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BOXES

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.

Economic Developments and Policies

THE WORLD ECONOMY AND INTERNATIONAL FINANCE

The international economic situation

World economic activity, which had been slowing sharply since the spring of 2001 owing to the rise in oil prices over the previous year and the ebbing of the strong expansionary phase of the investment cycle, was further dampened by the events of 11 September, albeit less severely than originally feared. The recovery, which was initially expected for the end of the year, was set back by several months.

According to the National Bureau of Economic Research, the downturn in the United States began in March last year. The economic climate, which had been deteriorating gradually since the second half of 2000, was worsened by the attacks of 11 September, which caused an immediate fall in consumption. The expansionary stance of monetary and budgetary policy was accentuated, restoring market confidence. Consumption began to rise again in October, fostering a small increase in economic activity in the fourth quarter. The magnitude of the decline in GDP (excluding the trend component), in industrial output and in employment appears to have been similar to that of the recession at the start of the nineties. Both are among the shortest and mildest recessions of the post-war period.

Leading indicators have been improving since November, and coincident indicators stabilized in the first two months of the new year, signalling an inversion in the cycle. The markets expect an acceleration in economic activity during the year and a return to high growth rates. In 2003 the vigour of the upswing will depend crucially on the continuing strength of consumption and a resumption of investment growth. The latter could be impeded by the worsening financial situation of firms and the recent rise in long-term rates. The full extent of the repercussions of the Enron collapse has yet to be assessed.

No signs of recovery are yet to be seen in Japan, which is in recession for the third time in a decade. The state of the banks, staggering under an increasing volume of unrecoverable loans, has prompted the Government to consider recapitalizing the system. The persistence of deflation has increased pressure on the central bank to take expansionary measures, including the use of unconventional instruments and operations. The yen has weakened since November as economic conditions have worsened.

Output in the euro area expanded by an estimated 1.5 per cent in 2001, less than half the growth recorded in 2000. Activity was stagnant in the fourth quarter, although there were significant differences among the main countries. After four months of decline, industrial production turned upwards in December. Positive signals also came from indicators of consumer and business confidence. After fluctuating between \$0.91 and \$0.88 in the last two months of 2001, the euro weakened to \$0.858 at the end of January before strengthening again.

In the United Kingdom, the economy slowed in the second half of the year, when GDP grew by an annualized 1.4 per cent, compared with 2.5 per cent in the first half. Activity continued to be sustained by consumption, which was buoyed by the prolonged rise in real estate values.

In the second half of 2001, productive activity in the emerging economies slackened, owing to the weakness of demand in the industrial countries. In Asia, after having declined in the first nine months output and exports stabilized in the last quarter, partly in response to signs of an upturn in investment in computer equipment in the United States. India and, above all, China helped sustain activity at the international level (Table 1).

Table 1

GDP, exports and population
(*percentage share of world total in 2000*)

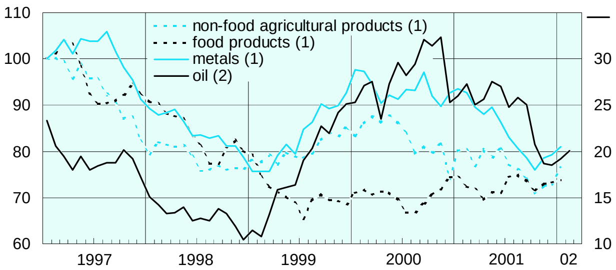
	GDP (1)	Exports of goods and services	Population
Industrial countries	**57.1**	**75.7**	**15.4**
G7	45.4	47.7	11.5
United States	22.0	14.2	4.6
Japan	7.3	7.0	2.1
Other industrial countries	11.7	28.1	4.0
Memorandum item:			
European Union	20.0	36.0	6.2
Euro area	16.0	28.7	5.0
Developing countries	**37.0**	**20.0**	**77.9**
Asia	21.6	9.2	52.0
China	11.6	3.7	21.1
India	4.6	0.8	16.6
Transition economies	**5.9**	**4.3**	**6.7**
World	**100**	**100**	**100**

Source: IMF.
(1) Valued on a PPP basis.

In Argentina, as part of a series of extraordinary measures, on 6 January the new government announced that it was abandoning the currency board system. Debt servicing was suspended, while the tight restrictions on bank withdrawals were kept in place. On 11 February, the peso was allowed to float freely and at the end of the month stood at 2.15 against the dollar, representing a depreciation of 53 per cent. There have been no obvious signs of contagion effects.

Figure 1

World prices in dollars of oil and other raw materials



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

The price of oil fell sharply in the fourth quarter of 2001, with the average price of the three main grades falling to $19 a barrel, or $6 less than in the previous quarter (Figure 1). In the first two months of 2002 it stabilized at around $20. Futures contract prices for West Texas Intermediate point to a slight increase in prices during the year. The weakness of world demand continued to weigh on the prices of non-energy raw materials, which were 7.4 per cent lower in the last quarter of 2001 than a year earlier. The decline was mainly due to a fall of 15 per cent in the prices of metals, the component most sensitive to cyclical conditions.

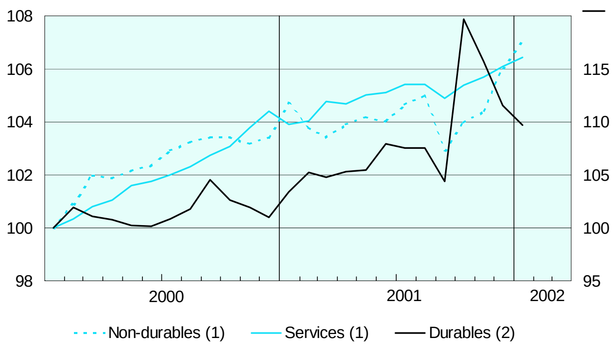
Signs of recovery in the United States

After declining by an annualized 1.3 per cent in the third quarter, GDP in the United States rose moderately in the fourth (1.4 per cent on an annual basis) thanks to a sharp pick-up in consumption, which expanded by 6 per cent, and in public spending, up by 10.1 per cent.

The rise in consumption was mainly due to the exceptional increase in spending on durables, which rose by 39.2 per cent on an annual basis (Figure 2), thanks in part to the introduction of financial incentives for car purchases in October. Consumption of non-durables and services also rose, but more moderately (2.4 and 1.8 per cent respectively). Household spending was boosted by the fall in mortgage rates. Also, the decline in the prices of energy products caused disposable income to rise by about 0.3 per cent in the fourth quarter. The combined effect of these factors more than offset the deterioration in the labour market. Between September and November, payroll employment in the non-agricultural sector fell by about 970,000, or 0.7 per cent, and continued to decline in December, although at a much slower pace. Employment in services fell substantially, with a loss of nearly 100,000 jobs in air transport between September and December. The unemployment rate rose from 5.0 per cent in September to 5.8 per cent in December.

Figure 2

Household consumption in the United States
(*monthly data; indices, January 2000 = 100*)



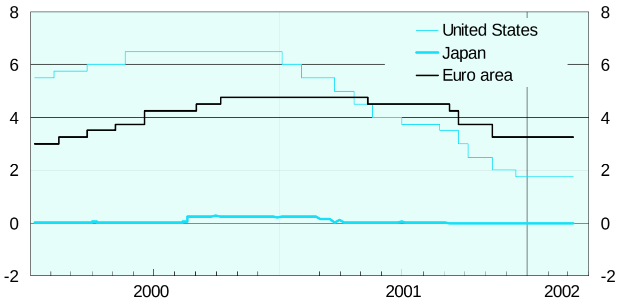
Source: Bureau of Economic Analysis.
(1) Left-hand scale. – (2) Right-hand scale.

Fixed investment continued to decline in the fourth quarter, falling at an annual rate of 11 per cent, led by a contraction of more than 30 per cent in spending on plant. However, expenditure on IT equipment showed signs of stabilizing after having fallen over the previous three quarters, suggesting that the downturn in this sector may have come to an end. Residential investment, which had grown in the first three quarters of the year, fell by an annualized 5 per cent in the fourth.

The continuing weakness of economic activity prompted the Federal Reserve to lower its target for the federal funds rate twice, by a total of 0.5 percentage points, to 1.75 per cent, the lowest level since the fifties. The rate was cut by a total of 4.75 points in 2001 (Figure 3). Short-term interest rates declined by 0.3 points to 2 per cent in November and remained at that level thereafter. Real short-term rates, calculated on the basis of inflation expectations reported in surveys, were close to zero. Interest rates on mortgage loans fell from 7.2 per cent at the start of July to 6.5 per cent in November. The decline bolstered support to demand for homes and consumer durables directly and indirectly, as borrowers re-negotiated their mortgages in association with the increase in property values.

Figure 3

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



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

Inflation remained moderate. The rate of change in the core consumer price index, which excludes food and energy products, held between 2.6 and 2.8 per cent from September 2001 to January 2002.

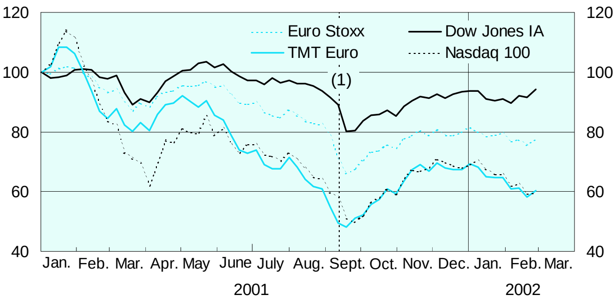
Budgetary policy provided a large stimulus to the economy, with the measures to increase disposable income in the Economic Growth and Tax Relief Reconciliation Act of May 2001 and the additional expenditure enacted after 11 September. The total value of the spending measures and tax cuts was $190 billion, or about 2 per cent of GDP. According to recent estimates by the Congressional Budget Office, the federal budget on a current programmes basis for the 2002 fiscal year, which ends in September, should be close to balance, compared with a surplus of $127 billion the previous year and $236 billion in 2000.

The swift monetary and budgetary action and the unexpectedly favourable development in the conflict in Afghanistan in mid-November contributed to the rapid turnaround in expectations, as signalled by the improvement in confidence indicators and in securities prices. In November, there was a substantial rise in technology stocks and a more modest one in traditional shares (Figure 4). In the first week of December, the Nasdaq 100 was more than 26 per cent higher than its level before 11 September; it fell back in the final part of the year but remained above its pre-attack level. The Dow Jones industrial average rose until the first week of 2002, when it was 7 per cent higher than its level on the eve of the attacks. The risk premium over the 10-year swap rate on bonds issued by top-rated corporate borrowers fell from 2 to 1.2 percentage points between the start of November and the end of December. The yield on 10-year Treasury bonds, which in the first week of November had fallen to a low for the year of 4.2 per cent, rose to 5 per cent in the subsequent two weeks, where it then stabilized (Figure 5). The confidence index for manufacturing firms, which fell to 39.5 in October, rose to 44.7 in November, while the index of activity in the service sector rose from 40.4 to 49.8, the highest level since June.

Figure 4

Stock market indices in the United States and in the euro area

(average weekly data; indices, 1st week of January 2001=100)



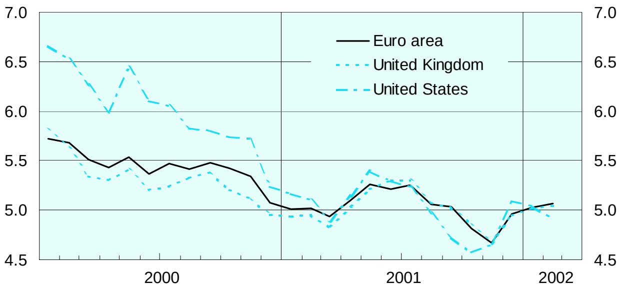
Source: Thomson Financial Datastream.
(1) 11 September.

At the start of 2002 the signs of a recovery in economic activity strengthened. Coincident indicators stopped falling and leading indicators rose further. At the end of January, the improvement in economic conditions enabled the Federal Reserve to leave official rates unchanged. Non-farm payroll employment, which had been declining since August, turned upward in February, and the unemployment rate fell to 5.5 per cent.

Figure 5

Long-term interest rates

(*monthly averages*)



Source: National statistics.

Industrial output stabilized in January. It should benefit from stock-building following the substantial destocking in the fourth quarter of last year, which cut two percentage points from the annualized growth rate. The manufacturers' confidence index rose again in January and February; the leading indicator of economic conditions has been rising since October (Figure 6).

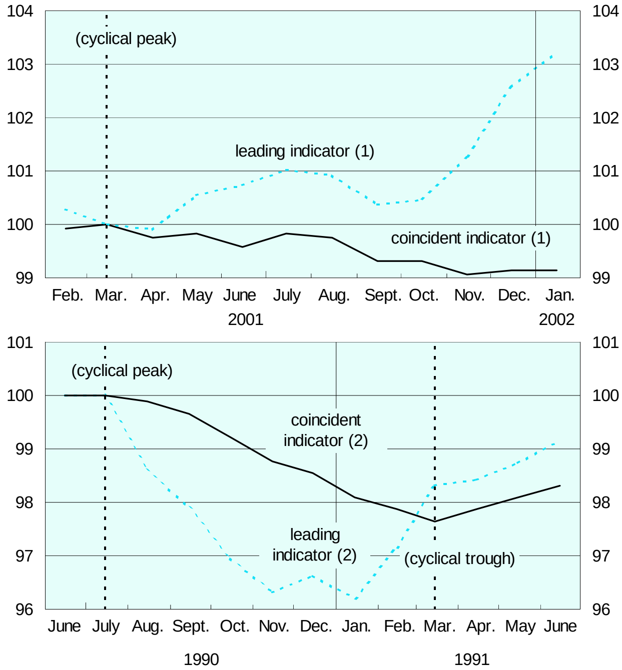
Signs of a turnaround in the investment cycle are evident in orders for capital goods, which even excluding defence capital goods have recouped part of the fall recorded since September.

The curve of 1-month forward rates implicit in futures contracts on federal funds indicates that investors do not expect a change in official rates before the end of June.

The Dow Jones industrial average declined from the start of the year to mid-February before turning upwards in conjunction with the signs of economic recovery. At the beginning of March it was slightly above its level on 1 January. The performance of share prices was affected by the increased uncertainty generated by the Enron collapse, which has spread to involve banks and auditing companies. In the wake of the scandal, which drew attention to problems of transparency in US corporate financial statements and corporate governance, in January the Securities and Exchange Commission found accounting irregularities at a number of other major listed companies. The risk premium on prime corporate bonds began to rise again at the start of the year, standing at 1.7 points at the end of February.

Figure 6

Coincident and leading indicators of the business cycle in the United States: a comparison of two periods



Source: Conference Board.
(1) March 2001=100. – (2) July 1990=100.

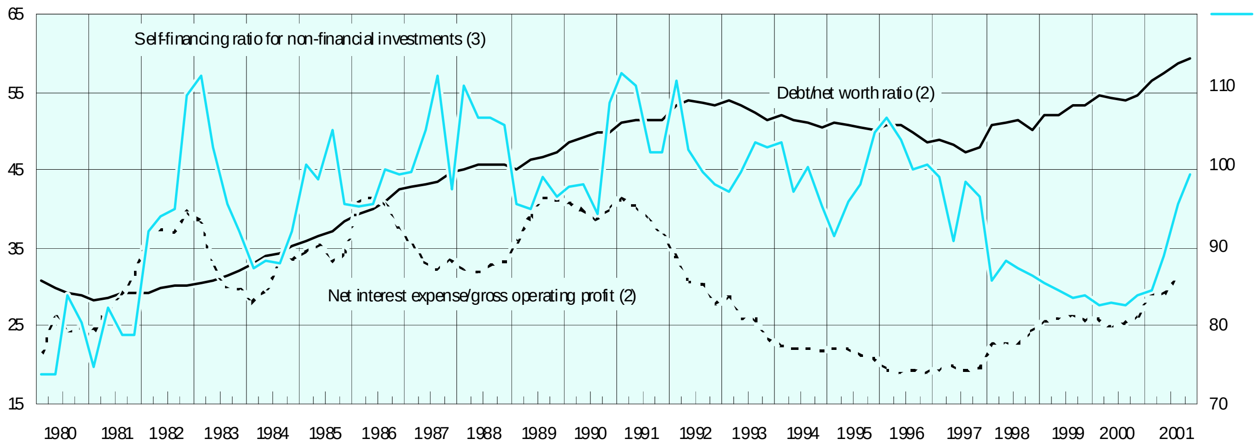
The profitability of non-financial firms deteriorated in the first three quarters of 2001. Businesses found it difficult to pass higher unit labour costs through to final prices owing to structural factors, in the form of intense competition, and cyclical factors, namely weak demand. Over the same period, non-agricultural firms saw hourly labour costs rise by an average of 4.4 per cent on an annual basis, far outpacing the 1.1 per cent gain in productivity, although the latter was nevertheless significant in a recession. In the fourth quarter, the increase in productivity growth (to an annualized 5.2 per cent), which was mainly attributable to the substantial reduction in working hours (3.8 per cent), more than compensated for the rise in labour costs, presumably widening profit margins.

In the third quarter of 2001, the gross profits of the non-financial corporate sector, which had been falling for a year, were nearly 30 per cent lower than their peak in the second quarter of 2000. The decline had a significant impact on firms' financial ratios.

At the end of 2001, the ratio of debt to net worth was close to 60 per cent, up from 55 per cent at the end of 2000. The self-financing ratio was lower than in the recessions of 1981-82 and 1990-91. The ratio of net interest expense to gross operating profit also increased but remained below that registered in the previous two recessions (Figure 7).

Figure 7

Corporate financial ratios in the United States (1)
(*percentage values*)



Sources: Bureau of Economic Analysis and Federal Reserve.
(1) Non-financial companies. – (2) Left-hand scale. – (3) Right-hand scale.

The economic and financial situation in Japan

In Japan, GDP has been falling since the second quarter of 2001; in the fourth quarter, it declined by 4.5 per cent at an annual rate, primarily reflecting the sharp contraction in investment (Table 2). Consumption partially recouped the fall recorded over the previous two quarters.

Economic conditions stopped deteriorating at the end of 2001 and in the early part of this year, but no clear signs of an imminent recovery have emerged. Industrial output, which in November reached its lowest level since the end of 1987, stabilized in the two subsequent months. Exports revived in January, helped by the depreciation of the yen (Figure 8).

