 per cent in the second half of 2000. The unemployment rate ceased to decline at the start of the year.

Over the summer months cyclical indicators confirmed the weakness of the European economy, but there were some signs of possible recovery towards the end of the year. Industrial production in the euro area declined by more than 1 per cent between June and July but recouped that loss in August. Business sentiment worsened, although expectations concerning output levels remained modestly positive. Household confidence continued to deteriorate.

Italy's GDP grew faster than that of the euro area in the first half of the year, thanks to investment and consumption, though the latter decelerated. The decline in industrial production came to a halt during the summer. The ISAE's survey of manufacturing firms pointed to a modest improvement in short-term expectations for output and demand. The composite indicator developed jointly by the Bank of Italy and the ISAE rose again in July, pointing to a possible pick-up in economic growth in subsequent months.

The number of persons employed reached an all-time high, with a significant contribution from the increase in permanent, full-time jobs. The unemployment rate continued to decline, falling to 9.4 per cent on a seasonally adjusted basis in July from 9.9 per cent last January and 10.4 per cent in July 2000.

For the euro area the cyclical indicators released after September 11th show a deterioration in firms' short-term outlook. Household confidence worsened in a number of countries, even though not all the surveys were conducted after the terrorist attacks.

For Italy the ISAE's September survey of industrial firms found a clear downturn in orders three to four months ahead. New car registrations and orders fell sharply in the second half of the month, recovering in October. Firms appear to assess demand trends more favourably over a somewhat longer time horizon. The Bank of Italy's survey of industrial firms in the second half of September found that order levels six months ahead were expected to diminish only slightly, despite fears of a rise in raw materials prices. The variations in household confidence in September and October did not exceed the volatility observed in the past.

In a context of weak activity, the decline in inflation within the euro area mainly reflects the fall in oil prices and the fading of the price pressures connected with livestock epidemics. According to preliminary Eurostat estimates, twelve-month consumer price inflation came down to 2.4 per cent in October, compared with a peak of 3.4 per cent in May. In Italy the rate declined to 2.6 per cent in September and 2.5 per cent in October. The improvement in the inflation outlook will not be impeded by the changeover to euro banknotes and coins (see box).

Surveys have found that over longer time periods expected inflation remains below the threshold of 2 per cent. Economic agents expect the rate to fall below that level by the middle of 2002.

Core consumer price inflation (excluding unprocessed foods and energy products) in the euro area and in Italy, which had been gradually rising since the summer of 2000, has steadied at around 2.5 per cent. Producer price inflation has abated sharply (it was under 1 per cent in September), foreshadowing the absence of inflationary pressures in the next few months.

So far the overall picture in the euro area and in Italy is consistent with the hypothesis that the economic repercussions of the attacks will be short-lived. The protraction of international tensions could nevertheless generate new uncertainty, with significant impact on consumption and investment decisions and on the financial markets.

For Italy, the Forecasting and Planning Report presented at the end of September forecast GDP growth of 2 per cent in 2001 (Table 30). For this to prove true, the slight contraction of the second quarter will have to be followed by annualized growth of about 1 per cent in both the third and fourth quarters.

Table 30

Outturns and official forecasts for the Italian economy

	2000	2001 (1)	2002 (1)
	(percentage changes)		
Gross domestic product	2.9	2.0	2.3
Domestic demand (2)	3.3	1.7	2.6
Imports	8.3	5.5	7.6
Exports	10.2	5.6	5.3
Consumer prices	2.5	2.8	1.7
Labour costs per employee	3.0	3.1	2.7
Unit labour costs	1.5	2.6	1.6
	(percentage ratios)		
General government net borrowing/GDP	–1.5	–1.1	–0.5
Balance-of-payments surplus on current account/GDP	–0.5	–0.1	–0.3

Source: *Relazione previsionale e programmatica per l'anno 2002*.
(1) Forecasts. – (2) Net of changes in stocks and valuables.

The Report estimates that net exports will make a barely positive contribution to GDP growth in 2001 (0.1 percentage points). The expansion of economic activity is likely to be attributable to the domestic components of demand: private consumption is expected to increase by 1.5 per cent and investment by 2.6 per cent. Capital formation in particular is expected to return to rapid growth in the latter part of the year, partly in response to the Government's tax incentives.

The Report's forecasts for 2002 postulate that the global economic repercussions of the terrorist attacks will be limited and that world trade will recover to growth of 6 per cent. The Italian economy's rate of growth is expected to pick up to 2.3 per cent for the year as a whole.

The difficulties of the world economy are an obstacle to the attainment of this result. Rapid growth in 2002 requires swift action to expand the country's endowment of infrastructure, above all in the South.

The prompt introduction of structural reforms will enhance confidence, with positive effects on the country's growth prospects.

According to the Forecasting and Planning Report, investment, benefiting from the recently enacted tax incentives, will expand by nearly 5 per cent. Household consumption is likely to accelerate. Exports are expected to grow a bit more slowly than the estimate for 2001. Imports, fueled by the step-up in consumption and investment, are forecast to increase by 7.6 per cent, compared with 5.5 per cent in 2001.

Employment would continue to expand, sustained in part by wage moderation. The average unemployment rate for the year is expected to fall to just above 9 per cent (from 10.6 per cent in 2000 and 9.5 per cent in 2001).

Monetary and credit conditions

The euro yield curve has shifted downwards, reflecting the easing of monetary conditions, the abatement of inflationary pressures and the slowdown in economic activity. Following the Eurosystem's reduction of official rates by 50 basis points on 8 November, the curve signals expectations of a further fall in short-term rates in the first few months of 2002. However, investors expect short-term euro yields to turn upwards again from the middle of next year.

In the euro area, the slope of the yield curve, which tends to become steeper when an economic upswing is expected, remained below its historical average until the summer. It has increased moderately in subsequent months, mainly as a result of the decline in official interest rates.

Real yields in the euro area are expected to be low in the final months of 2001 and next year, at around 1 per cent. Real dollar yields are about 1 point lower than those in euros, partly reflecting expectations of

The budget for 2002

The budget proposals for 2002 are designed to reduce general government net borrowing by 17.6 trillion lire compared with the budget on a current programmes basis. The planned result is the balance of increases in revenue and decreases in expenditure amounting to 33.3 trillion and decreases in revenue and increases in expenditure amounting to 15.7 trillion. In addition to the measures in the Finance Bill, the adjustment includes the effects of others that have already been adopted.

The Government also intends to define structural reforms concerning taxation, social security and health care before the end of the year.

Increase in revenue. *– The bulk of the forecast 26.2 trillion of additional revenue is of a one-off nature. Among the measures already approved, property sales are expected to generate 15 trillion. The sales will be made to private companies that will raise the necessary funds mainly by issuing bonds. The measures aimed at bringing irregular employment into the open and those designed to encourage the regularization of assets held abroad and the repatriation of capital by residents of Italy are expected to bring in 2 and 1.9 trillion respectively. The reorganization of betting and lotteries is forecast to bring in 1 trillion of additional revenue.*

Most of the increase in revenue expected from measures in the Finance Bill is in the form of taxes in lieu of income tax (4.7 trillion). In particular, the provisions of Law 342/2000 on the voluntary revaluation of companies' fixed assets have been renewed and their scope extended to include those stated in the annual accounts for the year ended 31 December 2000. Individuals are to be able to revalue building land and equity instruments that are not traded on regulated markets.

The Finance Bill also provides for the suspension of the reduction in the personal income tax rates for the

Estimated effects of the budget for 2002 on the general government consolidated accounts (1)
(billions of lire and millions of euros)

	Lire	Euros
REVENUE		
Increase in revenue	**26,200**	**13,530**
Property sales	15,000	7,740
Irregular employment brought into the open	2,000	1,030
Repatriation of capital from abroad	1,900	980
Lotteries and the like	1,000	520
Voluntary revaluation of fixed assets	4,700	2,430
Change in Irpef rates	1,600	830
Decrease in revenue	**–4,900**	**–2,530**
Increase in tax credits for dependent children	–2,100	–1,090
Suppression of INVIM	–500	–260
Suppression of tax on shop signs	–200	–100
Extension of building restructuring incentives	–500	–260
Extension of measures regarding VAT	–200	–100
Social security contribution reliefs	–1,400	–720
Net change in revenue	**21,300**	**11,000**
EXPENDITURE		
Decrease in expenditure	**–7,100**	**–3,670**
Domestic Stability Pact	–2,300	–1,190
Staff costs	–1,700	–880
Public entities and intermediate consumption	–1,100	–570
Other	–2,000	–1,030
Increase in expenditure	**10,800**	**5,570**
Renewal of labour contracts	3,400	1,750
Increase in minimum pensions	4,200	2,170
Measures for employment, the South, infrastructure and firms	2,300	1,190
Transfers to households and developing countries	700	360
Other	200	100
Net change in expenditure	**3,700**	**1,900**
TOTAL REDUCTION IN PRIMARY NET BORROWING	**17,600**	**9,100**

(1) Based on official estimates.

cont.

second, third and fourth income brackets that were to come into force in 2002 under the budget for 2001. This measure is expected to produce 1.6 trillion of additional revenue.

Decrease in revenue. *– This is expected to amount to 4.9 trillion. Among the proposed tax measures, the following are of a structural nature: a) the increase to one million lire in the tax credit for a dependent child for persons with an annual income of less than 70 million lire (2.1 trillion); b) the bringing forward to 1 January 2002 of the abolition of INVIM, the imputed capital gains tax on property (0.5 trillion); and c) the abolition of the tax on shop signs (0.2 trillion). The following, by contrast, are of a temporary nature: the extension to 30 June 2002 of the tax incentives for the restructuring of buildings (0.5 trillion) and to 31 December 2002 of the partial deductibility of VAT for company motor vehicles (0.2 trillion).*

The budget proposals include the renewal of the social security contribution reliefs introduced by Laws 144/1999 and 488/1999 and Legislative Decree 38/2000 and originally subject to the adoption of "carbon tax" decrees. The reliefs in question include the reduction in the maternity leave contribution and the lowering of contribution rates for the transport sector. New reliefs are planned for employers in Basilicata, Calabria, Campania, Puglia, Sardinia and Sicily for workers hired in 2002 who increase manning levels compared with 31 December 2001. The total reduction in revenue deriving from the measures in this field is estimated at around 1.4 trillion.

Decrease in expenditure. *– The budget proposals are expected to reduce expenditure by 7.1 trillion.*

The cap imposed under the Domestic Stability Pact on the increase in the current expenditure of municipalities and provinces is expected to save more than 2 trillion. Net of interest expenditure and spending financed by Community programmes, the limit on the increase has been set at 4.5 per cent of these authorities' expenditure commitments in 2000.

The partial freeze on hiring by central government and municipalities and provinces and the reorganization of some aspects of the use of staff are expected to reduce expenditure by 1.7 trillion. The freeze does not apply to the school system, the armed forces, the police or university teaching staff.

A saving of around 1 trillion is expected from the transformation of some public entities and the introduction of procedures to rationalize intermediate consumption. The Finance Bill authorizes the Government to issue rules for identifying public entities to be suppressed or turned into limited companies or private-law entities. It also allows central government departments and local authorities to outsource services that they currently produce and to introduce forms of user cost sharing.

Increase in expenditure. *– The budget proposals provide for an increase of 10.8 trillion in expenditure.*

The Government has allocated 6.2 trillion lire (3.4 trillion net of feedback effects) to the renewal of the labour contracts of central government employees, notably those in the school system, the armed forces and the police.

Minimum pensions are to be raised to one million lire for certain categories of pensioners that still have to be defined. The total cost of this measure may not exceed 4.2 trillion.

Around 2.3 trillion of additional expenditure is planned to provide support for employment, the South and infrastructure projects and to finance business incentives. Increases are also planned in transfers to households to cover the cost of school textbooks (around 0.2 trillion) and in funds for developing countries (around 0.5 trillion).

slow economic growth in the United States over the short term.

The M3 money supply has accelerated further in recent months, registering a growth rate of 7.6 per cent in the twelve months to September. The increase reflects large purchases of short-term assets as investors have shown a greater preference for liquidity at a time of turbulence in bond and equity markets. Growth in credit to the private sector in the euro area and Italy, although still rapid, has slowed down as a result of weaker economic conditions and the decline in the demand for credit for exceptional corporate operations such as mergers and acquisitions.

In Italy, credit conditions remained relaxed, as is indicated by the modest utilization of current account credit facilities and the low level of real lending rates. The supply of loans does not appear to have been affected by the recent emergence of a climate of uncertainty. In the second half of September and the first half of October, the rate of growth in bank lending did not change significantly. Short-term lending rates declined by 0.2 percentage points, in line with the changes observed in the past in similar episodes of falling official rates. The differential between the average and minimum lending rates remained small. It normally increases when credit conditions are made more severe, improving the relative position of higher quality borrowers.

The impact of financial market turmoil on Italian banks is expected to be small. The fall in income from services is likely to be largely offset by the growth in net interest income as lending continues to expand rapidly. Banks' limited exposure to firms operating in the sectors that have been hit hardest by the crisis should make it possible to contain new bad debts as a proportion of total lending. The overall return on capital and reserves is expected to be only slightly lower than in 2000.

Budgetary policy

The improvement in budget balances in the euro area, under way since 1993, came to a halt in 2001 as a result of the economic slowdown and the measures introduced in a number of countries to reduce the tax burden on households and firms, often without any significant steps to reduce spending.

In order to lay the foundations for a long period of rapid economic growth, countries that have not yet achieved budget positions close to balance will have to return to the readjustment path set out in their stability programmes. In addition to lowering debt in proportion to GDP, achieving budget balance will also create leeway to use budgetary policy for cyclical stabilization. The resulting decrease in interest expenditure will make it possible to consolidate the reduction in the tax burden. Moreover, the public finances will also be better placed to sustain the increased spending that will accompany the ageing of the population.

In Italy, the Forecasting and Planning Report published last September estimates that net borrowing will amount to 1.1 per cent of GDP in 2001, compared with the objective of 0.8 per cent set out in the stability programme update in December 2000.

Achieving this result will depend on a sharp reduction in spending and considerable revenues from the disposal of real estate. As in 2000, the gap between the borrowing requirement and net borrowing is expected to be large, out of line with the pattern of the second half of the nineties.

The Economic and Financial Planning Document for 2002-2006 issued last July reaffirmed the target of general government net borrowing of 0.5 per cent of GDP in 2002; the primary surplus was forecast at 5.5 per cent, compared with 5.4 per cent in 2001. Without remedial action the budget deficit was projected to rise to 1.7 per cent of GDP and the primary surplus to fall to 4.4 per cent.

Measures were taken in the summer to revive the economy and encourage the emergence of unreported economic activity. Measures to reduce expenditure on goods and services were also implemented. Agreement was reached with the regions to increase funding for health care. New procedures were established for the disposal of government-owned real estate.

The Finance Bill for 2002, tabled in September, lowered the forecast for net borrowing on a current programmes basis for 2002 to 1.2 per cent of GDP, taking into account the effects of the measures adopted in the summer and better-than-expected developments in interest expenditure.

The budget measures envisaged by the Finance Bill provide for a correction of 17.6 trillion lire (0.7 per cent of GDP), the result of net additional revenue of 21.3 trillion and net additional spending of 3.7 trillion (see box). The increase in revenue (26.2 trillion lire) derives largely from property sales and is prevalently temporary. By contrast, the spending increases (10.8 trillion) are mainly permanent.

The measures taken last summer and the budget adjustments introduced with the Finance Bill provide a stimulus to demand. The rapid implementation of structural expenditure cuts will lend certainty to the planned reduction in the burden of taxation, with a positive impact on growth.

The effectiveness of some deficit reduction measures will depend on the response of economic agents and the action of government administrators. In order to keep the budget deficit within the established limits, constant monitoring of the effects of the measures will be necessary. This will make it possible to take swift corrective action where necessary.

The planning framework set out in the Forecasting and Planning Report, which assumes GDP growth of 2.3 per cent in 2002, envisages net borrowing equal to 0.5 per cent of GDP, the result of a primary surplus of 5.3 per cent of GDP and interest expenditure of 5.8 per cent. Current expenditure excluding interest payments is expected to rise slightly, from 37.1 per cent of GDP in 2000 to 37.2 per cent in 2001 and 37.3 in 2002. This trend, together with the need to eliminate the deficit, precludes significant progress in reducing the tax burden, which is expected to decline from the 42.4 per cent recorded in 2000 to 42.1 per cent this year and 41.9 per cent in 2002.

The Economic and Financial Planning Document confirmed the objective of balancing the budget in 2003 and maintaining balance over the subsequent three years. The revision of current-programmes trends implemented with the budget for 2002 also affected the balances for 2003 and 2004. The ratio to GDP of the projected primary surplus was increased by 0.5 and 0.9 percentage points, respectively, thanks to the impact of the measures taken this year and the improved macroeconomic conditions that are expected as a result of the policies set out in the Planning Document. Even with these revisions, however, official assessments show that achieving budget balance in 2003 will require additional corrective measures of around 9 trillion lire.

Maintaining a balanced budget and reducing the tax burden by about 4 percentage points between 2002 and 2006, as envisaged by the Planning Document, will require stringent curbs on expenditure.

Based on information available at 8 November 2001. The Appendix is updated to 30 October 2001.

Documents

Regulatory changes concerning rules of open-end and closed-end investment funds (*)

1. Simplified rules for harmonized funds

On 20 November 2000 the Bank of Italy issued a regulation[1] allowing asset management companies to use a simplified form for the rules of open-end securities investment funds with the characteristics required by Community directives (so-called harmonized funds).

The simplified rules radically streamline the contract, eliminating clauses that merely repeat statutory or administrative provisions. The contracts have been made clearer and more readable. It is easier for the investor to compare the products offered in the market.

The framework for the simplified rules is divided into three parts: an identification sheet, a description of the fund's characteristics, and the general clauses.

The identification sheet provides information on the fund and the persons involved in its management.

The description of the fund sets out the characteristics of the product, arranged by subject in order to facilitate reading. This part of the rules, in which the fund manager has broad latitude, sets out the fund's investment strategy and fee policy. It is possible to include further provisions ("contingents") to indicate additional characteristics of the fund.

The third part (general clauses) describes the essential operational procedures of open-end securities investment funds under current law and practice.

The simplified rules answer the need of fund management companies to be able to modify their products rapidly; the new model enables the Bank of Italy to approve a fund's rules within 20 days, compared with the time limit of four months laid down by the Consolidated Law on Financial Intermediation. The shorter time limit also applies to subsequent amendments.

2. Framework for the rules of closed-end funds reserved to qualified investors

In September 2001, a framework proposed by intermediaries for the rules of closed-end funds reserved to qualified investors was accepted by the Bank of Italy as in compliance with the general criteria for fund rules. The framework embodies and should help to disseminate international best practices in determining relations between the fund manager and investors.

Given the overall positive evaluation of the framework, fund rules drafted in accordance with it can be approved in less than the four months envisaged in the Consolidated Law on Financial Intermediation. Moreover, as these funds are designed to meet special needs on the part of investors, the availability of an established framework for the rules facilitates agreement between investors and the fund manager.

(*) Prepared by the Financial Supervision Department.

1 *Gazzetta Ufficiale* 298, 22 December 2000.

New regulation on capital requirements for asset management companies specializing in high-tech venture capital funds (*)

In July 2001 the Bank of Italy allowed asset management companies that create closed-end venture capital funds reserved to qualified investors to be formed with minimum capital of only €100,000, far less than the requirement of €1 million applicable to ordinary asset management companies.[1]

This change responds to the needs of universities and research institutes, which have expressed interest in using such funds to finance scientific research directed to industrial applications. For such initiatives the €1 million capital requirement has proved to be excessive by comparison with their organizational needs and the limited amount of assets under management.

Eligibility for the reduced €100,000 requirement depends on satisfying the following conditions:

a) *shareholders of the asset management company*: the majority of the equity capital must be held by universities, research centres with legal personality, local entities, university foundations and university consortia whose equity is held exclusively by universities, university foundations, local entities and chambers of commerce;

b) *investors*: the purchase of fund units, hence the provision of financial resources, is limited exclusively to investors that the regulations define as qualified (banks, pension funds, insurance companies, etc.). If individuals are among the investors, there must be a minimum investment threshold of €250,000;

c) *types of assets*: the fund's resources can be invested only in shares or other equity securities of companies which:
   - have been recently constituted or are being constituted;
   - have the corporate purpose of research and the industrial exploitation of the results of research, as part of initiatives with a high technology content;

d) *ceiling on assets*: management companies of high-tech venture capital funds can manage assets up to €25 million. If they exceed this ceiling, the rules governing ordinary asset management companies apply.

(*) Prepared by the Financial Supervision Department.

1 *Gazzetta Ufficiale* 190, 17 August 2001.

Speeches

Globalization, economic progress and poverty reduction

Address by Antonio Fazio, Governor of the Bank of Italy, to the Conference "Work as Key to the Social Question"

PONTIFICIUM CONSILIUM DE IUSTITIA ET PACE

Vatican City, 14 September 2001

"...while earthly progress must be carefully distinguished from the growth of Christ's Kingdom, to the extent that the former can contribute to the better ordering of human society, it is of vital concern to the Kingdom of God." (Gaudium et Spes)

In his memorable 1967 encyclical *Populorum Progressio*, Pope Paul VI noted that the social question had become global, declaring that "unless the existing machinery is modified, the disparity between rich and poor nations will increase rather than diminish". He appealed to all men of good will on behalf "of those peoples who are trying to escape the ravages of hunger, poverty, endemic disease and ignorance; of those who are seeking a larger share in the benefits of civilization and a more active improvement of their human qualities; .... ".

Thirty years on, the conditions must be found for a response to this appeal, so that the benefits of economic progress can spread to all the peoples of the earth.

Man's work – the goods and services he produces for others and the collectivity – is the foundation stone of economic development. It is also a measure of progress. Fairly remunerated work furnishes man with the means to satisfy his primary needs and attain a dignified standard of living for himself and his family. Work permits each individual to realize himself fully at the personal level and at the ethical level of his opening to society.

In the nineteenth century, world output grew by 1.9 per cent per year; the population grew by 0.6 per cent per year, with a steady rise in per capita income.

In the first half of the twentieth century the growth of world output was adversely affected by the destruction wrought by two world wars; the world population, despite the heavy loss of life in Europe, grew by an average of 0.9 per cent per year.

Between 1950 and 2000 population growth doubled to 1.8 per cent per year. World output grew at an average annual rate of 4 per cent, expanding sevenfold over the period. Per capita income rose by 2.1 per cent per year to increase nearly threefold in half a century.

However, this large increase in per capita income was accompanied by growing disparities in living standards and the availability of goods between different parts of the world. Very rapid improvement in economic conditions in some countries and regions was coupled with limited gains, sometimes back-sliding, in others.

In the advanced economies, economic growth and the improvement in living standards have been based essentially on scientific and technological progress. The expansion has been driven by industry through the development of new goods, product standardization and the application of technology on a large scale. The supply of physical goods has increased rapidly. Economic development has benefited from the institutional and administrative evolution of States. The protagonist in the process of economic growth has been the enterprise, from the artisanal sole trader to the medium-sized and large firm. At the advanced stage of development the role of finance is fundamental.

In the early stages of industrialization the transformation of the organization of civil life and of social and political relationships in economies where agriculture and traditional activities predominated often led to tensions and upheavals regarding the distribution of the value of the goods produced and control of the economy.

A new set of relationships between the various economic and social groups emerged in the industrial countries, with repercussions on the legal order, political power and the organization of the State.

Once primary needs are satisfied, the structure and organization of economies are directed towards expanding the supply of services to individuals and households as well as to business and production.

Some countries lacked the political and institutional arrangements and the entrepreneurial activity needed to reap the fruits of technological progress and launch the process of industrialization.

1. The world economy in the second half of the twentieth century

The 1950s and 1960s were decades of exceptional growth of world trade and of the economy of the industrial countries.

The system moved within the framework created by the international monetary rules laid down in the Bretton Woods Agreements. Economic policy played a key role in stabilizing the economy. Controls on capital movements made it possible to prevent waves of speculation and adjust national interest rates.

In most of the industrial countries the expansion of public intervention in the economy contributed to high rates of growth in output and employment in a context of stable prices. The basic welfare state programmes were put in place and major infrastructure was built. The rapid expansion in economic activity supplied the means needed to finance the spending programmes.

These were the decades of the economic miracle in Japan, Germany and Italy. The United States grew to its full economic, industrial and financial power. In Latin America recurrent political instability and macroeconomic disequilibria caused countries' progress to be discontinuous. The evolution of China was slow. Progress involved many countries of South-East Asia only marginally, and those of Black Africa not at all.

The termination of currencies' link with gold in the early 1970s in conjunction with the excessive increase in dollars in circulation in relation to US gold reserves and, subsequently, the oil crises and wage pressures caused inflation to surge.

In 1979 the United States launched a new monetary policy aimed at curbing inflation through strict control of the volume of credit and money.

Similar policies were adopted by the other industrial countries; the monetary tightening brought down inflation but also slowed economic growth.

The rise in interest rates and the appreciation of the dollar created the first difficulties for the developing countries in servicing the foreign debt, mostly in dollars, that they had accumulated in years when interest rates had been lower and the dollar weaker.

The abundance of finance had allowed many economically backward countries to initiate development policies. The funds were not always utilized efficiently, however. Some major investment projects were unproductive. Substantial amounts were spent on weapons or fueled corruption.

Starting in the mid-1980s, in connection with the progressive removal of capital controls and the intensive use of information technology, international financial transactions began to expand much faster than in the previous decades.

The ever-wider liberalization of international trade in goods stimulated the growth and diversification of production worldwide. The inflow of financial capital fostered productive investment in some developing countries marked by low living standards, levels of social protection and labour costs but with sufficiently skilled work forces and stable political and institutional arrangements. Multinational corporations made massive investments in the emerging countries, introduced new production processes and models of consumption, and came to control a large part of world commerce. A phase of faster growth in these newly industrializing economies began, especially in Asia.

In the 1990s the fall of the socialist regimes in Russia and central and eastern Europe brought those economies into the system of international trade and financial investment.

2. The globalization of goods and the globalization of finance

Free trade in goods was a fundamental cause of the very large increase in output and the international diffusion of economic well-being in the second half of the twentieth century.

It worked to the advantage of the countries that managed to take their place within the system of world trade. Each country concentrated its productive activity in the sectors where its costs were relatively low; by selling its products, it procured goods that it lacked or whose production would have been very costly.

World trade expanded considerably in the 1950s and 1960s. From the mid-1970s to the mid-1980s the growth of commerce was slower, though remaining faster than that of world economic output. In the 1990s trade again expanded rapidly, as a consequence of the participation of developing countries.

The Uruguay Round from 1986 to 1993 was the first set of trade talks in which many of these countries were active participants. The negotiations tackled, albeit with only partial success, issues of trade in agricultural products, textiles and clothing, which had previously been excluded from the GATT.

The growth of trade involved industrial products above all, demand for which grows rapidly during the intermediate stages of development. The advantages accrued primarily to the economies that succeeded in producing medium and high-technology goods.

Many developing countries have been penalized by advanced countries maintaining import restrictions on agricultural and textile products. Some of the most backward economies have suffered from their limited ability to organize production and move profitably into the world trade system.

Raw materials have generally been exported on unfavourable terms for the producers. The exception is energy, where the producing countries succeeded in imposing high prices by limiting supply.

In merchandise trade, demand and supply generally find an equilibrium in the free market in terms of quantities and prices. The supply of goods is limited by the raw materials available, by technology and by the amount of labour employed. A sharp increase in demand makes the prices of the products and factors of production rise, stimulating supply but also reducing demand and in this way restoring equilibrium.

In recent decades it came to be believed that a stable equilibrium could also be achieved in international trade in currencies and financial instruments.

In the institutional context of purely fiduciary currencies, there is no cogent market mechanism limiting the expansion of credit, bringing supply and demand back into equilibrium. Credit and money can grow indefinitely, in parallel. Unless there is also an increase in the production of goods, destabilizing inflationary pressures will arise.

The ballooning of the nominal values of financial aggregates may lead to the instability of intermediaries and enterprises. Crises and failures halt the inflationary spiral but have the opposite effect of producing deflation, with losses of savings, the contraction of production, and unemployment.

In recent years recurrent crises have afflicted developing countries in Asia, Latin America and other parts of the world. They have been essentially financial in origin, or have seen finance play a crucial role.

When a country suffers a financial crisis, the standard of living of broad strata of the population worsens. Restoring and maintaining macroeconomic equilibrium involves sacrifices in terms of the purchasing power of wages and an increase in the tax burden. Political and social strains result.

In the wake of the Mexican crisis of the mid-1990s, with its destabilizing effects worldwide, the monetary authorities of the main industrial countries embarked on a new phase of intense collaboration aimed at preventing crises and limiting their economically and politically devastating consequences.

The earlier, sometimes ingenuous faith in the ability of market forces to achieve financial equilibrium and, at the same time, generate harmonious growth in the world economy, has given way to reappraisal. The vision, more political than theoretical, of complete freedom of financial movements is being thoroughly reassessed.

On balance, despite the problems and crises, the growth in financial activity worldwide in the last two decades can be seen as positive. Opening to trade and financial flows has stimulated the growth of output and employment in some developing countries where investment is most profitable.

The conditions and the policies must be found that, albeit in the long run, will allow the beneficial effects on living standards to spread to as many backward countries as possible.

A setting of international détente and cooperation is essential.

3. States' intervention in the economy

Free enterprise in industry and finance is indispensable for economic progress at both the national and the international level. It is the means of diffusing economic progress. But it is not sufficient for balanced development. It has to be regulated and guided with policies that, while respecting freedom of enterprise, correct its distortions and shortcomings.

In the free market a fruitful relationship is established between individual interests and the collective welfare.

In the second half of the nineteenth century the theory of human behaviour underlying the free market became that of individualism and utilitarianism. In this theoretical vision, a society's search for economic welfare is based essentially on profit maximization by each enterprise and on competition.

Economic activity must, however, be carried on within an institutional framework in which the State provides the public goods that are indispensable for the orderly conduct of civil and economic affairs: an adequate legal and administrative system, public order, justice, infrastructure and other essential government services.

The services of the State, infrastructure, rules and, more generally, public goods are not produced by market forces, by firms. They must come from a political organization, a legal system and a constitution that are rooted in the social and political nature of human activity directed towards the common good.

In order for the market, through the individual's pursuit of utility and the firm's pursuit of profit, to promote the welfare of all, it is also necessary for competition to ensure that only the goods of highest quality and lowest price win out, and for market forces not to be obstructed by privilege or, worse, corruption, to the exclusion of more advantageous solutions. A system in which inefficiency and corruption are common does not produce collective welfare; on the contrary, it holds back progress.

States' intervention in the economy is also necessary in order to stimulate productive activity at times of generalized cyclical weakness, to moderate it in phases of overheating and inflation, to get processes of growth and development under way, to facilitate and orient the choices of entrepreneurs and economic agents with adequate policies and farsightedness.

Distorted interpretations of the theory of public intervention in the economy have sometimes led to excesses. The rediscovery of economic liberalism is in part a reaction to those excesses. After the fall of the socialist regimes, this vision is tending to assert itself as the dominant political philosophy.