Table 2

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 (3)(5)
United States							
2000	4.1	4.8	2.7	7.6	–0.1	4.8	–0.8
2001	1.2	3.1	3.6	–1.9	–1.1	1.3	–0.1
H1	1.2	2.9	4.7	–1.5	–1.5	1.0	0.2
H2	–0.2	2.6	3.8	–8.1	–1.1	. .	–0.3
Q3	–1.3	1.0	0.3	–5.7	–0.8	–1.0	–0.3
Q4	1.4	6.0	10.1	–11.0	–2.2	1.7	–0.4
Japan							
2000	2.4	0.6	4.6	3.2	. .	1.9	0.5
2001	–0.5	0.3	3.1	–1.7	. .	0.2	–0.7
H1	1.1	3.3	3.9	–1.2	0.1	2.2	–1.0
H2	–3.4	–2.6	1.7	–6.2	–0.2	–3.2	–0.3
Q3	–2.1	–6.7	–1.1	8.0	–0.5	–2.4	0.2
Q4	–4.5	8.0	2.8	–28.5	0.1	–4.2	–0.4
Euro area							
2000	3.4	2.6	1.9	4.4	. .	2.8	0.6
2001	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
H1	1.8	2.6	2.5	–1.6	–0.6	1.0	0.8
H2	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Q3	0.6	0.6	0.9	–0.1	–1.0	–0.5	1.1
Q4	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
United Kingdom							
2000	3.0	4.1	1.9	4.9	–0.3	3.6	–0.7
2001	2.4	4.1	2.4	1.1	–0.1	3.2	–0.8
H1	2.5	4.3	3.4	–1.1	. .	3.1	–0.5
H2	1.4	4.4	1.2	–3.0	–0.5	2.0	–0.7
Q3	1.9	4.2	1.2	–6.0	–0.1	1.7	0.2
Q4	0.1	4.6	0.9	–6.7	0.4	2.2	–2.2

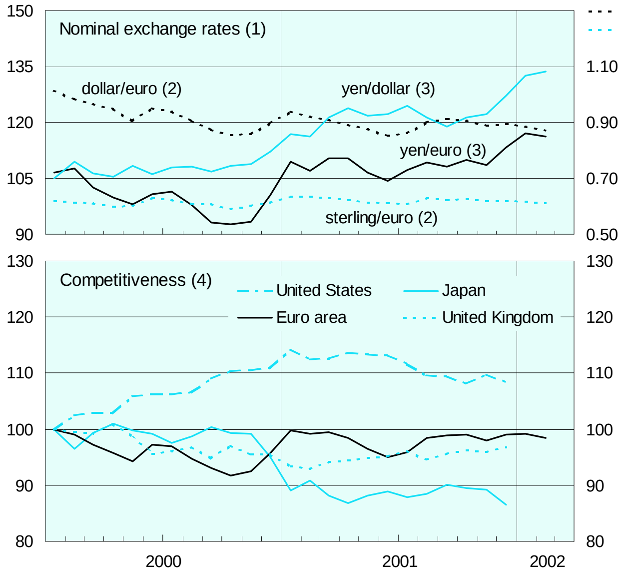
Sources: National statistics and Eurostat.

(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) 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. – (4) For the euro area and the United Kingdom, changes in valuables also included. – (5) Goods and services.

Figure 8

Nominal exchange rates and indicators of competitiveness of leading currencies

(monthly averages)



(1) Units of the first currency per unit of the second.- (2) Right-hand scale. - (3) Left-hand scale. - (4) Indices, January 2000=100, on the basis of producer prices of manufactured goods. A rise corresponds to a loss of competitiveness.

Household spending has been affected by labour market conditions. In December, the unemployment rate rose to 5.5 per cent, compared with 4.9 per cent at the start of the year, and total employment was 1.2 per cent below the year-earlier level. In the twelve months to January, nominal wages fell by 1.4 per cent on average. The Tankan survey for December showed that large firms had revised their investment plans downwards.

The twelve-month decline in consumer prices was 1.4 per cent in January; prices declined by 0.7 per cent on average for 2001 as a whole.

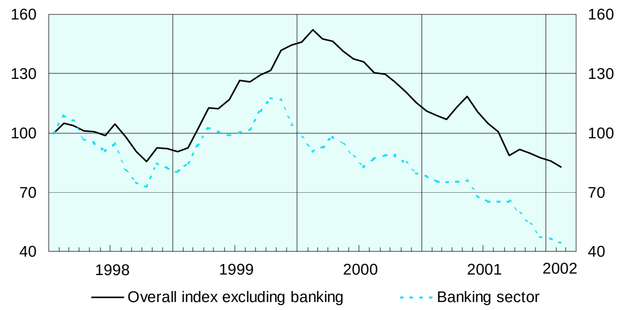
The financial situation of banks deteriorated further over the course of the year. According to the supervisory authorities, at the end of September non-performing loans (not taking account of provisions) had risen to 35.7 trillion yen, equal to 7 per cent of GDP (compared with 6.3 per cent in March 2001).

It is likely that loan losses have increased significantly, partly owing to the pressure exerted by the supervisory authorities, which have conducted special inspections at all the main banks. Since the end of March 2001, the banks have taken capital losses on their share portfolios; under new accounting rules that came into force last September, they will have to charge part of the losses against capital. The main rating agencies have downgraded a number of banks. The rise in the prices of bank shares in early March only partly offset the decline under way since the end of 1999 (Figure 9).

Figure 9

Share indices in Japan

(monthly averages; indices, January 1998=100)



Source: Thomson Financial Datastream.

In order to accelerate the removal of bad debts from the banks' balance sheets, in December the functions of the Resolution and Collection Corporation, the special agency instituted by the government after the 1998 financial crisis, were broadened; it now has greater latitude to acquire those loans from the banks, paying market prices, and to take an active role in restructuring borrower firms.

In the fiscal year ending in March 2002, according to preliminary estimates by the Ministry of Finance, the budget deficit including the social security surplus will fall to 6 per cent of GDP, compared with 6.4 per cent the previous year, as a result of the ceiling of 30 trillion yen on bond issues imposed by the new government that took office last spring. Gross public debt will rise to 133.4 per cent of GDP, up from 125.2 per cent in fiscal 2000. A second package of expansionary measures was approved in February, but at 4.1 trillion yen, or 0.8 per cent of GDP, it is considerably smaller than past ones. The measures are aimed at sustaining investment, especially in new technology. However, budgetary policy appears to be running out of room for manœuvre.

The Bank of Japan continued its strategy of increasing the supply of liquidity through intervention in the money market. In December, the target level of financial institutions' balances on their accounts with the central bank was increased to 15 trillion yen.

Unconventional expansionary measures have been proposed to enhance the effectiveness of the monetary policy transmission mechanism, such as extending central bank securities purchases from government bonds to private bonds, shares, real estate and foreign securities. These measures would reduce the cost of capital and improve the financial situation of banks and firms.

In December, the Bank of Japan increased its outright purchases of long-term government securities from 600 to 800 billion yen a month; in February the amount was raised to 1 trillion.

At the end of February, the yield on 10-year government bonds rose to 1.5 per cent, its highest level in twelve months. The increase since the start of November is about 0.2 points.

The yen depreciated by 9 per cent against the dollar between the start of November and the end of February, to an exchange rate of ¥134 (Figure 8). In December, the weakening was favoured by statements by Japanese and US authorities that depreciation would help end deflation and make monetary conditions more expansionary. At the start of March the exchange rate stood at around ¥130.

The crisis in Argentina and economic developments in the emerging countries

The slackening of demand in all the industrial countries in the first half of 2001 was reflected in a deterioration in economic conditions in the emerging economies.

In the final months of the year encouraging signals emerged from the Asian countries. The stabilization of demand for investment goods in the United States in the fourth quarter of 2001 boosted the exports of many of them. The improvement benefited Taiwan especially, with Singapore, the Philippines and Malaysia registering smaller gains. In South Korea, where the recovery in exports of electronic products could only limit the fall in total exports, growth was sustained primarily by domestic demand.

Thanks to their low level of international openness, the impact of the global slowdown on the economies of China and India was limited. Despite the deceleration in exports, growth remained rapid in the second half of 2001 in both countries (Table 3).

Various countries in the area, notably China and South Korea, again registered large current account surpluses, as in the previous two years. Foreign reserves continued to grow and foreign debt was considerably reduced, suggesting that their currencies may be undervalued.

In December, the economic and financial crisis in Argentina came to a head. The markets had discounted the event well in advance, which helped to limit financial contagion in the region's other main economies. The risk of transmission through traditional trade channels has not entirely vanished, however, and the outlook for growth in Latin America is still bound up with the recovery in the United States and the possibility of financing the external deficit on affordable terms. The Argentine government's first response was measures – such as the freezing of current account deposits – that effectively ended the peso's free convertibility with the dollar. At the end of December, the authorities suspended debt servicing and, at the start of 2002, abandoned the currency board regime.

In Brazil, industrial output stabilized after falling in the third quarter. Despite the slowdown in activity in the second half of last year, the primary budget surplus was larger than the target specified in the programme agreed with the IMF in September for the granting of a new stand-by line of credit. Foreign direct investment remained strong, and the trade balance registered a surplus of $2.6 billion. The exchange rate, which slid by 28 per cent against the dollar between the start of the year and October, subsequently strengthened by 14 per cent. Despite the weakness of the economy, the central bank kept interest rates high in the second half of 2001 to stem pressure on the exchange rate and prices. Between the end of October 2001 and the end of February this year, the yield differential between dollar-denominated Brazilian securities and comparable US paper, which had widened abruptly after 11 September, narrowed by 3.7 percentage points but remained large at 7.9 points (Figure 10).

In Mexico, the economy was severely affected by the US recession: in the second half of the year GDP declined by 1.6 per cent with respect to the year-earlier period (Table 3). Nevertheless, firm monetary and budgetary policies and the initial signs of recovery in the United States fostered a reduction in the risk premium on dollar-denominated government securities, from 4.1 to 2.8 points, and a slight appreciation of the peso against the dollar. In confirmation of the improvement in economic conditions, on 7 February Moody's raised its rating of Mexico's government debt.

Table 3

Economic indicators for selected emerging countries

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

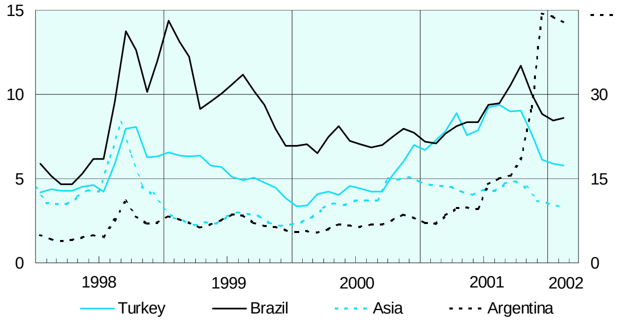
	GDP				Domestic demand (1)			Net exports (2)		
	2000	2001	2001 H1	2001 H2	2000	2001 H1	2001 H2	2000	2001 H1	2001 H2
Latin America										
Argentina	–0.8	. . . .	–1.1	–4.9 (3)	–1.1	–1.6	–7.8 (3)	0.3	0.5	3.0 (3)
Brazil	4.4	1.5	3.2	–0.1	4.6	. . . .	. . . .	–0.2	. . . .	. . . .
Mexico	6.6	–0.3	1.0	–1.6	8.8	1.6	–1.4 (3)	–1.9	–0.7	–0.2 (3)
Asia										
China	8.0	7.3	8.0	6.8	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
India (4)	4.0	. . . .	4.9	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Indonesia	5.6	2.6	3.4	1.9	5.7	6.8	–2.6	0.1	–3.1	4.4
Malaysia	8.3	0.4	1.7	–0.9	15.7	0.8	–0.5	–4.8	1.0	–0.5
Philippines	4.0	3.4	3.2	3.6	–1.2	6.1	3.8	5.3	–3.2	–0.3
South Korea . . .	8.8	. . . .	3.2	1.8 (3)	6.1	–0.8	2.3 (3)	3.5	3.9	–0.1 (3)
Thailand	4.4	. . . .	1.8	1.5 (3)	4.2	0.4	1.2 (3)	0.9	1.5	0.5 (3)
Taiwan	5.9	–1.9	–0.7	–3.0	4.0	–3.7	–5.2	2.0	2.8	1.9
Europe										
Poland	4.0	. . . .	1.7	0.8 (3)	2.6	. . . .	. . . .	1.0	. . . .	. . . .
Russia	8.3	. . . .	5.1	4.9 (3)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Turkey	7.3	. . . .	–5.8	–7.0 (3)	9.8	–17.5	–17.1 (3)	–3.0	13.6	10.5 (3)

Sources: National statistics and OECD.

(1) Includes change in stocks and statistical discrepancies. – (2) Includes goods and services. Contribution to GDP growth in relation to the same period of the previous year in percentage points. – (3) Third quarter. – (4) GDP at factor cost, fiscal year (April to March).

Figure 10

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



Sources: J.P. Morgan, Thomson Financial Datastream.

In Venezuela, the government decided to let its currency float in February in order to counter the increase in the budget deficit caused by falling oil prices and the steep decline in foreign exchange reserves.

In Russia, industrial output slowed in the fourth quarter of 2001. The fall in the price of oil and the pick-up in imports curbed the current account surplus. The budget, already in surplus in 2000, continued to improve in 2001.

Following the financial crisis that buffeted Turkey in February last year, forcing the authorities to abandon the crawling peg system for the lira, IMF estimates indicate that GDP contracted by 8.5 per cent in 2001; the twelve-month inflation rate stood at more than 70 per cent in January this year, compared with around 30 per cent a year earlier. Over the course of 2001, the authorities began the restructuring of the main public-sector banks and made arrangements for the acquisition of insolvent private banks by a special fund. These measures paved the way for a new agreement with the IMF, which envisages financing totalling $16.2 billion over three years ($9 billion available immediately). The agreement is intended to sustain the government's economic programme for 2002-2004, based on keeping the floating exchange rate regime, fiscal austerity and further restructuring of the banking system. GDP is projected to grow by about 3 per cent in 2002, with inflation forecast at 35 per cent and the public sector primary surplus at 6.5 per cent of GDP.

ECONOMIC DEVELOPMENTS IN THE EURO AREA AND IN ITALY

Production, demand and the balance of payments

Economic activity

The GDP of the euro area grew by an estimated 1.5 per cent in 2001, nearly 2 percentage points less than in the previous year. The abrupt deceleration in world demand, due principally to the end of the long economic expansion in the United States and the steep rise in the price of oil, was primarily reflected in a marked slowdown in exports of goods and services. The expansion in national demand, which remained moderate, provided insufficient stimulus for growth; gross fixed investment stagnated, while the sluggishness of consumption and heavy destocking further undermined the strength of GDP growth.

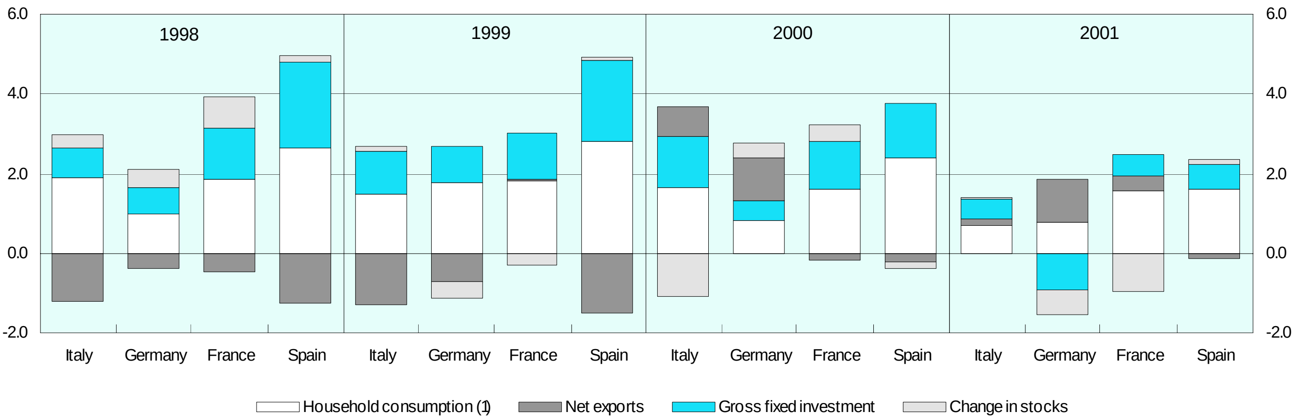
After growing at an annualized rate of 1.5 per cent in the first half of the year, economic activity stagnated in the second as a consequence of the sharp slowdown in private consumption and the drop of around 3 per cent in exports. Investment fell in both halves at an annualized rate of around 1.5 per cent.

Signs of recovery appeared late in the year and gathered strength in the opening months of 2002. The improvement in business sentiment and households' expectations suggests that economic activity may have touched bottom in the fourth quarter of 2001.

The smallness of the increase in the area's GDP reflected the slowdown in the growth of the German economy from 3 per cent in 2000 to 0.6 per cent last year (Table 4). This result was attributable to the fall of 4.1 per cent in capital spending and substantial destocking, which together subtracted 1.5 percentage points from GDP growth in Germany, whereas in 2000 they had contributed around 1 point (Figure 11). Consumption again grew at the weak rate recorded the previous year.