In order for there to be harmonious growth of the world economy, it is increasingly evident that the production of global public goods must be ensured. This will require a revision of international law.

A better distribution of the benefits of commercial and financial integration, social justice, access to the fundamental goods of nourishment and health are not guaranteed in sufficient measure by the market. It is the task of States, through cooperation, to guarantee an adequate supply.

The international community is committed to eliminating the risk, possibly following dramatic events capable of upsetting the global order, of instability with serious economic and political consequences.

4. Poverty reduction

According to the World Bank, one billion two hundred million people in the world, the large majority of them in Asia, live on less than one dollar a day. Forty-eight per cent of the population of sub-Saharan Africa and forty per cent of that of southern Asia live on less than a dollar a day.

Excluding the Far East, where the percentage of poor people declined between 1987 and 1998 from 27 to 15 per cent, there have been no appreciable reductions in the poverty rate in the developing areas in the last decade. Economic growth has been irregular in Latin America, where 16 per cent of the population still lives on less than a dollar a day. The situation has worsened in sub-Saharan Africa.

Income is not the only yardstick of living standards. Welfare is captured more fully by indices that incorporate other variables, such as health and the level and diffusion of education. Taking account of these indicators, the picture is less negative in the majority of the developing countries: between the first half of the 1970s and the second half of the 1990s, average life expectancy at birth rose from 56 to 64 years. The prospects are worrying for some African countries afflicted by grave diseases.

Demographic factors and improvements in living conditions also contribute to economic development in the long term.

4.1 *The spread of progress*

Only rapid economic growth can bring a widespread improvement in living standards.

A recent analysis by the International Monetary Fund confirms the existence of a positive correlation between an increase in national output over several years and a reduction in the number of poor people. The developing countries that have recorded low or negative growth in per capita income in the last few decades have not achieved significant results in terms of reducing poverty.

In the more advanced economic and social systems maintaining a high rate of growth requires continuous innovations, which are passed from the world of science to that of production, where they give rise to new forms of organization of work and the production of new goods.

In the most backward countries it is possible and necessary to promote economic development by replicating the methods of production of the advanced countries, albeit with the appropriate adjustments.

Processes that cumulate knowledge benefit the firms and economies that develop them and apply them to production first.

The fact that the distribution of output has failed to improve at world level – on the contrary, the inequalities have actually become more pronounced – is due, according to eminent scholars, to the slowness with which technological progress spreads to the less advanced countries.

Imitative behaviour, in the production of goods and patterns of demand, should foster the spread of progress.

This is not a pessimistic view. On the contrary, it is basically hopeful: the spread of technical, economic and organizational progress may, in time, permit rapid growth of the most backward economies as well, and possibly a closing of the gaps between countries.

There must be no impediments at the international level or within developing countries to the spread of progress. It is necessary to create the conditions, including those of an institutional and social nature, for the transmission and dissemination of knowledge. The institutes serving to provide an appropriate definition and legal protection of property rights will have to be strengthened; the commercial barriers and the social and political obstacles to the free circulation of technological knowledge will have to be removed.

The possibility of expanding output in the backward economies depends on the availability of sufficiently educated labour, able to perform the tasks required by new production processes and the economic activities that come with development.

Qualified human capital is indispensable for the use and adaptation of the new technologies: there is a marked complementary relationship between capital, on the one hand, and skilled labour, on the other.

The spread of technology can generate the mechanisms that bring an improvement in the quality of labour through learning by doing. Respected economic analyses show that the countries which have been most open to the new technologies have seen the quality of their labour forces improve through endogenous processes and recorded much higher rates of output growth than other countries that had similar initial conditions but have been reluctant to adopt new production processes.

Developing countries must be able, with sufficient political and institutional stability and thus with an adequate economic organization, to assimilate the advances that have been made in the industrial countries.

4.2 *International trade and capital movements*

A major factor for the take-off of backward economies remains that of their opening to trade, to be carried out with the necessary gradualness. With consistent policies for the reform of the domestic market, this is likely to permit the spread of progress. At the same time the poor countries have to be able to expand their exports of agricultural products and manufactures to the industrial countries, so as to exploit their comparative advantages in the production of such goods.

The countries whose economies have grown fastest are those that have had greater access to international trade.

There are still substantial obstacles to trade; they are primarily the consequence of the protectionist policies of the industrial countries for agricultural products and textiles. The level of protection of the agricultural markets of the OECD countries has fallen since the 1980s, but much less than would have been desirable.

The resistance of the industrial countries to the dismantling of the Multi-fibre Arrangement, the reluctance of Japan and the European Union to abandon their protectionist agricultural policies have allowed no more than partial results to be achieved in the process of liberalization.

The results of the Uruguay Round with regard to textiles and clothing products were disappointing for the developing countries. It is estimated that the planned dismantling of import quotas by the industrial countries has so far had a very limited impact on the exports of the developing countries.

The proposal for a new round of global negotiations launched in the ministerial meeting of the World Trade Organization in 1998 has made difficult headway since the failure of the Seattle meetings, held against a background of anti-globalization demonstrations. Forms of violence offering no constructive proposals must be isolated.

A political response is needed to the imbalances that globalization has created.

The measures recently announced by the leading countries at the Genoa summit and by the European Union with its *Everything but arms* initiative, intended to guarantee unrestricted access to imports from the 49 poorest and most backward countries, are a step in the right direction.

They are not sufficient, however. More effective measures are needed to allow the poorest countries to increase their exports of agricultural products and textiles to the richest markets.

The efforts being made to arrive at the decision to launch a new multilateral trade round must be intensified. The main beneficiaries will be the developing countries as a result of the attenuation of trade tensions and the lessening of the importance of the regional agreements from which some countries tend to be excluded.

The spread of progress at the international level remains closely linked not only to trade but also to the unrestricted movement of financial capital.

The saving rate is low in the backward countries and the need for investment high. It is natural for these countries to build up debts vis-à-vis the more advanced countries in the early stages of their development. Even substantial external debt is physiological at a time of rapid economic growth.

4.3 *Debt cancellation*

Failure to use borrowed funds efficiently may lead to an unsustainable situation, in which the payment of interest and the redemption of principal absorb a substantial proportion of the resources the country produces. Debt relief measures can break the vicious circle; they must be conditional on the implementation of structural reforms that foster an efficient use of the capital inflows.

In 1996 the International Monetary Fund and the World Bank jointly launched the initiative in favour of the heavily-indebted poor countries. The Group of Seven leading industrial countries have embraced it.

Forty-one very poor and highly-indebted countries were selected. The implementation of the programme began in 2000 with twenty-two countries. Their debt burden has been reduced by more than 50 per cent. The preliminaries are under way for the other countries but in some cases political and institutional instability and armed conflict are hindering the start of the programme.

The conflicts that are endemic in the most backward parts of the world are both the cause and the effect of poverty.

At the same time the leading industrial countries have launched initiatives to cancel the debts of the same countries on a bilateral basis. Italy is participating in this programme and has approved the cancellation of $6 billion of debt.

Debt cancellation will enable the poorest countries to take part in international trade; it will thus contribute to faster and more balanced growth of the world economy. It will help to foster greater political stability at the global level.

4.4 *Immigration and the protection of labour*

Economic growth turns into and fosters widespread welfare in the countries concerned only if it is coupled with a parallel development of rights that are fundamental for human dignity.

Compared with the past, globalization has intensified the perception of the shared nature of the human condition. New forms of poverty and social exclusion are emerging in advanced countries as well. The problem of inclusion is thus widespread and present in diversified forms at the global level.

The growing importance of migratory flows of people in search of better living conditions, or simply fleeing from situations of serious distress and oppression, brings new problems, a reality with which we must come to grips.

Forced labour, slavery and trafficking in human beings, especially women and children, are on the increase. The International Labour Organization has stated that the elimination of these phenomena requires the full collaboration of States and the adoption of measures to reduce poverty and reform the labour market.

It is necessary to intensify the efforts to cure these ills of economic life, in part through careful coordination of the national and international initiatives under way.

The achievement of basic standards, such as the elimination of child labour and the guarantee of trade union rights, fundamental objectives of economic progress, must be based on measures for the support of household incomes and school attendance. The application of trade sanctions is likely to produce the opposite effects of those desired.

The aging of the populations of the more advanced countries in the next few decades will call for large flows of immigrants from countries where living standards are miserable and the population younger. It is a new form of globalization, directly involving men and women. For the countries receiving immigrants it raises important questions of civilization and culture. But in the long term it can bring substantial advantages. In the meantime emigrants' remittances can help to alleviate the often wretched conditions in their countries of origin.

In the decades to come there will be a need for cooperation between States, not only to tackle the new emergencies, but also to take advantage of the new opportunities.

The key to the elimination of these problems also lies in more robust and sustained growth of the world economy, capable of bringing higher employment and a more balanced distribution of wealth.

Work is the fundamental means of reducing poverty, eliminating the worst imbalances and achieving the orderly life of the *polis*.

It must be possible to reconcile social tensions in an organization of collective life that permits everybody to participate in decisions and the definition of policy guidelines. Productive employment and the welfare brought by economic growth give substance to dignity and rights, to the exercise of freedom. Quoting again from Pope Paul VI's *Populorum Progressio*, it is necessary for individuals and families "to be freed from misery, ... guaranteed a fuller participation in responsibilities, with no oppression, ... to enjoy a higher level of education; in short, to do, to know and to have more, so as to be more".

5. Social doctrine

The epochal changes we are experiencing lead us to question the adequacy of economic and social ideologies based exclusively on the pursuit of profits by firms and individual participants in the market.

In his sweeping vision of universal order, Thomas Aquinas saw, together with the relationship of every creature with the Creator (*ordo ad Deum*), a reciprocal relationship among men (*ordo ad invicem*), which is the substance of the social fabric. In a realistic vision, the actions and mature and responsible motivations of men are directed not so much to advancing their own interest as to creating a material and moral welfare that pervades the environment in which they live and work. This is true not only for those who are engaged in public service but for the vast majority of private economic agents as well.

Man is born and lives in society, and this ensures the welfare of individuals to a substantial degree. The family and the State originate from a profound need, from human reason and man's moral nature; they complete and in a way extend the individual.

The advance of democracy in the second half of the twentieth century was not unrelated to the expansion of trade and finance. Economic freedom proceeds in parallel with political freedom. A system based on the market economy finds its most adequate form of political organization in democracy, in which the people are sovereign and exercises their power in constitutionally defined ways.

Maritain, with *Man and the State*, demonstrates the fundamental concord between the principles of democracy and liberty and the values of Christianity.

He considers the sovereignty of the State as residing in the people. “The People are above the State, the People are not for the State, the State is for the People”.

At the end of the nineteenth century, in the light of the great changes in the organization of production and the economic structure, changes that sometimes overturned previous social equilibria, with repercussions on the moral, civil and religious life of the multitudes, *Rerum Novarum* founded the social doctrine of the Church.

Social doctrine measured itself against the great changes that marked the twentieth century. Its landmarks include *Mater et Magistra*, *Gaudium et Spes* and, almost at the conclusion, *Centesimus Annus*. The last-mentioned reaffirms the organic link between democracy, free enterprise and economic and social progress in a context in which a fundamental solidarity prevails between citizens, firms and economic agents in respecting the rules of justice and seeking the common good.

I believe that study of the problems posed by the globalization of the economy must be conducted with a philosophical and moral analysis of the structure and dynamics of collective life, accompanied by a capacity to interpret the new that emerges in politics and the economy. This is the “methodology” adopted at the inception of social doctrine.

Laborem exercens addresses a problem of crucial importance, man’s work, the meeting-point between society and economy.

“New things” still characterize contemporary society at the national and the international level.

The innovations of capitalism, finance and communications are transforming the economy and society in the advanced countries; they will lead to major changes in the emerging countries as well.

They are a positive force, because they can bring economic and social progress to the hundreds of millions who still live precariously and in material poverty. They create new cooperative relationships at the international level. They can sometimes generate subjection and marginalization both within societies and internationally. They can overthrow the pre-existing social order in economies where the cultural substratum and the force of tradition are weakest.

They are movements that need to be coordinated and governed with a clear vision of what is good for the community, so that the maximum benefit can be derived for all.

The great transformations in the nature of work will require the revision of institutes, relationships and practices to make the best use of man’s labour, enhance growth and increase employment.

In the words spoken by John Paul II on 1 May 2000 “The new realities, ... such as the globalization of finance, the economy, trade and work, must never violate the dignity and centrality of the human person nor the freedom and democracy of peoples”.

A “strong philosophy” is needed, but it must also be open, able to re-form changing and contingent situations into a whole. A solid knowledge of economic and political realities is needed, knowledge born of the study of the relevant disciplines and of continuous comparison with an ideal structure. There must be a new and fruitful exchange between secular sciences and theological and philosophical sciences.

The great thinkers of the past have much to teach us in terms of content and method.

The Anglo-Saxon world, which is always aware of the philosophical basis of modern economic, social and political life, is rediscovering the major classical works of mediaeval and modern philosophic thought. It is significant that the first volume of a new, highly rigorous scientific collection dedicated to the foundations of modern political and social philosophy published by the Oxford University Press bears the title *Aquinas*.

The Book of Wisdom tells us that the wise man studies the thought of the ancients to discover hidden treasures, but also knows how to interpret the present and the future.

We must read the present with the aid of a vast and deep knowledge of the economic and social phenomena that characterize it, and in the light of the ancient and ever-new wisdom abundantly "deposited" in the Church.

Development that extends to every aspect of social life and the spread of economic progress that reduces disparities create work even in the poorest countries. Work contributes to the nation's welfare and raises the dignity of those who perform it. In this direction must go the reflections and decisions of those responsible for acting, the efforts of men of good will.

Closer cooperation between States is the way to achieve the peaceful community of mankind, to defeat violence and terrorism, to avert the risk of new and more sophisticated conflicts.

Today even more than yesterday, "Development is the new name of peace".

Fact-finding preliminary to the examination of the budget for 2002

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

Rome, 12 October 2001

1. The economic situation

The slowdown in economic activity that began in the United States in the second half of 2000 has spread throughout the world. In the United States, the forecast for the recovery in production, initially expected to take place in the second half of this year, has been moved progressively further into the future.

The tragic events of September 11 will have an adverse effect on the economic situation, not least because of their serious repercussions on consumer behaviour. Uncertainty about economic activity in the next few months has increased.

In the United States, the authorities have reacted promptly with further reductions in interest rates, which have fallen to their lowest level in forty years, and substantial measures to shore up domestic demand, in addition to the tax cuts already decided and now being implemented. The extraordinary budget measures approved by Congress, for a total of $80 billion, serve mainly to increase spending on defence and security and provide support for victims' families. A further package was later submitted to Congress providing for a total of between $60 billion and $75 billion of unemployment benefits and new tax cuts.

Economic recovery could materialize in the first half of next year.

In Italy, national accounts data for the first half of the year show that GDP grew by 1.3 per cent compared with the second half of 2000, 0.5 percentage points more than the average for the euro-area countries. Growth held up well in the first quarter, when it was equal to 0.8 per cent compared with the last quarter of 2000, but came to a halt in the spring, in line with the economic slowdown in the main euro-area countries and Germany in particular.

GDP growth was supported by domestic demand, especially stockpiling and household consumption.

After stagnating in the first quarter, household spending rose in the second by about 2 per cent on an annual basis, owing to the increase in disposable income, the growth in employment, the tax measures introduced in the budget for 2001, and the easing of inflationary pressures. Following a substantial increase in the first quarter that was entirely attributable to the construction sector, investment fell slightly in the second quarter, partly because it was expected that new incentives would be introduced.

The cyclical downturn of the international economy and the continued weak growth of domestic demand caused a slowdown in imports and exports. In the first seven months of 2001, the trade surplus improved by almost 9 trillion lire compared with the same period last year, mostly as a result of the fall in oil prices in lire.

Employment has continued to grow this year: between April and July, it rose by more than 127,000 or 0.6 per cent on a seasonally adjusted basis, thanks to increases of 1.2 per cent in the service sector and 1.1 per cent in the construction sector; in industry there was a further drop of 0.9 per cent.

The increase in employment in the last twelve months consisted almost exclusively of payroll workers. Permanent jobs accounted for four-fifths of the increase and included 278,000 full-time and 36,000 part-time positions. The tax incentives introduced in the budget for 2001 encouraged the growth in the number of permanent positions.

The unemployment rate has continued to decline, falling to 9.4 per cent in July, as against 10.4 per cent a year earlier. In the South and Islands, the rate fell to 19.1 per cent and in the North to 3.9 per cent.

The acceleration in consumer prices that had been under way since 1999 came to a halt at the start of the summer. In Italy the twelve-month rise fell to 2.8 per cent in August and, on the basis of the preliminary indications from the main cities, declined to 2.6 per cent in September. The impact of external factors on consumer prices was limited by the moderation shown by domestic cost factors. The average annual increase in the consumer price index should be around 2.8 per cent.

In the summer, cyclical indicators showed that economic activity was still weak: in the third quarter, there was no change in industrial output on a seasonally adjusted basis. On the other hand, there were signs of a recovery in firms' demand expectations. The trends and expectations will now have to be verified in the light of the new international scenario. If GDP remains at its second-quarter level for the rest of the year, the Italian economy will grow by 1.8 per cent in 2001; a growth rate of nearly 2 per cent could be achieved.

Monetary policy has become more expansionary in Europe and all the major countries. Yield curves are everywhere at historically low levels. In the days immediately following the terrorist attacks in the United States, stock markets recorded sharp falls, most of which have since been made good.

2. The public finances in 2001

2.a *Definition of the targets*

The Economic and Financial Planning Document of June 2000 set a target of 1 per cent of GDP for general government net borrowing in 2001.

In September 2000, with the Planning Document Update and the Forecasting and Planning Report for 2001, the estimates of tax revenue on a current programmes basis were raised. The increase in receipts, attributed to structural factors, was used almost entirely to make further tax cuts.

According to official estimates, the budget approved by Parliament at the end of 2000 was expected to keep net borrowing in 2001 within 0.8 per cent of GDP, the figure indicated as the target in the Stability Programme Update submitted to the European Commission last December.

2.b *The first half of 2001*

The results for the borrowing requirement were decidedly poor in the early months of this year. In the March Quarterly Report on the Borrowing Requirement, the estimate of net borrowing in 2001 was raised to 1 per cent of GDP again. At the same time the estimate of the public sector borrowing requirement, which refers to an aggregate very similar to general government, was increased. Net of privatization receipts and the settlement of past debts, the new figure was 57.8 trillion lire or 2.4 per cent of GDP.

The Planning Document for 2002-2006, presented by the Government last July, showed a further deterioration in the estimates for 2001 on a current programmes basis. General government net borrowing was raised to 1.9 per cent of GDP and the state sector net borrowing requirement to 71 trillion lire or 3 per cent of GDP.

The estimates for this year continued to show the wide gap recorded in 2000 between the data on a cash basis and those on an accrual basis as defined by ESA95. Given how difficult it is to evaluate the items that go towards determining this gap, the Document prudently proposed a second estimate for net borrowing on a current programmes basis of 2.7 per cent of GDP.

Despite the worsening of the estimates, the Document confirmed the target of 0.8 per cent of GDP that had been indicated for general government net borrowing in the Stability Programme Update. It stressed, however, that the target would be hard to achieve in view of the trends in the public finances, the weakening of economic activity and the limited time available to apply corrective measures.

2.c *The last few months*

During the summer the Government curbed expenditure, particularly on purchases of goods and services, and formulated measures to relaunch economic activity. With the aim of reducing the deficit, it also approved block sales of general government real estate and made a new compact with the regional governments on healthcare spending.

The compact is based on recognition that the resources assigned to the sector are inadequate to cover the actual levels of spending. Increasing these resources will reduce the formation of hidden deficits. In particular, the compact envisages a contribution by central government to making good the deficit for 2000 and an increase of 7 trillion lire in central government appropriations for healthcare in 2001. In order to benefit from the latter increase, regions will have to monitor the trend of expenditure during the year, sign the agreements covering purchases of goods and services, and keep the provision of services within the limits of essential expenditure. The Government, in agreement with the Standing Central and Regional Government Conference, must adopt a measure by 30 November establishing essential levels of assistance consistent with the resources assigned. This measure should permit application of the principle, confirmed in the compact, that the responsibility for financing any spending overshoots lies with the level of government that caused them.

Since the summer the borrowing requirement has shown signs of improving; it benefited above all from the yield of the flat-rate tax in lieu of income tax on the revaluation of corporate assets, which totaled 9.6 trillion lire, compared with a forecast of 1.9 trillion; these receipts, however, will result in losses of revenue in the years ahead.

At the end of September the Forecasting and Planning Report for 2002, taking account of the government measures, estimated net borrowing for the current year at 1.1 per cent of GDP.

As regards outturns, in the first nine months of 2001 the state sector borrowing requirement net of privatization receipts and settlements of past debts was 57.5 trillion lire, compared with 46.6 trillion in the same period of 2000. The gap of 11 trillion is expected to narrow in the last two months of the year.

The general government borrowing requirement in the first eight months amounted to 38.6 trillion lire, 800 billion less than a year earlier.

The balances indicated for 2001 were calculated excluding tax refunds paid via the postal system, which amounted to more than 4 trillion lire.

The figure for net borrowing indicated in the Forecasting and Planning Report can be achieved only with tight curbs on outlays in the last three months of the year, the materialization of substantial receipts from the property sales now being planned and, above all, persistence of the marked gap between the data on an accrual basis and those on a cash basis. The latter – calculated by the Bank of Italy with reference to securities issued by central government and other public bodies, loans granted to the same by banks, and postal savings – show exactly how much debt these public bodies accumulated in each period.

As I remarked in my testimony on the Economic and Financial Planning Document, the size of the gap between the borrowing requirement and net borrowing is not in line with the pattern of the second half of the 1990s; it reflects the incomplete information available and cannot last, since the data on a cash basis are necessarily related to those on an accrual basis.

3. Action to relaunch the economy

The legislation “First steps to relaunch the economy” that Parliament has just approved includes investment incentives and measures to encourage the regularization of irregular employment. In addition, the Government has approved a decree law aimed at encouraging the repatriation of capital and the regularization of assets held abroad.

3.a *Investment incentives*

To promote new investments, temporary tax relief valid until 2002 has been granted similar to that in effect between 1994 and 1996. As then, 50 per cent of the cost of investments exceeding the average of the five previous years can be deducted from taxable income. The scope of the new measure has been extended to spending on staff training and to include self-employed workers, banks and insurance companies.

Firms made wide use of the relief in force between 1994 and 1996 and investment activity received a significant boost. In estimating the economic effects of the current measure, it is necessary to consider the context in which it falls. In 1994 the economy was coming out of a negative investment cycle and tax incentives for capital formation had not been introduced previously. In the last three years firms have benefited from specific reliefs; gross fixed investment has expanded at high rates in real terms, but there are signs of a slowdown.

The technical report accompanying the measure suggests that in the first two years the loss in revenue caused by the reliefs will be more than offset not only by the abolition of pre-existing reliefs but also by the increase in revenue connected with the economic growth stimulated by the new incentives. The report estimates a gain in revenue of 1.9 trillion lire in 2001 and 5.5 trillion 2002, followed by a loss of 2.2 trillion in 2003.

With regard to these estimate, it is necessary to point out that the increase in receipts of income tax and the regional tax on productive activities should be calculated on the additional volume of investment with respect to that which would have been carried out in any case and not relative to the average for the five previous years. Moreover, a part of the demand for new capital goods could flow abroad, dispersing the effects on economic activity beyond Italy's borders. Among the indirect effects on revenue, consideration has been given to those tied to consumption, which are generally ignored in estimates of this kind.

The incentive will stimulate investment and contribute to overcoming the current cyclical phase. Owing to the marked uncertainty about the course of economic activity in the coming months, econometric estimation of its impact is difficult. For the incentive to be effective, it will have to operate in a context of structural reforms fostering faster growth.

3.b *Bringing irregular employment into the open*

The regularization of employment relationships that violate the laws on taxes and social security contributions is to be encouraged by means of a composition of tax and social security liabilities for past years, supplemented by an easier regime to be applied in 2001 and the subsequent two years. There is also a special plan of compliance controls for tax and social security purposes, based on cross-checking the records of public service operators, tax and social security registers, and real and personal property registers.

The technical report accompanying the measure forecasts additional revenue on a cash basis amounting to 7.9 trillion in 2001 and 10.6 trillion in 2002. Only one fifth of the forecast revenue for 2002 is included in the budget.

The estimates contained in the report assume that one quarter of irregular employment will be brought into the open. Regularization requires an agreement between the company and the worker, which could prove difficult.

Reducing the scale of irregular employment is a goal of great social and economic importance. If significant and lasting results are to be achieved, at the end of the period of facilitation the framework of payroll taxes and labour market regulation must be such as will ensure the continuation of regular employment.

3.c *Repatriation of capital and the regularization of assets held abroad*

In September the Government approved a decree law providing for the disclosure of assets held abroad by natural persons in violation of the rules on tax monitoring. The measure permits individuals to repatriate or regularize such assets by paying a sum equal to 2.5 per cent of the amount declared or by investing a sum equal to 12 per cent in special government securities. Within the limits of the tax base constituted by the assets declared, the operation precludes all tax assessments and renders inapplicable the related administrative, tax and social security sanctions, and makes tax crimes other than fraud non-punishable.

Disclosure, effected by means of a confidential declaration of assets filed with an intermediary, involves the actual repatriation of the funds or the regularization of the assets held abroad. Only in the latter case does the declaration give rise to a notification naming the taxpayer to the tax authorities, as provided for by the rules on tax monitoring. In neither case may intermediaries transmit the contents of the declaration to the tax authorities; however, they are still required to record the transactions and transmit the data in the event of a request by the criminal justice authorities and in the cases provided for in order to combat money laundering.

4. The budget for 2002

The Economic and Financial Planning Document that the Government presented in July contained a baseline forecast for general government net borrowing in 2002 of 42.2 trillion lire, or 1.7 per cent of GDP.

In presenting the Finance Bill the Government has revised the baseline forecast for net borrowing downwards by around 12 trillion lire to 30 trillion, or 1.2 per cent of GDP. It has confirmed the objective of 0.5 per cent of GDP, equal to 12.6 trillion, indicated in the Stability Programme Update. The budget adjustment amounts to 17.6 trillion lire, or 0.7 per cent of GDP.

4.a *Revenue*

According to the official estimates, the planned adjustment will bring in net additional revenue of 21.3 trillion lire.

The measures to increase receipts and thereby curb net borrowing, amounting to over 26 trillion lire, are all of a one-off nature. The structural measures will be put in place with the measures accompanying the Finance Bill, which the Government has said it will present to Parliament in November.

The bulk of the increase in revenue planned for 2002 is to come from property sales, which are expected to yield 15 trillion lire. The sales are to be made to private companies, which will finance their acquisitions with domestic and foreign bond issues.

The remaining increase in revenue, amounting to almost 11 trillion lire, is connected primarily with extraordinary measures: the condonation of irregular employment (2 trillion); the incentive for declaring assets held abroad (1.9 trillion); the revaluation of companies' shareholdings and fixed assets and that of building sites owned by natural persons (4.7 trillion). The residual 2.6 trillion of additional revenue comes from the repeal of the reliefs enacted in the previous Finance Law and other minor measures.

The reductions in revenue amount to 5 trillion lire and are predominantly of a permanent nature. The principal measures concern the revision of the structure of tax credits for dependent children (more than 2 trillion lire) and some provisions in favour of employment (1.4 trillion). In addition, the elimination of minor taxes is to continue and the tax reliefs for building renovation work that were to expire at the end of 2001 will be extended for six months.

4.b *Expenditure*

The net increase in expenditure is estimated at 3.7 trillion lire.

The measures to reduce spending amount to more than 7 trillion lire.

The curbs on the growth in the current expenditure of local authorities under the domestic stability pact are expected to bring savings of more than 2 trillion lire. The planning of public sector hiring should reduce expenditure by almost 2 trillion. Expenditure savings of 1 trillion are forecast from action to rationalize purchases of goods and services. Spending cuts totaling 2 trillion are forecast to come from the revision of budget appropriations.

The increases in expenditure, forecast at 10.8 trillion lire, are largely of a permanent nature. They mainly concern contract renewals in public employment (3.4 trillion net of the effects on revenue) and increases in the lowest pensions (4.2 trillion).

4.c *Evaluation of the budget*

The Economic and Financial Planning Document outlined an economic policy designed to consolidate the public finances while strengthening the prospects for growth over a five-year span. Key points of the planned action are reduction of the tax burden, moderation of the growth in current expenditure and construction of major infrastructure. A modernization of economic and labour market regulation is planned.

The budget for 2002 comprises measures aimed at fostering economic activity and supporting the income of some strata of the population; better coordinating the action of the different levels of government and rationalizing expenditure on goods and services; and accelerating the sale of public property not related to the activities of general government.

According to the official estimates, the targets set in the Stability Programme Update will be achieved. The large-scale recourse to temporary measures attenuates the restrictive impact on disposable income during a cyclical slowdown but postpones structural adjustment, with adverse effects on expectations.

The effectiveness of some measures will depend on the procedures for their implementation and on the market's response. This is the case, as noted, with the tax incentives for new investment and for regularizing off-the-books employment. The plans to hold online auctions and use private firms to supply services now produced by government departments depend crucially on the action of administrators. Collaboration between the different levels of government is essential if the new rules on decentralized finances are to be effective.

Arrangements must be made for the implementation of the measures and their impact to be constantly monitored during the year, so that the necessary adjustments can be made promptly.

The ratio of primary expenditure to GDP was 37.1 per cent in 2000; according to the official estimates it will rise slightly to 37.2 per cent in 2001 and 37.3 per cent in 2002.

The lack of progress in containing current expenditure and the need to reduce the deficit prevent significant reductions in taxation in 2002. The ratio of taxes and social security contributions to GDP will decline only marginally, from the 42.2 per cent forecast for 2001 to 41.9 per cent.

The action initiated with the measures contained in the Finance Bill must be strengthened by curbs on expenditure that alter the medium-term trend.

In order to permit a rapid reduction in the tax burden and compensate for the lapsing of the temporary measures, total expenditure will have to be reduced in relation to GDP by approximately one percentage point per year over the next few years.

5. The public finance objectives for 2003-2006

Last July's Economic and Financial Planning Document confirmed the objective of balancing the budget in 2003, which had been set in the previous year's Planning Document and in the Stability Programme Update in December. The balance, according to the Document, should remain stable over the following three years. This is a fundamental objective whose attainment, together with the downsizing of the public sector, is necessary to strengthen Italy's prospects for growth.

In presenting the budget package for 2002, the Government also revised the baseline projections for 2003 and 2004. This resulted in improvements in the primary balance of 13 trillion lire in 2003 and 23 trillion in 2004. The revision is ascribed mainly to the better macroeconomic picture, which accounts for budgetary improvements of 7.5 trillion lire in 2003 and 18 trillion in 2004. The previous estimates were based on forecasts of economic growth of 2.2 per cent in 2003 and 2.1 per cent in 2004. The revised estimates appear to be based on the growth rates indicated in the Forecasting and Planning Report, namely 3.0 per cent in both years.