Figure 11

Contributions of the main components of demand to the growth of GDP in the major euro-area countries
(at constant prices; percentage points)



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

Table 4

GDP, imports and the main components of demand in the major euro-area countries
(at constant prices; annualized percentage changes on previous period)

	1998	1999	2000	2001	2001 (1)			
	Year	Year	Year	Year	Q1	Q2	Q3	Q4
				GDP				
Germany	2.0	1.8	3.0	0.6	1.6	0.2	−0.7	−1.0
France	3.4	3.0	3.6	2.0	1.6	0.8	1.8	−0.6
Italy	1.8	1.6	2.9	1.8	3.4	..	0.5	−0.8
Spain	4.3	4.1	4.1	2.8	4.1	0.7	3.8	0.7
Euro-4 (2)	2.6	2.4	3.3	1.4	2.2	0.4	0.7	−0.7
				Imports				
Germany	8.9	8.5	10.0	2.0	−19.9	4.6	−6.7	−0.1
France	11.6	4.2	15.4	−0.2	−8.4	−4.5	−7.1	−17.4
Italy	8.9	5.3	9.4	0.2	1.9	2.5	−10.6	−4.8
Spain	13.3	12.8	9.8	3.7	1.7	4.2	−5.2	6.0
Euro-4 (2)	10.1	7.3	11.2	1.3	−11.0	1.8	−7.3	−4.8
				Exports				
Germany	6.8	5.6	13.2	5.1	0.4	1.1	2.6	−4.2
France	8.3	3.9	13.3	1.1	−2.6	−6.7	−5.5	−14.5
Italy	3.4	0.3	11.7	0.8	−1.2	−0.1	−9.1	−0.6
Spain	8.2	7.6	9.6	3.4	−6.9	−0.4	1.6	0.6
Euro-4 (2)	6.7	4.4	12.6	3.1	−1.5	−1.3	−1.8	−5.7
				Household consumption (3)				
Germany	1.8	3.1	1.4	1.4	4.3	2.9	−1.0	−2.0
France	3.4	3.3	2.9	2.9	5.5	1.1	4.4	0.8
Italy	3.2	2.4	2.7	1.1	1.6	1.3	−1.0	1.1
Spain	4.5	4.7	4.0	2.7	10.2	0.8	−3.2	5.6
Euro-4 (2)	2.8	3.2	2.4	1.9	4.7	1.8	0.1	0.2
				Gross fixed capital formation				
Germany	3.0	4.2	2.3	−4.1	−8.4	−5.8	−6.0	−3.7
France	7.0	6.2	6.2	2.8	2.1	−0.8	1.4	−0.5
Italy	4.0	5.7	6.5	2.4	5.2	0.8	1.5	−0.6
Spain	9.7	8.8	5.7	2.5	3.4	1.8	4.2	−3.9
Euro-4 (2)	4.9	5.5	4.4	−0.4	−1.8	−2.3	−1.4	−2.3
				National demand				
Germany	2.4	2.6	2.0	−0.5	−5.7	1.3	−3.8	0.5
France	4.0	3.1	3.9	1.7	−0.1	1.6	1.5	−1.1
Italy	3.1	3.0	2.1	1.6	4.5	0.7	0.2	−2.1
Spain	5.7	5.6	4.2	2.8	6.9	2.1	1.4	2.4
Euro-4 (2)	3.3	3.1	2.8	0.9	−0.9	1.4	−1.0	−0.2

Sources: Based on Eurostat data and national statistics.
(1) Seasonally adjusted data. – (2) Germany, France, Italy and Spain.– (3) Comprises consumption of resident households and non-profit institutions serving households.

National demand, though slowing down, was the main factor of the expansion in GDP in France (2 per cent) and Spain (2.8 per cent), countries where the deceleration from the previous year was less pronounced than in Germany. The change in stocks also eroded the growth in output in France, by around 1 percentage point.

GDP growth in Germany worsened in the course of 2001, with a contraction of 1 per cent on an annual basis in the fourth quarter. Output was 0.5 per cent lower in the second half of the year than in the first, when it had grown by 1 per cent compared with the previous six months. Economic activity also contracted in France in the fourth quarter, by 0.6 per cent, but nevertheless grew by 1 per cent in the last six months of the year.

GDP growth in Italy amounted to 1.8 per cent. Here again it was mainly attributable to national demand, which contributed around 1.6 percentage points. Household consumption and gross fixed capital formation contributed 0.7 and 0.5 points respectively, compared with 1.6 and 1.3 in 2000. The change in stocks, which in 2000 had subtracted more than 1 point from GDP growth, did not affect the outcome in 2001. Net exports contributed only 0.2 points to GDP growth, with both exports and imports slowing down: exports rose by 0.8 per cent as against 11.7 per cent in 2000, imports by 0.2 per cent as against 9.4 per cent (Table 5).

Economic activity in Italy stagnated on average in the second half of the year at the levels recorded in the first, with a contraction of 0.8 per cent on an annual basis in the fourth quarter. The flatness of output was due principally to substantial destocking, which subtracted 0.8 percentage points from GDP growth in the second half, whereas stockbuilding had added 1.5 points in the first. Gross fixed investment and household consumption did not fuel growth; the

Table 5

Italy: resources and uses of income

(at constant prices; percentage changes unless otherwise indicated)

	As a percentage of GDP in 2001	1998	1999	2000	2001	Contribution to GDP growth in 2001 (1)
Resources						
GDP	–	1.8	1.6	2.9	1.8	–
Imports of goods and services	28.3	8.9	5.3	9.4	0.2	. .
Total resources	–	3.2	2.4	4.3	1.4	1.8
Uses						
Gross fixed capital formation	20.8	4.0	5.7	6.5	2.4	0.5
Construction	8.5	–0.2	2.8	5.6	3.7	0.3
Machinery, equipment and sundry products	9.7	5.0	5.6	6.3	0.8	0.1
Transport equipment	2.6	17.9	16.8	10.0	4.4	0.1
Consumption of resident households	59.8	3.2	2.4	2.7	1.1	0.7
Non-durable goods (2)	26.6	2.7	1.0	1.5	0.8	0.2
Durable goods (2)	7.3	5.0	5.4	5.9	–1.5	–0.1
Services (2)	27.1	2.8	2.6	3.9	1.9	0.5
Consumption of general government and non-profit institutions serving households	17.6	0.3	1.4	1.7	2.3	0.4
Change in stocks and valuables (3)	–0.2	0.3	0.1	–1.1	. .	. .
Total national demand	98.1	3.1	3.0	2.1	1.6	1.6
Exports of goods and services	30.3	3.4	0.3	11.7	0.8	0.2
Net exports (3)	1.9	–1.2	–1.3	0.8	0.2	0.2

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

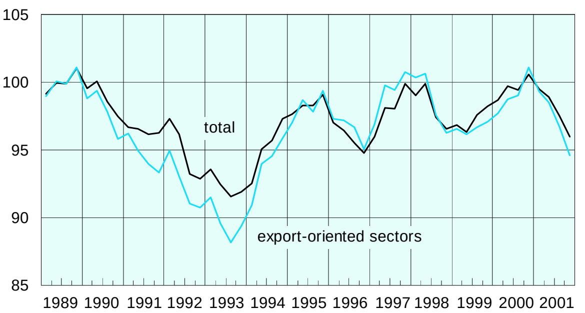
former slowed down perceptibly while the latter remained stationary. Overall national demand braked the growth in GDP in the second half of the year. Net exports made a modest positive contribution to growth, as exports and imports contracted by 4.8 and 6 per cent respectively.

The weakness of activity in Italy during the year was especially pronounced in the industrial sector, with some regional differences. The capacity utilization rate fell continuously from the end of 2000 (Figure 12). For the first time in twenty years the index of industrial production fell for four consecutive quarters (Figure 13). The decline in activity was sharpest in the intermediate goods sector: in the fourth quarter the sectoral index showed a drop almost twice as large as that in the general index (2.9 per cent as against 1.7 per cent vis-à-vis the preceding quarter).

Figure 12

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.

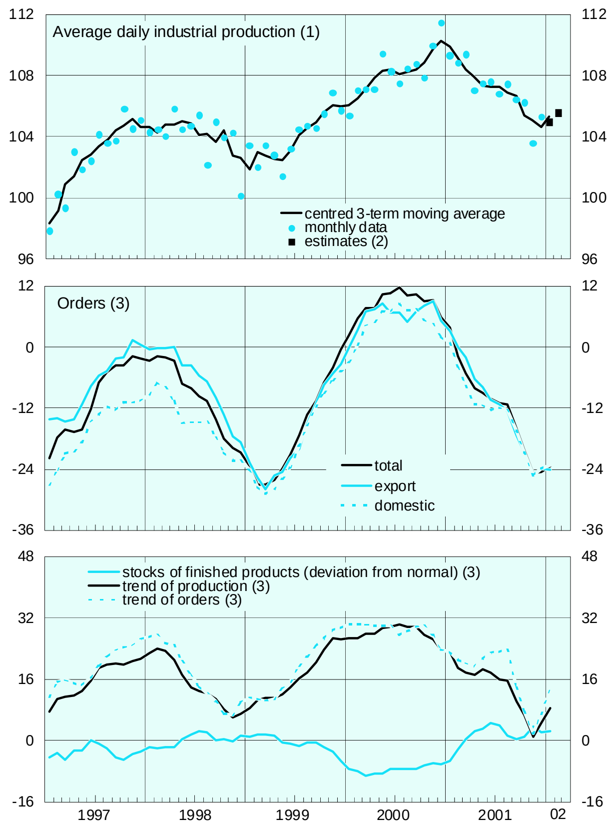
Positive signs for the euro area as a whole are offered by the coincident indicator of the euro-area business cycle (€COIN; see box). Rises in the indicator in December and January ended the decline that had begun in November 1999. This result, though curbed by the continuing weakness of manufacturing activity, reflects a lessening of the pessimism of households and firms. €COIN had signaled as early as August that the economic slowdown in the euro area was coming to an end. The events of 11 September caused the area's output to fall and set the recovery back by several months.

In Italy industrial production rose month on month by 1.6 per cent in December, following three successive months of decline. Estimates based on electricity consumption indicate that it rose on average in January and February compared with the preceding two months (Figure 13). A contributory factor was the need to adjust stocks to the rapid rebound expected in demand after the fall following 11 September. Encouraging signs also come from the composite leading indicator of the Italian business cycle developed by the Bank of Italy and the ISAE (Figure 14).

Figure 13

Italy: industrial production, orders and stocks

(monthly data)

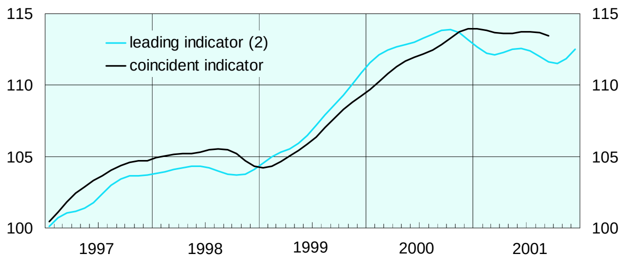


Sources: Based on Istat and ISAE data.

(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 data except for stocks of finished products.

Figure 14

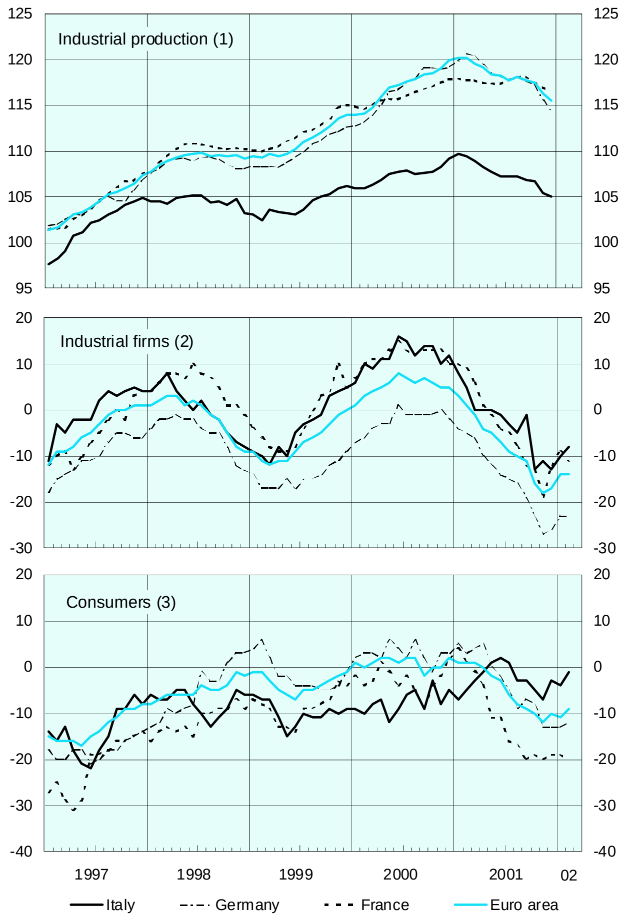
Indicators of the Italian business cycle (1)
(monthly data; indices, 1995=100)



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.

Figure 15

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



Sources: Based on national statistics and European Commission data.
(1) Index, 1995=100. Moving averages for the three months ending in the reference month. 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 five questions on consumers' opinions and expectations regarding the economic situation, both general and personal, and the advisability of purchasing durable goods.

Consumption and disposable income

Household consumption in the euro area, estimated on the basis of that in the four largest countries, grew less than in the previous years. The halt in the fall in the unemployment rate, after three years of persistent decline, and the inflationary pressures of the first half of the year discouraged consumers. Consumption was weak in all the main countries of the area except France, where spending continued to grow at a rate of around 3 per cent, presumably buoyed by the launch of the three-year plan to reduce the tax burden.

Euro-area household consumption slowed down over the year, from annualized growth of around 5 per cent in the first quarter to less than 0.5 per cent in the fourth. The deterioration was especially pronounced in Germany, from an expansion of more than 4 per cent in the first quarter to a contraction of 2 per cent in the fourth.

The events of 11 September do not appear to have had major repercussions on the spending decisions of households in the area or in Italy. This is suggested by the climate of consumer confidence, which in the immediately ensuing months did not show a significant worsening of the negative trend that had begun earlier (Figure 15).

In 2001 Italian household consumption grew by 1.1 per cent, less than half as much as in the previous year. Preliminary estimates indicate that the growth in households' disposable income was modest, despite the stimulus of the tax reliefs introduced with the Finance Law for 2001; a significant factor was probably the greater erosion of the purchasing power of financial assets due to higher inflation.

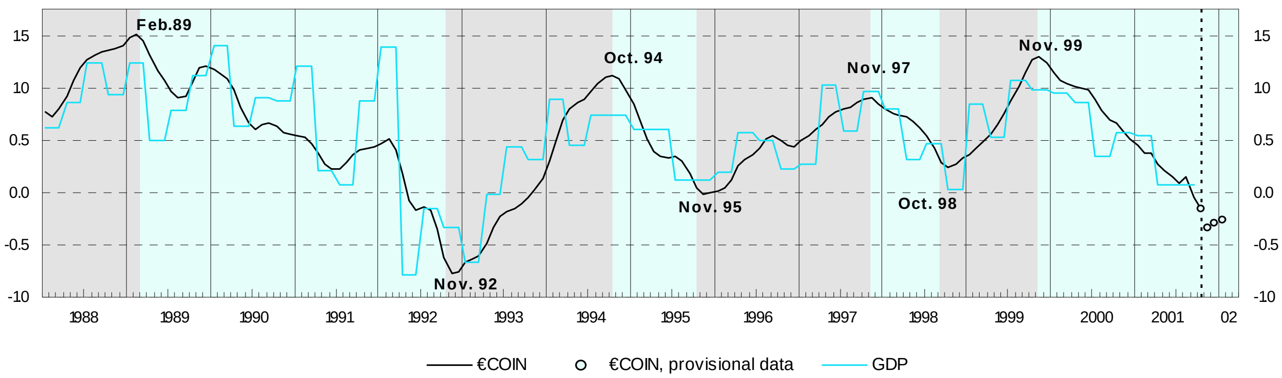
A coincident cyclical indicator for the euro-area economy

In January the London Centre for Economic Policy Research (CEPR) began publishing a new coincident business cycle indicator for the euro area (€COIN), released monthly.[1] The indicator is the product of a joint project with the Economic Research Department of the Bank of Italy.[2]

The indicator relies on a vast databank composed of nearly a thousand monthly series starting in 1987 for Germany, France, Italy, Spain, the Netherlands and Belgium. They include GDP,[3] industrial production, exports and imports, wages, employment, prices, financial variables, monetary aggregates, interest rates, stock exchange indices, and European Commission business and consumer surveys. The standard instruments of short-term economic analysis are unlikely to be able to reduce the multiple indications from such a mass of data to a unified framework. €COIN is designed as a statistically efficient synthesis of these signals.

The construction of the indicator adopts the theoretical hypothesis that the evolution of macroeconomic series depends on a limited number of fundamental shocks.[4] That is, each variable can be represented as the sum of two components. One captures the "common" movements of the series, insofar as it is determined by the shocks affecting all macroeconomic variables in the area; the second is the idiosyncratic component, independent of the first and responding to factors affecting only the single variable.

The coincident cyclical indicator (€COIN) and euro-area GDP, 1988-2002
(three-month percentage change)



cont.

Italian household consumption stagnated in the second half of the year, after growing at an annualized rate of 1.4 per cent in the first half thanks to spending on non-durable goods and on services. After expanding over the four previous years, demand for durable goods contracted in both halves of 2001 by 4 and 2 per cent respectively. This component of demand was weakened not only by heightened uncertainty among consumers but also by the gradual completion of restocking. Indications to this effect come from the ISAE's annual report on ownership of durable goods, which found that purchases of high-tech items slowed down sharply in 2001 from the preceding years. However, spending on durable goods rose by 9.6 per cent in the fourth quarter, reflecting a surge in automobile purchases.

The estimation procedure extracts the common component of every variable, isolating cyclical fluctuations.[5]

Analysts commonly use two different definitions of the business cycle. One, used by the US National Bureau of Economic Research, defines the cyclical upswing as a phase of expansion of economic activity. The other, used by €COIN, identifies it as a phase of increasing growth rates, i.e. accelerating economic activity. The duration of a full cycle is the time between two peaks.

€COIN provides a monthly estimate of the rate of change in the seasonally adjusted GDP of the euro area, also shorn of its purely erratic component.[6] *Short-term economic analysis may benefit notably from a prompt monthly signal of the change in GDP, which is otherwise available only quarterly*[7] *and with a lag. Furthermore, the indicator also makes possible the precise dating of the European business cycle.*

Applying the procedure of Bry and Boschan[8] *to the time series for €COIN, we can date the cyclical turning-points for the past 14 years as in the figure.*[9] *This depicts the economy of the euro area as having undergone three full business cycles since 1988 with an average duration of 43 months and accelerations slightly shorter than slowdowns (20 and 23 months respectively).*

The value of the indicator for three or four months previous to the current date is subject to revision owing to delays in the availability of the data[10] *and the consequent need to proxy them with estimates.*[11] *Unlike the econometric techniques usually used to construct cyclical indicators, the methodology for €COIN entails no other revisions. Simulations for the past show that the new indicator captures cyclical inversions promptly.*

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[1] On the Centre's website (www.cepr.org).

[2] See F. Altissimo, A. Bassanetti, R. Cristadoro, M. Forni, M. Lippi, L. Reichlin and G. Veronese, "A Real Time Coincident Indicator of the Euro Area Business Cycle", Banca d'Italia, Temi di discussione, No. 436, December 2001.

[3] The original quarterly GDP series are converted to monthly frequency by linear interpolation.

[4] See M. Forni, M. Hallin, M. Lippi and L. Reichlin, "The Generalized Factor Model: Identification and Estimation", The Review of Economics and Statistics, 2000, No. 82(4), pp. 540-554.

[5] The common component is obtained as the weighted sum of all the variables considered; weighting is based on the correlative structure of the data.

[6] The indicator, that is constructed from an estimate of the common component of the area's GDP.

[7] Among other things, the estimation procedure relegates to the idiosyncratic component, and thus excludes from the indicator the error induced by the linear interpolation of GDP to convert quarterly data into a monthly series.

[8] G. Bry and C. Boschan, "Cyclical Analysis of Time Series: Selected Procedures and Computer Programs", NBER, Technical Papers, 1971, No. 20. The definition provides for a minimum length of the cycle of 15 months and of at least 5 months for each phase.

[9] For purposes of immediate reading and interpretation, the figure represents €COIN with the same mean and standard deviation as those of the quarterly changes in euro-area GDP.

[10] Only a few series (mainly survey results, interest rates and some financial variables) are updated and released promptly.

[11] Estimates are effected by exploiting the correlative structure between variables derivable from the sample.

The positive signs that appeared at the end of 2001 have grown stronger in the early part of this year. Consumers are more optimistic about the outlook for employment and the country's economic situation. The indicator of the climate of confidence of Italian households rose for the third successive time in February, returning to the high levels recorded at the beginning of last summer. Consumer goods manufacturers' forecasts of the short-term trend of demand have been improving since December.

Investment and stocks

Estimated on the basis of data for the four main countries, gross fixed investment in the euro area declined by 0.4 per cent in 2001 and appears to have contracted for two successive half years for the first time since 1993. The prolonged weakness of demand was reflected in a continuing fall in capacity utilization, which in the last quarter of 2001 reached its lowest level since 1996.

The weakness of capital spending was common to all the main countries, but the trend varied from country to country. Gross fixed investment in Germany, which accounts for more than a third of the area's total, fell by 4.1 per cent. The size of the decline lessened in the course of the year, from 8.4 per cent on an annual basis in the first quarter to 3.7 per cent in the fourth. A further fall of 5.7 per cent in investment in construction in 2001 was accompanied by a decrease of 2.2 per cent in spending on machinery, equipment and transport equipment. In France and Spain the rate of growth in investment fell by more than half compared with 2000, from 6.2 to 2.8 per cent and from 5.7 to 2.5 per cent respectively.

Gross fixed investment also slowed down sharply in Italy, from 6.5 to 2.4 per cent. This was primarily due to the deceleration from 6.9 to 1.2 per cent in spending on machinery, equipment and transport equipment. Investment in construction rose by 3.7 per cent, compared with 5.6 per cent in 2000. Non-residential construction expanded at close to the high rates recorded in 2000, with an acceleration in the first six months; spending on residential building eased markedly, despite the extension of the tax incentives for renovation works. Investment in intangible assets, which accounts for around 5 per cent of gross fixed investment, rose by 5.3 per cent after expanding at an annual rate of around 10 per cent in the preceding three years.

Spending on capital goods slowed down from annualized growth of 2.2 per cent in the first half of the year to 0.8 per cent in the second; in the fourth quarter it was basically flat. The ISAE surveys of industrial firms suggest that a rapid upturn in investment is imminent: in the last few months of 2001 capital goods producers continued to hold a negative view of the current level of orders, but there was a rapid improvement in their forecasts of short-term demand, which had deteriorated markedly following the events of 11 September.

In the euro area the change in stocks, which also includes statistical discrepancies, subtracted around 0.5 percentage points from GDP growth in 2001. In the closing months of the year the European Commission's harmonized surveys of industrial firms reported a reduction in excess stocks of finished products.

In contrast with the other major countries of the area, in Italy the contribution of the change in stocks to GDP growth was virtually nil. During the year the ISAE surveys registered large fluctuations in companies' evaluations of the adequacy of stocks of finished products, probably reflecting firms' uncertainty about the short-term outlook for demand.

Exports and imports

Estimated on the basis of the data for the four main countries, the rate of growth in euro-area exports of goods and services at constant prices came down from more than 12 per cent in 2000 to around 3 per cent in 2001. Exports weakened during the year as world demand slowed down sharply. The rate of growth in imports registered a comparable decline (from around 11 per cent to less than 2 per cent) and followed a similar trend during the year to that of exports.

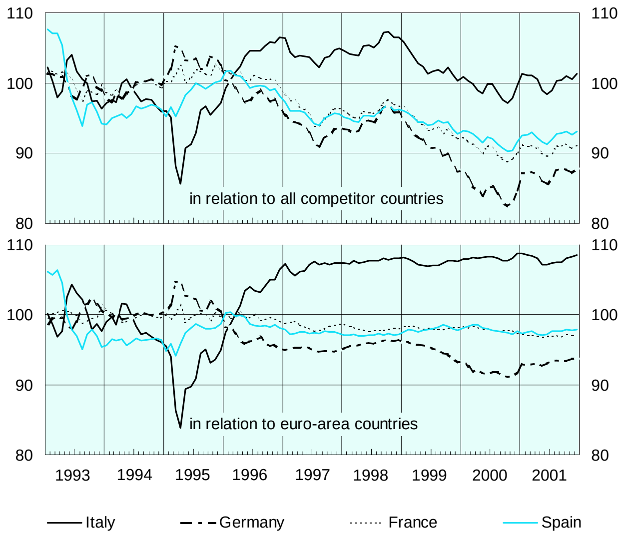
The slowdown in trade affected the main economies of the area to different degrees. Although the growth in German exports fell from 13.2 to 5.1 per cent, it was still almost double that for the area as a whole. German imports rose by only 2 per cent, compared with 10 per cent in 2000. The slackening in trade was more pronounced in France: imports shrank by 0.2 per cent, against an expansion of 15.4 per cent in 2000, while exports grew by 1.1 per cent, compared with 13.3 per cent in 2000. During the year German and French exports showed contrasting trends: the former accelerated progressively until the third quarter and then fell by 4.2 per cent on an annual basis in the fourth, whereas the latter sagged from the beginning of the year onwards, with an especially large drop in the fourth quarter, when they contracted by 14.5 per cent on an annual basis. In France imports displayed a similar pattern, slumping by 17.4 per cent in the fourth quarter.

In Italy the growth in both imports and exports in 2000 was lower than in the area as a whole. In 2001 imports edged upwards by 0.2 per cent while exports rose by only 0.8 per cent.

Exports contracted over the year, declining by 4.8 per cent on an annual basis in the second half. Italian exports lost market shares against a background of broadly resilient price competitiveness (Figure 16). Reflecting the weakness of economic activity, imports fell by 6 per cent in the second half of the year.

Figure 16

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



Source: National statistics.

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

The flatness of Italian exports in volume terms year on year was due mainly to the sag in demand in EU markets, where Italian exports fell by an estimated 1 per cent overall and to a larger extent in Germany, France and the United Kingdom (by 2.8, 1.8 and 1.9 per cent respectively). The contraction involved nearly all the main products.

Exports of goods to non-EU countries rose by 3.6 per cent in volume in 2001, despite a decrease of 6.2 per cent in those to the United States. The expansion was driven by sales to the central and eastern European countries, Russia and China. Exports to the Mercosur countries and the emerging countries of Asia declined slightly following the contraction or slowdown in domestic demand in those areas.

With regard to sectoral composition, the non-EU markets buoyed Italian sales, especially of textiles and clothing, minerals, basic metals and metal products, machinery and equipment and electrical machinery and apparatus. Exports of transport equipment were down sharply in volume terms. Data referring to the first nine months of 2001 and in current values show markedly slower growth or declines in exports of motor vehicles, especially to several countries of central and eastern Europe, such as Poland and Hungary, to the United States and Canada, and to some emerging countries of Latin America and Asia.

In the first eleven months the volume of imports of goods on a *cif* basis was practically unchanged from the same period in 2000. Imports of oil and gas diminished by 1.1 per cent; because of the inertia inherent in contracts, oil and gas prices measured by average unit values lagged the decline that began in the market between December 2000 and January 2001. The index of the average unit value of oil and gas imports was, on average, still 0.5 per cent higher in January-November 2001 than in the year-earlier period; that of the spot market prices of the three main grades of crude oil was 12.8 per cent lower.

The balance of payments

According to provisional data for 2001, the euro area’s external account deficit narrowed to €9.3 billion, from €70.1 billion in 2000 (Table 6). The improvement reflects the upturn in the trade surplus, which rose from €11.7 billion to €74.1 billion and which, together with an improvement in the balances on services and transfers, more than offset the increase in the deficit on the income account from €27.5 billion to €37.7 billion.

Table 6

Balance of payments of the euro area

(net flows in millions of euros)

	2000			2001		
	H1	H2	Year	H1	H2	Year
Current account	**–33,858**	**–36,234**	**–70,092**	**–20,399**	**11,143**	**–9,256**
Goods	2,309	9,381	11,690	21,354	52,734	74,088
Exports	*460,232*	*516,175*	*976,407*	*517,136*	*519,391*	*1,036,527*
Imports	*457,925*	*506,795*	*964,720*	*495,785*	*466,657*	*962,442*
Services	–4,026	–1,197	–5,223	1,449	32	1,481
Income	13,689	–13,848	–27,537	–24,180	–13,567	–37,747
Current transfers	–18,454	–30,571	–49,025	–19,022	–28,056	–47,078
Capital account	**6,586**	**5,272**	**11,858**	**6,437**	**2,958**	**9,395**
Financial account	**77,721**	**20,323**	**98,084**	**18,579**	**–93,425**	**–74,846**
Direct investment	118,099	–102,876	15,223	–92,346	–1,523	–93,869
outward	*–164,376*	*–220,464*	*–384,840*	*–145,957*	*–71,107*	*–217,064*
inward	*282,475*	*117,588*	*400,063*	*53,611*	*69,584*	*123,195*
Portfolio investment	–121,202	18,404	–102,798	–12,754	53,651	40,897
Equity securities	*–203,872*	*–38,720*	*–242,592*	*55,838*	*87,922*	*143,760*
assets	*–171,988*	*–116,828*	*–288,816*	*–71,589*	*–22,379*	*–93,968*
liabilities	*–31,884*	*78,108*	*46,224*	*127,427*	*110,301*	*237,728*
Debt instruments	*82,668*	*57,124*	*139,792*	*–68,592*	*–34,268*	*–102,860*
assets	*–57,256*	*–53,750*	*–111,006*	*–86,811*	*–66,650*	*–153,461*
liabilities	*139,924*	*110,874*	*250,798*	*18,219*	*32,382*	*50,601*
Financial derivatives	7,375	–8,730	–1,355	–1,367	–20,729	–22,096
Other investment	69,880	102,604	172,484	112,972	–130,577	–17,605
Reserve assets	3,572	10,922	14,494	12,071	5,756	17,827
Errors and omissions	**–50,451**	**10,639**	**–39,812**	**–4,617**	**79,324**	**74,707**

Source: ECB.

Net capital outflows of direct and portfolio investment fell from €87.6 billion in 2000 to €53 billion. In contrast with 2000, there was a net direct investment outflow and a net portfolio investment inflow. The deficit on direct investment amounted to €93.9 billion, as against a surplus of €15.2 billion in 2000; the surplus on portfolio investment was equal to €40.9 billion, as against a deficit of €102.8 billion in 2000.

The drop in the pace of cross-border corporate mergers and acquisitions compared with the preceding years was reflected in a significant decrease in gross direct investment flows, especially into the area.

The change in the sign of the net flow of portfolio investment was due primarily to the changes in equity investment. Investment abroad in shares by euro-area residents fell from €288.8 billion to €94 billion, while foreign equity investment in the area rose from €46.2 billion to €237.7 billion. By contrast, investment abroad in debt instruments rose from €111 billion to €153.5 billion, while the corresponding inflow fell from €250.8 billion to €50.6 billion.

The retrenchment during the year in equity investment abroad by euro-area residents is correlated with the fall in prices on all the main stock exchanges; the expansion that has occurred since October coincides with expectations of a rise in share prices. Foreign investors increased their purchases of euro-area shares until May but reduced them subsequently, when the worsening forecasts of growth had a heavier impact on the stock exchanges of Europe than elsewhere; they began to buy more heavily again in October. The perception of higher risk and lower returns on equity investment may have caused residents to alter the composition of their portfolios in favour of debt instruments, stepping up their purchases abroad as well as in the area.

The events of 11 September had a significant, albeit temporary, impact on euro-area residents' investment abroad. Disposals of equity and debt instruments amounted to €15.4 billion and €12.5 billion respectively in September. In the subsequent three months there was renewed outward investment in shares and debt instruments.

Following the drastic reversal of the balance on the "other investment" account between the first and the second half of the year, there was a deficit of €17.6 billion on this item, compared with a surplus of €172.5 billion in 2000. In particular, non-Eurosystem monetary financial institutions reduced their foreign borrowing from €290.8 billion to €234.5 billion and increased their lending abroad substantially, from €128.3 billion to €230.7 billion; accordingly, their net borrowing fell from €162.5 billion to €3.8 billion.

The current account balances of all the major euro-area countries improved in 2001. In Germany a deficit of €20.3 billion in 2000 gave way to a surplus of €11.1 billion. The growth in the trade surplus was partly offset by the deterioration in the balances on income and services. The increase in France's current account surplus from €22.7 billion to €29.4 billion derived from larger surpluses both on goods and on services and income. In the first eleven months of the year Spain's current account deficit narrowed slightly, with basically no change in the trade deficit.

Italy recorded a current account surplus of €3.6 billion in 2001, compared with a deficit of €6.4 billion in 2000 (Table 7). Virtually all of the improvement came from merchandise trade, the surplus on which rose from €10.4 billion to €19.4 billion on an *fob-fob* basis.

The increase in the trade surplus reflected the slower rate of growth in imports than in exports.

The services account went from a moderate surplus in 2000 to a position broadly in balance. Foreign travel generated a surplus of €13.1 billion, compared with €12.9 billion in 2000. The reduction in outflows, under way from the start of the year, more than offset that in receipts. Reflecting the effects of 11 September, between September and December spending abroad by residents was 20.1 per cent lower than in the same period of 2000; spending in Italy by foreigners was 15.3 per cent lower, with especially large decreases for Americans and Japanese. Between September and November the number of foreign visitors to Italy and of Italians traveling abroad fell by 36.2 and 36.8 per cent respectively.

The available breakdown for other services shows a worsening in the deficit on transport between January and October, set against better results for "other business services".

The surplus on capital account fell from €3.2 billion to €1.6 billion last year; the conclusion of a multi-year programme of financing on the part of the EU was a factor.

The current and capital accounts showed an overall surplus of €5.1 billion. The financial account ran a deficit of €4.7 billion, compared with a surplus of around €4.3 billion in 2000. The amount recorded under the errors and omissions item was therefore small.

Outward direct investment and inward direct investment were both equal to €15.8 billion in 2001, compared with €13.4 billion and €14.5 billion respectively in 2000. Both flows contracted considerably in the second half of the year, the former

Table 7

Italy's balance of payments (1)
(net flows in millions of euros)

	2000			2001		
	H1	H2	Year	H1	H2	Year
Current account	**–4,579**	**–1,780**	**–6,359**	**–3,628**	**7,217**	**3,588**
Goods	4,057	6,310	10,367	6,712	12,732	19,444
Exports	*127,062*	*133,843*	*260,905*	*137,656*	*132,825*	*270,481*
Imports	*123,005*	*127,533*	*250,538*	*130,944*	*120,093*	*251,037*
Services	–530	1,701	1,170	–403	486	83
Income	–6,473	–6,623	–13,096	–8,007	–3,714	–11,721
Current transfers	–1,633	–3,166	–4,800	–1,931	–2,288	–4,219
Capital account	**782**	**2,409**	**3,191**	**639**	**915**	**1,554**
Financial account	**9,008**	**–4,721**	**4,287**	**3,216**	**–7,954**	**–4,738**
Direct investment	1,754	–605	1,149	–1,454	1,485	31
outward	*–2,511*	*–10,857*	*–13,368*	*–10,430*	*–5,334*	*–15,764*
inward	*4,265*	*10,252*	*14,517*	*8,976*	*6,819*	*15,795*
Portfolio investment	–866	–25,389	–26,255	2,777	–11,545	–8,768
Equity securities (2)	*–53,692*	*–30,915*	*–84,608*	*–15,545*	*2,306*	*–13,239*
assets	*–43,482*	*–39,412*	*–82,894*	*–11,319*	*765*	*–10,554*
liabilities	*–10,210*	*8,497*	*–1,714*	*–4,226*	*1,541*	*–2,685*
Debt instruments (2)	*52,826*	*5,526*	*58,353*	*18,322*	*–16,540*	*1,782*
assets	*–4,946*	*1,500*	*–3,446*	*–22,290*	*–4,400*	*–26,690*
liabilities	*57,772*	*4,026*	*61,799*	*40,612*	*–12,140*	*28,472*
Financial derivatives	2,082	419	2,501	–86	–244	–330
Other investment	7,968	21,982	29,950	3,389	456	3,845
Reserve assets	–1,930	–1,128	–3,058	–1,410	1,894	484
Errors and omissions	**–5,211**	**4,092**	**–1,119**	**–227**	**–178**	**–404**

(1) Provisional data for November and December 2001. – (2) January-October for 2001 as a whole, July-October for 2001 H2.

more than the latter. According to sectoral data for the first ten months of the year, direct investment abroad and in Italy focused on the credit and insurance, energy and machinery sectors; in the credit and insurance sector, outward investment was far larger than inward investment (Table 8).

The deficit on portfolio investment decreased from €26.3 billion in 2000 to €8.8 billion (Table 7). Outflows fell from €86.3 billion to €40.1 billion and inflows from €60.1 billion to €31.3 billion. In September alone residents sold €5.4 billion of foreign shares. According to provisional data, there was renewed equity investment abroad by residents in the three following months.

The breakdown by type of portfolio investment instrument is available up to October. The first ten months of the year saw a decline in residents' purchases of foreign shares (from €69.3 billion to €10.6 billion) and an increase in their purchases of other securities (from €2.8 billion to €26.7 billion).