To achieve a balanced budget in 2003, an adjustment of about 9 trillion lire is envisaged for that year.

The Planning Document calls for a reduction in the ratio of taxes to GDP of about 4 percentage points between 2002 and 2006. This can be achieved only with action to curb expenditure.

It is necessary that the structural reforms be implemented in 2002.

The improvement that Italy has achieved in its public finances enabled the country to participate in Economic and Monetary Union from the outset. This has produced benefits in terms of interest expenditure: despite the increase in the size of the debt in absolute terms, interest payments have declined from nearly 220 trillion lire in 1996 to a forecast 150 trillion this year. The ratio to GDP has fallen from 13 per cent in 1993 to a forecast 6.2 per cent.

The acceleration of the reduction in the public debt will ensure further decreases in the incidence of interest expenditure. Achieving a balanced budget will make it possible to turn fiscal policy to the purpose of economic stabilization.

6. Structural reforms

The aging of the population tends to produce a gradual increase in public spending. The integration of markets makes tax bases more mobile, with potential losses of revenue. These problems are serious in Italy, where the decline in the birth rate has been particularly pronounced and the volume of off-the-books employment is comparatively large, so that only a part of the economy bears the burden of taxation. Ways must be found to render the achievement of the traditional income-distribution aims of social policy and the supply of essential public services compatible with tax rates that are not excessively high.

6.a *The pension system*

A revision of some aspects of the pension system is necessary.

The ratio of pension spending to GDP must come down gradually to allow a reduction in the tax burden and make room for a higher level of public investment. The introduction of the new criteria must be gradual and take account of the impact on the distribution of income.

The outlook for the system was extensively analyzed by a committee instituted by the Ministry of Labour and Social Policy. According to its report, the incidence of spending by the main public pension schemes will increase progressively during this decade and the following ones. The committee's scenario shows pension expenditure rising to 14.5 per cent of GDP in 2010 and nearly 16 per cent in 2030.

The share of output going to pay pensions will be an increasing burden on the wage bill. The social security equilibrium rate, defined as the ratio of pension spending to labour compensation, would rise, for all public pension schemes, from 42 per cent in 2000 to nearly 47 per cent in 2030. For employees in the private sector the equilibrium rate would rise to over 48 per cent, as against the present legal contribution rate of 32.7 per cent. These trends imply a further increase in social security contribution rates, which are already higher than in the other major countries, or else more funding out of general tax revenues. Both solutions run counter to the need to make the economy more competitive.

The present public pension system has a number of problems. The transitional period under the 1995 reform is long. Not until 2030 will pension awards be almost entirely contribution-based. The average age at retirement remains relatively low. The trend in spending reflects a sharp reduction in the ratio of the average pension to average earnings and a considerable increase in the number of pensioners. The development of private pension plans is impeded by the lack of sufficient tax incentives, the limited use of allocations to severance pay funds and the high level of social security contributions.

To avoid an adverse impact on the standard of living of future retirees, savings on pension outlays must be attained principally by raising the actual age at which people retire. The rise in the ratio of pensioners to persons in employment must be slowed down; the employment rate for the 50-65 age-group is significantly lower in Italy than in the rest of Europe.

The public pension system must continue to provide an adequate income to all old people. At the same time, impetus must be imparted to the development of supplementary, funded pension plans. This will make it possible to begin the gradual lowering of social security contribution rates. A mixed pension system, partly pay-as-you-go and partly funded, will permit the diversification of workers' risks. Supplementary pension funds contribute to the development of the capital markets; they can increase the flexibility of the system and its ability to meet workers' needs. They must operate in a competitive environment. Workers must be assured the fullest possible freedom of choice.

6.b *Health Care*

In the field of health care, the efforts to achieve greater efficiency in service provision need to be continued. Defining the operational and financial responsibilities of every institution is essential.

Reform must guarantee adequate levels of assistance and the quality of services. Long waiting lists must be avoided, because they amount to a form of rationing, to the detriment of the weakest groups. The production of services must meet standards of efficiency that keep the expenditure to be defrayed by the public sector within limits.

The agreement of 8 August lays the basis for defining the criteria for attributing responsibility for any spending in excess of appropriations. It establishes the procedures for forecasting and monitoring expenditure. The agreement places substantial additional charges upon the central government and sets levels of essential health care consistent with the new volume of resources available. Making the new state funding conditional upon fulfilment of certain obligations strengthens the incentive for cooperation. The application of the agreement will be complex. In the past, the results of analogous initiatives have fallen short of expectations. The Government must take care to ensure it is implemented properly. The agreement is a transitional measure with a view to the reorganization of the entire health care sector.

6.c *The efficiency of the public administration*

Government efficiency is one of the most important factors in national economic competitiveness.

Continuing the actions undertaken in recent years, the Planning Document outlines a plan for administrative reorganization and streamlining. Operational arrangements guaranteeing the efficient allocation of resources must be devised. Some functions can be decentralized; some services can be entrusted to the private sector.

The gradual reduction of employment in some parts of the public sector must be accompanied by greater investment in human capital, in order to improve managerial and operational capabilities.

6.d *Decentralization*

It is essential that decentralization be based on the strict observance of budgetary constraints at all levels of government.

Without a link between responsibility for spending and accountability for financing, the expected allocational benefits of decentralization would be lost. The lack of stringent budgetary rules for local government makes it hard to control the public finances at national level.

In this context, it is crucial to devise an accounting and reporting system that provides timely and accurate data on budget balances and the resources allocated to the various functions.

* * *

The budget for 2002 is part of a broader plan aimed at accelerating the country's development.

Some of the deficit-containment effects of the provisions of the Finance Law are temporary. The risk of budgetary disequilibria re-emerging in future years must be averted.

The provisions aimed at relaunching economic growth and the Finance Law will have positive effects on demand in the short term.

The economic policy design will be completed only with the structural measures to be introduced with the legislation accompanying the Finance Law.

In order to return to a path of sustained growth, it will be necessary to bring about an improvement in the competitiveness of the economy, based on a reduction in current public expenditure in relation to GDP, on a gradual but significant easing of the tax burden and on labour market flexibility. The "white paper" of the Ministry of Labour and Social Policy moves in the right direction. Action on the pension system must be flanked by a plan for the reform of the national health system.

It is necessary to increase our endowment of infrastructure. Measures to step up public investment must be implemented quickly and resolutely.

The measures on behalf of the population strata in conditions of economic difficulty are desirable with a view to the equity of income distribution.

Even in a negative phase of the cycle we must remain aware of the benefits of a lasting adjustment of the public finances.

The cyclical difficulties and the uncertainties concerning the international framework must act as a spur to innovation. They make it urgent to enact reforms that can improve expectations, achieve high levels of employment and accelerate growth.

Some of the figures shown here differ slightly from those in the original statement in that they take account of data that became available subsequently.

Table 1

State sector balances (1)
(billions of lire)

	Year			First 9 months		
	1998	1999	2000	1999	2000	2001 (2)
Net borrowing requirement (net of settlements of past debts and privatization receipts) (1)	**58,503**	**30,994**	**49,150**	**45,545**	**46,634**	**57,496**
Settlements of past debts	4,770	12,118	8,904	9,573	6,924	12,673
in securities	*–1,631*	*6,171*	*5,154*	*5,169*	*5,012*	*0*
in cash	*6,401*	*5,947*	*3,750*	*4,404*	*1,912*	*12,673*
Privatization receipts (3)	–15,277	–43,839	–29,951	–786	–259	–8,367
Total borrowing requirement (1)	**47,996**	**–727**	**28,103**	**54,332**	**53,299**	**61,802**
Financing						
Medium and long-term securities	79,662	47,981	36,644	85,590	54,228	30,227
Treasury bills	–35,483	–35,107	–33,982	–15,794	–12,586	41,008
Treasury current accounts with BI	15,578	–14,048	18,797	–14,660	3,323	–22,119
Other Bank of Italy financing	384	46	–2,938	118	–2,736	245
Post Office funds	6,400	17,418	9,023	12,690	5,143	9,391
Bank lending (4)	–6,727	–7,047	–21,916	–6,497	–19,414	–7,652
Other domestic financing	405	98	3,015	61	1,919	1,271
Foreign loans (5)	–12,223	–10,068	19,460	–7,176	23,422	9,431
Memorandum item:						
Net borrowing requirement including tax refunds paid via the postal system (1)	58,503	30,994	49,150	45,545	46,634	61,659

(1) A plus sign indicates a deficit, a minus sign a surplus. – (2) Provisional data. – (3) Includes the part of the proceeds of the sale of UMTS licences used to reduce the public debt (20,736 billion lire). The remaining part of the proceeds received in 2000 (2,304 billion lire) was recorded under revenue. – (4) Includes redemptions of loans granted to local authorities. – (5) Includes commercial paper.

Table 2

Estimated effects of the budget for 2002 on the general government consolidated accounts (1)

(billions of lire and millions of euros)

	lire	euros (2)
REVENUE		
Increase in revenue	**26,200**	**13,530**
Property sales	15,000	7,740
Irregular employment brought into the open	2,000	1,030
Repatriation of capital from abroad	1,900	980
Lotteries and the like	1,000	520
Voluntary revaluation of shares, capital parts and other fixed assets	4,700	2,430
Change in Irpef rates	1,600	830
Decrease in revenue	**–4,900**	**–2,530**
Increase in tax credits for dependent children	–2,100	–1,090
Suppression of INVIM	–500	–260
Suppression of tax on shop signs	–200	–100
Extension of building restructuring incentives	–500	–260
Extension of measures regarding VAT	–200	–100
Social security contribution reliefs	–1,400	–720
NET CHANGE IN REVENUE	**21,300**	**11,000**
EXPENDITURE		
Reduction in expenditure	**–7,100**	**–3,670**
Domestic stability pact	–2,300	–1,190
Staff costs	–1,700	–880
Transformation of public entities and intermediate consumption	–1,100	–570
Revision of budget appropriations in the 2002 Finance Law	–2,000	–1,030
Increase in expenditure	**10,800**	**5,570**
Renewal of labour contracts	3,400	1,750
Increase in minimum pensions	4,200	2,170
Measures for the South, infrastructure and firms	2,300	1,190
Transfers to households and developing countries	700	360
Other	200	100
NET CHANGE IN EXPENDITURE	**3,700**	**1,900**
TOTAL REDUCTION IN PRIMARY NET BORROWING	**17,600**	**9,100**

(1) Based on official estimates. – (2) Rounding following the conversion into euros may cause discrepancies in totals.

Table 3

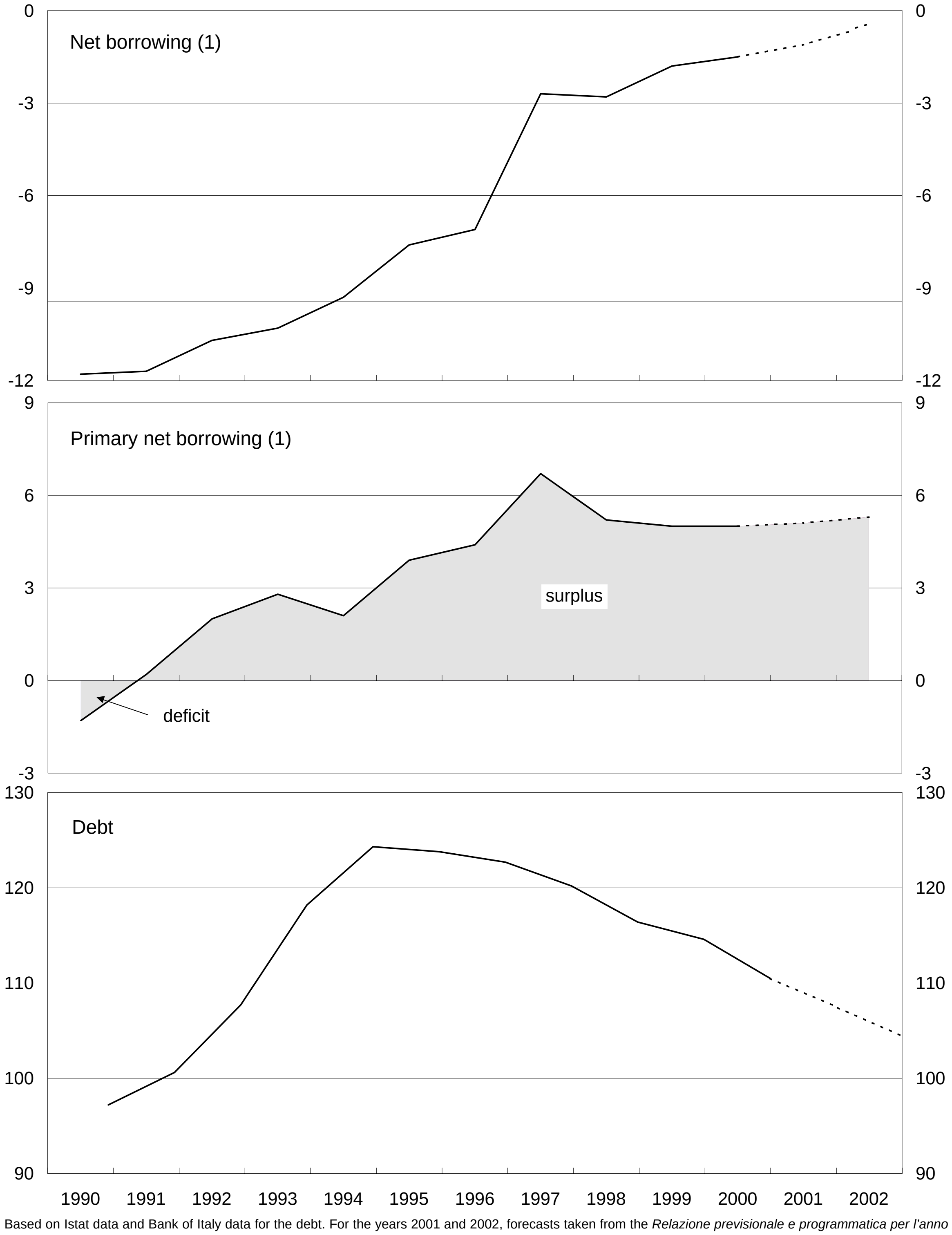
General government budget outturns and targets

	1998	1999	2000 (1)	2001	2002	1998	1999	2000 (1)	2001	2002
	(billions of lire)					*(as a percentage of GDP)*				
Net borrowing	58,745	37,724	34,310	26,700	12,600	2.8	1.8	1.5	1.1	0.5
Interest payments	166,757	144,781	146,126	146,800	144,500	8.0	6.7	6.5	6.2	5.8
Primary surplus	108,012	107,057	111,816	120,100	131,900	5.2	4.9	5.0	5.1	5.3

Sources: Istat and, for 2001 and 2002, *Relazione previsionale e programmatica per l'anno 2002.*
(1) Excludes the proceeds of the sale of UMTS licenses (26,750 billion lire).

Figure 1

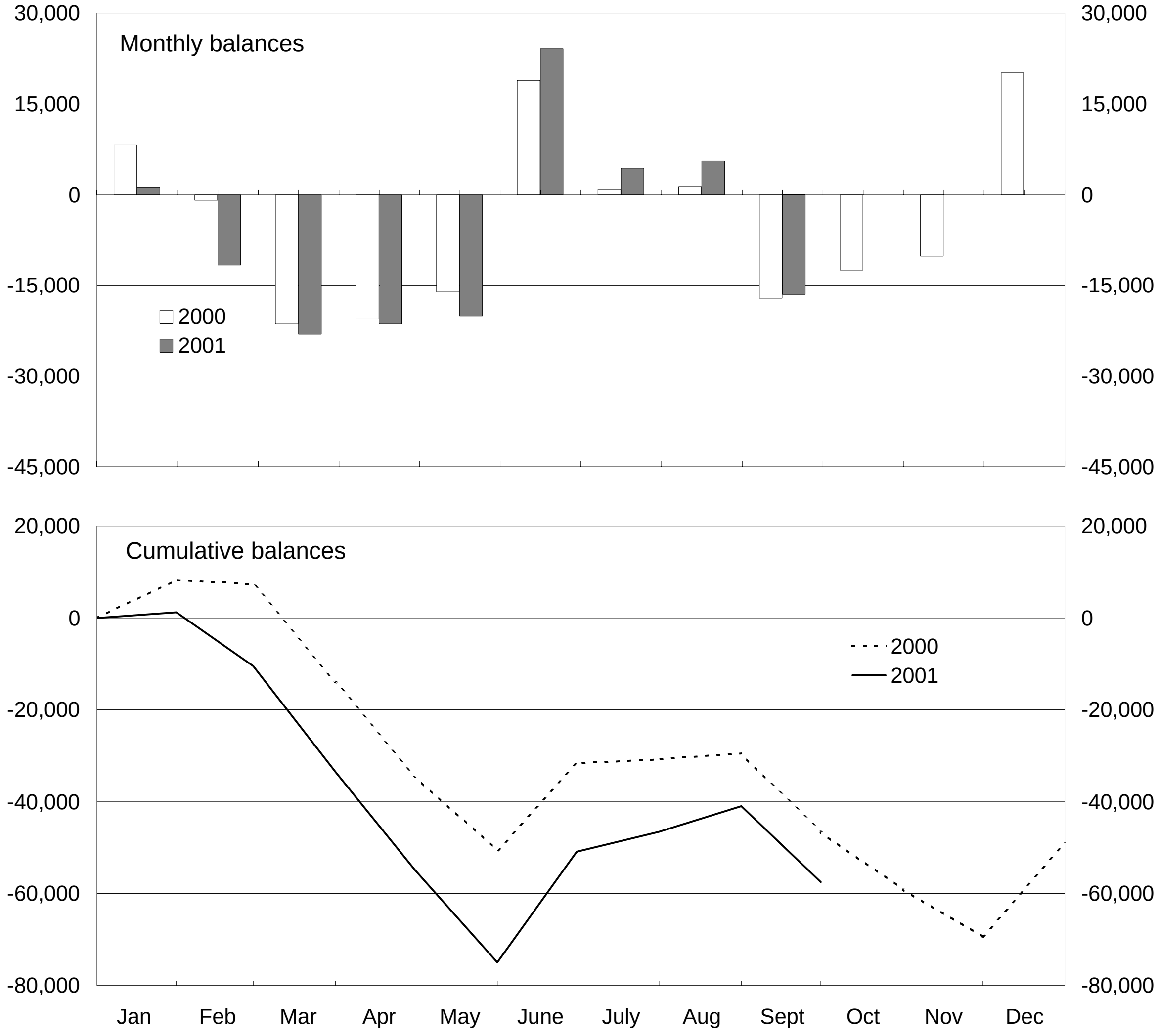
General government net borrowing, primary net borrowing and debt
(as a percentage of GDP)



Sources: Based on Istat data and Bank of Italy data for the debt. For the years 2001 and 2002, forecasts taken from the *Relazione previsionale e programmatica per l'anno 2002.*
(1) Excludes the proceeds of the sale of UMTS licenses (26,750 billion lire in 2000).

Figure 2

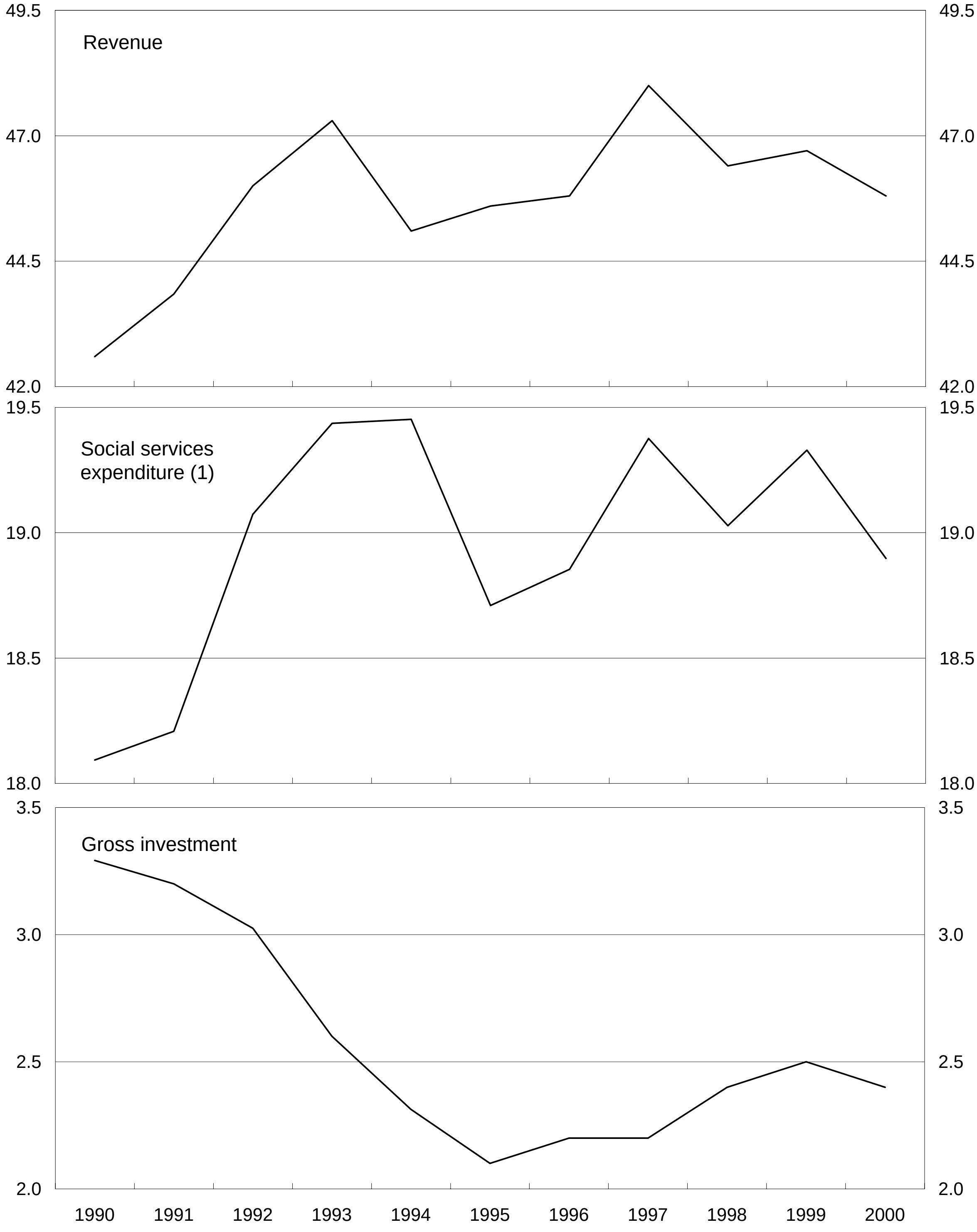
State sector borrowing requirement in 2000 and 2001 (1)
(billions of lire)



(1) Excludes privatization receipts and settlements of past debts. A plus sign indicates a surplus, a minus sign a deficit.

Figure 3

General government revenue, social services expenditure and gross investment (1)
(as a percentage of GDP)



Source: Based on Istat data.
(1) Includes social services in money and in kind.

2001 World Savings Day

Address by Antonio Fazio, Governor of the Bank of Italy, to the Association of Italian Savings Banks

Rome, 31 October 2001

1. Financial markets

On several occasions, starting in March 2000, I drew the attention of investors, market participants and intermediaries to the discrepancy in the leading markets between share values on the one hand and profits and expected dividends and the level of long-term interest rates on the other.

Only growth rates for profits and dividends two or three times that expected for GDP would have justified the level of stock market prices, even assuming a lower risk premium than had been observed in the past.

In the months that followed, technology stocks began to fall; in the leading markets the general index declined to a lesser extent; in Italy there was a drop of 14 per cent. Prices began to rise again in the summer, stimulated by abundant liquidity and also in response to the favourable performance of the world economy in the second half of 1999 and the first few months of 2000.

At the end of May, I repeated the warning about the discrepancy between stock market prices and underlying economic conditions.

At the same time it was becoming increasingly evident that the acceleration in economic activity in 1999-2000 had also been linked to the abundance of liquidity.

I warned that, in the absence of structural adjustments in the European economies, the growth in demand would create inflationary pressures and thereby frustrate the expectations of an expansion in economic activity. Subsequent developments confirmed this analysis.

In the first half of 2001 the industrial countries recorded a sharp slowdown in economic activity that began in the United States.

In the spring of this year share prices appeared more reasonable compared with the excesses of the previous year, but still would have been justified only by a rapid economic recovery.

In the summer the economic slowdown led to the downward revision of expectations; share prices continued to decline, especially in late August and early September.

The terrorist attacks accentuated the decline. The deterioration in the economic outlook and the problems of some important sectors triggered a new wave of sales. Prices in some sectors fell below the equilibrium level, estimated on the basis of a prudent assessment of the fundamentals.

In mid-September prices in the leading markets were down on average by one-fifth compared with a month earlier, by 30 per cent compared with the spring, and by 40 per cent compared with the peaks reached in the first few months of 2000. Expansionary fiscal policy in the United States and the prompt easing of monetary conditions were conducive to a recovery in prices.

On the Italian market, the movements of the last forty days have brought prices back to a level that appears not inconsistent with their long-term equilibrium values.

It should be noted that there has been a structural reduction in the risk premium on the leading markets.

In the last three or four years markets appear to have been addicted to past trends and blind to future developments.

The call must be repeated, in the first place to analysts and market participants, to assess individual securities realistically with reference to the outlook for growth and profits in each sector and in the light of the general context defined by interest rates, inflation and economic growth rates.

The reputation of intermediaries and market operators is based on their ability to discern widespread and lasting price movements, both up and down. The recent swings on stock markets can clearly be seen as speculative bubbles in which imprudent market operators have been involved; they have been harmful for investors, the orderly conduct of business on financial markets, the financing of investment, and economies as a whole.

The share price level is compatible with positive expectations for 2002 and beyond. These must be verified in the light of developments in the industrial countries. Policy measures must be directed to ensuring economies, and Italy's in particular, succeed in fulfilling these expectations.

2. Economic developments

The US economic expansion, which had begun to slow down in the middle of 2000, virtually came to a halt in the first half of this year as a consequence of the sharp fall in investment, especially in high-tech goods.

The short-term expectations of manufacturing firms and consumers improved during the summer, suggesting the possibility of a cyclical upturn as early as the last few months of this year, partly in response to the tax cuts approved in May and the fall in interest rates.

In the euro area the GDP growth rate in the first half of 2001 dropped to an annualized 1.8 per cent, almost half the average rate in 2000. Notwithstanding a slight acceleration in household consumption, which was boosted by expansionary fiscal measures in the leading countries, growth in domestic demand slowed down owing to the fall in investment, which was especially pronounced in Germany.

In Italy GDP grew in the first half of 2001 at an annual rate of 2.5 per cent, as against 2 per cent in the second half of 2000; the growth all came in the first quarter, with economic activity stagnating in the second. The growth rate in the first half of the year was slightly above that recorded by the other leading euro-area countries; the result benefited from the tax reliefs introduced at the end of last year and the rise in employment.

Investment fell in the second quarter. In the first half of the year it grew by 1.2 per cent. Even factoring in a recovery in the second half, the increase for the year as a whole will be the smallest since 1994.

From May onwards there was an improvement in firms' expectations regarding orders; in July the indicator published by the Bank of Italy and ISAE improved for the third successive month, suggesting the possibility of an upturn at the beginning of 2002.

In the summer manufacturing activity stopped declining and remained at the level recorded in the spring; after falling in July, the index of industrial production recovered in August and is estimated to have remained unchanged in September. Orders, except for investment goods, continued to decline.

At the beginning of September the International Monetary Fund expected the world economy to grow by 2.6 per cent on average in 2001, more than half a percentage point less than the forecast of just a few months earlier. The Fund expected the US and euro-area economies to grow by 1.3 and 1.8 per cent respectively. For Japan it forecast a fall in output of 0.5 per cent.

The terrorist attacks greatly increased the uncertainty regarding the outlook for the world economy. The central banks of the leading industrial countries responded rapidly with joint action that led to a general and significant easing of monetary conditions.

In the United States the effects of the attacks on economic activity have been considerable. They have mainly been due to the temporary interruption of production in some sectors that were directly affected and the sharp fall in demand for some services perceived by consumers to be especially exposed to risk. In September retail sales contracted by 2.4 per cent; purchases of durable and luxury goods fell. In October there was a further deterioration in the climate of confidence among households. In all likelihood business investment – which had already been contracting in the first part of the year owing, among other things, to the fall in profits – will have begun to be affected by the increase in uncertainty regarding demand.

In Europe the climate of confidence among households has continued to deteriorate after September 11. In Italy the index fell only a little in September and held steady in October. Evidence of changes in consumer spending decisions has been found for some services and for car purchases.

Both the ISAE and the Bank of Italy business opinion surveys conducted between late September and early October revealed a widespread worsening of firms' expectations regarding orders, especially in the short term. Looking further ahead, firms appeared to be more optimistic, probably because they assumed the crisis would be overcome rapidly.

Banks kept conditions in the market for loans easy in the second half of September and in October. Short-term lending rates have come down; their decline is in line with the pattern observed in the past when official rates were reduced.

3. Structural problems

The nineties were marked by rapid technological progress in all the major industrial countries. Radical innovations in information technology and telecommunications fostered the development of new products and far-reaching changes in the organization of production. After growing more slowly in the two preceding decades, International trade expanded strongly under the impetus of the Uruguay Round agreements. The liberalization of national financial systems, together with the application of the new technologies, led to the creation of a single worldwide market in finance.

From the start of the nineties onwards the US economy achieved a significant increase in the rate of capital formation. Between 1991 and 2000 gross investment in machinery and equipment rose from 6.1 to 11.8 per cent of GDP. During the same period investment in new technologies grew at an average annual rate of 16 per cent; the stock of high-tech capital goods rose from 24 to 34 per cent of the total stock of machinery and equipment.

The expansion of the US economy strengthened in the second half of the decade. The rate of labour productivity growth rose to 2.5 per cent, compared with 1.4 per cent in the years between 1973 and 1995. Employment increased substantially. The positive performance of the economy, together with the structural adjustment measures adopted in 1993, contributed to correcting the imbalance in the public finances.

The emerging economies, especially those able to produce medium and high-tech goods, gained from the expansion of trade. Substantial benefits came from the growth and opening up of national financial markets; large flows of foreign private capital made it possible to ease the constraints imposed on growth by the insufficient supply of domestic savings. In the nineties the economies of the developing countries grew at an average annual rate of 5.4 per cent, compared with 4.2 per cent in the eighties. In Asia faster growth was accompanied by a significant reduction in poverty.

In certain emerging economies the abundant inflow of foreign capital, in a context of inadequate systems of banking and financial supervision, and the less than profitable way in which the funds were sometimes used abetted the persistence of deficits on the current account of the balance of payments. This led to financial crises in Latin America, Asia and other parts of the world, with serious repercussions on living standards.

Many backward economies in Africa, Latin America and Asia did not benefit from the liberalization process, since they lacked the basic conditions for attracting private capital; their only sources of finance remained the official ones.

In Europe economic growth was sluggish, with activity expanding at a rate more than 1 percentage point below that of the United States: 2.1 against 3.2 per cent. In the euro area the general government deficit was reduced from 4.2 to 0.7 per cent of GDP between 1990 and 2000. This was accomplished largely by increasing the tax burden rather than by decreasing current expenditure relative to GDP, with adverse effects on the structure of industry and competitiveness.

The growth of the Italian economy averaged 1.6 per cent a year in the nineties, lower than the already modest rate recorded by the other European countries.

In the first half of the nineties the fall in domestic demand associated with the action to adjust the budget was offset by the robust growth in exports stimulated by the devaluation of the lira in 1992.

In the second half of the decade support from domestic demand was not lacking, but rigidities in the goods and factors markets obstructed the response of supply.

Reforms were launched to liberalize markets, reduce the direct role of the State in managing economic activity, reorganize the financial system and revise regional development policy. Despite the progress in making good the delays that had been accumulated over the preceding decades, the innovations introduced did not completely eliminate the structural impediments to the full exploitation of the economy's growth potential.

In the absence of a vigorous correction of the trend of public spending, the tax burden grew between the second half of the eighties and the second half of the nineties by more than six percentage points, from 36.9 to 43 per cent of GDP. The improvement in the efficiency of the public administration was not satisfactory.

The growth of productivity in industry was disappointing. Competitiveness was also eroded by the emergence of new competitors in the range of products in which Italy's export-oriented firms had specialized.

In the first half of the nineties the contribution of net exports to GDP growth was positive, averaging 1 percentage point a year; in the second half it was negative by an average of 0.4 percentage points a year.

Over the decade as a whole Italian exports' market share declined by around one fifth. Pricing strategies geared to rebuilding profit margins at the expense of volume growth initially contributed to the contraction. The results for Italian exports, even worse in the years following the Asian crisis, were attributable not only to the loss of price competitiveness but also to the product composition. Italian goods are prevalently medium tech and therefore exposed to the competition of the recently industrialized countries. Furthermore, demand for these products is growing much more slowly than that for high-tech goods.

In the second half of the decade the behaviour of Italian domestic demand was in line with that of the other euro-area countries and grew at an average annual rate of 2.4 per cent. Investment and the acceleration in household spending contributed. In recent years the easing of the fiscal constraint, the moderate revival of wage growth and the abatement of inflation fostered a gradual recovery in private sector disposable income.

After collapsing in 1993, investment recovered to record rapid growth, fueled by the upturn of the economy and the favourable financial conditions of firms. An important role was played by the temporary tax incentives of 1994 and 1995, the corporate income tax reform introduced in 1997 and 1998, and the reliefs of 1999 and 2000. In the second half of the decade investment other than construction expanded at an average annual rate of more than 6 per cent; in 2000 it amounted to 12 per cent of GDP, the highest figure among the main euro-area countries.

Around half of the investment growth between 1995 and 2000 came from the machinery and equipment component. Investment in intangible assets increased by nearly 10 per cent a year; although it rose, such investment's share of the total remained below 5 per cent.

The reduction in the budget deficit was accompanied by a decrease in public investment; between 1990 and 2000 this declined as a proportion of GDP by around 1 percentage point, to 2.4 per cent. The process of closing the large gap in infrastructure endowment between Italy and the rest of Europe came to a halt.

The fragmentation of Italian industry increased and the underground part of it expanded. Istat estimates that the ratio of the value added of underground activity to GDP rose by around 2 percentage points between 1992 and 1997. In the last few years economic policy action has aimed at bringing irregular activity into the open. Its share of total activity is estimated to have been 15 per cent in 1998.

The small size of firms adversely affects private-sector R&D spending. Between 1990 and 1999 such expenditure fell from 0.8 to 0.6 per cent of GDP, thereby widening the gap vis-à-vis the other European countries, where the average stands at 1.2 per cent.

The dualism of the economy has grown more pronounced owing to the relative scarcity of public capital and infrastructure and the difficult environment in the South.

With the employment crisis of the early nineties, income inequality among Italian households grew. The percentage of low-income households rose and the proportion of workers earning low pay increased.

The recovery of employment that began in 1995 primarily regarded the more flexible forms, in response to the reforms introduced in the labour market. Between 1989 and 1999 the share of fixed-term workers in total payroll employment increased from 6 to 10 per cent, that of part-time workers from 5 to 8 per cent. Over the same period the percentage of workers with low pay rose from 8 to 17 per cent.

From 2000 onwards the spread of fixed-term and part-time jobs slowed but the growth in full-time permanent employment picked up, thanks in part to the social contribution reliefs decided in October of that year and extended to 2003. Between July 1999 and July 2001 permanent jobs accounted for nearly two thirds of the total growth in payroll employment.

The transformation of the banking system since the mid-nineties has been far-reaching. For breadth and depth, the only historical parallel is the upheaval of the 1930s. The process of concentration has produced Italian banks with the size to compete internationally and to assist Italian firms in expanding their business abroad.

Consolidation within the banking industry is proceeding with a major operation. The functional, organizational and operational problems within existing groups must be resolved rapidly. It is important to complete the restructuring of large banks. The process must now be extended fully to medium-sized banks and those belonging to certain categories.

The capital soundness and the efficiency of the banking system are essential in order to sustain a new phase of economic development.

Banking foundations have played a decisive role in creating the new configuration. It will be possible to specify their tasks better, within the framework of more pronounced geographical decentralization, by stressing their role in socially useful projects and circumscribing – in a strictly consistent fashion and in the most appropriate ways – their relations with the banking system.

Two months away from the changeover to the new currency, the preparatory work of the public administration, the banking system and the Bank of Italy has intensified. Our institution is committed to ensuring that the changeover takes place without any hitches and in complete security.

4. The outlook

The economic results for 2001 will be less favourable than was forecast at the beginning of September. In the United States private forecasting institutions now expect output to grow by only 1 per cent year on year, reflecting the weakness of consumer spending. In Japan deflation continues: the forecast is for a contraction of about 0.5 per cent year on year.

In Europe, growth will be less than 2 per cent.

In Italy, the Forecasting and Planning Report estimates GDP growth of 2 per cent in 2001. Given essentially constant raw material prices, the inflation rate should average 2.8 per cent for the year as a whole, in line with the forecasts of recent months.

The current phase of the cycle, both internationally and domestically, is marked by uncertainty.

The mood is not pessimistic; on the contrary, there is confidence in the prospects for economic growth in the medium term.

The fundamentals of the world's largest economy are such as to allow growth in the coming years at rates not far removed from those achieved in the second half of the nineties.

The budgetary package of $80 billion passed immediately after the attacks of September 11 comes on top of $110 billion of tax cuts for 2001-02 enacted last May. These measures were possible thanks to the good state of the public finances. An additional $70 billion of economic measures is now before Congress. This expansionary action will begin to raise the growth rate as early as the first half of 2002.

The lowering of the Fed's reference rates by four percentage points since the beginning of the year, from 6.5 to 2.5 per cent, has created the conditions for supporting the incomes of heavily indebted households, preventing excessive declines in share prices and relaunching investment. Domestic and international confidence in the US economy has kept the dollar strong.

In Europe, the British economy shows signs of an upturn in the last part of the year. In the euro area, the economy is suffering from the effects of sluggish German growth. The French economy continues to grow slowly.

In Italy, the Bank of Italy's regular survey of investment plans in industry at the end of September found a continuing propensity to invest, at only slightly lower rates than in the last few years.

Polls taken after the terrorist attacks have found bewilderment, a wait-and-see attitude, not lack of confidence. The uncertainty of the moment has produced a pause in demand but does not alter the prospects for growth. The action needed to achieve a high rate of growth in 2002 must be taken.

It is necessary to bolster the expectations of a recovery in economic activity, which are also reflected in the financial markets.

Credit, at what are historically low interest rates, remains abundant. Lending continues to expand appreciably faster than economic activity.

New stimulus to domestic demand should stem from an increase of about one per cent of GDP in infrastructure investment. Central and local government cannot bear the entire burden of this increase.

The funds allocated for investment support in the Finance Bill must serve as a catalyst. The procedures for determining who is responsible for carrying out works must be defined.

Project planning and contracting procedures need to be improved, impediments and jurisdictional conflicts must be removed, and the correctness of operations and payments must continue to be guaranteed, together with protection of the environment.

Projects of high infrastructural value that can be quickly initiated, especially in the South, must be identified and the related procedures defined, inter alia on the basis of the public works legislation under discussion. The dispersion of funds among many small projects that has marked the last few years must be avoided. The projects where the suspension of funding and activity annuls the benefits on the supply side of the resources already committed must be completed.

The measures to encourage the repatriation of capital, to bring underground economic activity into the open, and to provide incentives for the reinvestment of profits will be more effective in a context of economic expansion. They will help to sustain and accelerate it.

As I had occasion to observe in testimony before Parliament, economic policy will be enhanced and rounded out if it is accompanied by a programme of reforms aimed at gradually bringing down the ratio of current public spending to GDP and laying the basis for a progressive, significant and lasting reduction in the tax burden.

The business community must respond by increasing its capacity for innovation and promptly seizing the new opportunities. Labour and saving are assets our society possesses. With consistent policies we must encourage their ever more productive use in harmony with the purposes of development.

Reducing the tax and social security burden and curbing expenditure create the conditions for raising the potential growth rate of the economy, for a lasting and stable expansion. In this way it will be possible to achieve a permanent reduction in the government deficit, which until now has been largely entrusted to temporary measures, and in the future to accomplish the definitive adjustment of the public finances.

The reforms must be introduced promptly, in the course of the next year.

They will immediately make a major contribution to boosting effective demand in the medium term.

The shortfall in public capital formation in the South, but also in the more highly developed areas of the Centre and especially the North, where the bottlenecks are most evident, offers hitherto unexploited scope for an expansion of economic activity.

An improvement in the functioning of the public administration and public services, along the lines set forth in the Government’s programmes, can contribute greatly, in view of its macroeconomic importance and its interactions with other sectors, to the efficiency and competitiveness of the entire economy.

The possibility of faster growth, of pulling the economy out of its stall in the immediate future, is within the reach of the Government’s economic policy.

Hesitation and the inevitable difficulties must be overcome.

A choral effort is required. It is necessary to deploy all the instruments at our disposal in a complex, but consistent, strategy designed to ensure the country’s future, to consolidate the growth of employment, to foster young people’s entry into the world of work.

To increase confidence, to eliminate pockets of poverty and shrink the area of underground and irregular activity, and to create conditions of civil and economic well-being for households in difficulty and for future generations.

Supervision: one or more institutions?

Banca impresa società

Remarks by Pierluigi Ciocca, Deputy Director General of the Bank of Italy, to the conference on The new structures of financial markets: how should supervision be organized?

Bologna, 4 May 2001

The question of the allocation of responsibilities in banking and financial supervision is *not* a purely economic question, nor can it be solved merely on the basis of economic theories. Until quite recently Milton Friedman was the only great economist to have addressed the issue, and even then as part of the broader problem of money and its management.

Many other aspects are involved, however, including:

- the "legal experience" of a country, and hence the constitutional and institutional framework within which the question is set;
- how supervision has been and is performed, in terms of the resources, reputations and independence of the institutions concerned;
- the opinion of the markets in the light of their changeable "conventions".

The foregoing considerations suggest that the question should be approached, if not pragmatically, at least with prudent humility. The subject does not offer academic recipes suited to every context. One may nonetheless have opinions, based on arguments that have been worked out to a greater or lesser extent. I shall set out my own here, in the most generalized form I can achieve.

The international picture

These considerations regarding method are matched by an empirical observation. In recent times there has been no clear tendency for any one solution to predominate. Basically, there are three alternatives: extreme centralization (rare), extreme decentralization (less rare) and intermediate solutions (the most common).

The United States has remained faithful to a division of responsibilities in which the *types* of body entrusted with supervision are highly diversified, with 6 for banking supervision[1] (with 357 local offices and around 15,000 employees) and another 6 for financial supervision[2] (covering markets, insurance companies and pension funds with 137 local offices and some 8,000 employees). In addition, it is necessary to consider the self-regulatory bodies of the 9 most important financial markets. The overlapping of powers is accepted, desired, in view of the "dialectics", the "competition", it ensures between the various institutions and because it avoids monopoly. The number of persons engaged in supervision is huge. In the banking field it is about fifteen times the figure for the Bank of Italy (about 1,000), even though the US banking system (at current prices and exchange rates) is only five or six times as big as Italy's, while the GDP ratio is seven to one (on a purchasing-power-parity basis).

At the other extreme the United Kingdom is implementing the decision taken suddenly in May 1997 to bring all the supervisory powers – except that concerning "systemic stability", which has been left in the hands of the central bank – together in a newly-created organization, the Financial Services Authority (FSA). Japan has adopted a similar solution. The FSA has a head office with a staff of 2,300 (of whom no less than 450 deal with authorizations and consumer relations), no special body for on-site examinations and an annual budget of just 500 billion lire. With these resources, the FSA is expected to supervise a financial industry that, in terms of volume of funds, is about one quarter that of the United States and three times as big as Italy's. It is true that with 841 banks Italy has more than twice as many as the United Kingdom,[3] but the combined human and financial resources of the various Italian supervisory authorities are not very different from those of the FSA (moreover, in addition to a body of inspectors, the Bank of Italy has a network of branches that monitor their "local" banks and markets).

Although the United Kingdom and Japan are major economies, the similar architectures they have adopted for supervision have not established a trend, for several reasons. The choice was influenced by the failure of their earlier architectures, with serious and unexpected failures of individual intermediaries in London and the structural crisis of the whole financial industry in Japan. It was made when the central bank was relatively weak in both countries. It does not reflect the great difference between the two countries' political and constitutional traditions.

The solutions to be found in the euro area lie somewhere between the extremes represented by the United States, on the one hand, and the United Kingdom and Japan, on the other. The changes introduced recently in the Netherlands, Portugal and Belgium increased coordination among the existing authorities (including the central bank), which nonetheless remained separate entities with each having specific powers. In Germany, Ireland, Finland and Austria proposals aimed more specifically at consolidation are under discussion. In some cases they have met fierce opposition. The question has become the subject of widespread debate. Some commentators believe that the monetary unification of Europe must be matched by some concentration of supervisory tasks.

Why centralize?

There are basically two general reasons that may lead to the decision to centralize supervisory powers:

- the possibility of obtaining an overall view, accompanied by economies of scale and hence lower costs for the intermediaries subject to supervision;
- the changes in the operational and geographical boundaries between intermediaries, markets and financial instruments, owing, among other things, to the emergence of "large and complex financial institutions".

The importance of these reasons increases with the degree to which finance is – or the authorities wish it to be – concentrated in a single centre (London accounts for about one third of all UK employment in banking and finance and produces 16 per cent of the country's GDP) and with the "smallness" and "openness" of the economy (on the assumption that international coordination is easier to achieve among a few supervisory authorities).

Two qualifications should be noted in the case for centralization:

- that it should not take place at the central bank, which is required to perform monetary policy tasks that are deemed to be in conflict with those of supervision;
- that the promotion of competition in the banking and financial sector should not be combined with the protection of stability, since these two functions are also deemed to be incompatible.

Why decentralize?

On the other side there are several reasons for decentralizing supervision, for adopting a solution somewhere between monopoly and extreme fragmentation.

Here are some:

- the switch from some degree of decentralization – the most common solution – to a centralized configuration inevitably involves costs and risks during the transition period;
- technical specialization in the exercise of supervision continues to have a value even when

the internal boundaries within the world of finance are being eroded; banking risk, for example, continues to be different from insurance risk and from the risk affecting pension funds;

– contact with the intermediaries and markets subject to supervision – closest where supervision is carried out by means of a network of “local” offices, as in the United States and Italy – gives supervisory authorities access to information and a power to discourage improper conduct;

– avoiding an accumulation of administrative power in an extremely delicate field limits the risk of its being abused or supervision being used, de jure or de facto, for political ends – the classical lesson of Montesquieu;

– in performing supervision it is important not to confuse the spheres of technical discretion and formal control of the conduct of business.

The last reason needs to be clarified a little.

Disclosure, transparency and correctness fall largely, although not exclusively, within the second sphere. Ensuring their respect implies, first and foremost, that rules must be detailed in advance in legislation and then that they must be enforced. It consists in administrative activities that are concerned less with the exercise of a natural and necessary technical discretion than with the discharge of a responsibility oriented primarily towards the control of legitimacy.

Competition, efficiency and proper risk control – i.e. stability – fall within the first sphere. The need to distinguish in a crisis between illiquidity and insolvency, assess the probability of contagion, and choose how and when to act so as to achieve maximum effectiveness and minimum moral hazard often requires supervisory *discretion* and hence the *independence* of the body responsible for carrying out what amounts to a form of economic policy.

Independence is inherent in the management of money and credit, which is entrusted to central banks. They are accustomed to exercising this independence in accordance with priorities they establish on the basis of the resources available. Independence is the cornerstone of central banking. An additional reason for entrusting so-called stability-oriented supervision to the central bank is the scope for synergy between this function and the monetary policy function. Far from being incompatible, these two functions are complementary, in at least three respects: staff’s experience and professional skills in the monetary, banking and financial fields; the two-way flow of information; and the risks facing individual intermediaries and the system as a whole.

One last consideration concerns stability-oriented supervision and antitrust action in the banking industry. There is absolutely no trade-off between these two activities. Competition is a necessary but far from sufficient condition for the solidity of the banking system. Without competition, there cannot be efficiency. Without efficiency, there cannot be stability – true and long-lasting stability, in contrast with the false and temporary stability produced where survival is guaranteed by the state. Defending and fostering competition are an integral, indispensable part of *banking supervision*. They must guide the use of the instruments of supervision, regardless of whether there is an antitrust law. This is the approach followed by the Bank of Italy, both before and after the approval of antitrust legislation in 1990. If the law entrusts the task of defending and fostering competition to the supervisory authority (as in the United States and in Italy since 1990), the latter’s position is strengthened.

The need for and shortcomings of coordination

A reasonable degree of decentralization implies coordination of the various supervisory authorities. The blurring of the segmentations within the world of finance and financial globalization call for forms of closer coordination.

This need has, or is being, met. It is being met in Italy, autonomously and in response to specific statutory provisions, through coordination of the Bank of Italy, the companies and stock exchange commission (Consob), the supervisory authority for the insurance industry (Isvap), the supervisory authority for pension funds (Covip) and the antitrust authority. It is being met in Europe and at international level through formal and informal bilateral agreements and through participation in multilateral fora, including the newly established Financial Stability Forum (in both cases with reference to common standards, such as those developed by the Basel Banking Committee).

Coordination nonetheless suffers from potential shortcomings, including the risk of confusion concerning responsibilities and the possibility of overarching that amounts to a surreptitious form of total centralization.

Conclusions

The present set-up in Italy is based on a reasonable allocation of supervisory responsibilities in terms of the aims to be pursued and the institutions to be supervised. The basic criterion is a division by goals – stability on the one hand, correctness on the other – supplemented by a division by category of institution (banks, markets, insurance companies and pension funds).

These arrangements appear satisfactory in the light of the principles I have expounded. Above all, they appear satisfactory in the light of experience, amply documented in the reports and analyses published by the Bank of Italy and the other supervisory authorities. Thanks at least in part to their action and cooperation, the Italian financial system has improved considerably in the last twenty or even ten years: it is now more widely diversified; more competitive, more efficient and more stable; it is in a better position to meet the needs of the economy. “Better” does not mean “the best”, which, assuming it is definable, would require the contribution of supervision to be achievable. These are issues which go beyond the scope of my remarks and which I have addressed elsewhere.[4]

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1 The Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the Banking Department of each of the fifty states.

2 The Securities and Exchange Commission, The Securities Commission of each state, the Commodity Futures Trading Commission, the National Association of Insurance Commissioners, each state for insurance matters, and the Pension and Welfare Benefits Administration of the Department of Labor.

3 In the United Kingdom there are 377 banking businesses subject to supervision by the FSA (186 UK incorporated banks, 67 building societies and 124 branches of non-EU banks; the 118 branches of EU banks are subject to home-country control).

4 P. Ciocca, *La nuova finanza in Italia. Una difficile metamorfosi (1980-2000)*, Bollati Boringhieri, Turin, 2000.

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-53a.

Table a1

GDP at constant prices

	Percentage of world GNP in 1999 (1)	1996	1997	1998	1999	2000	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3
	(percentage changes on previous period on an annual basis; seasonally adjusted quarterly data)										
Industrial countries											
United States	21.6	3.6	4.4	4.3	4.1	4.1	1.3	1.9	1.3	0.3	. . . .
Japan	7.8	3.5	1.8	–1.1	0.8	1.5	–2.7	2.6	0.5	–3.2	. . . .
Euro area	16.1	1.4	2.3	2.9	2.6	3.4	1.9	2.5	2.0	0.3	. . . .
Germany .	*4.7*	*0.8*	*1.4*	*2.0*	*1.8*	*3.0*	*0.5*	*0.6*	*1.6*	*–0.1*	. . . .
France . . .	*3.3*	*1.1*	*1.9*	*3.4*	*2.9*	*3.1*	*3.1*	*3.2*	*1.7*	*1.1*	. . . .
Italy	*3.1*	*1.1*	*2.0*	*1.8*	*1.6*	2.9	*1.6*	*3.3*	*3.4*	*0.1*	. . . .
United Kingdom	3.2	2.6	3.4	3.0	2.1	2.9	2.8	2.0	2.6	1.8	(2.4)
Canada	1.9	1.6	4.3	3.9	5.1	4.4	4.5	1.6	2.0	0.4	. . . .
	(percentage changes on year-earlier period)										
Emerging countries											
Latin America											
Argentina	1.1	5.5	8.1	3.9	–3.4	–0.6	–0.5	–2.1	–2.1	–0.5	. . . .
Brazil	2.8	2.7	3.3	0.2	0.5	4.4	4.3	3.8	4.5	1.8	. . . .
Mexico	1.9	5.1	6.8	4.9	3.8	6.9	7.3	5.1	1.9	. .	. . . .
Asia											
China	10.8	9.6	8.8	7.8	7.1	8.0	8.2	7.3	8.1	7.8	7.0
India	5.4	7.8	5.0	6.8	6.4	5.2	5.0	3.8	4.4	. . . .	. . . .
Indonesia	1.3	8.0	4.5	–13.4	0.5	5.2	5.8	5.1	3.2	3.5	. . . .
Malaysia	0.4	10.0	7.3	–7.4	6.1	8.3	7.6	6.3	3.1	0.5	. . . .
South Korea	1.8	6.8	5.0	–6.7	10.9	8.8	9.2	4.6	3.7	2.7	. . . .
Taiwan	. . . .	6.1	6.7	4.6	5.4	5.9	6.7	3.8	0.9	–2.4	. . . .
Thailand	0.9	5.9	–1.4	–10.8	4.2	4.4	2.9	3.2	1.8	1.9	. . . .
Europe											
Poland	0.8	6.0	6.8	4.8	4.1	4.0	3.1	2.4	2.3	0.9	. . . .
Russia	2.5	–3.4	0.9	–4.9	5.4	8.3	8.8	6.8	4.9	5.1	. . . .
Turkey	1.0	7.4	7.6	3.2	–4.7	7.1	8.0	8.3	–2.0	–9.4	. . . .

(1) On the basis of purchasing power parities.

Table a2

Industrial production

	1997	1998	1999	2000	April 2001	May 2001	June 2001	July 2001	August 2001	September 2001
	(percentage changes on previous period; seasonally adjusted data)									
Industrial countries										
United States	6.7	4.8	4.1	5.6	–0.3	–0.3	–1.0	–0.1	–0.6	–1.1
Japan	4.1	–7.2	1.0	5.4	–2.0	–1.2	–0.8	–3.0	0.8	–2.9
Euro area	4.2	4.3	2.0	5.4	–0.8	–0.2	0.8	–1.4	1.1	. . . .
Germany	*3.6*	*4.2*	*1.5*	*6.2*	*–0.8*	*0.1*	*0.2*	*–1.5*	*2.3*	. . . .
France	*3.7*	*5.3*	*2.0*	*3.4*	*–0.2*	*0.5*	*0.1*	*0.5*	. .	. . . .
Italy	*3.3*	*1.9*	*0.1*	*3.1*	*–2.0*	*0.5*	*0.2*	*–0.7*	*0.7*	. . . .
United Kingdom	1.0	1.0	0.7	1.7	–0.3	–1.0	0.2	–0.5	1.0	. . . .
Canada	5.7	3.4	5.6	5.5	1.1	–0.4	–1.1	–0.3	. . . .	. . . .
	(percentage changes on year-earlier period)									
Emerging countries										
Latin America										
Argentina	7.6	1.4	–5.8	–1.9	–0.6	1.9	–1.5	–1.2	–5.7	–7.4
Brazil	3.9	–2.0	–0.7	6.7	6.1	4.5	–1.3	1.4	. .	. . . .
Mexico	9.3	6.3	4.2	7.8	–3.3	–3.5	–4.4	–3.3	–5.5	. . . .
Asia										
China	13.2	9.6	9.9	11.2	11.5	10.2	10.1	8.1	8.1	9.5
India	5.4	3.4	7.6	6.6	2.6	1.4	2.6	2.4	1.8	. . . .
Indonesia	13.2	–13.3	–12.9	–8.1	–	–	–	–	–	–
Malaysia	10.7	–7.2	9.1	19.1	–1.7	–4.0	–9.7	–5.7	–7.3	. . . .
South Korea	6.3	–7.4	24.2	16.8	5.7	2.3	–2.8	–5.7	–4.4	–5.0
Taiwan	7.4	2.7	7.7	7.4	–5.9	–7.5	–11.3	–10.8	–7.9	–14.1
Thailand	–0.6	–12.0	14.1	3.1	0.2	2.8	1.5	2.0	1.4	. . . .
Europe										
Poland	11.1	4.7	4.8	7.5	3.6	–0.9	–4.8	0.9	0.4	–3.8
Russia	1.9	–5.2	11.0	11.9	5.3	7.0	5.3	2.9	5.1	5.5
Turkey	10.0	0.9	–5.2	5.8	–10.1	–9.5	–10.1	11.0	–10.1	. . . .

Table a3

Consumer prices

	1996	1997	1998	1999	2000	May 2001	June 2001	July 2001	August 2001	September 2001
					(percentage changes on year-earlier period)					
Industrial countries										
United States	2.9	2.3	1.6	2.2	3.4	3.6	3.2	2.7	2.7	2.6
Japan	0.1	1.7	0.7	–0.3	–0.7	–0.7	–0.8	–0.8	–0.7	–0.8
Euro Area (1)	2.2	1.6	1.1	1.1	2.3	3.4	3.0	2.8	2.7	2.5
Germany	*1.2*	*1.5*	*0.6*	*0.6*	*2.1*	*3.6*	*3.1*	*2.6*	*2.6*	*2.1*
France	*2.1*	*1.3*	*0.7*	*0.6*	*1.8*	*2.5*	*2.2*	*2.2*	*2.0*	*1.6*
Italy	*4.0*	*1.9*	*2.0*	*1.7*	*2.6*	*2.9*	*2.9*	*2.8*	*2.8*	*2.6*
United Kingdom	2.9	2.8	2.7	2.3	2.1	2.4	2.4	2.2	2.6	2.3
Canada	1.6	1.6	1.0	1.7	2.7	3.9	3.3	2.6	2.8	2.6
Emerging countries										
Latin America										
Argentina	0.2	0.5	0.9	–1.2	–0.9	0.2	–0.3	–1.1	–1.2	–1.1
Brazil	15.8	6.9	3.2	4.9	7.1	7.0	7.4	7.1	6.4	6.5
Mexico	34.4	20.6	15.9	16.6	9.5	7.0	6.6	5.9	5.9	6.1
Asia										
China	8.3	2.8	–0.8	–1.4	0.3	1.7	1.4	1.5	1.0	–0.1
India	9.0	7.2	13.2	4.7	4.0	2.5	3.4	4.0	5.2	....
Indonesia	8.0	6.2	58.4	20.5	3.7	10.8	12.1	13.0	12.2	13.0
Malaysia	3.5	2.7	5.3	2.7	1.5	1.6	1.5	1.4	1.3	1.4
South Korea	4.9	4.4	7.5	0.8	2.3	5.4	5.2	5.0	4.7	3.2
Taiwan	3.1	0.9	1.7	0.2	1.3	–0.2	–0.2	0.1	0.4	–0.5
Thailand	5.8	5.6	8.1	0.3	1.5	2.8	2.3	2.2	1.4	1.4
Europe										
Poland	19.8	15.1	11.8	7.3	10.1	6.9	6.2	5.2	5.1	4.3
Russia	47.8	14.8	27.6	85.7	20.8	25.0	23.7	22.2	20.9	20.1
Turkey	80.3	85.7	84.6	64.9	54.9	52.4	56.1	56.3	57.5	61.8

(1) As of January 2001, includes Greece.