Table 8

Italian outward and inward direct investment (1)

(millions of euros)

	1999	2000			2001	
	Year	January-June	July-October	Year	January-June	July-October
Outward						
Non-banks	−4,518	−2,437	−5,293	−11,251	−10,282	−3,388
of which:						
energy products	*−2,274*	*359*	*−180*	*−45*	*−847*	*−1,247*
chemical products	*−366*	*−463*	*−149*	*−619*	*−375*	*−816*
machinery and equipment	*−2,458*	*−1,436*	*−1,217*	*−2,891*	*−660*	*−1,530*
food products	*−509*	*162*	*−5*	*164*	*−475*	*−597*
textile products	*−179*	*−61*	*−154*	*−257*	*−82*	*80*
wholesale and retail trade	*−730*	*−116*	*−420*	*−634*	*−198*	*−573*
transport services	*−325*	*176*	*−1,098*	*−1,716*	*642*	*33*
credit and insurance services	*−1,709*	*−200*	*−891*	*−1,173*	*−4,237*	*−3700*
other sectors (2)	*4,032*	*−858*	*−1,179*	*−4,080*	*−4,050*	*4,962*
Banks	*−1,791*	−74	−1,691	−2,117	−148	391
Total	**−6,309**	**−2,511**	**−6,984**	**−13,368**	**−10,430**	**−2,997**
Inward						
Non-banks	7,219	4,192	3,926	14,479	8,637	5,583
of which:						
energy products	*−12*	*115*	*−58*	*122*	*52*	*1,857*
chemical products	*364*	*249*	*236*	*570*	*287*	*304*
machinery and equipment	*485*	*2,273*	*2,915*	*6,759*	*551*	*1,744*
food products	*340*	*343*	*−49*	*479*	*889*	*1,148*
textile products	*234*	*27*	*116*	*336*	*137*	*260*
wholesale and retail trade	*602*	*−2,387*	*665*	*−1,577*	*572*	*1,253*
transport services	*691*	*52*	*1,248*	*2,556*	*589*	*1,131*
credit and insurance services	*2,158*	*2,038*	*834*	*4,081*	*2,354*	*794*
other sectors (2)	*2,357*	*1,482*	*−1,981*	*1,153*	*3,206*	*−2,908*
Banks	−731	73	−33	38	339	116
Total	**6,487**	**4,265**	**3,893**	**14,517**	**8,976**	**5,699**

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. − (2) Comprises: agriculture, forestry and fishing; construction and public works; minerals and metals; other industrial products; other market services; non-market services; amounts not elsewhere classified.

Table 9

Portfolio investment in Italy (1)

(millions of euros)

	2000			2001	
	H1	January-October	Year	H1	January-October
Government securities	58,914	50,542	52,569	35,902	19,000
BOTs	−1,104	−3,161	−3,041	5,829	−2,918
BTPs	46,855	54,012	55,839	20,415	23,920
CTEs	−647	−774	−774	−220	−608
CCTs	5,345	−532	1,524	787	−10,342
CTZs	−4,512	−12,700	−14,551	3,843	−991
Republic of Italy issues	12,015	12,877	12,791	5,235	10,040
Other government securities	963	819	782	12	−101
Bonds	448	5,624	7,803	4,225	9,866
Bank securities	−9	2,674	3,438	942	838
Equity securities	−12,194	−8,416	−4,616	−5,093	−4,011
Other securities	402	628	891	410	94
Total	**47,562**	**51,052**	**60,085**	**36,386**	**25,787**

(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.

As in the rest of the euro area, in Italy purchases of foreign equity by residents were closely correlated with the movements in share prices. Residents primarily reduced their exposure to the United States up to April and to the euro area from June onwards. Given the heightened risk of equity investment, Italians also increased the proportion of securities other than shares in their portfolios. Investment in foreign debt instruments (especially those issued in the euro area) grew significantly in the first half of the year.

In the first ten months foreigners’ disposals of Italian shares and purchases of Italian debt instruments decreased (from €6.7 billion to €2.7 billion and from €57.7 billion to €28.5 billion, respectively). The decline in purchases of debt instruments mainly concerned government securities, especially Treasury bonds. Purchases of government securities fell from €50.5 billion to €19 billion, those of Treasury bonds from €54 billion to €23.9 billion, partly as a consequence of the reduction in net issues.

The item “other investment” recorded a surplus of €3.8 billion, compared with one of around €30 billion in 2000 (Table 7). Italian banks’ fund-raising abroad amounted to €20.1 billion in the first ten months of 2001, down from €36.2 billion in the corresponding period in 2000; their foreign lending rose to €4.6 billion in 2001, as against repayments of €800 million the previous year.

The labour market

Employment

Employment in the euro area grew less in 2001 than in the previous years, reflecting the slowdown in economic activity. Preliminary national accounts data indicate an increase of 1.6 per cent in the number of persons in work in the first nine months compared with the same period of 2000, whereas in 2000 there had been a year-on-year rise of 2 per cent. The rate of growth in employment came down from 0.4 per cent in the first quarter to 0.2 per cent in the third.

In Germany average employment remained the same as in 2000, with a slight decline in the second part of the year. In Italy, France and Spain average employment in the first three quarters was up by more than 1.5 per cent (Figure 17).

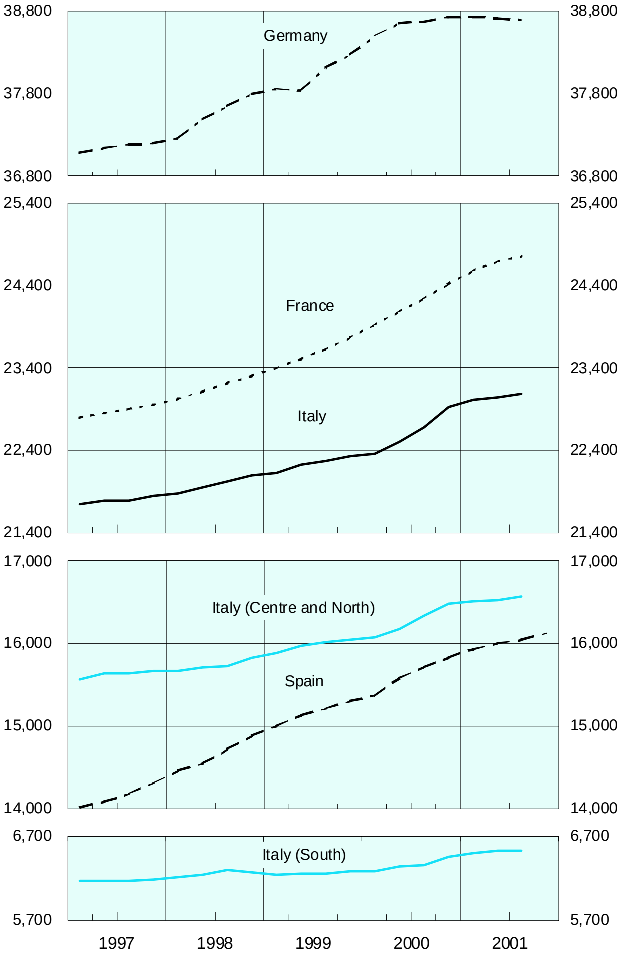
The gain in employment in Italy was again substantial in relation to economic growth. As in the preceding years, a contribution came from the moderate rise in the cost of utilization of labour. Between 1993 and 2000 the cost of labour in real terms, measured by the ratio of earnings per employee to the implicit prices of value added, rose by 0.2 per cent per year in Italy compared with 1.4 per cent in Germany and 1 per cent in France. As labour productivity gains were in line with those in the latter countries at around 2 per cent per year, there was a greater widening of Italian profit margins. Although rigidities remain, over the same period the costs of adjusting labour input diminished, especially those involved in hiring and the organization of production.

In contrast to previous years, in 2001 all the growth in employment in Italy came from permanent jobs, while temporary employment decreased both in relative and in absolute terms. This modification of the relative importance of the different contractual forms reflected both the expansion of employment, which has driven joblessness in northern Italy to very low levels, and the incentives for permanent employment contracts enacted with the Finance Law for 2001.

Figure 17

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.

Table 10

Labour force status of the Italian population

(*thousands of persons and percentages*)

	2000 average (1)		2001 (1)		October 2000		October 2001	
	Number	Percentage share (2)	Number	Percentage share (2)	Number	Percentage share (2)	Number	Percentage share (2)
Employees	**15,131**	**71.8**	**15,517**	**72.1**	**15,359**	**71.6**	**15,650**	**72.1**
open-ended contracts	13,601	64.5	14,002	65.1	13,744	64.1	14,145	65.2
full-time	12,748	60.5	13,083	60.8	12,876	60.0	13,268	61.1
part-time	853	4.0	920	4.3	868	4.0	877	4.0
fixed-term contracts	1,530	7.3	1,514	7.0	1,615	7.5	1,505	6.9
full-time	1,042	4.9	1,045	4.9	1,112	5.2	1,057	4.9
part-time	488	2.3	469	2.2	503	2.3	448	2.1
Self-employed	**5,949**	**26.2**	**5,997**	**27.9**	**6,091**	**28.4**	**6,047**	**27.9**
full-time	5,511	26.1	5,570	25.9	5,644	26.3	5,648	26.0
part-time	438	2.1	428	2.0	447	2.1	399	1.8
Total persons in employment	**21,080**	**100.0**	**21,514**	**100.0**	**21,450**	**100.0**	**21,698**	**100.0**
Unemployed	**2,494**		**2,267**		**2,383**		**2,225**	
Labour force	**23,575**		**23,781**		**23,833**		**23,923**	
Non-labour-force	**33,614**		**33,567**		**33,403**		**33,501**	
non-working age (under 15)	8,272		8,265		8,263		8,271	
working age (15-64)	15,549		15,336		15,313		15,212	
not actively seeking work but would be immediately available	*1,211*		*1,175*		*1,220*		*1,131*	
non-working age (65 and over)	9,794		9,966		9,827		10,018	
Population	**57,189**		**57,348**		**57,236**		**57,423**	
Unemployment rate	**10.6**		**9.5**		**10.0**		**9.3**	
men	8.1		7.3		7.6		7.1	
women	14.5		13.0		13.8		12.7	
Participation rate (ages 15-64)	**59.9**		**60.4**		**60.5**		**60.8**	
men	73.6		73.6		74.1		73.9	
women	46.3		47.3		47.0		47.7	
Employment rate (ages 15-64)	**53.5**		**54.6**		**54.4**		**55.0**	
men	67.5		68.1		68.3		68.5	
women	39.6		41.1		40.5		41.6	

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

Istat's quarterly labour force survey found total employment of 21,698,000 in October (Table 10), a seasonally adjusted gain of 0.3 per cent (66,000 persons) from July and of 1.2 per cent compared with twelve months earlier. However, the October figures must be handled with caution, because the survey was moved up to the end of September from the usual first half of October in order to facilitate the general census, and this could have affected the seasonal makeup of the aggregates. On average for 2001 the number of persons employed rose by 434,000 or 2.1 per cent compared with 2000. The employment rate for the population aged 15 to 64 rose from 53.5 to 54.6 per cent but remains well below the European average (63.3 per cent in 2000).

As in the past, most of the employment increase in 2001 (more than two thirds) involved women, whose average share of total employment thus rose from 36.8 to 37.5 per cent.

Table 11

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

	1995 average	2000 average	2001 average	October 2000	October 2001
Men	6.2	8.7	8.3	9.0	8.1
Women	9.3	12.2	11.9	12.7	11.8
Aged 15-34	11.6	15.6	15.1	15.6	14.4
Over 34	4.2	6.5	6.4	7.3	6.6
Agriculture	35.9	37.6	38.4	41.5	40.7
Industry	4.3	6.6	6.1	7.1	5.7
Construction	11.2	13.1	12.2	13.2	12.1
Services	6.7	10.1	9.8	10.2	9.5
of which: wholesale and retail trade, hotels and restaurants	*9.9*	*12.2*	*12.1*	*11.8*	*12.5*
Total economy	**7.3**	**10.1**	**9.8**	**10.5**	**9.6**

Source: Istat, labour force surveys.

In October the number of payroll employees was up by 292,000 (1.9 per cent) from a year earlier, while the number of self-employed was down by 44,000 (0.7 per cent). New permanent full-time employees numbered 392,000, while fixed-term jobs declined by 110,000. After rising steadily since 1997, the proportion of workers on fixed-term contracts decreased by nearly 1 percentage point in the twelve months to October, to 9.6 per cent of all payroll employees (Table 11). According to Labour Ministry estimates, however, the utilization of temporary labour continued to increase in the first half of the year, albeit more slowly than in the two previous years, and in June involved the equivalent of 70,000 full-time workers. Most of the shift towards permanent jobs came in industry and services, excluding wholesale and retail trade and the hotel sector. The reallocation was favoured by the tax credit for permanent employment contracts, introduced with Article 7 of the Finance Law for 2001. According to preliminary estimates by the Ministry, use of the incentives increased in the course of the year and by September involved more than 100,000 workers, at least a quarter of them in the South.

The increase in part-time hiring also came to a halt in the second half of the year. Part-time workers accounted for 8.5 per cent of all payroll jobs in October, compared with 8.9 per cent in October 2000 (Table 12). On average for the year the share of part-time workers was roughly unchanged; it rose slightly among women and among workers aged over 34, in services and in industry excluding construction; it diminished in construction and agriculture.

Table 12

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

	1995 average	2000 average	2001 average	October 2000	October 2001
Men	2.5	3.6	3.5	3.7	3.2
Women	12.1	16.7	16.9	16.7	16.1
Aged 15-34	7.4	10.2	10.0	10.1	9.2
Over 34	5.2	8.0	8.3	8.2	8.0
Agriculture	17.9	18.8	18.1	20.4	16.6
Industry	3.5	4.5	4.6	4.3	4.5
Construction	4.2	4.4	4.0	4.8	3.5
Services	6.9	10.8	10.9	10.9	10.3
of which: wholesale and retail trade, hotels and restaurants	*10.5*	*14.8*	*15.0*	*14.5*	*14.2*
Total economy	**6.1**	**8.9**	**8.9**	**8.9**	**8.5**

Source: Istat, labour force surveys.

Labour demand: sectoral and regional developments in Italy

The average number of persons employed in the service sector increased by 2.7 per cent, or 355,000, for the year, accounting for 1.7 percentage points of the overall increase in employment (Table 13). On a seasonally adjusted basis, between July and October nearly all of the employment growth continued to come in the services (74,000 persons, or 0.5 per cent). According to the cyclical indicators available, the increase continued in the fourth quarter. The ISAE business surveys show that the percentage of large retailers intending to expand staff turned upwards again after the summer low point, while Istat's monthly survey of large service firms indicate that the number of hours worked per employee rose during the autumn.

Table 13

Employment by sector and geographical area in Italy, 2001

(annual averages, unadjusted; quarterly data, seasonally adjusted; changes on the previous period)

	% share of national total	Year: % change	Year: Contribution, % points	October: % change	October: Contribution, % points
			Sector		
Agriculture . . .	5.2	0.6	0.0	−1.0	−0.1
Industry excl. construction	23.9	−0.3	−0.1	−0.1	0.0
Construction .	7.9	5.5	0.4	0.6	0.0
Services	63.0	2.7	1.7	0.5	0.3
			Geographical area		
North	51.7	1.7	0.9	0.5	0.3
Centre	20.2	2.1	0.4	0.3	0.1
South	28.1	2.7	0.8	0.0	0.0
Italy . . .	**100.0**	**2.1**	**2.1**	**0.3**	**0.3**

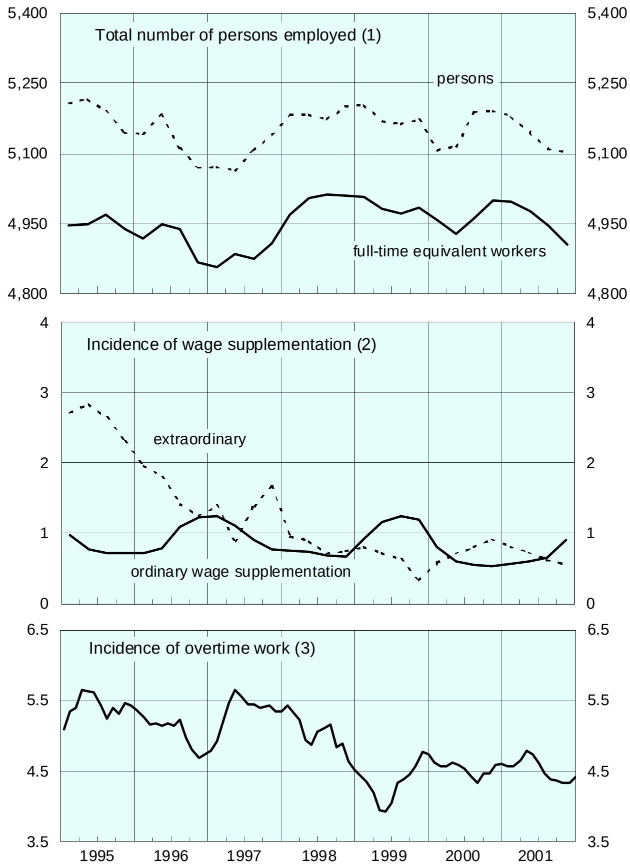
Source: Istat, labour force surveys.

Employment in construction rose for the eleventh consecutive quarter (0.6 per cent between July and October on a seasonally adjusted basis). The average for 2001 showed very robust growth of 5.5 per cent, or 89,000 persons. According to ISAE's business survey, expected labour demand over three months remained strong in December.

Figure 18

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 industry excluding construction, by contrast, seasonally adjusted employment contracted slightly (by 0.1 per cent) between July and October, for the fourth consecutive quarter (Figure 18). Year on year, the decline came to 0.3 per cent, or 16,000 persons.

The number of workers receiving Wage Supplementation benefits increased slightly in the second half. The ISAE surveys found that industrial firms remained more pessimistic than others on the employment outlook: in the second half of 2001 an increasing number planned to cut staff. The employment outlook appears to have improved towards the end of the year. Signs of difficulty in recruiting manpower, which had emerged in the second half of 2000 and diminished in 2001, strengthened again in October and December in the Centre and South.

The employment growth involved all parts of the country. The year-on-year increase was especially pronounced in the South, where the number of people in work rose by 161,000, or 2.7 per cent, compared with 1.8 per cent in 2000. The increase was greatest for permanent employees (141,000 jobs, or 3.9 per cent). The South thus contributed more than a third of the overall employment gain during the year. In the North the increase came to 1.7 per cent, or 183,000 persons, compared with 1.9 per cent in 2000; in the Centre, it was 2.1 per cent (90,000 persons), compared with 2 per cent.

Unemployment and labour supply

The decline in the euro-area unemployment rate under way since 1997 came to a halt last year. According to Eurostat in Germany and France the jobless rate rose to 8.1 and 9 per cent respectively in January 2002, bringing the euro-area average to 8.4 per cent, the same as a year earlier.