Table a4

External current account

	1996	1997	1998	1999	2000	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2
	(billions of dollars; seasonally adjusted quarterly data)									
Industrial countries										
United States	–120.9	–139.8	–217.5	–324.4	444.7	–108.1	–115.3	–116.3	–111.8	–106.5
Japan	65.8	94.2	121.2	106.9	116.9	30.7	29.7	24.9	25.5	16.8
Euro area	. . . .	61.8	27.3	–28.0	–64.8	–18.6	–18.4	–16.4	–6.9	–10.1
Germany	*–8.0*	*–3.1*	*–4.6*	*–18.3*	*–19.1*	*–4.6*	*–4.9*	*–8.6*	*–1.2*	*–5.6*
France	*20.5*	*38.0*	*37.7*	*36.3*	*21.3*	*4.9*	*2.4*	*3.0*	*7.1*	*2.5*
Italy	*39.5*	*33.3*	*22.6*	*8.1*	*–5.6*	*–1.3*	*–1.1*	*–1.4*	*1.5*	*–1.0*
United Kingdom	–0.7	10.8	–0.1	–16.0	–24.4	–10.0	–6.5	–7.2	–2.3	–5.5
Canada	3.4	–8.2	–8.5	1.2	18.0	3.6	4.6	5.6	8.8	6.4
	(billions of dollars; quarterly data, not seasonally adjusted)									
Emerging countries										
Latin America										
Argentina	–6.9	–12.3	–14.6	–12.0	–9.0	–1.4	–2.3	–2.0	–3.0	–1.0
Brazil	–23.5	–33.4	–33.6	–25.1	–24.6	–7.2	–4.5	–8.9	–6.5	–6.6
Mexico	–2.3	–7.4	–16.1	–14.4	–18.4	–3.6	–3.8	–6.3	–4.7	–3.4
Asia										
China	7.2	29.7	29.3	15.7	20.5	–	–	–	–	–
India	–6.0	–3.0	–6.9	–3.2	–4.3	–2.0	–0.9	–0.3	0.6	–0.3
Indonesia	–7.7	–5.0	4.1	5.8	8.0	1.4	2.2	2.5	1.6	. . . .
Malaysia	–4.5	–5.9	9.5	12.6	8.4	1.7	1.9	2.0	1.8	1.8
South Korea	–23.0	–8.2	40.4	24.5	11.0	2.7	3.7	3.3	3.1	3.8
Taiwan	11.0	7.2	3.5	8.4	8.9	1.1	2.4	4.0	4.1	3.7
Thailand	–14.4	–3.1	14.3	12.5	9.4	1.7	2.2	2.2	1.4	1.0
Europe										
Poland	–1.4	–4.3	–6.9	–11.6	–9.9	–2.1	–2.3	–2.1	–1.9	–2.2
Russia	11.8	2.1	0.7	24.7	46.3	10.9	10.6	12.9	11.8	9.4
Turkey	–2.4	–2.6	2.0	–1.4	–9.8	–3.3	–1.4	–2.9	–0.5	1.2

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 – Sept.	6.50	"	4.50	6.00	6.00
Oct.	"	"	4.75	"	"
Nov.	"	"	"	"	"
Dec.	"	"	"	"	"
2001 – Jan.	5.50	"	"	"	5.75
Feb.	"	0.35	"	5.75	"
Mar.	5.00	0.25	"	"	5.25
Apr.	4.50	"	"	5.50	5.00
May	4.00	"	4.50	5.25	4.75
June	3.75	"	"	"	"
July	"	"	"	"	4.50
Aug.	3.50	"	4.25	5.00	4.25
Sept.	3.00	0.10	3.75	4.75	3.75
			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 – 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
Mar.	4.89	0.27	4.71	5.47	4.75
Apr.	4.53	0.13	4.68	5.33	4.60
May	4.02	0.06	4.64	5.17	4.45
June	3.74	0.07	4.45	5.19	4.42
July	3.66	0.06	4.47	5.19	4.30
Aug.	3.48	0.06	4.35	4.93	4.06
Sept.	2.87	0.06	3.98	4.65	3.50

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 – 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
Mar.	4.89	1.19	4.67	4.84	5.13	4.82	5.30
Apr.	5.14	1.37	4.83	5.00	5.28	5.03	5.59
May	5.39	1.27	5.05	5.21	5.45	5.21	5.85
June	5.29	1.20	5.00	5.15	5.40	5.30	5.72
July	5.24	1.33	5.02	5.15	5.42	5.30	5.80
Aug.	4.97	1.36	4.82	4.95	5.21	5.07	5.53
Sept.	4.73	1.40	4.81	4.94	5.20	5.02	5.30
				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 – 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	182.20
Mar.	218.94	89.75	231.18	277.89	272.74	167.55	171.58
Apr.	219.62	95.20	231.20	285.70	281.58	168.25	179.22
May	234.60	99.99	236.77	297.04	282.78	172.55	184.07
June	228.70	93.42	231.12	282.35	268.03	169.17	174.48
July	222.62	88.63	226.38	266.81	259.29	160.32	173.42
Aug.	217.58	85.10	214.81	261.74	256.04	159.90	166.87
Sept.	195.46	74.89	173.99	220.28	209.96	143.08	154.23

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	Norwegian kroner	Swedish krona	Swiss franc	
1995	1.293	121.42	1.775	0.8194	7.245	8.192	9.234	1.528	386.75
1996	1.253	136.20	1.708	0.8030	7.261	8.087	8.400	1.547	369.25
1997	1.130	136.62	1.564	0.6903	7.461	7.994	8.627	1.639	290.20
1998	1.123	146.77	1.667	0.6776	7.513	8.480	8.927	1.625	287.80
1999	1.066	121.32	1.584	0.6587	7.436	8.310	8.808	1.600	290.25
2000	0.924	99.47	1.371	0.6095	7.454	8.113	8.445	1.558	274.45
1999 – 3rd qtr.	1.049	118.73	1.558	0.6549	7.437	8.223	8.710	1.602	299.00
4th "	1.038	108.42	1.528	0.6363	7.437	8.191	8.648	1.600	290.25
2000 – 1st qtr.	0.986	105.50	1.434	0.6144	7.446	8.111	8.495	1.607	276.75
2nd "	0.933	99.55	1.381	0.6103	7.456	8.204	8.276	1.563	288.15
3rd "	0.905	97.43	1.341	0.6125	7.460	8.099	8.404	1.544	273.65
4th "	0.868	95.30	1.325	0.6005	7.454	8.040	8.602	1.516	274.45
2001 – 1st qtr.	0.923	109.06	1.410	0.6326	7.464	8.202	9.004	1.533	257.70
2nd "	0.873	106.93	1.345	0.6144	7.459	8.011	9.126	1.528	270.60
3rd "	0.890	108.27	1.374	0.6194	7.444	8.009	9.407	1.507	293.10
2000 – Sept.	0.872	93.11	1.295	0.6077	7.463	8.027	8.415	1.531	273.65
Oct.	0.855	92.75	1.292	0.5893	7.447	8.003	8.524	1.513	264.50
Nov.	0.856	93.26	1.320	0.6004	7.456	7.995	8.629	1.522	269.10
Dec.	0.897	100.61	1.368	0.6134	7.458	8.133	8.662	1.514	274.45
2001 – Jan.	0.938	109.57	1.410	0.6348	7.464	8.236	8.906	1.529	264.50
Feb.	0.922	107.08	1.403	0.6340	7.463	8.213	8.977	1.536	266.70
Mar.	0.910	110.33	1.417	0.6291	7.464	8.160	9.126	1.535	257.70
Apr.	0.892	110.36	1.390	0.6217	7.463	8.115	9.112	1.529	263.15
May	0.874	106.50	1.347	0.6133	7.461	7.993	9.058	1.533	267.50
June	0.853	104.30	1.302	0.6089	7.454	7.936	9.211	1.522	270.60
July	0.861	107.21	1.315	0.6086	7.445	7.971	9.264	1.514	265.90
Aug.	0.900	109.34	1.386	0.6267	7.445	8.055	9.311	1.514	273.00
Sept.	0.911	108.20	1.426	0.6229	7.441	7.999	9.674	1.491	293.10

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	100.1	87.7	98.4	101.7	103.5	101.3	101.0	104.2
1997	105.1	83.1	93.4	96.2	103.9	117.1	101.4	95.8
1998	108.7	79.6	94.8	97.1	105.3	123.7	97.6	97.6
1999	107.0	90.3	91.2	94.7	102.3	124.1	97.5	95.2
2000	113.1	95.2	84.7	91.2	98.9	123.8	97.7	90.0
1999 – 2nd qtr.	108.0	85.3	91.7	94.7	102.0	125.3	98.4	95.5
3rd "	108.2	90.4	90.4	94.1	101.5	123.8	97.6	94.5
4th "	106.4	97.0	88.7	93.5	101.0	125.1	97.9	92.8
2000 – 1st qtr.	108.4	95.0	86.6	92.5	100.1	126.5	99.9	90.1
2nd "	111.9	96.3	84.6	91.3	98.9	125.0	98.3	90.3
3rd "	114.2	95.3	84.2	90.7	98.5	121.8	97.4	89.7
4th "	117.8	94.2	83.4	90.1	98.0	122.0	95.4	89.7
2001 – 1st qtr.	120.5	86.1	87.2	91.9	101.0	118.8	94.0	91.0
2nd "	120.7	84.8	86.3	90.9	99.1	120.5	95.6	90.2
2000 – July	113.1	93.9	85.3	91.5	99.6	122.1	97.4	90.7
Aug.	113.5	95.2	84.3	90.6	98.4	122.9	97.7	89.6
Sept.	116.0	96.7	83.1	90.0	97.4	120.5	97.2	88.9
Oct.	117.6	95.6	82.6	89.6	96.9	123.4	96.2	89.1
Nov.	117.8	95.5	83.1	90.0	97.6	121.4	95.2	88.9
Dec.	118.2	91.5	84.7	90.8	99.5	121.3	94.7	91.1
2001 – Jan.	121.7	85.8	87.2	91.9	101.1	118.7	93.5	91.5
Feb.	119.7	87.5	87.1	91.9	100.9	118.1	94.5	90.7
Mar.	120.0	85.0	87.4	91.9	101.0	119.5	94.1	90.9
Apr.	120.9	83.7	87.1	91.5	100.3	120.0	94.5	91.0
May	120.5	85.0	86.1	90.8	98.8	120.6	95.7	89.6
June	120.6	85.7	85.7	90.3	98.2	120.8	96.6	90.0
July	119.4	84.5	86.2	90.5	98.6	122.0	97.1	91.4

(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					
	GDP	Imports	Total	Building	Machinery and equipment, sundry products and vehicles	Total	Consumption of resident households	Other domestic uses	Exports
				At 1995 prices					
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
1999 – 2nd qtr.	0.8	–0.5	0.5	1.7	0.8	1.2	–0.1	. .	1.7
3rd ”	0.7	–0.5	0.5	0.3	3.1	1.9	0.6	–3.9	2.1
4th ”	0.9	5.5	1.8	1.3	2.9	2.2	0.6	2.1	4.0
2000 – 1st qtr.	0.9	–0.3	0.7	1.2	2.0	1.6	1.2	0.1	–0.7
2nd ”	0.5	5.4	1.5	0.6	1.8	1.3	0.9	1.6	2.9
3rd ”	0.4	1.3	0.6	0.8	0.9	0.9	0.3	–9.0	7.2
4th ”	0.8	. .	0.6	0.2	–0.3	–0.1	0.5	0.7	1.4
2001 – 1st qtr.	0.8	1.5	1.0	1.7	0.1	0.8	. .	3.8	1.4
2nd ”	. .	–0.2	. .	0.2	–0.6	–0.3	0.6	0.4	–1.3
				Implicit prices					
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
1999 – 2nd qtr.	–0.3	2.8	0.3	0.6	0.4	0.5	0.8	–1.1	0.2
3rd ”	0.3	4.0	1.0	0.5	0.4	0.4	0.6	2.9	1.5
4th ”	0.3	1.4	0.5	0.6	0.3	0.4	0.7	–0.3	0.7
2000 – 1st qtr.	1.1	4.2	1.7	1.3	0.6	0.9	0.7	4.3	2.7
2nd ”	0.6	2.1	0.9	0.6	0.5	0.6	0.7	1.3	1.3
3rd ”	0.6	3.2	1.2	0.7	0.5	0.6	0.8	4.7	1.1
4th ”	. .	3.7	0.8	0.7	1.0	0.9	0.8	0.2	1.2
2001 – 1st qtr.	1.2	–2.5	0.4	0.7	0.5	0.6	0.6	–0.4	0.1
2nd ”	0.9	1.0	0.9	0.4	0.2	0.3	0.8	1.2	1.1

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	–43.1	–21.7	–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	87.6	92.0	–45.7	–34.9	–43.0	–2.8	3.3
2nd "	90.4	91.2	84.0	91.6	–45.4	–27.4	–39.9	1.4	7.0
3rd "	89.5	90.7	85.0	89.6	–44.1	–19.1	–34.4	2.5	6.7
4th "	90.0	90.4	81.9	91.4	–37.4	–5.5	–25.1	10.4	1.3
1994 – 1st qtr.	91.4	93.7	81.7	92.3	–32.1	–1.6	–19.0	18.1	–2.3
2nd "	94.7	97.0	87.2	96.0	–19.1	9.3	–7.5	26.1	–1.0
3rd "	96.0	97.7	90.6	97.2	–15.3	10.5	–6.0	27.9	–4.7
4th "	97.4	97.8	91.7	98.8	–5.0	17.1	4.9	28.4	–9.3
1995 – 1st qtr.	98.9	98.8	94.5	98.5	–2.5	24.7	6.4	23.7	–4.7
2nd "	99.2	99.6	97.7	98.9	–1.4	21.9	5.1	21.8	0.3
3rd "	100.3	100.2	100.2	101.9	–4.7	12.9	1.3	23.9	–1.7
4th "	101.6	101.4	107.6	100.6	–14.2	6.8	–7.5	18.4	1.3
1996 – 1st qtr.	101.2	99.2	103.7	100.6	–24.5	–8.3	–17.6	9.9	5.0
2nd "	98.6	99.4	103.6	97.7	–31.3	–19.7	–24.2	5.5	6.3
3rd "	98.7	99.6	100.9	97.7	–31.5	–19.8	–23.0	6.2	5.7
4th "	97.9	100.1	100.7	96.2	–31.2	–19.9	–26.1	8.7	–2.0
1997 – 1st qtr.	99.0	102.3	100.8	98.8	–20.5	–14.6	–16.0	15.8	–5.0
2nd "	102.2	103.3	103.3	101.6	–14.6	–7.4	–12.2	16.2	. .
3rd "	103.5	103.4	102.6	102.6	–12.8	–2.5	–3.7	23.8	–4.3
4th "	104.9	103.9	105.4	104.7	–10.8	0.5	–2.1	26.5	–3.0
1998 – 1st qtr.	104.3	103.6	103.5	105.8	–7.5	–0.3	–2.0	25.6	–1.7
2nd "	105.3	104.0	104.5	106.0	–14.5	–3.4	–8.2	16.9	1.7
3rd "	104.6	104.4	103.3	104.3	–18.2	–10.1	–14.4	10.3	. .
4th "	103.1	103.7	99.7	103.5	–22.6	–18.9	–20.8	9.9	1.3
1999 – 1st qtr.	103.6	104.7	102.6	104.2	–28.4	–28.0	–27.0	10.2	1.7
2nd "	103.1	103.4	101.0	103.2	–23.5	–21.7	–21.2	14.9	–1.0
3rd "	105.1	106.9	102.5	105.6	–12.3	–11.1	–10.7	25.0	–0.7
4th "	106.0	105.6	103.7	105.9	–5.0	–3.5	–0.5	29.3	–5.3
2000 – 1st qtr.	106.3	103.2	103.8	106.6	4.6	7.0	7.7	30.0	–9.3
2nd "	108.0	106.1	106.3	108.8	7.2	6.9	10.5	29.6	–7.3
3rd "	107.8	106.4	108.0	109.6	6.9	6.9	10.3	30.1	–7.3
4th "	108.7	108.9	111.1	108.8	1.9	5.1	5.9	23.7	–6.3
2001 – 1st qtr.	109.1	107.2	109.9	107.8	–7.1	–2.0	–5.0	20.1	0.3
2nd "	107.6	107.0	107.2	107.0	–12.2	–10.1	–10.2	22.6	4.7
3rd "	. . . .	. . . .	. . . .	. . . .	–17.0	–17.5	–16.1	14.5	0.3

Table a11

Labour force, employment and unemployment

(thousands of persons and percentages)

	Employment					Unemployment	Labour force	Unemployment rate	Participation rate 15-64 years
	Agriculture	Industry excluding construction	Construction	Other	Total				
1996	1,278	5,125	1,568	12,155	20,125	2,653	22,778	11.6	57.7
1997	1,245	5,096	1,564	12,302	20,207	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 –1st qtr.	1,211	5,106	1,572	11,956	19,845	2,649	22,494	11.8	57.0
2nd ”	1,233	5,163	1,538	12,162	20,095	2,708	22,803	11.9	57.8
3rd ”	1,321	5,134	1,595	12,295	20,344	2,577	22,921	11.2	58.1
4th ”	1,346	5,097	1,567	12,207	20,217	2,680	22,897	11.7	58.0
1997 – 1st qtr.	1,203	5,038	1,511	12,187	19,939	2,716	22,655	12.0	57.4
2nd ”	1,187	5,036	1,549	12,412	20,184	2,752	22,936	12.0	58.1
3rd ”	1,282	5,133	1,615	12,396	20,425	2,564	22,989	11.2	58.1
4th ”	1,308	5,178	1,582	12,214	20,282	2,720	23,001	11.8	58.1
1998 – 1st qtr.	1,198	5,148	1,529	12,276	20,151	2,717	22,868	11.9	57.8
2nd ”	1,175	5,140	1,522	12,521	20,357	2,807	23,165	12.1	58.8
3rd ”	1,219	5,210	1,556	12,654	20,638	2,666	23,304	11.4	59.1
4th ”	1,213	5,247	1,569	12,566	20,595	2,787	23,382	11.9	59.3
1999 – 1st qtr.	1,095	5,173	1,516	12,611	20,395	2,752	23,147	11.9	58.8
2nd ”	1,118	5,109	1,566	12,825	20,618	2,729	23,347	11.7	59.3
3rd ”	1,165	5,197	1,608	12,923	20,893	2,597	23,490	11.1	59.6
4th ”	1,160	5,221	1,611	12,869	20,861	2,600	23,460	11.1	59.6
2000 – 1st qtr.	1,084	5,088	1,573	12,872	20,617	2,647	23,264	11.4	59.1
2nd ”	1,095	5,057	1,596	13,182	20,930	2,545	23,475	10.8	59.7
3rd ”	1,137	5,215	1,642	13,328	21,322	2,404	23,726	10.1	60.3
4th ”	1,164	5,235	1,662	13,390	21,450	2,383	23,833	10.0	60.5
2001 – 1st qtr.	1,098	5,164	1,659	13,351	21,273	2,379	23,652	10.1	60.1
2nd ”	1,113	5,093	1,690	13,477	21,373	2,271	23,644	9.6	60.1
3rd ”	1,144	5,131	1,740	13,697	21,713	2,193	23,906	9.2	60.7

Source: Istat, *labour force surveys*.

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)	Total net of food and energy products and those with regulated prices	Overall index (6)
	Non-food and non-energy products		Services	Food products			Energy products	Total	Energy products	Non-energy products (5)	Total				
		Excluding cars		Processed	Not processed	Total									
Weights (3)	*31.6*	*27.6*	*26.8*	*10.0*	*7.1*	*17.1*	*3.9*	*79.6*	*3.4*	*13.9*	*17.3*	*3.1*	*100.0*	*58.6*	*100.0*
1996	3.8	3.7	4.4	4.6	3.7	4.2	4.4	4.1	–0.2	3.5	2.7	8.3	4.0	4.1	3.9
1997	1.5	1.8	2.8	0.8	–0.8	0.0	1.5	1.6	2.3	4.0	3.6	6.6	2.0	2.1	1.7
1998	1.9	1.8	2.7	0.8	1.6	1.2	–2.7	1.8	0.0	2.8	2.2	5.2	2.0	2.2	1.8
1999	1.2	1.2	2.6	0.8	1.1	0.9	4.2	1.8	–2.6	2.0	1.1	3.3	1.7	1.8	1.6
2000	1.5	1.4	2.8	1.2	2.0	1.6	13.2	2.5	9.8	1.6	3.1	2.5	2.5	2.1	2.6
1999 – Jan.	1.3	1.3	2.5	0.8	1.8	1.3	–4.2	1.5	–5.2	2.7	1.1	4.0	1.5	1.8	1.3
Feb.	1.1	1.3	2.4	0.8	2.0	1.3	–2.9	1.4	–5.2	2.7	1.1	4.0	1.4	1.7	1.2
Mar.	1.1	1.3	2.3	0.8	2.1	1.4	–1.2	1.5	–5.5	1.7	0.3	4.0	1.3	1.6	1.4
Apr.	1.1	1.3	2.4	0.8	2.2	1.4	2.2	1.7	–5.6	1.8	0.3	3.4	1.5	1.7	1.6
May	1.1	1.2	2.4	0.6	2.2	1.3	3.2	1.7	–4.8	1.7	0.4	3.4	1.5	1.7	1.6
June	1.0	1.2	2.5	0.6	1.6	1.0	3.3	1.6	–4.9	1.5	0.3	3.4	1.4	1.7	1.5
July	1.2	1.2	2.7	0.6	0.8	0.8	5.1	1.8	–3.3	2.1	1.1	3.2	1.7	1.9	1.7
Aug.	1.1	1.2	2.7	0.6	0.5	0.6	6.3	1.8	–3.2	1.9	1.0	3.2	1.7	1.8	1.6
Sept.	1.1	1.2	2.7	0.7	0.1	0.5	8.6	1.8	0.3	2.0	1.7	3.2	1.8	1.8	1.8
Oct.	1.4	1.2	2.8	0.8	0.1	0.5	9.2	2.0	0.5	2.0	1.7	2.7	2.0	2.0	1.8
Nov.	1.4	1.2	2.8	0.9	0.1	0.6	8.7	2.1	2.9	1.8	2.0	2.7	2.0	2.1	2.0
Dec.	1.4	1.2	2.7	1.0	0.0	0.6	12.6	2.2	2.9	1.8	2.0	2.7	2.1	2.0	2.1
2000 – Jan.	1.4	1.2	2.8	1.0	–0.3	0.5	12.8	2.1	6.0	1.7	2.5	2.8	2.2	2.0	2.1
Feb.	1.3	1.2	3.0	1.1	0.1	0.6	13.7	2.3	5.9	1.8	2.5	2.8	2.4	2.1	2.4
Mar.	1.3	1.2	3.1	1.1	0.3	0.8	16.6	2.4	8.1	1.6	2.7	2.8	2.5	2.1	2.5
Apr.	1.3	1.2	2.9	1.1	0.9	1.0	11.2	2.2	8.0	1.7	2.8	2.2	2.3	2.0	2.2
May	1.4	1.3	2.8	1.2	1.4	1.2	11.4	2.3	10.9	1.8	3.4	2.2	2.5	2.1	2.3
June	1.6	1.4	2.9	1.2	1.8	1.5	14.9	2.6	11.0	2.0	3.6	2.2	2.7	2.2	2.7
July	1.5	1.4	2.8	1.3	2.5	1.8	13.9	2.6	12.2	1.3	3.2	2.5	2.6	2.1	2.7
Aug.	1.6	1.4	2.7	1.3	2.8	1.9	12.1	2.5	12.1	1.5	3.4	2.5	2.6	2.1	2.7
Sept.	1.5	1.4	2.6	1.3	3.3	2.1	14.0	2.6	11.1	1.4	3.1	2.5	2.6	2.0	2.6
Oct.	1.5	1.5	2.6	1.4	3.4	2.2	13.4	2.6	10.3	1.5	3.1	2.4	2.6	2.0	2.6
Nov.	1.7	1.7	2.5	1.4	3.6	2.3	14.6	2.7	11.0	1.6	3.4	2.4	2.7	2.1	2.7
Dec.	1.8	1.8	2.6	1.5	4.5	2.7	9.9	2.6	11.0	1.6	3.3	2.4	2.7	2.1	2.7
2001 – Jan.	1.9	1.8	2.8	1.7	4.9	3.0	5.6	2.6	13.1	3.1	4.9	2.4	3.0	2.3	3.1
Feb.	2.0	2.0	2.7	1.8	5.8	3.5	3.4	2.6	13.3	3.1	5.0	2.4	3.0	2.3	3.0
Mar.	2.0	2.0	2.8	1.9	5.8	3.5	0.2	2.5	11.6	3.2	4.7	2.4	2.8	2.3	2.8
Apr.	2.1	2.1	3.2	2.2	5.5	3.6	2.2	2.8	11.8	3.5	5.0	2.2	3.1	2.6	3.1
May	2.1	2.0	3.3	2.3	6.1	3.9	3.6	2.9	6.1	3.4	3.9	2.2	3.0	2.6	3.0
June	2.0	2.0	3.2	2.4	7.0	4.3	1.8	2.9	6.0	3.3	3.8	2.2	3.0	2.5	2.9
July	2.0	2.0	3.4	2.5	7.6	4.6	–1.7	2.8	3.0	3.1	3.1	2.2	2.9	2.6	2.7
Aug.	2.0	2.0	3.5	2.6	7.4	4.6	–3.2	2.8	2.9	3.0	2.9	2.2	2.8	2.7	2.7
Sept.	2.1	2.2	3.5	2.7	6.9	4.4	–6.4	2.7	1.0	3.0	2.6	2.2	2.6	2.7	2.6

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 weigths shown in the table are those for January 2001. – (4) The calculation of the sub-indices is based on the disaggregation into 206 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.

Table a13

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 net of fresh food and energy products	Total
				Processed	Fresh				
Weights	*36.9*	*35.7*	*72.6*	*11.4*	*8.4*	*19.8*	*7.6*	*84.0*	*100.0*
1997	1.7	3.3	2.4	1.2	–0.7	0.3	1.9	2.3	1.9
1998	2.1	2.8	2.4	1.4	1.6	1.5	–1.4	2.3	2.0
1999	1.4	2.5	1.9	0.9	1.1	1.0	1.1	1.8	1.7
2000	1.7	2.3	2.0	1.3	1.8	1.5	11.6	1.9	2.6
1999 – Jan.	1.5	2.6	2.0	1.6	1.8	1.6	–4.6	1.9	1.5
Feb.	1.3	2.5	1.9	1.5	2.0	1.7	–3.9	1.8	1.4
Mar.	1.3	2.4	1.8	0.6	2.1	1.3	–3.1	1.6	1.4
Apr.	1.2	2.5	1.8	0.6	2.1	1.3	–1.4	1.6	1.3
May	1.2	2.5	1.8	0.4	2.0	1.1	–0.5	1.7	1.5
June	1.2	2.4	1.8	0.5	1.5	0.9	–0.5	1.6	1.4
July	1.4	2.6	2.0	0.9	0.8	0.9	1.3	1.8	1.7
Aug.	1.3	2.5	1.9	0.8	0.5	0.8	1.9	1.8	1.6
Sept.	1.3	2.5	1.9	1.0	0.2	0.7	4.8	1.8	1.9
Oct.	1.6	2.5	2.1	1.1	0.1	0.7	5.2	1.9	1.9
Nov.	1.6	2.4	2.0	1.1	0.2	0.8	6.1	1.9	2.0
Dec.	1.6	2.2	1.9	1.2	0.1	0.7	8.0	1.8	2.1
2000 – Jan.	1.5	2.3	1.9	1.3	–0.1	0.7	9.6	1.8	2.2
Feb.	1.5	2.5	2.0	1.3	0.2	0.8	10.0	1.9	2.4
Mar.	1.5	2.5	2.0	1.3	0.3	0.9	12.7	1.9	2.6
Apr.	1.5	2.2	1.9	1.3	0.9	1.1	9.8	1.9	2.4
May	1.7	2.2	1.9	1.4	1.3	1.3	11.2	1.9	2.5
June	1.8	2.3	2.1	1.5	1.7	1.5	13.1	2.0	2.7
July	1.7	2.2	2.0	1.1	2.2	1.6	13.1	1.9	2.6
Aug.	1.7	2.3	2.1	1.2	2.5	1.7	12.1	1.9	2.6
Sept.	1.8	2.1	2.0	1.2	2.9	1.9	12.6	1.9	2.6
Oct.	1.8	2.1	2.0	1.3	3.0	2.0	11.9	1.9	2.7
Nov.	2.0	2.1	2.1	1.4	3.1	2.1	13.0	2.0	2.9
Dec.	2.0	2.3	2.2	1.3	3.9	2.4	10.4	2.1	2.8
2001 – Jan.	1.8	2.6	2.2	1.5	4.3	2.7	9.2	2.1	2.7
Feb.	1.9	2.4	2.1	1.6	5.2	3.1	8.0	2.1	2.7
Mar.	1.9	2.6	2.2	1.6	5.1	3.1	5.4	2.1	2.6
Apr.	2.0	3.1	2.5	2.5	4.9	3.5	6.7	2.5	3.0
May	2.0	3.1	2.5	2.6	5.5	3.8	4.8	2.5	2.9
June	1.9	3.0	2.4	2.7	6.2	4.2	3.7	2.5	2.9
July	1.9	3.2	2.5	2.8	6.8	4.5	0.5	2.5	2.8
Aug.	1.9	3.2	2.5	2.9	6.7	4.5	–0.3	2.5	2.8
Sept.	2.0	3.3	2.6	2.9	6.3	4.4	–3.0	2.6	2.6

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 2001.

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 net of fresh food and energy products	Total
				Processed	Fresh				
Weights	*32.1*	*38.1*	*70.2*	*12.3*	*8.0*	*20.3*	*9.5*	*82.5*	*100.0*
1998	0.9	2.0	1.4	1.4	1.9	1.6	–2.6	1.4	1.1
1999	0.6	1.5	1.1	0.9	0.0	0.5	2.2	1.1	1.1
2000	0.7	1.7	1.3	1.2	1.7	1.4	13.4	1.2	2.3
1999 – Jan.	0.9	1.7	1.3	1.3	1.1	1.2	–4.4	1.3	0.8
Feb.	0.8	1.6	1.2	1.3	1.5	1.4	–4.3	1.2	0.8
Mar.	0.8	1.7	1.3	1.1	1.7	1.4	–2.8	1.2	1.0
Apr.	0.7	1.6	1.2	1.1	1.1	1.2	0.3	1.2	1.1
May	0.6	1.5	1.1	0.7	0.4	0.6	0.5	1.0	1.0
June	0.6	1.5	1.1	0.7	–0.7	0.2	1.4	1.0	0.9
July	0.6	1.6	1.1	0.7	–1.4	–0.1	3.2	1.1	1.1
Aug.	0.6	1.5	1.1	0.6	–1.6	–0.2	5.0	1.0	1.2
Sept.	0.5	1.4	1.0	0.6	–1.1	–0.1	6.4	0.9	1.2
Oct.	0.5	1.3	0.9	0.8	–0.4	0.4	6.5	0.9	1.4
Nov.	0.6	1.4	1.0	0.9	–0.3	0.5	7.3	1.0	1.5
Dec.	0.6	1.5	1.1	1.0	–0.3	0.5	10.1	1.1	1.7
2000 – Jan.	0.5	1.6	1.2	1.0	–0.5	0.4	12.1	1.1	1.9
Feb.	0.5	1.6	1.1	1.0	–0.1	0.6	13.6	1.1	2.0
Mar.	0.6	1.5	1.1	1.0	–0.5	0.4	15.3	1.1	2.1
Apr.	0.5	1.8	1.2	0.9	0.2	0.7	10.3	1.2	1.9
May	0.6	1.5	1.1	1.0	0.6	0.8	12.0	1.1	1.9
June	0.6	1.7	1.2	1.0	1.5	1.2	14.6	1.2	2.4
July	0.6	1.7	1.2	1.0	2.5	1.7	13.4	1.2	2.4
Aug.	0.6	1.7	1.3	1.1	3.3	2.0	11.9	1.3	2.3
Sept.	0.8	1.7	1.4	1.3	3.3	2.1	15.6	1.4	2.8
Oct.	0.9	1.8	1.4	1.2	3.3	2.1	14.6	1.4	2.7
Nov.	1.0	1.9	1.5	1.4	3.5	2.3	15.2	1.5	2.9
Dec.	1.1	1.8	1.5	1.4	3.9	2.4	11.3	1.5	2.6
2001 – Jan.	1.2	2.3	1.7	1.6	4.4	2.7	7.9	1.7	2.5
Feb.	1.3	2.3	1.8	2.1	4.6	3.0	8.3	1.8	2.6
Mar.	1.4	2.3	1.8	2.2	6.5	3.9	5.6	1.9	2.6
Apr.	1.5	2.4	2.0	2.6	7.1	4.3	7.9	2.1	3.0
May	1.6	2.6	2.1	2.8	9.0	5.2	8.5	2.2	3.4
June	1.6	2.6	2.1	3.1	9.1	5.4	5.4	2.2	3.1
July	1.6	2.6	2.1	3.3	8.8	5.5	2.9	2.3	2.8
Aug.	1.6	2.6	2.1	3.4	7.8	5.2	2.1	2.3	2.8
Sept.	1.7	2.7	2.2	3.5	7.8	5.2	–1.3	2.4	2.5

Source: Eurostat.

(1) Weighted average of the harmonized indices of the euro-area countries (11 countries until December 2000; from January 2001, 12 countries including Greece). The weights shown in the table are those for January 2001.

Table a15

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
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	0.7	3.5	2.5	2.3	1.2
1999 – Jan. . . .	1.5	1.9	0.2	0.8	0.3	0.9	1.5	2.2	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	2.6	1.1	1.2
May . . .	1.5	1.7	0.4	0.3	0.4	0.8	2.1	2.5	1.0	1.0
June . .	1.4	1.6	0.4	0.2	0.3	0.8	2.1	2.6	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	2.4	1.2	0.9
Oct. . . .	1.9	1.9	0.9	0.1	0.8	0.5	2.4	2.3	1.4	0.9
Nov. . . .	2.0	1.9	1.0	0.3	1.0	0.5	2.7	2.3	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	2.3	1.9	1.2
Feb. . . .	2.4	1.9	2.1	0.6	1.5	0.4	3.0	2.2	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	1.9	1.6	0.9	1.4	0.3	3.0	2.2	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	2.8	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
2001 – Jan. . . .	2.7	2.1	2.2	1.1	1.4	1.0	3.8	3.2	2.5	1.7
Feb. . . .	2.7	2.1	2.5	1.2	1.4	1.2	4.0	3.3	2.6	1.8
Mar. . . .	2.6	2.1	2.5	1.3	1.4	1.1	4.0	3.4	2.6	1.9
Apr. . . .	3.0	2.5	2.9	1.2	2.0	1.5	4.0	3.3	3.0	2.1
May . . .	2.9	2.5	3.6	1.6	2.5	1.5	4.2	3.4	3.4	2.2
June . .	2.9	2.5	3.1	1.7	2.2	1.5	4.2	3.4	3.1	2.2
July . . .	2.8	2.5	2.6	1.6	2.2	1.7	3.8	3.3	2.8	2.3
Aug. . . .	2.8	2.5	2.6	1.6	2.0	1.8	3.8	3.4	2.8	2.3
Sept. . .	2.6	2.6	2.1	1.7	1.6	1.8	3.4	3.3	2.5	2.4

Source: Eurostat.
(1) Weighted average of the euro-area countries (11 countries until December 2000; from January 2001, 12 countries including Greece).

Table a16

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

(percentage changes on year-earlier period)

	Consumer goods (2)			Investment goods	Intermediate goods		Total excluding food and energy products	Overall index
	Non-food products	Excluding vehicles	Food products		Non-energy products	Energy products		
Weights	*20.5*		*14.5*	*8.3*	*41.0*	*14.5*	*67.7*	*100.0*
1998	1.6	1.5	1.8	1.8	0.2	–5.1	0.8	0.1
1999	1.3	1.3	–0.1	1.0	–1.1	–1.0	–0.1	–0.3
2000	1.9	2.0	1.3	1.1	4.6	24.2	3.3	6.0
1999 – Jan.	1.6	1.6	0.7	1.5	–2.1	–9.3	–0.5	–1.6
Feb.	1.6	1.6	0.8	1.2	–2.5	–8.8	–0.8	–1.8
Mar.	1.4	1.4	0.1	1.1	–2.7	–8.0	–1.0	–1.8
Apr.	1.3	1.3	–0.3	1.1	–2.6	–6.7	–0.9	–1.6
May	1.0	1.0	–0.6	1.0	–2.3	–5.9	–0.8	–1.4
June	1.0	1.0	–0.8	1.0	–2.1	–5.1	–0.7	–1.4
July	1.0	1.0	–0.3	0.9	–1.7	–1.3	–0.5	–0.6
Aug.	1.0	1.2	–0.1	0.8	–0.9	0.7	–0.1	0.0
Sept.	1.2	1.4	–0.4	0.7	–0.3	5.0	0.3	0.8
Oct.	1.3	1.4	–0.1	0.7	0.8	6.5	1.0	1.6
Nov.	1.3	1.3	0.2	0.7	1.2	10.2	1.1	2.2
Dec.	1.4	1.4	0.1	0.7	1.7	13.0	1.5	2.8
2000 – Jan.	1.3	1.3	0.4	0.9	2.6	17.2	2.0	3.8
Feb.	1.5	1.5	0.4	1.1	3.2	20.5	2.4	4.6
Mar.	1.5	1.5	0.8	1.1	3.8	24.4	2.7	5.5
Apr.	1.6	1.6	1.5	1.0	4.6	21.1	3.2	5.4
May	2.0	1.9	2.0	1.1	5.2	25.3	3.6	6.4
June	2.1	2.1	1.8	1.2	5.5	27.5	3.8	6.9
July	2.2	2.3	1.1	1.2	5.5	26.6	3.9	6.7
Aug.	2.3	2.4	1.0	1.1	5.3	24.7	3.8	6.5
Sept.	2.2	2.2	1.4	1.2	5.3	26.2	3.8	6.7
Oct.	2.1	2.1	1.3	1.1	4.9	27.5	3.5	6.8
Nov.	2.2	2.2	1.4	1.2	4.8	26.3	3.5	6.7
Dec.	2.3	2.4	2.2	1.2	4.6	22.6	3.4	6.2
2001 – Jan.	2.3	2.4	2.1	1.2	3.9	18.4	3.1	5.4
Feb.	2.5	2.5	2.9	1.3	3.5	15.8	2.9	5.0
Mar.	2.5	2.6	2.4	1.2	3.2	11.9	2.8	4.2
Apr.	2.5	2.5	3.0	1.4	2.5	14.0	2.3	4.3
May	2.3	2.4	2.5	1.3	1.8	8.3	1.9	2.9
June	2.4	2.4	2.9	1.2	1.3	4.8	1.6	2.4
July	2.3	2.3	3.0	1.2	1.0	0.1	1.4	1.3
Aug.	2.1	2.1	3.1	1.2	0.7	–0.3	1.1	1.2
Sept.	2.1	2.1	3.1	1.2	0.3	–4.1	1.2	0.4

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. – (2) Excluding energy products.

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 products (3)	Intermediate goods		Total excl. food and energy products	Overall index	Consumer goods excl. food products (3)	Intermediate goods		Total excl. food and energy products	Overall index
		Non-energy	Energy				Non-energy	Energy		
Weights (1)	*(15.2)*	*(31.2)*	*(18.1)*	*(69.7)*	*(100.0)*	*(15.7)*	*(28.5)*	*(16.3)*	*(65.0)*	*(100.0)*
1999	0.7	–1.7	–1.8	–0.5	–1.0					
2000	0.8	3.6	9.9	2.1	3.3	0.6	4.6	25.4	1.1	5.5
2000 – Jan.	0.9	1.9	7.8	1.3	2.0	–0.1	2.4	26.3	–0.4	4.1
Feb.	0.9	2.4	8.3	1.5	2.4	–0.2	3.0	28.5	. .	4.7
Mar.	0.6	3.0	7.1	1.7	2.4	–0.2	3.5	28.4	0.3	5.1
Apr.	1.0	3.5	5.3	1.8	2.1	. .	4.4	23.0	1.1	4.9
May	1.1	4.0	6.4	2.3	2.7	0.1	4.9	27.4	1.1	5.7
June	1.0	4.2	7.7	2.2	2.9	1.0	5.2	29.1	0.9	5.9
July	0.9	4.2	9.1	2.4	3.3	0.5	5.4	24.6	1.4	5.7
Aug.	0.8	4.4	9.7	2.4	3.5	0.7	5.6	23.5	1.6	5.7
Sept.	1.0	4.5	13.2	2.6	4.3	0.7	5.5	28.6	1.6	6.7
Oct.	0.6	4.1	15.6	2.4	4.6	1.2	5.3	29.5	1.4	6.8
Nov.	0.7	3.9	15.7	2.3	4.7	1.7	5.1	24.7	1.6	6.3
Dec.	0.7	3.7	12.3	2.3	4.2	1.4	5.1	13.5	2.1	4.7
2001 – Jan.	1.0	3.5	14.3	2.2	4.6	1.3	4.9	7.7	2.4	3.9
Feb.	1.1	3.1	15.0	2.2	4.7	1.6	4.5	6.1	2.5	3.6
Mar.	1.8	2.5	15.7	2.2	4.9	1.8	4.0	2.4	2.4	3.0
Apr.	1.5	1.8	16.6	2.0	5.0	1.8	3.2	4.4	1.8	3.1
May	1.6	1.3	15.6	1.6	4.6	1.9	2.5	4.1	1.5	2.8
June	2.0	1.0	14.2	1.7	4.3	1.6	2.1	1.8	1.6	2.3
July	1.7	0.2	9.9	1.1	3.1	1.5	1.4	–2.4	1.8	1.3
Aug.	1.6	–0.2	8.4	1.0	2.7	1.3	1.0	–4.4	1.6	0.9
	SPAIN					EURO (4)				
Weights (1)	*(18.6)*	*(33.8)*	*(14.1)*	*(67.6)*	*(100.0)*	*(15.9)*	*(31.7)*	*(16.8)*	*(66.8)*	*(100.0)*
1999	2.2	–1.1	2.8	0.1	0.7					
2000	1.7	6.9	22.7	3.3	5.4	1.3	5.1	18.8	3.1	5.5
2000 – Jan.	1.7	5.5	19.7	2.6	4.5	1.2	3.0	16.2	2.0	3.9
Feb.	1.2	6.3	23.2	2.9	5.1	1.1	3.7	18.2	2.4	4.5
Mar.	1.2	7.0	26.3	3.1	5.7	0.9	4.3	19.0	2.7	5.0
Apr.	1.1	7.6	23.5	3.5	5.7	1.2	5.1	15.6	3.0	4.8
May	1.5	8.1	22.7	3.9	5.8	1.3	5.5	17.9	3.3	5.4
June	1.5	7.9	24.9	3.7	5.8	1.5	5.7	19.7	3.3	5.7
July	1.4	7.1	23.1	3.4	5.4	1.4	5.7	18.8	3.4	5.7
Aug.	1.7	6.9	20.3	3.5	5.1	1.5	5.8	17.9	3.6	5.7
Sept.	1.9	6.9	23.7	3.4	5.5	1.6	5.8	21.5	3.6	6.4
Oct.	2.4	6.8	25.5	3.3	6.0	1.6	5.5	23.2	3.5	6.7
Nov.	2.2	6.3	23.0	3.3	5.7	1.7	5.3	21.4	3.4	6.5
Dec.	2.4	5.9	16.5	3.4	5.0	1.7	5.0	15.5	3.3	5.5
2001 – Jan.	2.6	5.1	8.6	3.3	3.9	1.8	4.5	12.1	3.1	4.8
Feb.	3.0	4.8	5.7	3.2	3.6	2.0	4.0	11.0	3.0	4.6
Mar.	3.4	4.1	2.7	3.1	3.2	2.5	3.4	8.9	2.8	4.2
Apr.	3.6	2.9	3.6	2.4	2.8	2.6	2.5	10.7	2.3	4.2
May	3.6	2.2	4.0	2.1	2.7	2.6	1.8	9.2	2.0	3.7
June	3.6	1.5	2.2	1.8	2.4	2.7	1.4	6.8	1.9	3.2
July	3.7	1.1	. .	1.7	2.0	2.4	0.6	2.8	1.5	2.1
Aug.	3.5	0.4	–2.4	1.5	1.6	2.3	0.3	1.4	1.2	1.7

Source: Based on Eurostat data.
(1) With reference to 1995=100 for the three countries. – (2) Disaggregated data for France are available from January 1999 onwards. – (3) Excluding energy products. – (4) Weighted average (based on GDP) of data for the 12 euro-area countries.

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	–0.1	3.7	1.4	–0.8	2.2	0.5
1998	0.3	–7.2	–2.7	–0.1	2.0	1.0
1999	–2.1	0.8	–1.0	–0.3	–0.2	–0.3
2000	6.4	26.3	14.1	3.9	8.2	5.7
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
Dec.	6.3	27.9	14.8	3.5	10.0	6.3
2001 – Jan.	5.0	23.8	12.0	1.8	8.7	4.8
Feb.	4.5	17.2	9.0	2.6	7.1	4.6
Mar.	4.6	11.3	6.7	2.7	6.2	4.2
Apr.	5.7	9.5	6.8	3.7	5.8	4.6
May	4.6	7.4	5.3	3.4	5.2	4.2
June	4.2	7.4	5.1	3.6	5.0	4.2

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 institution	Intangible assets	Private		EU institution
						(billions of lire)					
1998	63,091	8,493	–19,109	–1,794	–226	–11,098	–11,501	–234	–92	4,681	5,320
1999	42,683	2,178	–20,122	–1,754	–369	–8,092	–9,070	–6	–14	5,420	6,198
2000	22,794	64	–25,358	–1,399	–387	–7,894	–9,497	–139	313	6,005	7,018
2000 – 3rd qtr. .	10,799	3,425	–6,686	–410	–109	–2,389	–2,496	–39	13	1,538	1,557
4th " . . .	5,948	–1,782	–6,139	–458	–116	–2,875	–2,739	81	96	2,975	3,675
2001 – 1st qtr. .	4,357	–3,591	–5,181	–1,308	–172	1,756	916	–88	169	834	1,051
2nd " . . .	8,640	2,812	–10,323	–1,110	–138	–3,077	–4,061	–46	–175	542	609
2000 – July	7,745	1,858	–2,762	–212	–39	–829	–872	–16	–46	161	161
Aug.	3,468	–45	–1,994	–33	–44	–1,256	–1,287	–31	55	127	127
Sept.	–414	1,612	–1,930	–165	–27	–304	–336	8	4	1,250	1,269
Oct.	2,730	–61	–2,123	–4	–38	–946	–850	–42	69	45	235
Nov.	927	–550	–3,074	–23	–29	–813	–764	–16	–17	1,474	1,713
Dec.	2,291	–1,170	–942	–431	–50	–1,116	–1,125	139	44	1,457	1,727
2001 – Jan.	–610	–1,383	–1,183	–313	–96	65	–117	–23	22	500	568
Feb.	1,654	–954	–1,977	–462	–36	–6	–266	–11	27	386	457
Mar.	3,313	–1,254	–2,021	–534	–39	1,697	1,299	–54	120	–52	26
Apr.	2,933	–276	–1,335	–473	–51	–467	–802	–32	–123	147	162
May	2,941	613	–3,698	–387	–52	–545	–881	–12	5	167	189
June	2,765	2,475	–5,290	–250	–35	–2,065	–2,378	–2	–57	229	258
July	(7,637)	(2,608)	(–2,469)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Aug.	(2,974)	(–76)	(–2,825)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
						(millions of euros)					
2000	11,772	33	–13,096	–723	–200	–4,077	–4,905	–72	162	3,102	3,624
2000 – 3rd qtr. .	5,577	1,769	–3,453	–212	–56	–1,234	–1,289	–20	7	795	804
4th " . .	3,072	–920	–3,170	–236	–60	–1,485	–1,415	42	50	1,536	1,898
2001 – 1st qtr. .	2,250	–1,855	–2,676	–676	–89	907	473	–46	87	431	543
2nd " . .	4,462	1,452	–5,331	–573	–71	–1,589	–2,097	–24	–90	280	315
2000 – July	4,000	960	–1,426	–110	–20	–428	–451	–8	–24	83	83
Aug.	1,791	–23	–1,030	–17	–23	–649	–665	–16	29	66	66
Sept.	–214	832	–997	–85	–14	–157	–174	4	2	646	655
Oct.	1,410	–31	–1,097	–2	–19	–489	–439	–22	36	23	121
Nov.	479	–284	–1,588	–12	–15	–420	–395	–8	–9	761	885
Dec.	1,183	–604	–486	–223	–26	–577	–581	72	23	752	892
2001 – Jan.	–315	–714	–611	–162	–50	34	–60	–12	11	258	293
Feb.	854	–493	–1,021	–238	–19	–3	–137	–6	14	199	236
Mar.	1,711	–648	–1,044	–276	–20	876	671	–28	62	–27	14
Apr.	1,515	–142	–690	–244	–26	–241	–414	–16	–63	76	84
May	1,519	316	–1,910	–200	–27	–281	–455	–6	3	86	97
June	1,428	1,278	–2,732	–129	–18	–1,067	–1,228	–1	–29	118	133
July	(3,944)	(1,347)	(–1,275)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Aug	(1,536)	(–39)	(–1,459)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .

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)				
1998	–27,917	7,431	–167,129	180,828	–58,501	32,270	–1,475	36,975
1999	–12,216	12,561	–235,243	189,480	–60,936	72,022	3,419	13,746
2000	–25,884	28,109	–167,178	116,341	1,911	56,080	4,843	–5,921
2000 – 3rd qtr.	–11,002	4,426	–41,740	15,829	17,138	18,364	–716	–4,512
4th ”	–10,020	15,424	–31,668	8,419	3,274	3,787	1,528	2,327
2001– 1st qtr.	–14,373	8,059	–40,933	43,889	–50,033	58,673	–507	–1,578
2nd ”	–5,822	9,321	–24,143	26,564	–16,578	14,501	341	–1,152
2000 – July	–3,658	8,105	–20,406	–3,036	25,464	–10,328	–302	–2,122
Aug.	–2,221	–5,664	–11,031	19,673	–20,521	22,577	662	37
Sept.	–5,123	1,985	–10,303	–807	12,195	6,115	–1,077	–2,426
Oct.	–2,521	3,112	–4,142	–9,071	–3,700	12,971	3,009	–306
Nov.	–4,529	5,197	–14,179	19,779	5,265	–13,862	623	2,546
Dec.	–2,970	7,116	–13,347	–2,289	1,710	4,678	–2,105	87
2001 – Jan.	–2,136	2,180	–11,856	4,823	3,718	13,385	–412	–5,811
Feb.	–5,968	2,366	–16,813	25,288	–20,859	13,151	14	3,751
Mar.	–6,270	3,512	–12,264	13,778	–32,891	32,136	–108	482
Apr.	–5,065	2,362	–9,681	2,658	2,562	7,952	–267	–622
May	958	3,321	–5,534	3,478	15,293	–15,897	978	–1,013
June	–1,716	3,638	–8,928	20,428	–34,433	22,445	–370	482
July	(–3,388)	(2,529)	(–3,720)	(–1,231)	(18,307)	(–21,423)	(250)	(2,631)
Aug.	(–4,839)	(242)	(–1,925)	(–7,189)	(11,261)	(503)	(–110)	(1,450)
				(millions of euros)				
2000	–13,368	14,517	–86,340	60,085	987	28,963	2,501	–3,058
2000 – 3rd qtr.	–5,682	2,286	–21,557	8,175	8,851	9,484	–370	–2,330
4th ”	–5,175	7,966	–16,355	4,348	1,691	1,956	789	1,202
2001– 1st qtr.	–7,423	4,162	–21,140	22,667	–25,840	30,302	–262	–815
2nd ”	–3,007	4,814	–12,469	13,719	–8,562	7,489	176	–595
2000 – July	–1,889	4,186	–10,539	–1,568	13,151	–5,334	–156	–1,096
Aug.	–1,147	–2,925	–5,697	10,160	–10,598	11,660	342	19
Sept.	–2,646	1,025	–5,321	–417	6,298	3,158	–556	–1,253
Oct.	–1,302	1,607	–2,139	–4,685	–1,911	6,699	1,554	–158
Nov.	–2,339	2,684	–7,323	10,215	2,719	–7,159	322	1,315
Dec.	–1,534	3,675	–6,893	–1,182	883	2,416	–1,087	45
2001 – Jan.	–1,103	1,126	–6,123	2,491	1,920	6,913	–213	–3,001
Feb.	–3,082	1,222	–8,683	13,060	–10,773	6,792	7	1,937
Mar.	–3,238	1,814	–6,334	7,116	–16,987	16,597	–56	249
Apr.	–2,616	1,220	–5,000	1,373	1,323	4,107	–138	–321
May	495	1,715	–2,858	1,796	7,898	–8,210	505	–523
June	–886	1,879	–4,611	10,550	–17,783	11,592	–191	249
July	(–1,750)	(1,306)	(–1,921)	(–636)	(9,455)	(–11,064)	(129)	(1,359)
Aug.	(–2,499)	(125)	(–994)	(–3,713)	(5,816)	(260)	(–57)	(749)

Table a21

Formation of general government borrowing requirement

	Budget			Other central government operations		BR of local gov. and social security institutions after consolidation	General government borrowing requirement (GGBR)	Privatization and other extraordinary receipts of the state sector	State sector debt settlement	GGBR net of debt settlements and privatization receipts	*Memorandum item:*
	Receipts (1)	Payments (–)	Balance		*of which:* Collection account						SSBR net of debt settlements and privatization receipts
					(billions of lire)						
1999	684,688	750,403	–65,715	61,850	–231	–11,976	–15,841	43,839	–12,118	–47,562	–30,994
2000	680,174	702,987	–22,813	–16,841	–2,181	–11,879	–51,533	29,951	–8,904	–72,580	–49,150
2000 – 1st qtr.	141,715	158,354	–16,639	–5,810	–1,300	–2,923	–25,372	42	–5,992	–19,422	–13,979
2nd ”	135,634	160,688	–25,054	163	33,418	–1,486	–26,378	78	–638	–25,817	–17,688
3rd ”	171,424	147,419	24,005	–36,728	–28,317	395	–12,328	140	–294	–12,173	–14,968
4th ”	231,401	236,526	–5,125	25,534	–5,981	–7,865	12,544	29,692	–1,981	–15,167	–2,516
2001 – Jan. .	50,292	60,640	–10,347	12,194	24,954	–246	1,600	. .	–94	1,694	1,181
Feb. .	46,653	54,436	–7,783	698	–14,929	–244	–7,329	5,255	–294	–12,290	–11,655
Mar. .	45,683	57,506	–11,823	–11,421	–7,640	17	–23,227	3,000	–3,375	–22,852	–23,086
Apr. .	39,793	47,953	–8,160	–18,987	–551	1,297	–25,850	. .	–3,947	–21,903	–21,346
May .	48,702	49,567	–866	–19,722	–1,530	–178	–20,766	. .	–1,454	–19,312	–20,083
June .	44,629	61,212	–16,583	39,302	36,423	–100	22,619	110	–1,452	23,961	24,084
July .	90,867	88,420	2,446	–2,197	–28,469	1,610	1,859	2	–1,236	3,093	4,318
Aug. .	42,899	69,376	–26,477	33,669	21,850	767	7,959	. .	–318	8,277	5,544
Sept.	55,513	72,293	–16,781	–2,131	–29,020	–981	–19,893	. .	–1,055	–18,838	–16,495
					(millions of euros)						
1999	353,612	387,551	–33,939	31,943	–119	–6,185	–8,181	22,641	–6,259	–24,564	–16,007
2000	351,281	363,063	–11,782	–8,698	–1,126	–6,135	–26,615	15,469	–4,599	–37,484	–25,384
2000 – 1st qtr.	73,190	81,783	–8,593	–3,001	–671	–1,509	–13,104	22	–3,095	–10,031	–7,219
2nd ”	70,049	82,989	–12,939	84	17,259	–768	–13,623	40	–329	–13,334	–9,135
3rd ”	88,533	76,135	12,397	–18,968	–14,625	204	–6,367	72	–152	–6,287	–7,730
4th ”	119,509	122,156	–2,647	13,187	–3,089	–4,062	6,479	15,335	–1,023	–7,833	–1,299
2001 – Jan. .	25,974	31,318	–5,344	6,297	12,888	–127	826	. .	–49	875	610
Feb. .	24,094	28,114	–4,020	361	–7,710	–126	–3,785	2,714	–152	–6,347	–6,020
Mar. .	23,593	29,699	–6,106	–5,898	–3,946	9	–11,996	1,549	–1,743	–11,802	–11,923
Apr. .	20,551	24,766	–4,214	–9,806	–285	670	–13,351	. .	–2,038	–11,312	–11,024
May .	25,152	25,599	–447	–10,186	–790	–92	–10,725	. .	–751	–9,974	–10,372
June .	23,049	31,613	–8,564	20,298	18,811	–52	11,682	57	–750	12,375	12,439
July .	46,929	45,665	1,263	–1,135	–14,703	832	960	1	–638	1,598	2,230
Aug. .	22,155	35,829	–13,674	17,389	11,285	396	4,111	. .	–164	4,275	2,863
Sept.	28,670	37,336	–8,667	–1,101	–14,988	–507	–10,274	. .	–545	–9,729	–8,519

(1) Tax revenue already booked in the budget accounts (see the methodological notes).

Financing of the general government borrowing requirement

	Medium and long-term securities	*of which:* issued abroad	Short-term securities	*of which:* issued abroad	PO deposits	Lending by banks: Resident banks	Lending by banks: Non-resident banks	Other	*of which:* change in central bank current accounts	Borrowing requirement
					(billions of lire)					
1999	44,865	–5,256	–34,235	713	17,418	3,435	–1,737	–13,905	–14,048	15,841
2000	68,138	31,091	–34,278	–458	9,023	–3,320	–6,904	18,873	18,797	51,533
2000 – 1st qtr. .	41,179	10,107	–8,402	527	3,855	–7,383	–3,157	–720	1,168	25,372
2nd ” . .	37,916	11,153	–581	5,396	456	276	–942	–10,746	–11,272	26,378
3rd ” . .	4,877	8,703	–3,485	–5,824	833	–3,548	–322	13,972	13,427	12,328
4th ” . .	–15,834	1,128	–21,810	–557	3,880	7,335	–2,483	16,368	15,474	–12,544
2001 – Jan. . . .	11,694	5,190	16,501	789	1,995	–1,811	35	–30,013	–27,521	–1,600
Feb. . . .	15,749	5,321	3,247	551	846	190	–21	–12,683	–12,842	7,329
Mar. . . .	14,959	748	6,405	. .	1,804	–706	–60	827	577	23,227
Apr. . . .	8,208	5,439	4,970	390	349	19	–238	12,541	11,527	25,850
May . . .	8,653	1,624	3,892	244	1,146	–2,278	–161	9,513	8,186	20,766
June . . .	3,764	–8,931	2,810	337	376	1,477	–468	–30,578	–29,536	–22,619
July . . .	–8,995	5,780	1,315	–95	584	–5,325	–329	10,890	9,494	–1,859
Aug. . . .	–9,230	–571	–595	–324	1,840	–2,759	. .	2,785	2,122	–7,959
Sept. . .	–3,639	–4,488	4,256	9	1,600	1,628	–67	16,116	15,874	19,893
					(millions of euros)					
1999	23,171	–2,714	–17,681	368	8,996	1,774	–897	–7,181	–7,255	8,181
2000	35,190	16,057	–17,703	–237	4,660	–1,714	–3,566	9,747	9,708	26,614
2000 – 1st qtr. .	21,267	5,220	–4,339	272	1,991	–3,813	–1,630	–372	603	13,104
2nd ” . .	19,582	5,760	–300	2,787	235	143	–487	–5,550	–5,822	13,623
3rd ” . .	2,519	4,495	–1,800	–3,008	430	–1,832	–166	7,216	6,934	6,367
4th ” . .	–8,178	583	–11,264	–287	2,004	3,788	–1,282	8,453	7,992	–6,479
2001 – Jan. . . .	6,039	2,681	8,522	407	1,030	–935	18	–15,501	–14,213	–826
Feb. . . .	8,134	2,748	1,677	285	437	98	–11	–6,550	–6,632	3,785
Mar. . . .	7,726	386	3,308	. .	931	–365	–31	427	298	11,996
Apr. . . .	4,239	2,809	2,567	201	180	10	–123	6,477	5,953	13,351
May . . .	4,469	839	2,010	126	592	–1,176	–83	4,913	4,228	10,725
June . . .	1,944	–4,612	1,451	174	194	763	–242	–15,792	–15,254	–11,682
July . . .	–4,645	2,985	679	–49	302	–2,750	–170	5,624	4,903	–960
Aug. . . .	–4,767	–295	–308	–168	950	–1,425	. .	1,438	1,096	–4,111
Sept. . .	–1,879	–2,318	2,198	5	826	841	–35	8,323	8,198	10,274

Table a23

General government debt

	Medium and long-term securities excluding central bank	Short-term securities excluding central bank	PO deposits	Lending by banks	Borrowing from central bank (1)	Other domestic debt	Total	*Memorandum item:* Claims on central bank (1)	Treasury payments accounts	Sinking fund	State sector debt (2)
						(billions of lire)					
1998	1,700,895	265,927	182,598	140,225	123,326	4,490	2,417,461	43,168	42,072	134	2,290,697
1999	1,763,788	231,921	200,016	142,373	115,007	4,588	2,457,694	56,443	56,243	11	2,300,564
2000 – 1st qtr.	1,802,892	223,518	203,871	131,982	120,032	5,313	2,487,607	55,166	55,004	82	2,334,956
2nd ”	1,838,412	222,789	204,327	131,323	121,968	5,955	2,524,772	66,555	63,670	2,688	2,356,429
3rd ”	1,848,944	219,303	205,159	127,598	121,852	6,507	2,529,363	53,135	48,969	3,963	2,378,113
4th ”	1,825,813	197,493	209,040	132,344	120,991	7,603	2,493,283	37,863	29,288	8,169	2,346,547
2001 – Jan. .	1,836,784	213,996	211,035	130,551	120,862	5,012	2,518,239	65,285	56,636	8,342	2,345,197
Feb. .	1,850,314	217,245	211,881	130,705	122,230	5,197	2,537,572	78,153	69,478	8,342	2,350,880
Mar. .	1,869,023	223,651	213,684	129,985	119,836	5,451	2,561,630	77,597	54,720	22,524	2,376,471
Apr. .	1,874,432	228,620	214,034	129,754	122,796	6,251	2,575,886	65,856	50,232	15,484	2,401,990
May .	1,887,516	232,643	215,180	127,440	122,663	7,578	2,593,020	57,672	49,376	8,154	2,428,771
June .	1,890,811	235,471	215,556	128,412	122,614	7,982	2,600,846	88,632	83,267	3,799	2,403,584
July .	1,878,219	236,785	216,141	122,722	123,715	7,953	2,585,534	77,716	73,488	4,084	2,402,446
Aug. .	1,866,413	236,190	217,980	119,923	124,214	8,633	2,573,353	75,612	73,268	2,181	2,395,090
Sept.	1,865,490	240,217	219,580	121,530	122,430	8,909	2,578,156	59,778	57,394	2,181	2,414,082
						(millions of euros)					
2000 – 1st qtr.	931,116	115,437	105,291	68,163	61,991	2,744	1,284,742	28,491	28,407	42	1,205,904
2nd ”	949,460	115,061	105,526	67,823	62,991	3,075	1,303,936	34,373	32,883	1,388	1,216,994
3rd ”	954,900	113,261	105,956	65,899	62,931	3,361	1,306,307	27,442	25,290	2,046	1,228,193
4th ”	942,954	101,997	107,960	68,350	62,486	3,927	1,287,673	19,554	15,126	4,219	1,211,890
2001 – Jan. .	948,620	110,520	108,990	67,424	62,420	2,588	1,300,562	33,717	29,250	4,308	1,211,193
Feb. .	955,608	112,198	109,427	67,503	63,126	2,684	1,310,546	40,362	35,882	4,308	1,214,128
Mar. .	965,270	115,506	110,359	67,132	61,890	2,815	1,322,971	40,076	28,260	11,632	1,227,345
Apr. .	968,063	118,072	110,539	67,012	63,419	3,228	1,330,334	34,012	25,943	7,997	1,240,524
May .	974,820	120,150	111,131	65,817	63,350	3,914	1,339,183	29,785	25,500	4,211	1,254,356
June .	976,522	121,611	111,326	66,319	63,325	4,122	1,343,225	45,775	43,004	1,962	1,241,348
July .	970,019	122,289	111,627	63,381	63,893	4,107	1,335,317	40,137	37,954	2,109	1,240,760
Aug. .	963,922	121,982	112,577	61,935	64,151	4,459	1,329,026	39,050	37,840	1,126	1,236,961
Sept.	963,445	124,062	113,404	62,765	63,230	4,601	1,331,507	30,873	29,642	1,126	1,246,769

(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”. In December 1998 borrowing from UIC is estimated to have amounted to around 2.3 trillion lire and claims on UIC to 0.7 trillion.– (2) Net of claims on central bank.