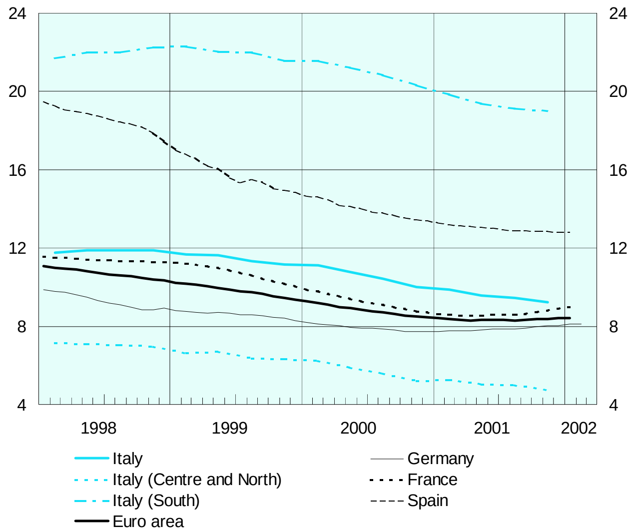
In Italy, by contrast, the rate continued to come down through the entire year to a seasonally adjusted 9.2 per cent in October, compared with 9.4 per cent in April and 10 per cent in October 2000. On average for the year, the reduction amounted to 1.1 percentage points, from 10.6 to 9.5 per cent, and the differential vis-à-vis the euro area narrowed to 0.8 points (Figure 19). The average number of persons out of work decreased by 227,000 (9.1 per cent); the sharpest declines were among people re-entering the labour market and first-job seekers. The long-term unemployment rate (beyond 12 months) also diminished, from 6.5 to 5.9 per cent.

Geographical disparities remain extremely large. The seasonally adjusted unemployment rate in October was 19 per cent in the South, 7 per cent in the Centre and just 3.8 per cent in the North. The average reduction in the rate during the year was 1.7 points in the South, compared with 0.9 points in the Centre and 0.7 in the North.

Figure 19

Unemployment rates in the euro area

(seasonally adjusted data; percentages)



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

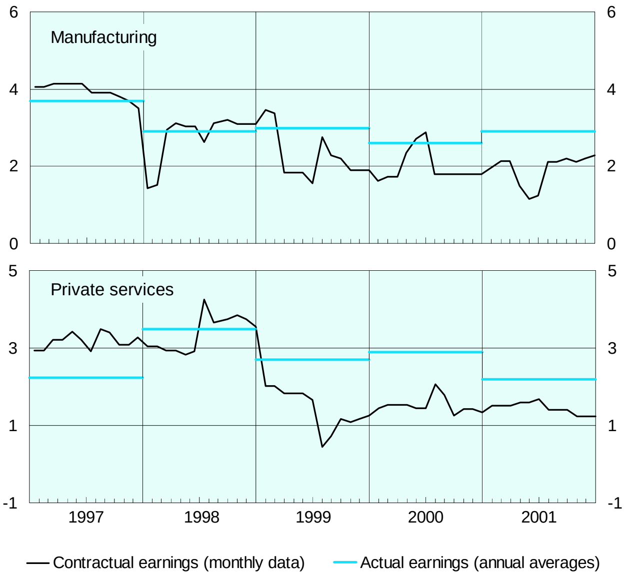
Italian labour market participation continued to increase, from 59.9 to 60.4 per cent. The labour force averaged 23,781,000 for the year, an increase of 0.9 per cent. The expansion in labour supply was more pronounced in the Centre and North and was accounted for almost entirely by women, whose participation rate rose from 46.3 to 47.3 per cent, still far below the European average (59.8 per cent in 2000). Men's participation remained unchanged at 73.6 per cent. In the older age-groups, the slight increase in women's participation was partially offset by a further decline in the already low male rate. On average for the year the overall participation rate for persons aged 55-64 thus rose by just 0.2 points to 29.2 per cent.

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

Italy – Thanks in part to the two-year duration of the economic portion of collective bargaining agreements, wages were only modestly affected by the acceleration in the cost of living due to the rise in energy prices. According to the national accounts, actual earnings per standard employee labour unit rose by 3 per cent in 2001 (Table 14). In the private sector the increase was 2.5 per cent, representing a reduction of 0.2 per cent in real terms.

Figure 20

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



Source: Based on Istat, national accounts and *Indagine sulle retribuzioni contrattuali*.

In manufacturing, actual earnings per employee labour unit rose by 2.9 per cent, one percentage point more than the corresponding contractual increases, as a result of company-level agreements and one-time payments under industry-wide collective contracts (Table 14, Figure 20). The increase in labour costs (2.7 per cent) was smaller than that in earnings, owing to a reduction in social security contributions. After the 3.1 per cent gain recorded in 2000, labour productivity increased by 1.7 per cent. The share of value added at base prices going to labour declined to 66.4 per cent, from 67 per cent in 2000.

Table 14

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

	2000	2001
	Manufacturing industry	
Productivity (1)	3.1	1.0
Per capita earnings (2)	2.6	2.9
Per capita labour costs (3)	2.7	2.7
Unit labour costs (4)	–0.4	1.7
Labour's share of value added (5)	67.0	66.4
	Construction	
Productivity (1)	–0.3	0.1
Per capita earnings (2)	2.3	2.4
Per capita labour costs (3)	2.4	2.2
Unit labour costs (4)	2.7	2.0
Labour's share of value added (5)	71.0	70.8
	Private services	
Productivity (1)	1.1	0.5
Per capita earnings (2)	2.9	2.2
Per capita labour costs (3)	2.9	2.1
Unit labour costs (4)	1.8	1.6
Labour's share of value added (5)	51.5	51.0
	Total economy	
Productivity (1)	1.3	0.5
Per capita earnings (2)	3.1	3.0
Per capita labour costs (3)	3.0	2.8
Unit labour costs (4)	1.7	2.3
Labour's share of value added (5)	62.7	62.3

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.

In construction and private services the growth in earnings was more limited (2.4 and 2.2 per cent respectively).

Per capita contractual earnings in the private sector increased by 1.6 per cent in 2001, against a rise in the consumer price index of 2.7 per cent. For the economy as a whole the increase averaged 2.4 per cent, owing to faster earnings growth in the public sector.

Recent private-sector wage agreements broadly recoup the difference between the target and actual inflation rates in 2000 and 2001 and confirm that in 2002 and 2003 raises will be compatible with continued price stability.

The contracts for the metal and engineering industry and for wholesale and retail trade were renewed in July 2001, setting annual raises of just over 2 per cent in 2001 and 2002. Since the turn of the year, agreements have been reached for chemicals, construction, wood and furniture, clothing and textiles, water and gas, and banking. Under the contracts in force, which cover 90 per cent of total wages in industry and 60 per cent in the private services, the average increase in private-sector contractual earnings could exceed 2.5 per cent in 2002.

In the public sector, the contract covering general government employees for 2000-2001 was renewed at the start of 2001, providing an increment in contractual earnings of 4.1 per cent in 2001 and thus partly making up for the past gap in wage growth vis-à-vis the rest of the economy. The agreement for 2002-2003, signed this February, calls for average annual increases of 2.8 per cent, four-fifths of it to cover past higher inflation and target inflation for the two years and the rest in respect of higher productivity.

Germany – In the first nine months of the year the growth in earnings recorded by the national accounts, though accelerating, was very limited (1.9 per cent). Unit labour costs for the economy as a whole rose 0.6 per cent. The metal and engineering industry contract, traditionally the benchmark for the entire private sector, expired this February. The trade unions' initial bargaining platform calls for an increase of 6.5 per cent in 2002, one third to cover the rise in the cost of living, one third for productivity gains and one third to recoup the past gap between productivity and wage gains. Comparable wage claims have been advanced in other industries. If granted, the unions' requests would mark a decided acceleration in wages. In the past decade, however, the final settlements of German metalworkers have amounted to about half the original union demands. Moreover, actual increases in earnings have been regularly less than the contractual increments, owing to the limitation, especially in the eastern regions, of wage items set at company level.

France – The gradual extension of the reduction in working hours continued in 2001. Per capita earnings increased moderately (2.6 per cent in the first nine months). Unit labour costs rose by 2.2 per cent. No reversal in these trends is expected this year, and earnings growth should be consistent with price stability.

Spain – Labour costs accelerated in 2001 and rose faster than in the other leading euro-area economies (4.4 per cent). This affected unit labour costs, which increased by 3.6 per cent, compared with an average of 1.4 per cent in Italy, Germany and France. To curb price increases, unions and employer organizations have agreed to refer to the Government's target inflation rate of 2 per cent in contract renewals in 2002.

Prices and costs

Overview

Consumer price inflation in Italy and the euro area remained above 2 per cent throughout 2001, peaking last spring at 3 and 3.4 per cent respectively. Driving prices in the first half of the year were the same external factors (oil and exchange rates) that had caused inflation to rise in 2000. These were accompanied by pressures on food prices due to the spread of foot and mouth disease and BSE. Domestic price pressures, in particular the cost of labour, remained subdued (Figure 21).

Since last summer, inflation has gradually declined in conjunction with the fall in the price of crude oil, favourable developments in the prices of other raw materials and the dissipation of pressures on the prices of food products. The fall was particularly evident in the producer prices of intermediate goods and consumer prices of food and energy products. The core components of consumer price inflation do not yet fully reflect the effects of the improved external situation.

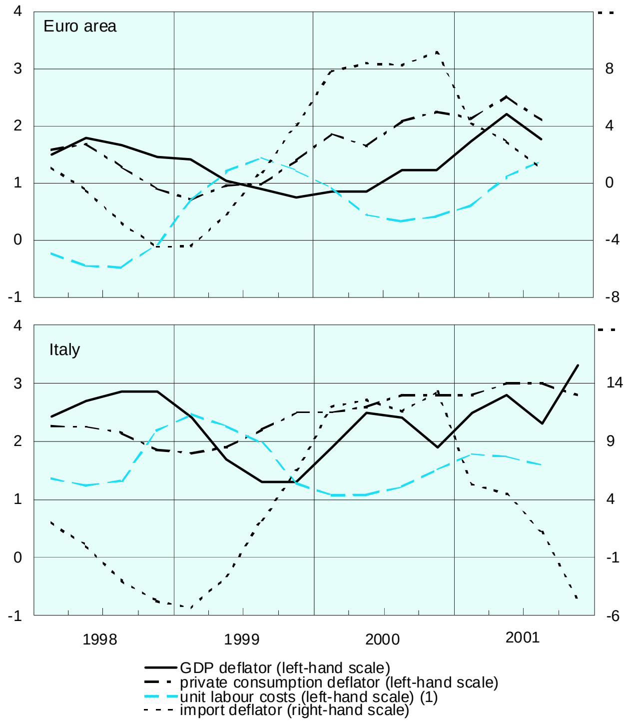
The gradual fall in inflation in the euro area came to a temporary halt last January owing to dry weather, which pushed up fruit and vegetable prices, increases in some regulated prices and rises in indirect taxes in a number of area countries.

The available data indicate that the inflationary impact of the changeover to the euro was limited. In Italy, the effect is estimated to have been less than 0.1 percentage points in both January and February.

Wage growth in Italy remains moderate and is broadly in line with the Government's inflation targets for this year.

Figure 21

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



Sources: Based on Istat and Eurostat data.
(1) For the entire economy. Moving averages of the 4 quarters ending in the reference period.

The present economic climate, which is still characterized by modest growth in domestic and foreign demand in all the countries of the area, should favour the decline in inflation that began in the second half of 2001. The markets also anticipate a rapid reduction in the rate of growth in prices, which is expected to fall below 2 per cent in the second half of the year both in Italy and in the euro area as a whole.

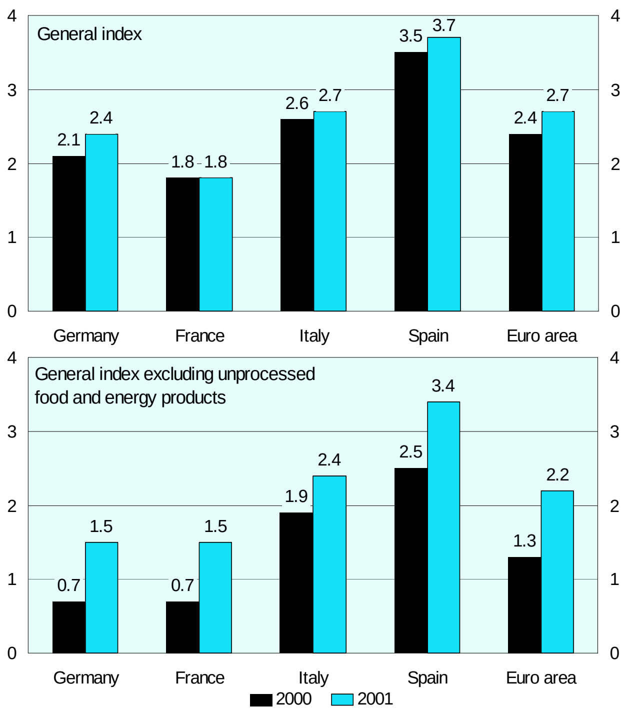
Consumer prices

In 2001 the harmonized consumer price index rose by an average of 2.7 per cent in Italy and in the euro area, exceeding the threshold for price stability for the second consecutive year. This primarily reflected the exceptional rise in oil prices, which, after an initial fall at the start of 2001, began to decrease significantly only last summer, eventually falling below $20 a barrel. The slow growth in labour costs and the weak economic climate attenuated the impact of the cost of imported inputs on the prices of the less volatile items in the index. Core inflation – measured by the general index excluding energy and unprocessed food products – was just over 2 per cent on average in 2001 in the euro area and in Italy, and below this level in France and Germany (Figure 22).

Figure 22

Changes in consumer prices in 2000 and 2001

(*harmonized index; annual data; percentages*)



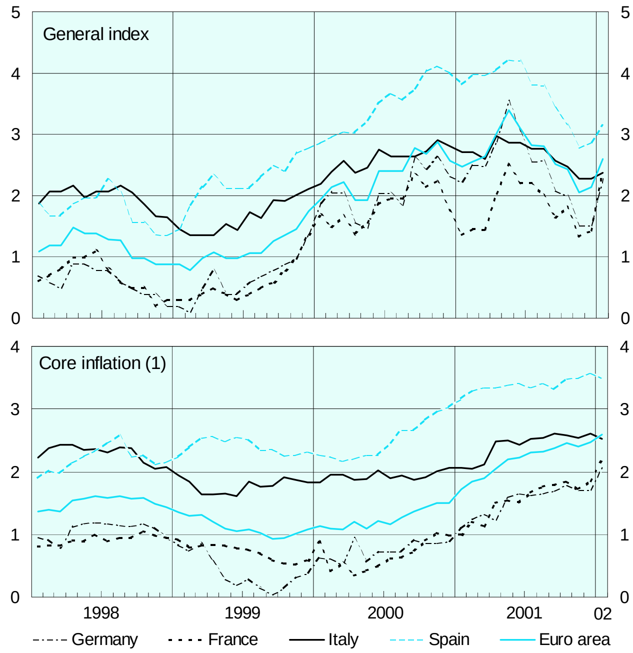
Source: Based on Eurostat data.

Consumer prices, especially those of energy products, began to slow down in the second half of 2001, lagging the deceleration in producer prices by several months. The twelve-month change in the harmonized index, which was around 3 per cent in the area and Italy at the start of the summer, had fallen to 2.1 and 2.3 per cent respectively in December (Figure 23).

Figure 23

Harmonized index of consumer prices

(*twelve-month percentage changes*)



Source: Based on Eurostat data.
(1) General index excluding unprocessed food and energy products.

Over the same period, however, core inflation rose from 2.2 to 2.5 per cent in the euro area and from 2.4 to 2.6 per cent in Italy, continuing the slight upward trend observed since the start of 2001, when the corresponding figures were 1.7 and 2.1 per cent. The pattern reflected the lagged effects of the increase in the cost of imported goods. During the year the prices of processed food products accelerated noticeably in all the main area countries as an indirect consequence of pressures on those of unprocessed food (Table a14). The rate of increase in the prices of services rose from 2.2 per cent in January to 2.8 per cent in December in the area as a whole and from 2.5 to 3.4 per cent in Italy. The rate increased by a similar amount in France. In Italy, the prices of air transport and financial and insurance services increased more rapidly than in the rest of the area. Excluding food and energy products, the inflation differential between Italy and the area average virtually disappeared, narrowing from 0.8 to 0.1 percentage points, primarily due to the decline in the prices of medicines following the elimination of prescription charges (Table 15).

In January 2002 the harmonized index rose more than in previous months in the euro area as a whole (where the twelve-month rate of increase rose to 2.6 per cent, up from 2.1 per cent in December) and Italy (from 2.3 to 2.4 per cent), marking a pause in the slowdown that began last summer. However, the interruption was linked to temporary factors such as higher prices for unprocessed food products due to bad weather and increases in taxes and regulated prices in a number of area countries. Core inflation rose only slightly in the euro area (from 2.5 to 2.6 per cent) and edged downwards in Italy (from 2.6 to 2.5 per cent).

January's harmonized consumer price data for Italy and Spain must be analyzed with some caution since a number of important changes were introduced in the way they are measured, in addition to the effect of the usual change in the base and the possible impact of the changeover to the euro. Starting this year, European Commission Regulation no. 2602/2000 requires that the harmonized consumer price index (but not the national indices) take account of temporary price reductions such as discounts, sales, and special offers if they last at least two weeks. This creates a break in the time series of the harmonized index, making it more difficult to interpret. In order to enable analysis of inflation using normal procedures, especially during the changeover

Table 15

Harmonized consumer price indices

(difference in percentage points between twelve-month increase in January 2001 and in December 2001)

	Italy	Germany	France	Spain	Euro area
General index	**–0.4**	**–0.7**	**0.0**	**–0.9**	**–0.4**
Non-food and non-energy products	**–0.1**	**0.6**	**0.7**	**–0.1**	**0.6**
Clothing and footwear	0.2	0.9	1.9	1.0	1.4
Household goods excluding electrical appliances and "other goods"	0.2	0.9	0.8	–0.3	0.7
Electronic, photographic and computer equipment	–0.2	–1.1	1.0	–0.9	–0.2
Medical products and equipment	–3.4	0.4	–1.6	1.7	–0.9
Cars and motorcycles	–0.6	0.6	–0.2	–0.4	0.2
Services	**0.9**	**0.2**	**0.9**	**–0.4**	**0.6**
Renting	–0.2	0.1	0.5	0.4	0.3
Household services	0.1	0.2	–0.2	–0.6	0.4
Transport other than air transport	–0.1	–1.3	1.3	0.7	–0.1
Air transport	11.0	4.2	2.2	–3.3	3.4
Communications	1.2	2.3	6.0	–0.3	3.1
Hotels and restaurants	0.5	0.7	1.5	0.0	0.7
Insurance and financial services	10.4	–2.0	0.0	–2.1	1.1

Source: Based on Eurostat data.

to the euro, Istat has not applied the Community regulation to the national index. By contrast, Spain has used the new rules for both indices.

In Italy, provisional data for February show a month-on-month increase in the consumer price index of 0.4 per cent and a twelve-month rise of 2.5 per cent. The corresponding figures for Germany were 0.3 and 1.7 per cent.