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		
							Order issued by the Governor		Rate
	Date effective	Deposit facility	Marginal lending facility	With effect from	Fixed rate *(for fixed rate tenders)*	Minimum bid rate *(for variable rate tenders)*	Date issued	Date effective	
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
10.5.2001	11.5.2001	3.50	5.50	15.5.2001	–	4.50	10.5.2001	15.5.2001	4.50
30.8.2001	31.8.2001	3.25	5.25	5.9.2001	–	4.25	30.8.2001	5.9.2001	4.25
17.9.2001	18.9.2001	2.75	4.75	19.9.2001	–	3.75	17.9.2001	19.9.2001	3.75

Table a25

Treasury bill yields and interbank rates (1)

(percentages)

	Gross Treasury bill yields					Interbank rates (2)				
	3-month BOTs	6-month BOTs	12-month BOTs	Other issues	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	8.64	8.47
1997	6.40	6.36	6.26	–	6.33	7.02	6.97	6.88	6.71	6.45
1998	4.96	4.59	4.37	–	4.59	5.22	5.18	4.99	4.67	4.39
1999	2.77	2.98	3.13	–	3.01	2.74	2.85	2.95	3.04	3.18
2000	4.09	4.52	4.68	4.76	4.53	4.12	4.23	4.39	4.55	4.79
2000 – Jan.	3.27	3.55	3.89	–	3.62	3.03	3.14	3.34	3.55	3.95
Feb.	3.35	3.78	4.01	–	3.79	3.28	3.35	3.53	3.72	4.09
Mar.	3.60	3.99	4.22	–	4.03	3.52	3.58	3.74	3.93	4.26
Apr.	3.89	4.17	4.27	–	4.15	3.68	3.78	3.93	4.09	4.38
May	4.26	4.56	4.67	–	4.53	3.90	4.16	4.36	4.54	4.84
June ...	–	4.58	4.94	–	4.80	4.30	4.37	4.51	4.66	4.97
July	4.25	4.73	4.97	–	4.73	4.32	4.42	4.59	4.86	5.13
Aug.	4.42	5.01	5.07	–	4.91	4.42	4.58	4.77	5.02	5.26
Sept. ...	4.72	4.94	5.21	–	5.02	4.60	4.69	4.86	5.05	5.23
Oct.	–	5.11	5.09	4.56	4.99	4.76	4.85	5.04	5.11	5.21
Nov.	5.02	4.99	5.13	4.97	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
Mar.	4.67	4.34	4.47	–	4.45	4.79	4.78	4.71	4.58	4.41
Apr.	4.46	4.69	4.19	4.33	4.44	5.07	4.78	4.69	4.54	4.52
May	4.68	4.47	4.49	–	4.52	4.64	4.66	4.63	4.54	4.50
June ...	4.36	4.25	4.25	–	4.27	4.52	4.53	4.45	4.38	4.31
July	4.32	4.32	4.24	4.40	4.30	4.49	4.52	4.46	4.40	4.30
Aug.	4.20	4.12	4.03	–	4.11	4.48	4.45	4.34	4.24	4.04
Sept. ...	4.04	3.45	3.91	3.69	3.75	3.97	4.04	3.96	3.84	3.52

(1) Before tax; the annual values are obtained as the arithmetic mean of the monthly data. – (2) Weighted monthly average of the rates on transactions concluded on the interbank Deposit Market (MID).

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	4.72	7.15	5.07
1998	1.70	2.29	3.72	5.05	3.11	3.04	5.57	3.74
1999	1.22	1.52	2.88	3.85	2.40	2.99	4.45	4.68
2000	2.08	2.20	4.71	3.94	3.52	3.82	4.96	4.76
2001 – Jan.	2.08	2.19	4.67	3.89	3.50	3.77	4.91	4.59
Feb.	2.05	2.16	4.60	3.86	3.50	3.69	4.88	4.36
Mar.	2.08	2.18	4.63	3.82	3.52	3.70	4.86	4.49
Apr.	2.08	2.17	4.61	3.77	3.55	3.74	4.81	4.36
May	2.03	2.11	4.56	3.70	3.47	3.68	4.79	4.50
June	1.97	2.04	4.49	3.62	3.43	3.67	4.73	4.59
July	1.96	2.03	4.44	3.58	3.40	3.66	4.66	4.23
Aug.	1.93	2.00	4.41	3.56	3.35	3.61	4.66	4.15
Sept	(1.81)	(1.89)	(4.24)	(3.53)	(3.24)	(3.54)	(4.60)	(3.99)

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	4.71	6.88	7.65	6.53	5.79	6.51	8.00
2001 – Jan.	4.72	6.84	7.62	6.57	5.95	6.92	8.00
Feb.	4.75	6.80	7.58	6.55	6.12	6.99	8.00
Mar.	4.72	6.76	7.55	6.52	5.74	6.94	8.00
Apr.	4.69	6.71	7.54	6.48	5.90	6.88	8.00
May	4.69	6.69	7.52	6.45	5.84	6.91	7.88
June	4.62	6.61	7.45	6.39	5.46	6.75	7.88
July	4.55	6.59	7.42	6.26	5.45	6.63	7.88
Aug.	4.51	6.54	7.38	6.23	5.52	6.89	7.88
Sept.	(4.35)	(6.48)	(7.34)	(6.18)	(5.15)	(6.62)	(7.50)

Table a28

Banks and money market funds: balance sheet

(end-of-period data)

Assets

	Cash	Loans							Holdings of securities other		
		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	*(10,846)*	*(310,104)*	*(124,085)*	*(1,244,415)*	*(87,647)*	*(48)*	*(13,851)*	*(202,214)*	*(49,666)*	*(352,338)*	*(4,459)*
1998	11,915	263,006	118,861	1,337,337	119,508	66	20,902	161,562	63,500	364,567	5,577
1999	11,907	299,650	122,295	1,474,122	111,732	87	24,698	130,949	73,203	342,418	10,454
2000	13,579	363,453	118,976	1,667,813	113,776	215	30,535	134,199	84,011	282,883	15,366
2001 – May . . .	10,861	356,729	114,390	1,688,757	121,209	241	29,913	137,430	76,717	293,957	18,504
June . .	10,469	368,932	115,867	1,716,688	112,772	241	32,375	142,382	77,154	296,204	18,469
July . . .	12,066	366,511	110,542	1,734,387	109,449	240	28,810	138,622	77,195	288,896	18,441
Aug. . . .	11,108	359,556	107,783	1,722,035	112,723	238	26,169	132,614	76,690	286,179	18,892
Sept. . .	(10,946)	(364,398)	(109,411)	(1,733,742)	(114,223)	(239)	(26,381)	(146,505)	(77,717)	(293,142)	(19,101)
											(billions
2001 – May . . .	5,609	184,235	59,077	872,170	62,599	125	15,449	70,976	39,621	151,816	9,556
June . .	5,407	190,538	59,840	886,595	58,242	124	16,720	73,534	39,847	152,977	9,538
July . . .	6,231	189,287	57,090	895,736	56,526	124	14,879	71,592	39,868	149,203	9,524
Aug. . . .	5,737	185,695	55,665	889,357	58,217	123	13,515	68,489	39,607	147,799	9,757
Sept. . .	(5,653)	(188,196)	(56,506)	(895,403)	(58,991)	(123)	(13,624)	(75,664)	(40,137)	(151,395)	(9,865)

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)*	*(1,131,288)*	*(151,507)*	*(167)*	*(15,095)*
1998	268,036	13,902	1,104,517	166,271	187	19,516
1999	351,133	15,339	1,114,360	191,020	74	11,876
2000	399,466	13,484	1,158,219	208,352	65	13,615
2001 – May . . .	376,396	13,753	1,163,731	226,183	348	13,065
June . . .	385,223	14,072	1,158,553	231,226	1,657	14,552
July . . .	377,284	13,155	1,153,781	233,672	566	13,439
Aug. . . .	373,972	13,640	1,144,925	234,874	1,585	13,012
Sept. . .	(370,950)	(13,133)	(1,165,829)	(233,662)	(2,186)	(17,801)
						(millions
2001 – May	194,392	7,103	601,017	116,814	180	6,747
June	198,951	7,268	598,343	119,418	856	7,515
July	194,851	6,794	595,878	120,681	292	6,941
Aug. . . .	193,141	7,045	591,808	121,302	818	6,720
Sept. . . .	(191,579)	(6,783)	(602,100)	(120,676)	(1,129)	(9,193)

Table a28

than shares, at market value – Residents of other euro-area countries – MFIs	than shares, at market value – Residents of other euro-area countries – General govern-ment	than shares, at market value – Residents of other euro-area countries – Other sectors	than shares, at market value – Rest of the world	Shares and other equity – Residents of Italy – MFIs	Shares and other equity – Residents of Italy – Other sectors	Shares and other equity – Residents of other euro-area countries – MFIs	Shares and other equity – Residents of other euro-area countries – Other sectors	Shares and other equity – Rest of the world	Fixed assets	Remaining assets	Total assets
of lire)											
(1,891)	*(2,473)*	*(1,962)*	*(19,874)*	*(34,425)*	*(26,347)*	*(4,726)*	*(6,363)*	*(4,788)*	*(84,778)*	*(523,552)*	*(3,110,851)*
3,758	6,737	3,167	32,175	55,902	32,583	8,200	6,573	5,844	86,348	265,137	2,973,223
8,401	5,963	9,430	34,635	75,613	41,652	9,832	10,054	8,908	86,589	286,508	3,179,102
7,174	8,869	10,369	29,804	79,006	51,575	11,514	15,952	14,169	89,616	306,032	3,448,887
8,493	15,494	12,230	28,156	82,626	63,129	11,598	18,461	16,585	90,683	317,362	3,513,524
8,269	15,742	12,144	27,642	77,738	63,209	11,686	19,210	15,890	91,140	321,062	3,555,283
8,426	14,804	12,672	27,074	79,529	57,764	11,542	20,903	15,579	91,149	297,512	3,522,115
8,346	13,168	12,621	26,591	80,352	55,635	11,528	21,158	16,637	91,482	278,495	3,470,000
(7,927)	(12,396)	(13,211)	(27,630)	(83,128)	(51,965)	(11,041)	(20,792)	(17,516)	(91,558)	(305,497)	(3,538,466)
of euros)											
4,386	8,002	6,316	14,541	42,673	32,603	5,990	9,534	8,566	46,834	163,904	1,814,584
4,271	8,130	6,272	14,276	40,148	32,645	6,035	9,921	8,207	47,070	165,815	1,836,151
4,352	7,646	6,545	13,982	41,073	29,832	5,961	10,796	8,046	47,075	153,652	1,819,021
4,310	6,801	6,518	13,733	41,498	28,733	5,953	10,927	8,592	47,246	143,831	1,792,105
(4,094)	(6,402)	(6,823)	(14,270)	(42,932)	(26,837)	(5,702)	(10,738)	(9,046)	(47,286)	(157,776)	(1,827,465)

Rest of the world	Money market fund shares/units	Debt securities issued	Capital and reserves	Remaining liabilities	Total liabilities
of lire)					
(255,776)	*(7,143)*	*(396,409)*	*(195,959)*	*(680,760)*	*(3,110,851)*
245,892	9,240	486,065	210,173	449,425	2,973,224
262,825	25,297	525,800	228,993	452,385	3,179,102
305,369	19,508	585,684	239,962	505,161	3,448,886
348,599	29,106	613,606	251,853	476,882	3,513,523
357,833	30,605	619,435	255,094	487,033	3,555,283
334,469	32,593	625,056	255,572	482,528	3,522,114
323,861	34,729	629,875	256,659	442,868	3,470,000
(326,529)	*(38,148)*	(634,113)	(256,730)	(479,385)	*(3,538,466)*
of euros)					
180,036	15,032	316,901	130,071	246,289	1,814,583
184,805	15,806	319,911	131,745	251,532	1,836,150
172,739	16,833	322,815	131,992	249,205	1,819,020
167,260	17,936	325,303	132,554	228,722	1,792,105
(168,638)	*(19,702)*	(327,492)	(132,590)	(247,582)	*(1,827,465)*

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)*	*(20,860)*	*(374,402)*
1998	663,885	138,825	44,958	118,398	115,538	33,547	448,317
1999	730,350	111,428	32,135	118,420	96,877	21,834	495,593
2000	774,515	94,663	21,340	110,575	132,137	24,783	552,457
2001 – Apr.	745,341	88,701	15,440	105,394	154,574	24,653	577,001
May	756,175	88,759	13,866	104,478	168,788	23,959	580,992
June	760,336	88,973	13,217	104,547	159,472	23,781	587,197
July	754,674	87,122	12,230	104,879	163,887	24,916	591,971
Aug.	735,470	87,336	10,435	105,144	175,331	25,075	596,691
Sept.	(775,032)	(85,796)	(10,350)	(106,034)	(158,427)	(25,699)	(600,276)
				(millions of euros)			
2001 – Apr.	384,936	45,810	7,974	54,431	79,831	12,732	297,996
May	390,532	45,840	7,161	53,958	87,172	12,374	300,057
June	392,681	45,951	6,826	53,994	82,360	12,282	303,262
July	389,757	44,995	6,316	54,166	84,641	12,868	305,728
Aug.	379,838	45,105	5,389	54,302	90,551	12,950	308,165
Sept.	(400,271)	(44,310)	(5,345)	(54,762)	(81,821)	(13,272)	(310,016)

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	562,741	604,554	573,886	1,229,214	1,136,627	25,444	124,820	74,150
1998	662,045	597,060	650,803	624,098	1,312,849	1,221,157	30,164	125,063	70,791
1999	711,361	668,287	743,536	734,792	1,454,897	1,403,078	35,728	116,627	59,557
2000	843,903	792,446	819,259	809,478	1,663,162	1,601,925	42,908	100,499	47,538
2001 – Apr.	868,793	816,569	832,032	821,763	1,700,825	1,638,332	43,832	101,449	46,713
May	852,536	795,335	843,932	833,591	1,696,467	1,628,926	43,971	86,553	38,706
June	865,835	808,453	856,324	845,536	1,722,160	1,653,989	45,022	87,289	39,791
July	881,059	826,835	857,404	846,729	1,738,463	1,673,564	42,411	86,212	41,512
Aug.	862,743	811,931	862,729	852,114	1,725,472	1,664,045	38,645	86,847	41,839
Sept.	*(868,014)*	....	*(869,172)*	....	*(1,737,187)*	....	....	*(87,355)*	*(42,362)*
	(millions of euros)								
2001 – Apr.	448,694	421,723	429,708	424,405	878,403	846,128	22,637	52,394	24,125
May	440,298	410,756	435,854	430,514	876,152	841,270	22,709	44,701	19,990
June	447,167	417,531	442,255	436,683	889,421	854,214	23,252	45,081	20,550
July	455,029	427,024	442,812	437,299	897,841	864,323	21,903	44,525	21,439
Aug.	445,570	419,327	445,562	440,080	891,132	859,407	19,959	44,853	21,608
Sept.	*(448,292)*	....	*(448,890)*	....	*(897,182)*	....	....	*(45,115)*	*(21,878)*

	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	345,195	33,706	19,489	187,492	99,094	50,848	49,748	396,044
1998	342,430	48,481	21,133	167,537	101,158	64,068	63,216	406,498
1999	307,612	33,624	18,026	145,506	105,576	72,644	67,073	380,256
2000	247,032	15,192	15,139	128,465	82,484	77,982	69,778	325,014
2001 – Apr.	248,383	20,245	10,428	127,969	84,209	73,669	65,671	322,052
May	246,533	20,314	9,519	124,016	87,159	73,159	65,030	319,692
June	249,481	20,909	10,153	124,330	88,698	73,910	65,712	323,391
July	238,968	20,617	10,058	119,257	83,613	73,248	65,238	312,217
Aug.	235,134	22,203	8,788	117,189	81,742	72,948	65,036	308,081
	(millions of euros)							
2001 – Apr.	128,279	10,456	5,386	66,090	43,490	38,047	33,916	166,326
May	127,324	10,491	4,916	64,049	45,014	37,783	33,585	165,107
June	128,846	10,798	5,244	64,211	45,809	38,171	33,938	167,017
July	123,417	10,648	5,194	61,591	43,182	37,830	33,692	161,246
Aug.	121,436	11,467	4,539	60,523	42,216	37,674	33,588	159,111

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	313,101	14,086	42,515	177,955	73,801	15,513	86,445	415,061
2000	243,887	7,960	18,364	163,874	49,609	16,987	85,728	346,600
1999 – 3rd qtr. . .	356,955	15,626	52,721	198,892	85,109	13,728	63,132	433,817
4th " . .	313,101	14,086	42,515	177,955	73,801	15,513	86,445	415,061
2000 – 1st qtr. . .	270,574	16,681	31,004	149,842	68,505	15,831	90,799	377,207
2nd " . .	262,332	15,523	26,436	158,232	57,929	16,815	90,538	369,684
3rd " . .	247,732	14,007	21,839	152,932	54,436	16,681	89,595	354,008
4th " . .	243,887	7,960	18,364	163,874	49,609	16,987	85,728	346,600
2001 – 1st qtr. . .	228,803	9,707	12,140	155,331	47,609	15,407	72,143	316,354
2nd " . .	217,724	15,570	9,004	143,443	45,518	15,761	67,609	301,094
2000 – Sept.	247,732	14,007	21,839	152,932	54,436	16,681	89,595	354,008
Oct.	243,916	12,200	20,412	150,590	56,084	16,724	94,198	354,839
Nov.	247,326	9,765	19,473	159,758	53,807	17,026	92,645	356,996
Dec.	243,887	7,960	18,364	163,874	49,609	16,987	85,728	346,600
2001 – Jan.	239,122	7,337	16,838	160,743	49,567	13,540	86,809	339,471
Feb.	228,557	7,209	13,258	155,262	48,920	15,149	77,728	321,434
Mar.	228,803	9,707	12,140	155,331	47,609	15,407	72,143	316,354
Apr.	225,816	11,197	11,585	151,325	47,681	15,095	75,884	316,793
May	217,526	12,235	8,537	144,922	47,388	15,936	71,158	304,620
June	217,724	15,570	9,004	143,443	45,518	15,761	67,609	301,094
July (2) . .	220,574	16,282	7,881	141,613	50,517	17,144	65,214	302,933
Aug. (2) . .	223,676	19,332	7,083	141,859	51,147	17,748	60,309	301,733
	(millions of euros)							
2001 – 1st qtr. . .	118,167	5,013	6,270	80,222	24,588	7,957	37,259	163,383
2nd " . .	112,445	8,041	4,650	74,082	23,508	8,140	34,917	155,502
2001 – Jan.	123,496	3,789	8,696	83,017	25,599	6,993	44,833	175,322
Feb.	118,040	3,723	6,847	80,186	25,265	7,824	40,143	166,007
Mar.	118,167	5,013	6,270	80,222	24,588	7,957	37,259	163,383
Apr.	116,624	5,783	5,983	78,153	24,625	7,796	39,191	163,610
May	112,343	6,319	4,409	74,846	24,474	8,230	36,750	157,323
June	112,445	8,041	4,650	74,082	23,508	8,140	34,917	155,502
July (2) . .	113,917	8,409	4,070	73,137	26,090	8,854	33,680	156,452
Aug. (2) . .	115,519	9,984	3,658	73,264	26,415	9,166	31,147	155,832

(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 subscriptions	net subscriptions	
			(billions of lire)				
88,342	38,973	161	330,682	368,432	287,470	143,377	 1997
207,979	84,069	215	666,865	720,823	631,523	313,085	 1998
453,308	242,589	525	868,891	920,311	702,725	118,646	 1999
461,609	261,733	345	808,555	871,188	650,138	–13,351	 2000
375,458	154,685	536	809,810	880,013	159,330	15,008	. . . . 3rd qtr. – 1999
453,308	242,589	525	868,891	920,311	164,387	–28,609	. . . . 4th "
502,851	297,653	230	880,288	945,273	256,135	–5,665	. . . . 1st qtr. – 2000
482,879	281,356	211	852,774	912,920	158,653	–2,695	. . . . 2nd "
499,604	291,893	201	853,814	914,264	117,722	–2,367	. . . . 3rd "
461,609	261,733	345	808,555	871,188	117,629	–2,624	. . . . 4th "
445,454	224,112	343	762,151	821,486	122,740	–18,487	. . . . 1st qtr. – 2001
453,792	236,932	362	755,248	823,184	92,133	–7,938	. . . . 2nd "
499,604	291,893	201	853,814	914,264	45,247	–931	. . . . Sept.– 2000
504,350	300,102	194	859,382	919,517	44,248	–902	. . . . Oct.
471,093	268,419	192	828,280	888,508	41,523	–331	. . . . Nov.
461,609	261,733	345	808,555	871,188	31,859	–1,392	. . . . Dec.
484,478	273,250	366	824,315	878,666	41,006	–3,669	. . . . Jan. – 2001
456,505	241,226	354	778,293	840,179	38,609	–5,499	. . . . Feb.
445,454	224,112	343	762,151	821,486	43,125	–9,319	. . . . Mar.
462,734	241,705	364	779,891	838,968	29,040	1,361	. . . . Apr.
460,770	243,387	358	765,748	838,329	33,004	–3,977	. . . . May
453,792	236,932	362	755,248	823,184	30,090	–5,321	. . . . June
433,910	224,551	347	737,190	808,664	29,857	–3,005	. . . . July (2)
412,524	203,806	349	714,606	791,208	22,726	1,123	. . . . Aug. (2)
			(millions of euros)				
230,058	115,744	177	393,618	424,262	63,390	–9,548	. . . . 1st qtr. – 2001
234,364	122,365	187	390,053	425,139	47,583	–4,099	. . . . 2nd "
250,212	141,122	189	425,723	453,793	21,178	–1,895	. . . . Jan. – 2001
235,765	124,583	183	401,955	433,916	19,940	–2,840	. . . . Feb.
230,058	115,744	177	393,618	424,262	22,272	–4,813	. . . . Mar.
238,982	124,830	188	402,780	433,291	14,998	703	. . . . Apr.
237,968	125,699	185	395,476	432,961	17,045	–2,054	. . . . May
234,364	122,365	187	390,053	425,139	15,540	–2,748	. . . . June
224,096	115,971	179	380,727	417,640	15,420	–1,552	. . . . July (2)
213,051	105,257	180	369,063	408,625	11,737	580	. . . . Aug. (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	–60,127	–5,596	–22,230	–10,276	–21,589
1999 – 3rd qtr.	–11,397	–4,672	–1,232	–1,652	–3,714
4th "	–39,289	–1,361	–9,046	–18,017	–10,634
2000 – 1st qtr.	–37,349	2,571	–9,414	–26,025	–4,486
2nd "	–3,327	–805	–4,413	11,676	–9,511
3rd "	–14,286	–1,450	–4,785	–5,118	–3,048
4th "	–5,164	–5,911	–3,621	9,192	–4,544
2001 – 1st qtr.	–15,616	1,698	–6,397	–9,339	–1,419
2nd "	–9,331	5,776	–3,321	–10,090	–1,801
2000 – Sept.	–9,405	219	–2,300	–7,172	–120
Oct.	–3,588	–1,824	–1,429	–2,186	1,865
Nov.	2,693	–2,262	–1,003	8,146	–2,163
Dec.	–4,270	–1,824	–1,189	3,232	–4,246
2001 – Jan.	–5,199	–641	–1,578	–3,687	176
Feb.	–10,436	–130	–3,658	–5,499	–409
Mar.	19	2,471	–1,160	–153	–1,187
Apr.	–720	1,483	–552	–2,058	368
May	–8,570	999	–3,162	–6,332	–329
June	–43	3,294	393	–1,700	–1,840
July (2)	2,178	736	–1,148	–2,591	5,029
Aug. (2)	2,418	3,054	–784	–505	653
	(millions of euros)				
2001 – 1st qtr.	–8,065	877	–3,304	–4,823	–733
2nd "	–4,819	2,983	–1,715	–5,211	–930
2001 – Jan.	–2,685	–331	–815	–1,904	91
Feb.	–5,390	–67	–1,889	–2,840	–211
Mar.	10	1,276	–599	–79	–613
Apr.	–372	766	–285	–1,063	190
May	–4,426	516	–1,633	–3,270	–170
June	–22	1,701	203	–878	–950
July (2)	1,125	380	–593	–1,338	2,597
Aug. (2)	1,249	1,577	–405	–261	337

(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	53,522	19,992	–1,559	129,749	 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
1,038	–3,865	–62,954	68,788	76,856	126	5,960	 2000
1,493	864	–9,040	34,725	23,406	–2	25,683	. . . . 3rd qtr. – 1999
1,592	3,003	–34,694	19,010	31,164	–8	–15,692	. . . . 4th "
267	–7,643	–44,724	26,903	35,411	6	–17,815	. . . . 1st qtr. – 2000
999	2,827	500	14,582	10,746	69	15,151	. . . . 2nd "
–323	–77	–14,687	14,402	12,435	45	–240	. . . . 3rd "
93	1,028	–4,043	12,901	18,265	6	8,864	. . . . 4th "
–1,510	–3,784	–20,910	11,271	–6,853	–463	–10,102	. . . . 1st qtr. – 2001
321	114	–8,895	–13,395	–9,443	389	–21,901	. . . . 2nd "
10	707	–8,688	933	1,690	7	–7,748	. . . . Sept. – 2000
–33	1,698	–1,923	2,496	7,691	–12	561	. . . . Oct.
285	654	3,632	2,806	3,224	–5	6,433	. . . . Nov.
–159	–1,324	–5,753	7,598	7,350	23	1,868	. . . . Dec.
–1,601	–1,077	–7,877	14,239	3,232	–498	5,865	. . . . Jan. – 2001
–81	–279	–10,797	–151	–2,964	–42	–10,990	. . . . Feb.
172	–2,428	–2,236	–2,815	–7,120	77	–4,975	. . . . Mar.
–269	99	–891	3,431	790	–145	2,395	. . . . Apr.
775	–459	–8,254	–20,038	–13,769	429	–27,864	. . . . May
–182	474	250	3,212	3,536	105	3,567	. . . . June
1,392	–730	2,841	–5,687	765	119	–2,727	. . . . July (2)
622	–1,580	1,460	–786	–916	213	674	. . . . Aug. (2)
(millions of euros)							
–780	–1,954	–10,799	5,821	–3,539	–239	–5,217	. . . . 1st qtr. – 2001
166	59	–4,594	–6,918	–4,877	201	–11,311	. . . . 2nd "
–827	–556	–4,068	7,354	1,669	–257	3,029	. . . . Jan. – 2001
–42	–144	–5,576	–78	–1,531	–22	–5,676	. . . . Feb.
89	–1,254	–1,155	–1,454	–3,677	40	–2,569	. . . . Mar.
–139	51	–460	1,772	408	–75	1,237	. . . . Apr.
400	–237	–4,263	–10,349	–7,111	222	–14,391	. . . . May
–94	245	129	1,659	1,826	54	1,842	. . . . June
719	–377	1,467	–2,937	395	61	–1,409	. . . . July (2)
321	–816	754	–406	–473	110	348	. . . . Aug. (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)				
2000 - 3rd qtr.								
Banks	93,576	3,094	47,813	32,872	9,862	23,937	17,635	10,078
Securities firms	17,254	292	10,698	4,848	2,056	5,061	4,934	2,750
Asset management cos	82,721	1,820	55,836	20,703	26,641	10,762	21,479	8,037
Total	**193,551**	**5,206**	**114,347**	**58,423**	**38,559**	**39,760**	**44,047**	**20,865**
2000 - 4th qtr. (2)								
Banks	82,836	2,473	42,732	29,927	9,033	23,553	16,969	8,645
Securities firms	15,930	143	10,138	4,149	1,898	4,945	4,337	2,294
Asset management cos	90,790	1,392	66,550	18,546	29,842	8,037	21,390	7,735
Total	**189,555**	**4,008**	**119,419**	**52,622**	**40,772**	**36,535**	**42,697**	**18,675**
2001 - 1st qtr. (2)								
Banks	78,198	2,097	40,842	27,948	13,252	27,828	15,238	8,343
Securities firms	14,694	77	10,167	3,708	1,595	4,060	3,191	1,603
Asset management cos	111,183	1,787	85,866	19,401	38,731	6,988	27,524	9,221
Total	**204,075**	**3,962**	**136,875**	**51,058**	**53,579**	**38,876**	**45,953**	**19,167**
2001 - 2nd qtr. (2)								
Banks	80,026	2,198	42,666	28,484	7,650	27,880	14,987	8,642
Securities firms	14,448	39	10,189	3,416	1,671	4,434	3,168	1,845
Asset management cos	114,556	1,929	82,963	25,323	41,477	6,361	24,718	8,105
Total	**209,030**	**4,165**	**135,818**	**57,223**	**50,798**	**38,675**	**42,873**	**18,592**
				(millions of euros)				
2000 - 3rd qtr.								
Banks	48,328	1,598	24,693	16,977	5,093	12,362	9,107	5,205
Securities firms	8,911	151	5,525	2,504	1,062	2,614	2,548	1,420
Asset management cos	42,722	940	28,837	10,692	13,759	5,558	11,093	4,151
Total	**99,961**	**2,689**	**59,055**	**30,173**	**19,914**	**20,534**	**22,748**	**10,776**
2000 - 4th qtr. (2)								
Banks	42,781	1,277	22,069	15,456	4,665	12,164	8,764	4,465
Securities firms	8,227	74	5,236	2,143	980	2,554	2,240	1,185
Asset management cos	46,889	719	34,370	9,578	15,412	4,151	11,047	3,995
Total	**97,897**	**2,070**	**61,675**	**27,177**	**21,057**	**18,869**	**22,051**	**9,645**
2001 - 1st qtr. (2)								
Banks	40,386	1,083	21,093	14,434	6,844	14,372	7,870	4,309
Securities firms	7,589	40	5,251	1,915	824	2,097	1,648	828
Asset management cos	57,421	923	44,346	10,020	20,003	3,609	14,215	4,762
Total	**105,396**	**2,046**	**70,690**	**26,369**	**27,671**	**20,078**	**23,733**	**9,899**
2001 - 2nd qtr. (2)								
Banks	41,330	1,135	22,035	14,711	3,951	14,399	7,740	4,463
Securities firms	7,462	20	5,262	1,764	863	2,290	1,636	953
Asset management cos	59,163	996	42,847	13,078	21,421	3,285	12,766	4,186
Total	**107,955**	**2,151**	**70,144**	**29,553**	**26,235**	**19,974**	**22,142**	**9,602**

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

Table a33

Investment fund units: Italian	Investment fund units: Foreign	Other financial assets	Total portfolio	Total managed funds	*Memorandum items:* gross inflow	*Memorandum items:* net inflow	
			(billions of lire)				
							2000 - 3rd qtr.
229,226	38,098	2,950	425,362	437,737	30,291	–2,647	. . . . Banks
21,862	24,456	327	78,704	81,395	6,049	1,654	. . . . Securities firms
95,578	4,122	3,230	252,571	261,058	19,936	9,387	. . Asset management cos
346,667	**66,679**	**6,507**	**756,636**	**780,190**	**56,275**	**8,393**	. . . **Total**
							2000 - 4th qtr. (2)
212,585	41,132	5,240	399,993	413,136	31,652	–13,366	. . . . Banks
20,265	23,410	285	73,363	76,184	6,194	–2,296	. . . . Securities firms
96,875	4,173	3,450	262,293	269,914	38,919	16,145	. . Asset management cos
329,725	**68,714**	**8,975**	**735,649**	**759,235**	**76,765**	**482**	. . . **Total**
							2001 - 1st qtr. (2)
192,794	43,636	3,559	382,857	395,290	30,103	–10,007	. . . . Banks
18,565	25,518	1,584	70,813	72,784	7,555	–1,094	. . . . Securities firms
94,238	3,600	217	297,293	305,909	72,134	37,463	. . Asset management cos
305,598	**72,753**	**5,360**	**750,963**	**773,983**	**109,792**	**26,362**	. . . **Total**
							2001 - 2nd qtr. (2)
184,772	48,614	3,292	375,863	384,764	25,108	–5,875	. . . . Banks
18,336	32,622	1,574	78,096	80,109	11,991	7,501	. . . . Securities firms
97,958	3,933	258	303,731	311,708	20,759	4,064	. . Asset management cos
301,067	**85,169**	**5,123**	**757,690**	**776,582**	**57,858**	**5,691**	. . . **Total**
			(millions of euros)				
							2000 - 3rd qtr.
118,385	19,676	1,524	219,681	226,072	15,644	–1,367	. . . . Banks
11,291	12,632	169	40,647	42,037	3,124	854	. . . . Securities firms
49,362	2,129	1,668	130,442	134,825	10,296	4,848	. . Asset management cos
179,038	**34,437**	**3,361**	**390,770**	**402,934**	**29,064**	**4,335**	. . . **Total**
							2000 - 4th qtr. (2)
109,791	21,243	2,706	206,579	213,367	16,347	–6,903	. . . . Banks
10,466	12,090	147	37,889	39,346	3,199	–1,186	. . . . Securities firms
50,032	2,155	1,782	135,463	139,399	20,100	8,338	. . Asset management cos
170,289	**35,488**	**4,635**	**379,931**	**392,112**	**39,646**	**249**	. . . **Total**
							2001 - 1st qtr. (2)
99,570	22,536	1,838	197,729	204,150	15,547	–5,168	. . . . Banks
9,588	13,179	818	36,572	37,590	3,902	–565	. . . . Securities firms
48,670	1,859	112	153,539	157,989	37,254	19,348	. . Asset management cos
157,828	**37,574**	**2,768**	**387,840**	**399,729**	**56,703**	**13,615**	. . . **Total**
							2001 - 2nd qtr. (2)
95,427	25,107	1,700	194,117	198,714	12,967	–3,034	. . . . Banks
9,470	16,848	813	40,333	41,373	6,193	3,874	. . . . Securities firms
50,591	2,031	133	156,864	160,984	10,721	2,099	. . Asset management cos
155,488	**43,986**	**2,646**	**391,314**	**401,071**	**29,881**	**2,939**	. . . **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	124,969	685,856	810,825	165,214	233,774	1,209,812
1999	139,336	754,905	894,241	127,304	249,508	1,271,053
2000 - Sept. . . .	134,160	751,850	886,010	116,850	240,909	1,243,769
Oct.	134,304	756,727	891,031	117,160	240,262	1,248,453
Nov.	135,603	728,940	864,543	113,709	238,930	1,217,182
Dec.	147,962	798,276	946,238	111,550	243,550	1,301,338
2001 – Jan.	136,224	753,465	889,689	110,152	245,469	1,245,310
Feb.	135,798	745,789	881,588	108,896	246,115	1,236,599
Mar.	137,165	758,527	895,738	109,910	245,701	1,251,349
Apr.	139,442	769,385	908,827	105,720	247,128	1,261,675
May	138,327	781,211	919,538	108,967	245,800	1,274,306
June	139,040	785,791	924,830	110,083	246,644	1,281,557
July	140,025	781,860	921,885	106,262	247,167	1,275,315
Aug.	135,430	760,009	895,440	107,397	248,948	1,251,785
Sept. . . .	133,445	800,819	934,264	107,060	250,949	1,292,274
			(millions of euros)			
2000 - Sept. . . .	69,288	388,298	457,586	60,348	124,419	642,353
Oct.	69,362	390,817	460,179	60,508	124,085	644,772
Nov.	70,033	376,466	446,499	58,726	123,397	628,622
Dec.	76,416	412,275	488,691	57,611	125,783	672,085
2001 – Jan.	70,354	389,132	459,486	56,889	126,774	643,149
Feb.	70,134	385,168	455,302	56,240	127,108	638,650
Mar.	70,840	391,770	462,610	56,764	126,894	646,268
Apr.	72,016	397,354	469,370	54,600	127,631	651,601
May	71,440	403,462	474,902	56,277	126,945	658,124
June	71,808	405,827	477,635	56,853	127,381	661,869
July	72,317	403,797	476,114	54,880	127,651	658,645
Aug.	69,944	392,512	462,456	55,446	128,571	646,493
Sept. . . .	68,919	413,589	482,507	55,292	129,605	667,404

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)			
117,131	9,240	32,487	1,368,670	799,374	1,198,361	1,356,897
98,273	25,297	21,634	1,416,258	882,912	1,259,724	1,403,393
126,584	17,938	19,270	1,407,560	876,892	1,234,651	1,396,788
134,391	17,742	20,091	1,420,676	881,506	1,238,928	1,409,769
137,986	18,096	19,733	1,392,997	854,294	1,206,933	1,381,498
132,253	19,508	23,454	1,476,553	933,195	1,288,295	1,462,651
145,613	20,261	23,859	1,435,043	880,269	1,235,890	1,425,116
149,877	22,151	23,557	1,432,183	871,757	1,226,768	1,421,762
158,042	24,486	23,113	1,456,991	886,132	1,241,744	1,446,520
154,770	28,051	22,538	1,467,034	897,796	1,250,645	1,455,266
169,122	29,106	21,938	1,494,471	909,363	1,264,131	1,483,239
159,872	30,605	21,750	1,493,784	915,027	1,271,754	1,483,225
164,387	32,593	22,486	1,494,781	910,552	1,263,982	1,482,524
175,885	34,495	22,620	1,484,784	884,918	1,241,263	1,473,248
158,827	38,071	22,719	1,511,890	923,919	1,281,929	1,500,837
			(millions of euros)			
65,375	9,264	9,952	726,944	452,877	637,644	721,381
69,407	9,163	10,376	733,718	455,260	639,853	728,085
71,264	9,346	10,191	719,423	441,206	623,329	713,484
68,303	10,075	12,113	762,576	481,955	665,349	755,396
75,203	10,464	12,322	741,138	454,621	638,284	736,011
77,405	11,440	12,166	739,661	450,225	633,573	734,279
81,622	12,646	11,937	752,473	457,649	641,307	747,065
79,932	14,487	11,640	757,660	463,673	645,904	751,582
87,344	15,032	11,330	771,830	469,647	652,869	766,029
82,567	15,806	11,233	771,475	472,572	656,806	766,022
84,899	16,833	11,613	771,990	470,261	652,792	765,660
90,837	17,815	11,682	766,827	457,022	641,059	760,869
82,027	19,662	11,733	780,826	477,164	662,061	775,118

Table a35

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	1,349,531	113,433	124,591	26,879	821,109	320,019	415,965	7,595
1999	1,405,036	102,057	(69,012)	11,610	(791,192)	284,024	(460,852)	14,900
2000 – June . .	1,411,878	98,344	(56,372)	10,325	(764,177)	237,047	(483,906)	16,674
July . . .	1,418,222	97,564	(56,199)	9,570	(773,657)	231,984	(486,807)	16,801
Aug. . .	1,394,719	96,589	(56,288)	9,425	(783,192)	232,661	(494,100)	16,589
Sept. . .	1,394,130	95,525	(62,622)	9,560	(784,888)	223,196	(499,166)	16,613
Oct. . . .	1,407,484	94,605	(66,460)	9,147	(803,479)	219,428	(500,630)	16,663
Nov. . .	1,381,180	93,945	(68,266)	7,379	(796,637)	222,091	(502,756)	16,876
Dec. . .	1,463,671	(93,232)	(60,349)	5,767	(801,109)	219,429	(519,566)	16,969
2001 – Jan. . . .	1,422,151	(91,543)	(75,609)	4,392	(825,255)	212,909	(521,295)	15,282
Feb. . .	1,419,864	(90,641)	(75,184)	4,305	(817,673)	204,589	(526,684)	15,179
Mar. . .	1,440,348	(89,070)	(80,060)	3,614	(816,949)	200,257	(538,717)	15,352
Apr. . . .	1,456,412	(88,072)	(79,266)	5,239	(825,927)	198,602	(548,835)	15,061
May . . .	1,481,172	(86,523)	(77,712)	5,486	(835,645)	188,952	(561,340)	15,941
June . .	1,479,994	(85,795)	(74,628)	7,351	(830,545)	185,952	(572,869)	15,569
				(millions of euros)				
2000 – June . .	729,174	50,790	(29,114)	5,333	(394,664)	122,424	(249,917)	8,611
July . . .	732,451	50,388	(29,024)	4,942	(399,561)	119,810	(251,415)	8,677
Aug. . .	720,312	49,884	(29,070)	4,868	(404,485)	120,160	(255,181)	8,567
Sept. . .	720,008	49,334	(32,342)	4,937	(405,361)	115,271	(257,798)	8,580
Oct. . . .	726,905	48,859	(34,324)	4,724	(414,963)	113,325	(258,554)	8,606
Nov. . .	713,320	48,519	(35,256)	3,811	(411,429)	114,701	(259,652)	8,716
Dec. . .	755,923	(48,150)	(31,167)	2,979	(413,738)	113,326	(268,333)	8,764
2001 – Jan. . . .	734,479	(47,278)	(39,049)	2,268	(426,209)	109,958	(269,227)	7,892
Feb. . .	733,299	(46,812)	(38,829)	2,223	(422,293)	105,661	(272,010)	7,839
Mar. . .	743,878	(46,001)	(41,348)	1,867	(421,919)	103,424	(278,224)	7,929
Apr. . . .	752,174	(45,485)	(40,938)	2,706	(426,556)	102,570	(283,450)	7,778
May . . .	765,478	(44,685)	(40,135)	2,833	(431,575)	97,586	(289,908)	8,233
June . . .	764,353	(44,310)	(38,542)	3,797	(428,941)	96,036	(295,862)	8,041

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	2,902,659	601,425	213,991	3,504,084	720,823	711,578
86,440	(1,752)	(2,916,341)	(1,312,673)	448,669	(4,229,013)	920,311	894,985
90,532	(1,781)	(2,906,989)	(1,402,498)	483,651	(4,309,487)	912,920	893,716
90,968	(1,783)	(2,925,201)	(1,439,975)	492,915	(4,365,176)	911,591	893,148
93,900	(1,784)	(2,920,573)	(1,496,094)	519,659	(4,416,667)	935,665	917,462
89,595	(1,799)	(2,927,724)	(1,486,128)	500,504	(4,413,852)	914,264	896,289
94,208	(1,781)	(2,968,646)	(1,519,622)	505,299	(4,488,269)	919,517	901,737
92,657	(1,795)	(2,937,236)	(1,462,190)	472,751	(4,399,425)	888,507	870,374
85,738	(1,811)	(3,025,475)	(1,413,980)	463,272	(4,439,455)	871,188	851,626
86,808	(1,836)	(3,024,498)	(1,440,923)	494,460	(4,465,421)	878,666	858,348
77,728	(1,836)	(3,009,611)	(1,430,269)	465,323	(4,439,880)	840,178	817,971
72,144	(1,862)	(3,039,151)	(1,461,280)	454,099	(4,500,431)	821,485	796,937
75,884	(1,863)	(3,076,261)	(1,495,729)	471,130	(4,571,990)	838,969	810,866
71,158	(1,870)	(3,116,420)	(1,534,938)	470,571	(4,651,358)	838,330	809,155
67,609	(1,857)	(3,113,296)	(1,530,061)	463,371	(4,643,357)	823,184	792,502
			(millions of euros)				
46,756	(920)	(1,501,335)	(724,330)	249,785	(2,225,664)	471,484	461,566
46,981	(921)	(1,510,740)	(743,685)	254,569	(2,254,425)	470,797	461,272
48,495	(921)	(1,508,350)	(772,668)	268,381	(2,281,018)	483,231	473,830
46,272	(929)	(1,512,044)	(767,521)	258,488	(2,279,564)	472,178	462,895
48,654	(920)	(1,533,178)	(784,819)	260,965	(2,317,997)	474,891	465,708
47,853	(927)	(1,516,956)	(755,158)	244,156	(2,272,114)	458,876	449,511
44,280	(935)	(1,562,528)	(730,260)	239,260	(2,292,787)	449,931	439,828
44,833	(948)	(1,562,023)	(744,175)	255,367	(2,306,198)	453,793	443,300
40,143	(948)	(1,554,334)	(738,672)	240,319	(2,293,007)	433,916	422,447
37,259	(962)	(1,569,590)	(754,688)	234,523	(2,324,279)	424,262	411,584
39,191	(962)	(1,588,756)	(772,479)	243,318	(2,361,236)	433,291	418,777
36,750	(966)	(1,609,497)	(792,730)	243,030	(2,402,226)	432,961	417,893
34,917	(959)	(1,607,883)	(790,211)	239,311	(2,398,094)	425,139	409,293

Table a36

Credit: residents of Italy

(end-of-period stocks)

	Finance to "other residents"					
	Bank loans	Bonds placed domestically		Total domestic finance	External finance	Total
			held by Italian MFIs			
	A	B		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	1,474,178	(25,138)	10,553	(1,499,316)	(306,329)	(1,805,645)
2000 – June	1,571,390	(26,896)	12,135	(1,598,286)	(322,761)	(1,921,048)
July	1,581,113	(28,968)	13,876	(1,610,080)	(332,393)	(1,942,473)
Aug.	1,584,077	(31,207)	13,885	(1,615,284)	(329,316)	(1,944,601)
Sept. . . .	1,594,237	(30,221)	14,108	(1,624,458)	(327,589)	(1,952,047)
Oct.	1,610,920	(29,488)	13,609	(1,640,408)	(328,490)	(1,968,898)
Nov.	1,637,520	(26,337)	13,900	(1,663,856)	(334,125)	(1,997,982)
Dec.	1,667,813	(31,131)	15,480	(1,698,943)	(348,856)	(2,047,799)
2001 – Jan.	1,664,525	(28,911)	15,723	(1,693,436)	(352,035)	(2,045,471)
Feb.	1,663,255	(26,481)	15,526	(1,689,737)	(358,781)	(2,048,518)
Mar.	1,692,381	(30,083)	15,264	(1,722,464)	(359,896)	(2,082,359)
Apr.	1,704,227	(31,299)	16,098	(1,735,526)	(364,945)	(2,100,471)
May	1,688,757	(38,676)	18,640	(1,727,433)	(378,225)	(2,105,658)
June	1,716,688	(43,331)	18,604	(1,760,019)	(379,645)	(2,139,664)
			(millions of euros)			
2000 – June	811,555	(13,891)	6,267	(825,446)	(166,692)	(992,138)
July	816,577	(14,961)	7,167	(831,537)	(171,666)	(1,003,204)
Aug.	818,107	(16,117)	7,171	(834,225)	(170,078)	(1,004,302)
Sept. . . .	823,355	(15,608)	7,286	(838,963)	(169,185)	(1,008,148)
Oct.	831,971	(15,229)	7,028	(847,200)	(169,651)	(1,016,851)
Nov.	845,708	(13,602)	7,179	(859,310)	(172,561)	(1,031,871)
Dec.	861,353	(16,078)	7,995	(877,431)	(180,169)	(1,057,600)
2001 – Jan.	859,656	(14,931)	8,120	(874,587)	(181,811)	(1,056,397)
Feb.	859,000	(13,676)	8,018	(872,676)	(185,295)	(1,057,971)
Mar.	874,042	(15,537)	7,883	(889,578)	(185,871)	(1,075,449)
Apr.	880,160	(16,165)	8,314	(896,324)	(188,478)	(1,084,803)
May	872,170	(19,975)	9,627	(892,145)	(195,337)	(1,087,482)
June	886,595	(22,379)	9,608	(908,974)	(196,070)	(1,105,044)

Table a36

General government debt			Credit		Memorandum item: shares placed domestically, held by Italian MFIs
	held domestically		Total domestic	Total	
		held by Italian MFIs			
F	G		G+C	E+F	
(billions of lire)					
2,417,461	2,287,165	606,539	3,647,965	3,932,683	35,717
(2,457,694)	(2,320,817)	581,126	(3,820,133)	(4,263,339)	55,299
(2,524,772)	(2,361,503)	558,652	(3,959,789)	(4,445,820)	69,992
(2,510,534)	(2,348,410)	547,900	(3,958,491)	(4,453,007)	71,299
(2,524,325)	(2,356,368)	540,112	(3,971,652)	(4,468,926)	65,768
(2,529,363)	(2,357,259)	538,360	(3,981,718)	(4,481,410)	64,076
(2,540,813)	(2,365,909)	540,355	(4,006,316)	(4,509,711)	65,690
(2,545,770)	(2,375,419)	534,280	(4,039,275)	(4,543,752)	68,517
(2,493,283)	(2,330,030)	524,322	(4,028,973)	(4,541,083)	67,075
(2,518,239)	(2,349,347)	526,430	(4,042,783)	(4,563,710)	67,196
(2,537,572)	(2,362,914)	530,117	(4,052,651)	(4,586,090)	66,656
(2,561,630)	(2,385,075)	528,031	(4,107,539)	(4,643,989)	69,239
(2,575,886)	(2,393,731)	536,858	(4,129,258)	(4,676,357)	74,828
(2,593,020)	(2,404,268)	532,145	(4,131,701)	(4,698,678)	76,648
(2,600,846)	(2,422,617)	535,891	(4,182,635)	(4,740,510)	76,448
(millions of euros)					
(1,303,936)	(1,219,615)	288,520	(2,045,061)	(2,296,074)	36,148
(1,296,582)	(1,212,853)	282,967	(2,044,390)	(2,299,786)	36,823
(1,303,705)	(1,216,963)	278,944	(2,051,187)	(2,308,007)	33,966
(1,306,307)	(1,217,423)	278,040	(2,056,386)	(2,314,455)	33,092
(1,312,220)	(1,221,890)	279,070	(2,069,090)	(2,329,071)	33,926
(1,314,781)	(1,226,802)	275,932	(2,086,112)	(2,346,652)	35,386
(1,287,673)	(1,203,360)	270,790	(2,080,791)	(2,345,274)	34,641
(1,300,562)	(1,213,336)	271,879	(2,087,923)	(2,356,959)	34,704
(1,310,546)	(1,220,343)	273,782	(2,093,020)	(2,368,518)	34,425
(1,322,971)	(1,231,789)	272,705	(2,121,367)	(2,398,420)	35,759
(1,330,334)	(1,236,259)	277,264	(2,132,584)	(2,415,137)	38,646
(1,339,183)	(1,241,701)	274,830	(2,133,845)	(2,426,665)	39,585
(1,343,225)	(1,251,177)	276,765	(2,160,151)	(2,448,269)	39,482

Supervisory capital and capital adequacy (on a consolidated basis) (1)

	Tier 1	Tier 2		Supervisory capital	Solvency ratio (percentages)	Excess capital	Capital shortfalls		
			subordinated liabilities				Number of banks	Amount	Percentage of excess risk assets (2)
					billions of lire				
December 1998									
Banks in the Centre and North ...	158,681	42,673	29,840	193,056	11.2	55,634	3	222	0.2
Banks in the South	12,536	2,150	1,607	14,334	13.3	5,718	4	11	. .
Total	**171,217**	**44,823**	**31,447**	**207,390**	**11.3**	**61,352**	**7**	**233**	**0.2**
June 1999									
Banks in the Centre and North ...	165,800	45,431	32,891	201,851	10.8	52,736	6	165	0.1
Banks in the South	10,374	1,720	1,237	11,879	14.1	5,160	2	5	. .
Total	**176,174**	**47,151**	**34,128**	**213,730**	**11.0**	**57,896**	**8**	**170**	**0.1**
December 1999									
Banks in the Centre and North ...	161,936	47,947	39,675	200,898	10.4	48,836	7	2,573	1.6
Banks in the South	11,225	1,600	1,318	12,592	15.1	5,932	2	4	. .
total	**173,161**	**49,546**	**40,993**	**213,490**	**10.6**	**54,768**	**9**	**2,577**	**1.6**
June 2000									
Banks in the Centre and North ...	169,344	53,336	45,120	213,140	10.4	50,334	5	1,214	0.7
Banks in the South	10,555	1,511	1,283	11,828	14.2	5,156	1	1	. .
Total	**179,899**	**54,847**	**46,403**	**224,968**	**10.5**	**55,490**	**6**	**1,215**	**0.7**
December 2000									
Banks in the Centre and North ...	170,018	63,212	53,543	222,139	10.1	46,552	1	15	. .
Banks in the South	6,991	761	478	7,555	17.2	4,041	2	2	. .
Total	**177,009**	**63,973**	**54,021**	**229,694**	**10.3**	**50,593**	**3**	**17**	**. .**
					millions of euros				
June 2000									
Banks in the Centre and North ...	87,459	27,546	23,303	110,078	10.4	25,995	5	627	0.7
Banks in the South	5,451	780	663	6,109	14.2	2,663	1	1	. .
Total	**92,910**	**28,326**	**23,965**	**116,186**	**10.5**	**28,658**	**6**	**627**	**0.7**
December 2000									
Banks in the Centre and North ...	87,807	32,646	27,653	114,725	10.1	24,042	1	8	. .
Banks in the South	3,611	393	247	3,902	17.2	2,087	2	1	. .
Total	**91,418**	**33,039**	**27,900**	**118,627**	**10.3**	**26,129**	**3**	**9**	**. .**

(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, 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 note 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, OECD, 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 MTS 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, OECD and Eurostat 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 stocks of finished goods.

Table a12

Source: Istat.

For some years Istat has published three consumer price indices: the index for the entire resident population (NIC), the index for worker and employee households (FOI) and the harmonized index (HICP). The three indicators are constructed on the basis of the same data set. For each level of disaggregation, they have been calculated as chain indices since January 1999. The "calculation base" (the period to which the prices used as the denominator for "simple" indices refer) is December of the previous year; the "reference base of the weights" (the period with reference to which the weights are calculated) is given by the structure of households' average consumption in the previous year; and the "reference base of the indices" (the period for which they are set equal to 100) is currently 1995 for the NIC and FOI indices and 1996 for the HICP. The NIC and FOI indices differ from the HICP mainly with regard to how prices are defined: where sales prices differ from those actually paid by consumers (as in the case of medicinal drugs, for which the National Health Service pays a contribution), the NIC and FOI indices consider the full sales price whereas the HICP considers the price actually paid. The differences between the baskets of the NIC index and the HICP – the indices most used at present in the analysis of inflation – are very small. The FOI index is now used almost exclusively for legislative purposes (revision of rents and contractual amounts, etc.) in the version that includes changes in indirect taxes and excludes tobacco products.

For the NIC index, the identification of items with regulated prices refers to the situation in April 2001. The composition of "Goods and services with regulated prices" is as follows:

Energy products: electricity and gas;

Non-energy products: drinking water, medicinal drugs, tobacco products, postal services, telephone services, railway transport, maritime transport, urban transport, coach services, motorway tolls, taxis, radio and TV licences, lotteries and totalizers, medical services, dental services, certificates and stamps, secondary education, university education, rubbish collection services, religious services.

Lastly, the composition of the sub-index "Food products - not processed" is as follows: fresh meat, fresh fish, fresh fruit and vegetables, milk and eggs.

Tables a13, a14 and a15

Source: Eurostat.

The harmonized indices of consumer prices for the countries of the European Union are published by Eurostat. They are available from January 1995 onwards and are produced by the national statistical authorities using harmonized methods. Consequently, they are the most suitable for comparing consumer price inflation in the different countries. The structure and breakdown of these indicators is basically the same as that of national consumer price indices; consequently, in most countries, including Italy, the differences between the two sets of indicators are minimal.

Table a17

Source: Eurostat.

The sub-indices reported in the table are published by Eurostat, except for those excluding food products. The latter are estimated using the index of the prices of food products published by Eurostat on the basis of the sectoral classification of economic activity. Consequently, for the sub-index of "Consumer goods excluding food products", it has to be assumed that such products are mainly for final consumption.

There are some differences between the statistics published by Eurostat and those published by the national statistical authorities. In the first place Eurostat includes all transport equipment among investment goods, whereas the national statistical authorities do not. In the second place, in allocating goods to the various economic uses, Eurostat applies the "prevalent use" criterion, whereas some countries, including Italy, apply the "effective use" criterion (e.g. food products are prevalently for final consumption but in part for intermediate consumption).

Table a18

Source: Istat.

Foreign trade indicators provide summary information on the transactions of businesses of a given country, geographical area or geo-economic region with businesses of foreign countries or areas. National statistical authorities produce three types of foreign trade indicators referred to: values, average unit values and quantities. In the same way as for producer prices, these statistics are not fully harmonized within Europe, and cross-country comparisons may not be reliable. Eurostat computes foreign trade indicators on the basis of raw data collected by the EU countries and they should be more comparable, but they are generally different from those of the national statistical authorities. In order to produce series that maintain a satisfactory level of representativeness over time, Eurostat uses chained indices, taking the year preceding the reference year as the base year; Istat uses the same method. In accordance with international agreements, imports are stated “cif” and exports “fob”.

The indices of average unit values are obtained for successive stages of aggregation of elementary indicators referring to individual categories of goods and geographical areas. The starting point for the computation of the elementary indicators consists in the average unit values of the specific items, calculated as the ratio of the value of the goods exported/imported in the current month and the related quantity. For each sub-item the elementary index is thus obtained by calculating the ratio of the average unit value of the current month to the average of the average unit values of the preceding year. The indices of the average unit values for higher levels of aggregation are Fisher indices, obtained as the geometric mean of the corresponding Laspeyres and Paasche indices. In calculating the Paasche index, the weighting of the elementary items is variable, i.e. is based on the values of the goods of the current month; by contrast, the aggregate Laspeyres index uses a fixed weighting on the basis of the values of the goods for the whole year. The aggregation of the elementary indices for each sub-item in indices with a higher level of aggregation is carried out using various classifications: trade type (SITC, 3rd revision); economic sector (NACE, 1st revision, ATECO91); economic purpose (BEC); and groups of countries, geographical areas or geo-economic regions.

Table a21

The table shows the formation of the general government borrowing requirement. The state sector borrowing requirement net of debt settlements and extraordinary revenue consisting mainly of privatization receipts is shown as a memorandum item. The data on state sector debt settlements and extraordinary revenue are used to provide an estimate of the general government net borrowing requirement.

The formation of the central government borrowing requirement includes transactions with other general government bodies; accordingly, the borrowing requirement of local government and social security institutions after consolidation refers exclusively to their financing needs over and above those covered by central government transfers.

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.

The tax receipts of the State budget shown in this table do not correspond to the amounts actually paid. In fact the monthly flows are observed at the time they are included in the budget accounts, which, as of May 1998, does not coincide with the time they are paid. From that date, 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 “Collection account” at the Treasury, together with Irap and social security contributions, and subsequently allocated among the different budget items. 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 flows shown in the sub-item “Collection accounts” show the changes in receipts pending the allocation of central government taxes, Irap due to the regions and 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.

The figures for the last year are provisional.

Table a22

The table shows details of the financing of the general government borrowing requirement. The sub-item “Lending by banks – Non-resident banks” does not include loans raised abroad indirectly via resident banks. The sub-item “change in central bank current accounts” includes the Treasury payments account (Law 483/1993) and the sinking fund for the redemption of government securities (Laws 432/1993 and 110/1997). “Medium and long-term securities” and “Lending by banks” include the corresponding financial instruments related to operations entered into by the State Railways with the cost borne by the government.

The figures for the last year are provisional.

Table 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, with account taken of any swap operations. The items “Medium and long-term securities excluding central bank”, “Short-term securities excluding central bank” and “Borrowing from central bank” include only securities acquired outright. Securities include those issued abroad and 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. Until December 1998 postal deposits comprised current accounts, net of “service” accounts and Treasury payments to municipalities and provinces that are held with the Post Office. Postal savings certificates are included at their face value at issue. The stocks of lending by resident banks are based on automated prudential returns; those of lending by non-resident banks are provided directly by the borrowers. In the same way as for the borrowing requirement, the figures for “Medium and long-term securities” and “Lending by banks” include the corresponding financial instruments related to operations entered into by the State Railways with the cost borne by the government. December 1998 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 consequently included under “Medium and long-term securities excluding central bank”.

The figures for the last year are provisional.

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 2000 the Governing Council of the ECB announced that, starting from the operation to be settled on 28 June, the main refinancing operations of the Eurosystem would be conducted as variable rate tenders. For these operations the Governing Council sets a minimum bid rate, which plays the role of indicator of the stance of monetary policy previously played by the fixed rate.

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 “official reference rate for instruments linked to the former official 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 compound allotment rates of the auctions of three, six and twelve-month BOTs and of those with other maturities. 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); they 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 the 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 stage 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 overnight 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 the 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 postal deposit book accounts and ordinary postal savings certificates are included under “Deposits redeemable at notice up to 3 months”. Resident banks do not issue liabilities classifiable as money market paper. 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 coins 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 postal 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.

From January 1999 the balance-of-payments statistics used in computing the components of financial assets and credit are based on the methods established in ESA95.

The main changes concern the inclusion of data on all the deposits held abroad by Italian residents (previously only those held with the foreign branches of Italian banks were surveyed), together with data on trade credits and the technical reserves of insurance companies (liabilities of the latter towards customers). In addition, Italian residents’ holdings of units of foreign investment funds, previously not available, are now included.

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.

From January 1999 the balance-of-payments statistics used in computing the components of financial assets and credit are based on the methods established in ESA95.

The main changes concern the inclusion of data on all the deposits held abroad by Italian residents (previously only those held with the foreign branches of Italian banks were surveyed), together with data on trade credits and the technical reserves of insurance companies (liabilities of the latter towards customers). In addition, Italian residents’ holdings of units of foreign investment funds, previously not available, are now included.

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 tier 1 or tier 2 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 tier 1, 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 tier 2, which is included in the calculation of supervisory capital up to the amount of tier 1.

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.

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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