In 2001 the inflation differential between Italy and the euro-area average fluctuated around zero; the difference vis-à-vis Germany and France was more than 0.5 percentage points. Excluding unprocessed food and energy, the differential with the euro-area average narrowed from 0.5 percentage points in the final months of 2000 to 0.1 points at the end of 2001, while that in respect of Germany and France remained stable at just under 1 percentage point. The latter, however, is the result of two opposing trends: in the goods sector the gap narrowed from 1.5 to about 0.7 points but in services it widened, especially in relation to Germany, from less than 1 to 1.5 points.

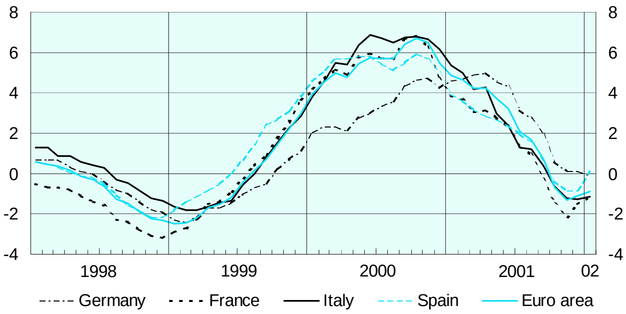
The disappearance of national currencies from the daily lives of Europeans makes it easier to compare prices across different countries and could increase consumer pressure to reduce existing differentials. At the same time, measures to open up goods markets to more competition can have a positive impact on the supply side. Average price levels in the euro area have already moved closer together since 1995.

Producer prices and firms' costs

In 2001 producer prices rose on average by 1.9 per cent in Italy and 2.2 per cent in the euro area, compared with 6 and 5.5 per cent respectively in 2000. The twelve-month rate of change in the general index gradually declined over the year, turning negative last autumn. In January 2001 producer prices recorded a twelve-month increase of 4.9 per cent in the euro area and 5.4 per cent in Italy; in December they registered a twelve-month decrease of 1.1 and 1.3 per cent respectively (Figure 24).

Figure 24

Producer price index (1)
(*twelve-month percentage changes*)

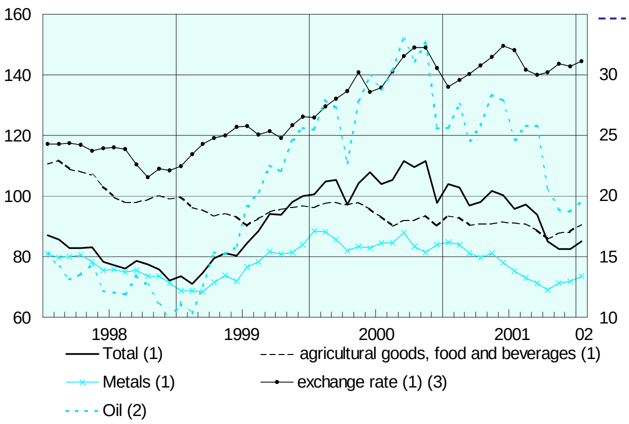


Source: Eurostat
(1) The index refers to prices for manufactured goods. Country indices are not strictly comparable because of differences in the way they are constructed.

The decline reflected the fall in the prices of imported raw materials, especially oil. The IMF's general index of these goods fell by 21 per cent during 2001, while the dollar price of Brent decreased by 27 per cent (Figure 25).

Figure 25

Dollar prices of raw materials and the euro/dollar exchange rate
(*indices, 1990=100; dollars per barrel for oil*)



Source: IMF for the raw materials indices.
(1) Left-hand scale. – (2) Right-hand scale. – (3) ECU/dollar through 1998. An increase indicates a depreciation of the euro.

The twelve-month change in the producer prices of energy products, which are highly sensitive to changes in oil prices, swung rapidly from an increase of more than 20 per cent at the end of 2000 to a decrease of 7.8 per cent in the euro area and 10.1 per cent in Italy last December. The twelve-month rate of change in the prices of intermediate goods excluding energy products, which are closely tied to the behaviour of raw materials prices and the business cycle, fell swiftly, going from +4.5 per cent in January 2001 to –1.3 per cent in December in the euro area and from +4.4 per cent to –1.2 per cent in Italy.

According to data published by Eurostat, the twelve-month rate of increase in the producer prices of final consumer goods excluding food, vehicles and energy products, which are more closely linked to developments in core inflation, rose only slightly in the euro area in 2001 (from 1.7 to 1.9 per cent); the rise was larger in Italy (from 2 to 2.4 per cent). This trend, which reflects the lagged effects of the increase in the prices of imported inputs, should reverse itself in the next few months given the absence of cost pressures and the low level of capacity utilization.

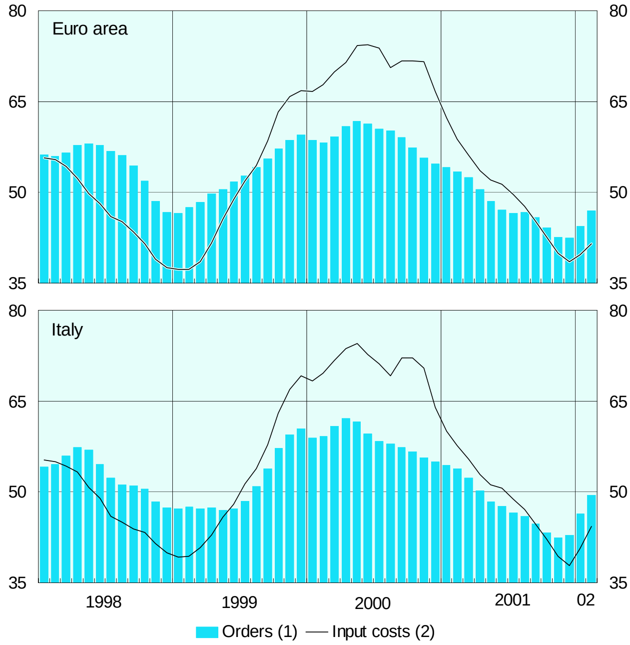
The findings of European Commission's survey of industrial firms suggest that producer prices should continue to fall in the next few months. Similar indications emerged from the Bank of Italy-*Il Sole 24 Ore* survey last December. The contribution of favourable developments in costs is also evident in the Reuters survey of purchasing managers in the manufacturing and service sectors. Although the latest available data, for February, point to a slight rise in the index of input costs in conjunction with an upturn in orders, they remain at historically low levels (Figure 26).

Wage growth remained moderate in all the main European countries, with rises of less than the rate of inflation on average. In 2001 the cost of labour per employee rose by 2.8 per cent in Italy and 2.1 per cent in the euro area, compared with 3 and 1.8 per cent respectively in 2000. In Italy, the increase varied by sector: 2.7 per cent in industry, 2.1 per cent in private services and 3.9 per cent in public services (Table 16). Only Spain recorded relatively rapid growth in labour costs.

The economic slowdown caused the rate of growth in value-added per employee for the economy as a whole to fall to 0.5 per cent in Italy and in the euro area, down from 1.3 and 1.4 per cent, respectively, in 2000. As a result, unit labour costs rose more rapidly than in 2000 despite wage moderation, increasing by 1.6 per cent in the euro area (compared with 0.4 per cent the previous year) and 2.3 per cent in Italy (1.7 per cent in 2000).

Figure 26

Demand and input costs for manufacturers
(*percentages*)



Source: Monthly survey conducted by Reuters of a sample of manufacturing firms.
(1) Percentage balance between positive replies ("high", "increasing") and negative replies ("low", "decreasing") by firms on the level of total orders. – (2) Purchasing managers of firms in the sample are asked to give their assessment of the behaviour of prices paid for productive inputs in relation to the previous month. An index level higher (lower) than 50 indicates an increase (decrease) in input costs in relation to the previous month.

In the first three quarters of 2001 as a whole, the pressure of imported inputs on firms' costs diminished significantly, as their prices increased by 1.5 per cent in manufacturing and 4.6 per cent in private services, compared with rises of 10.8 and 10.4 per cent, respectively, in 2000. The overall growth in unit variable costs declined from 3.7 to 2 per cent in manufacturing and from 3.2 to 2.4 per cent in services, where Italian firms were able to increase unit profit margins, especially in the domestic market, after having kept them broadly unchanged in 2000. Margins in manufacturing continued to widen even in the downward phase of the cycle, increasing by 0.5 percentage points in the first three quarters of 2001 as a whole, compared with 0.4 points in 2000 (Table 17).

Table 16

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

	Cost of labour per employee (2)		Labour productivity		of which: Value added (3)		of which: Employees (2)		Unit labour costs	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
					Industry excluding construction					
Germany	2.1	2.3	5.1	1.3	5.8	1.6	0.3	0.2	−2.8	0.9
France	1.2	1.6	2.7	0.5	4.0	2.3	1.2	1.8	−1.5	1.1
Italy	2.8	2.7	2.7	0.9	2.7	0.5	0.0	−0.4	0.0	1.8
Spain	3.0	5.0	0.7	0.5	4.0	2.0	3.3	1.6	2.3	4.5
Euro-4 (4)	2.2	2.4	4.0	1.4	4.7	2.1	0.7	0.7	−1.7	1.0
					Services (5)					
Germany	0.8	1.5	0.9	1.1	3.8	2.1	2.7	1.0	−0.1	0.4
France	2.0	2.1	0.2	−0.2	3.2	2.5	3.0	2.7	1.8	2.3
Italy	3.3	3.0	0.9	0.5	3.5	2.5	2.6	2.1	2.4	2.4
private	*2.9*	*2.1*	*1.1*	*0.5*	*4.9*	*3.0*	*3.8*	*2.5*	*1.8*	*1.6*
public	*3.6*	*3.9*	*−1.0*	*−0.2*	*−0.1*	*1.1*	*0.9*	*1.3*	*4.6*	*4.0*
Spain	3.4	4.1	1.1	1.2	4.1	3.7	3.0	2.5	2.3	2.9
Euro-4 (4)	1.7	2.0	0.7	0.5	3.5	2.5	2.8	2.0	1.0	1.6
					Total economy					
Germany	1.2	1.8	2.0	1.2	3.9	1.4	1.6	0.3	−0.8	0.6
France	1.8	2.0	0.7	−0.2	3.2	2.3	2.5	2.5	1.1	2.2
Italy	3.0	2.8	1.3	0.5	3.0	2.0	1.7	1.6	1.7	2.3
Spain	3.4	4.4	1.0	0.8	4.1	3.4	3.1	2.5	2.4	3.6
Euro-4 (4)	1.8	2.1	1.4	0.5	3.5	2.1	2.1	1.6	0.4	1.6

Source: Based on Eurostat data.

(1) Except for Italy, the figures for 2001 are calculated as the change on the year-earlier period of the average for the first nine months. – (2) For Italy and Spain, standard labour units. – (3) At 1995 base prices. – (4) Average of the figures for Italy, Germany, France and Spain. – (5) Includes the sectors (ESA95) “wholesale and retail trade, transport and telecommunications services”, “financial intermediation and real estate services” and “other services”.

Table 17

Unit variable costs and output deflator in Italy
(*percentage changes on corresponding period*) (1)

	Manufacturing			Services (excluding public services)		
	Weights	2000	2001 (2)	Weights	2000	2001 (2)
Unit variable costs	**100.0**	**3.7**	**2.0**	**100.0**	**3.2**	**2.4**
Labour inputs	35.9	−0.1	2.0	72.4	2.2	2.0
Other inputs	64.1	5.9	2.0	27.6	5.4	3.7
Domestic	38.3	2.0	2.4	20.9	3.7	3.3
Imported	25.8	10.8	1.5	6.7	10.4	4.6
Output prices	**100.0**	**4.1**	**2.5**	**100.0**	**2.8**	**3.9**
Domestic	58.3	2.5	1.6	92.4	2.8	4.0
External	41.7	6.1	3.5	7.6	2.7	2.9

Source: Istat
(1) Indicators excluding intrasectoral transactions. – (2) Average for the first 3 quarters.

Import and export prices

The decline in primary input prices produced a sharp fall in the implicit import deflator for goods: in Italy it was 2.2 per cent higher in the third quarter of 2001 than in the corresponding period of the previous year, compared with a peak of 15.1 per cent in the fourth quarter of 2000. The deceleration in the export deflator was less marked, falling from 7.3 to 2.9 per cent over the same period. The outcome was the result of different trends in European and non-European markets. Average unit export values were relatively stable for exports to EU countries, with changes fluctuating between 2.5 and 4 per cent, while variations in the prices of exports to other markets exceeded 8 per cent at the end of 2000, returning below 4 per cent in the third quarter of 2001. The pattern of import and export prices in the other main euro-area countries was similar to that in Italy (Figure 27).

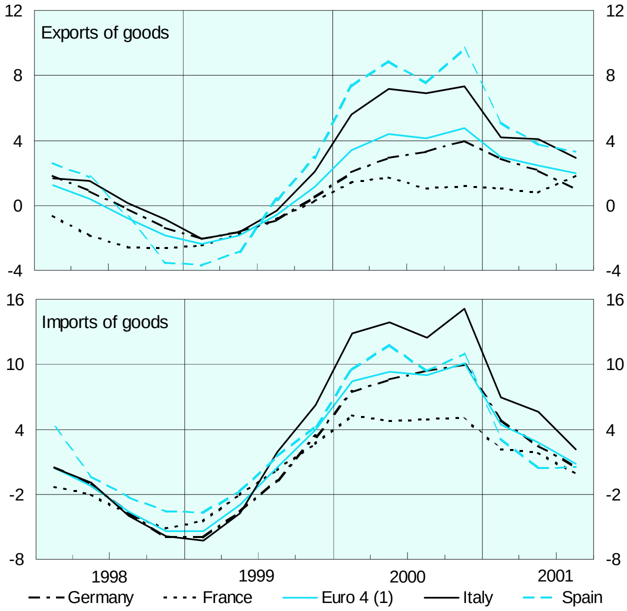
A comparison of the movements in average unit values in Italy and the other main euro-area countries reveals a similar tendency to exploit the weakness of the euro (both in 2000 and in the first part of last year) to effect larger price increases in non-EU markets. However, in the other main euro-area countries the behaviour of the implicit deflators is less consistent with that of the corresponding average unit values than it is in Italy. Thus, any analysis of the latter can only provide qualitative indications on developments in the former.

According to annual data published by Istat in March, the import deflator for goods and services rose by 1.5 per cent on average in 2001, following a sharp increase of 12.3 per cent in 2000. The export deflator rose by 3.4 per cent compared with 4.7 per cent in the previous year. As a result Italy’s terms of trade improved by about 2 percentage points in 2001, following a steep fall in 2000 (about 7 percentage points).

The relative stability of the euro’s exchange rate and the continuation of favourable conditions in raw materials markets should ensure moderate increases in import prices, in line with the picture that emerges from short-term inflation expectations.

Figure 27

Export and import deflators
(*percentage changes on year-earlier quarter*)



Sources: Based on Eurostat and Istat data.
(1) Weighted average (on the basis of GDP) for Germany, France, Italy and Spain.

Inflation expectations

The weakening of the inflationary pressures generated by the rise in raw materials prices and the easing of tensions in markets for food products led to a gradual improvement in inflation expectations for the euro area and Italy in the second half of 2001. Recent *Consensus Forecasts* surveys show a decline in expectations for average inflation in the main euro-area countries in 2002 from their level in the June 2001 survey (Table 18).

The changeover to the euro did not cause a deterioration in inflation forecasts for 2002. The professional forecasters surveyed by *Consensus Forecasts* last February were optimistic about inflation in 2002-2003: the average annual rate is expected to fall below the threshold of 2 per cent in the euro area and in all the main countries except Spain. Inflation in Italy is expected to continue to be higher than in Germany and France (by 0.3 and 0.5 points respectively).

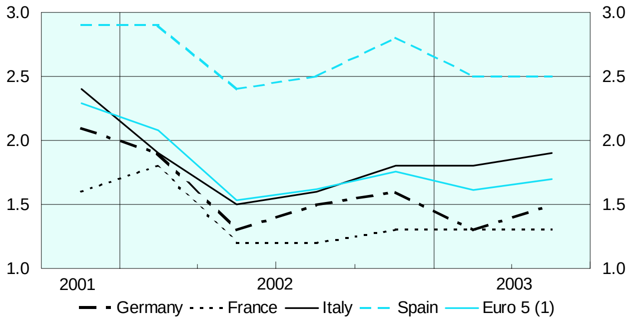
Table 18

Inflation expectations for 2002 and 2003 in the euro area measured by *Consensus Forecasts*
(percentage changes on previous year)

	Forecasts for 2002		Forecasts for 2003
	June 2001 survey	February 2002 survey	February 2002 survey
Germany	1.7	1.4	1.6
France	1.5	1.3	1.4
Italy	1.9	1.9	1.9
Spain	2.7	2.6	2.5
Euro area	1.9	1.7	1.8

Figure 28

Inflation expectations for the subsequent eight quarters
(*December 2001; percentage changes on year-earlier period*)



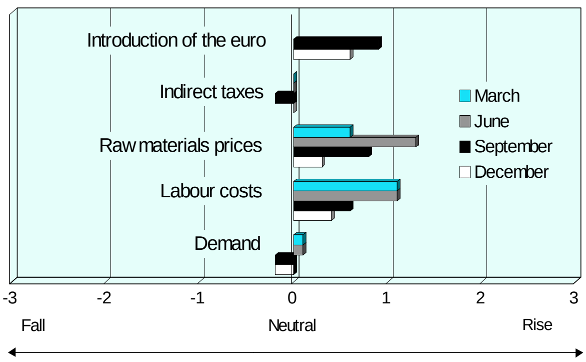
Source: *Consensus Forecasts*.
(1)Weighted average (on the basis of household consumption) for Germany, France, Italy, Spain and the Netherlands.

The same survey, which also includes forecasts for quarterly changes in prices, shows that inflation is expected to return below 2 per cent in all the main countries in the area except Spain by the second quarter of this year (Figure 28).

The Bank of Italy-*Il Sole 24 Ore* survey of inflation expectations conducted in December on a sample of about 400 firms broadly confirms these trends. The survey also gives more details on the determinants of firms' inflation expectations. In the second half of 2001, less importance was given to the cost of raw materials among potential sources of inflationary pressure in the future. This factor, the weakening of demand and continuing wage moderation have also reduced the role assigned to labour costs. When asked in September and December about the risk of price increases linked to the changeover to the euro, firms expressed moderate optimism, which increased as the changeover approached (Figure 29).

Figure 29

Factors influencing the rate of consumer price inflation in Italy: 2001 surveys
(*average points*) (1)



Source: BI-*Il Sole24Ore* survey.
(1) Opinions of firms on the direction and intensity of each factor on the rate of inflation (strong/medium/small rise or fall) on a scale of −3 to 3. The neutral position is 0.

THE PUBLIC FINANCES IN THE EURO AREA AND IN ITALY

Highlights of the outturn for 2001

The ratio of euro-area general government net borrowing to GDP rose from 0.8 per cent in 2000 to 1.3 per cent in 2001 (including the proceeds of sales of third-generation UMTS telephony licences, in 2000 there was a surplus of 0.3 per cent of GDP). The rise in the ratio marked a reversal of the downward trend that had been under way since 1994 and reflected the weakness of economic activity and the tax reliefs granted in some countries. In Germany the ratio of net borrowing to GDP rose by more than one percentage point to 2.7 per cent.

Table 19

General government net borrowing, gross borrowing requirement and debt in Italy (1)
(*as a percentage of GDP*)

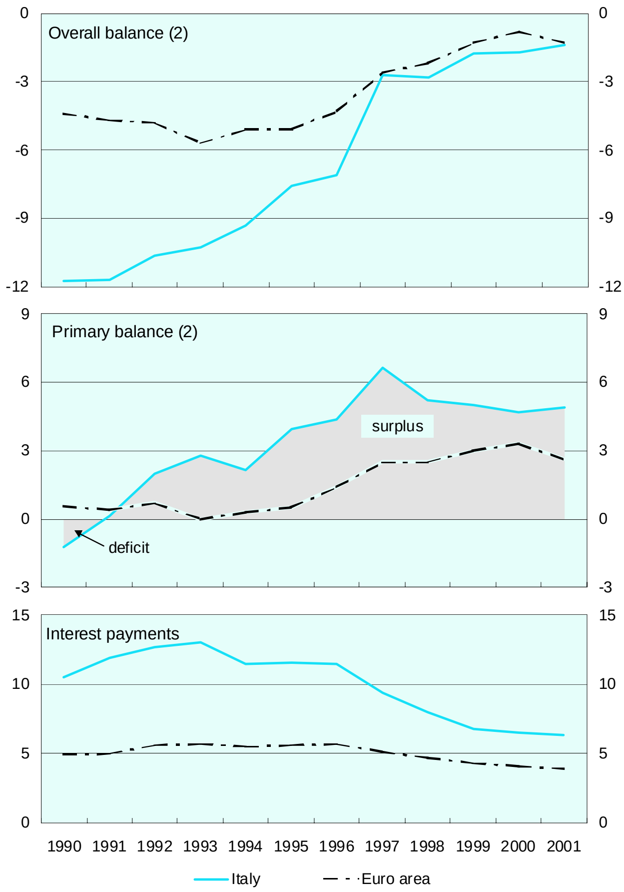
	1999	2000 Including UMTS (2)	2000 Excluding UMTS	2001
Net borrowing	1.8	0.5	1.7	1.4
Primary surplus	5,0	5.9	4.7	4.9
Interest payments	6.8	6.5		6.3
Gross borrowing requirement	0.7	2.3		3.3
Debt	114.5	110.6		109.4

Sources: Istat; Bank of Italy for the borrowing requirement and the debt.
(1) Rounding may cause discrepancies in totals. – (2) The proceeds of the sale of UMTS third-generation telephony licences reduced net borrowing by €13,815 million (1.2 per cent of GDP) and the gross borrowing requirement by €11,899 million (1 per cent of GDP).

In Italy general government net borrowing was 1.4 per cent of GDP, down from 1.7 per cent in 2000 or 0.5 per cent including the proceeds of sales of third-generation telephony licences (Table 19 and Figure 30). The result was influenced by the securitization of lotto and enalotto receipts up to December 2006, which generated revenue amounting to 0.25 per cent of GDP, but will reduce revenue this year and in the years to come. Net borrowing in 2001 also benefited from some one-off tax measures and from the securitization of public property; the proceeds of this transaction amounted to more than 0.3 per cent of GDP, of which about half has not yet been paid (see box).

Figure 30

General government overall balance, primary balance and interest payments: Italy and the euro area (1)
(*as a percentage of GDP*)



Sources: Based on Istat and European Commission data.
(1) Following the switch to ESA95, there is a break in the euro-area series between 1994 and 1995. For the euro-area data for 2000 and 2001, see note 2 to Table 20. – (2) Excluding the proceeds of sales of third-generation telephony licences (equal in 2000 to 1.2 per cent of GDP in Italy and to 1.1 per cent of GDP in the euro area).

Italian government securitizations

Securitization is a means of financing that allows illiquid assets to be realized and future cash flows to be brought forward.

The legislation in force in Italy, as amended by the law accompanying the Finance Law for 1999 (Law 448/1998) and subsequent measures, allows government bodies to sell assets for a consideration to a company (known as a special purpose entity - SPE). Eligible assets include existing and future claims in respect of taxes and social security contributions, as well as goods and non-tax receivables. SPEs are allowed to finance the purchase of the assets by issuing securities or borrowing from banks. They must have one or more securitizations as their exclusive object.

SPEs pay an initial sum to the government body making the sale that is equal to the proceeds of the securities issued less the amount needed to set up the transaction. Subsequently, they receive the proceeds of the sale of assets, claims settlements or cash flows. They use these receipts to pay interest on and redeem their debts and to cover their operating expenses; any excess amounts are paid to the government body.

The revenue deriving from securitizations temporarily reduces the public sector borrowing requirement on a cash basis. Whether or not it is classified among the items that are included in the calculation of net borrowing depends on the exact nature of the transaction.

To date the most important government securitizations have concerned: a) INPS and INAIL social security contribution claims; b) future lotto and enalotto receipts; and c) property owned by the state and other public bodies.

Three transactions of the first type were carried out in the three years 1999-2001 – two involving INPS claims and one INAIL claims – and they generated revenue amounting to €4.1 billion in 1999, €1.3 billion in 2000 and €1.2 billion in 2001. Since they arose from claims that had accrued in earlier years, this revenue did not affect general government net borrowing.

The securitization of future lotto and enalotto receipts saw the SPE make an initial payment to the state of around €3 billion, which was accounted for as a reduction in net borrowing in 2001.

As regards the sale of public property, in December 2001 the SPE made an initial payment to the state of around €2 billion. This was comparable to the proceeds of direct sales of public property and was therefore eligible for inclusion in the calculation of general government net borrowing. The amount actually included for 2001, around €4 billion, was based on the total value of the property covered by the transaction.

The state has not guaranteed the securities SPEs issued to finance the purchase of future lotto and enalotto receipts and state property but has reserved the right to guarantee, in whole or part, those issued in connection with the securitizations of social security contribution claims.

The total effect on the borrowing requirement in 2001 of securitizations, including that carried out by SACE, amounted to €6.7 billion, while around €7 billion was included in the calculation of net borrowing.

The Government intends to carry out other securitizations. In particular, in 2002 a third securitization of INPS claims and a second securitization of public property are planned. The first transaction is expected to produce €2 billion of revenue and the second €7.7 billion.

The legislation currently in force does not impose any restrictions on the existing or future assets of the public sector that may be securitized.

Securitizations that aim at speeding up receipts deriving from existing assets give rise to revenue of an extraordinary nature. Those involving future revenue, such as lotto and enalotto receipts, cause a worsening of the public finances in the years following that in which they are carried out.

Interest payments declined from 6.5 to 6.3 per cent of GDP. The primary balance rose from 4.7 to 4.9 per cent.

The ratio of general government net borrowing to GDP in 2000 was revised upwards last year by 0.2 percentage points, primarily owing to new data on health expenditure. In view of the rapid growth in spending on pharmaceuticals, the result for purchases of social benefits in kind in 2001 would appear to indicate that the other components of this item remained basically unchanged in nominal terms.

The general government gross borrowing requirement rose from 2.3 to 3.3 per cent of GDP. Excluding settlements of past debts and privatization receipts, the ratio fell from 3.2 to 2.9 per cent. The gap between net borrowing and the borrowing requirement remained as large as it had been in 2000.

The ratio of public debt to GDP fell by 1.2 percentage points to 109.4 per cent; in 2000 the fall had been 3.9 points. The update to Italy's stability programme submitted in December 2000 had indicated a reduction of 5.5 points.

Objectives and results in the euro area

Excluding the proceeds of sales of third-generation telephony licences, general government net borrowing in the euro area rose from 0.8 per cent of GDP in 2000 to 1.3 per cent in 2001 (Table 20).

Table 20

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

	2000		2001		2002		2003	
	Euro area	EU	Euro area	EU	Euro area	EU	Euro area	EU
Net borrowing								
Outturn for 2000 and preliminary outturn for 2001 (2)	0.8	0.2	1.3	0.7	–	–	–	–
Objectives set in stability and convergence programmes (3)	0.8	0.1	1.1	0.7	0.9	0.8	0.4	0.5
European Commission (November 2001)	0.8	0.1	1.1	0.5	1.4	0.9	1.0	0.6
OECD (December 2001)	0.8	0.2	1.2	0.7	1.3	1.0	0.9	0.8
IMF (December 2001)	0.8	....	1.2	....	1.4	....	....	....
Cyclically-adjusted net borrowing								
European Commission (November 2001)	1.3	0.6	1.3	0.7	1.1	0.7	0.9	0.6
OECD (December 2001)	0.9	0.3	0.9	0.5	0.6	0.3	0.5	0.4
IMF (December 2001)	0.7	....	0.8	....	0.6	....	....	....
Expenditure and revenue (European Commission, November 2001)								
Expenditure	48.1	47.0	47.9	46.9	48.3	47.2	47.5	46.6
of which: interest payments	*4.1*	*3.9*	*3.9*	*3.6*	*3.7*	*3.5*	*3.6*	*3.3*
Revenue	47.3	46.9	46.8	46.4	46.9	46.3	46.6	46.0
Debt								
Outturn for 2000 and preliminary outturn for 2001 (2)	70.2	64.2	69.1	62.8	–	–	–	–
Objectives set in stability and convergence programmes (3)	70.1	63.8	68.7	62.3	67.2	60.9	65.5	59.3
European Commission (November 2001)	70.2	64.3	68.8	62.6	68.4	61.8	66.7	59.9
OECD (December 2001)	70.2	64.2	69.1	63.1	68.7	62.5	67.4	61.3
IMF (December 2001)	70.2	....	68.9	....	68.6	....	....	....

Sources: Based on: European Commission, *Autumn Forecast*, November 2001; OECD, *Economic Outlook*, December 2001; IMF, *World Economic Outlook*, December 2001; notifications to the European Union by Member States under the excessive deficit procedure; and updates to stability and convergence programmes.

(1) Weighted averages based on GDP. Excludes the proceeds of sales of third-generation telephony licences. – (2) Means of the figures notified to the EU (February and March 2002). For France and Ireland, in the absence of such notifications, European Commission, *Autumn Forecast*, November 2001. – (3) Means of the figures contained in the updates to the stability and convergence programmes submitted starting in the last few months of 2001.

The stability programme updates submitted in late 2000 and in early 2001 had indicated a reduction in net borrowing from 0.7 to 0.6 per cent of GDP. The gap between the objective and the result was due mainly to the slower-than-expected growth in euro-area economic activity (about half the 3.3 per cent forecast in the updates); the tax reliefs introduced in some countries also contributed.

All the euro-area countries except Austria, Greece, Italy and Spain saw their net borrowing increase in relation to GDP; most of them have budgetary positions close to balance or in surplus. France, Germany, Italy and Portugal still have sizable deficits: Germany's rose from 1.3 to 2.7 per cent of GDP, Portugal's from 1.9 to 2.2 per cent and, on the basis of the European Commission's latest estimates, France's from 1.4 to 1.6 per cent.

Of the three countries that had not adopted the single currency in 2001 (Denmark, Sweden and the United Kingdom), the first two recorded further large budget surpluses, while that of the United Kingdom fell from 1.8 to 0.9 per cent of GDP (for the fiscal year ending in March 2002 there is likely to be a small deficit).

The stability programme updates submitted in the last few months contain estimates for 2001 that are broadly in line with the results actually recorded; for 2002 they indicate a slight improvement in euro-area net borrowing. Among the countries with large imbalances in 2001, Germany, Italy and Portugal envisage a reduction of around 0.5 percentage points in their deficit ratios, while France expects virtually no change (Table 21). Euro-area public debt is expected to fall slightly in relation to GDP.

Table 21

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

	2001 (2)		2002		2003		2004		2005	
	Net borrowing	Debt	Net borrowing	Debt	Net borrowing	Debt	Net borrowing	Debt	Net borrowing	Debt
					Stability programmes					
Germany	2.5	60.0	2.0	60.0	1.0	59.0	0.0	57.0	0.0	55.5
France (3)	1.4	57.1	1.4	56.3	1.2	55.5	0.3	54.1	–0.2	52.4
Italy	1.1	107.5	0.5	104.3	0.0	101.0	0.0	98.0	–0.2	95.4
Spain	0.0	57.5	0.0	55.7	0.0	53.8	–0.1	51.9	–0.2	50.0
Netherlands	–1.0	51.8	–1.0	47.7	–1.0	45.0	–1.0	42.0	....	....
Belgium	0.0	107.0	0.0	103.3	–0.5	97.7	–0.6	93.0	–0.7	88.6
Austria	0.0	61.8	0.0	59.6	0.0	57.2	–0.2	54.7	–0.5	52.1
Finland	–4.7	42.7	–2.6	42.9	–2.1	43.0	–2.6	41.8	....	....
Greece	0.3	99.6	–0.8	97.3	–1.0	94.4	–1.2	90.0	....	....
Portugal	2.2	55.9	1.8	55.7	1.0	55.5	0.0	54.0	–0.4	53.2
Ireland	–1.4	35.8	–0.7	33.7	0.5	33.8	0.6	34.1	....	....
Luxembourg	–4.1	5.0	–2.8	4.6	–3.1	4.2	–3.4	3.9	....	....
					Convergence programmes					
United Kingdom (4)	0.2	38.1	1.1	37.2	1.3	37.0	1.1	36.8	1.0	36.6
Sweden	–4.6	52.3	–2.1	49.7	–2.2	47.3	–2.3	45.2	....	....
Denmark	–1.9	43.5	–1.9	42.9	–2.1	40.1	–2.1	37.6	–2.1	35.1

(1) Excludes the proceeds of sales of third-generation telephony licences from the figures for net borrowing. – (2) Preliminary outturns reported in stability and convergence programmes. – (3) Two macroeconomic scenarios are considered for the years 2003-05. The figures shown in the table are the means of those for the two scenarios. – (4) UK net borrowing is calculated with reference to the fiscal year (which begins in April) and includes the proceeds of the sale of third-generation telephony licences, estimated at 0.1 per cent of GDP in each year (December 2000 update of the UK convergence programme).

According to the stability and convergence programmes submitted, in 2004 both the euro area and the EU should achieve a balanced budgetary position.

The budgetary policies announced by the leading euro-area countries are basically similar: the planned improvement in their net borrowing between 2002 and 2004 is to come from a reduction in primary expenditure in relation to GDP, offset only in part by a reduction in revenue.

In Germany the budget deficit should gradually come down and balance be reached in 2004. In the four years 2001-04 it is intended that the ratio of expenditure to GDP should fall by nearly 3 percentage points. If the growth in economic activity were to be significantly less than expected, the achievement of a balanced budgetary position would be postponed to 2006.

In France the forecast is for balance or a deficit of 0.5 per cent of GDP to be reached in 2004, depending on the pace of growth. The gradual reduction in revenue in relation to GDP is to be more than offset by a fall in the expenditure ratio that is to be achieved by capping the increase in outlays.

In Spain the budgetary position is expected to swing from balance in 2001 to a small surplus in 2004. The improvement is to be achieved by a reduction in the primary current expenditure ratio accompanied by virtually no change in the revenue ratio.

The European Commission has pointed out that the programmes of the leading countries are based on macroeconomic scenarios that could prove over-optimistic. In its evaluation of the programmes, the European Council drew attention to some potential problems. In particular, it noted that the German deficit could draw even closer to the 3 per cent limit in 2002 if economic activity were to grow significantly less than expected. The Council was unhappy with France's postponement to 2005 of the achievement of budgetary balance in its less favourable macroeconomic scenario.

Objectives and results in Italy

Net borrowing amounted to 1.4 per cent of GDP in 2001, compared with the objective of 0.8 per cent laid down in the Forecasting and Planning Report published in September 2000. The Report had indicated GDP growth of 2.9 per cent, whereas in the event it was 1.8 per cent.

The official forecasts of net borrowing in 2001 were revised several times. In the early months of the year the performance of the borrowing requirement suggested there could be an overshoot. In March, the Quarterly Report on the borrowing requirement forecast a deficit of 1 per cent of GDP for the year in the absence of corrective action. In July, the Economic and Financial Planning Document confirmed the objective of 0.8 per cent but reckoned there would be a deficit of 1.9 per cent in the absence of corrective action. This figure was arrived at assuming the persistence of a wide gap between net borrowing and the borrowing requirement; in view of the difficulty of forecasting the size of this gap, the Economic and Financial Planning Document gave a second estimate of net borrowing of 2.7 per cent of GDP.

In the following months the Government took steps to curb spending on goods and services and put in place a procedure based on securitizations to accelerate the sale of public property, reached an agreement with the regions on health-care expenditure, and introduced some measures to stimulate the growth of the economy. The latter included a temporary tax incentive for corporate investments and incentives designed to encourage the regularization of activities in the underground economy and the repatriation and regularization of assets held abroad.

During the summer the borrowing requirement showed signs of improving, partly owing to the unexpectedly large receipts from the tax on the revaluation of corporate fixed assets (0.4 per cent of GDP, compared with the official forecast of 0.1 per cent) and that on capital gains arising from the sale of businesses (more than 0.3 per cent of GDP, compared with the official forecast of less than 0.2 per cent).

General government expenditure and revenue

Expenditure

General government expenditure amounted to €574.8 billion in 2001. Excluding the extraordinary receipts accounted for by making a corresponding deduction from capital expenditure, i.e. the proceeds of the sale of UMTS licences in 2000 (€13.8 billion) and of securitizations in 2001 (€7 billion), general government expenditure increased by 4.9 per cent and rose from 47.6 to 47.8 per cent of GDP.

Excluding the extraordinary receipts referred to above, capital expenditure increased by 12.7 per cent and rose from 3.7 to 4 per cent of GDP; investment rose from 2.4 to 2.6 per cent of GDP and capital grants from 1.1 to 1.3 per cent.

The ratio of primary expenditure to GDP rose from 37.4 to 37.5 per cent; that of interest payments declined from 6.5 to 6.3 per cent.

The growth of 4.5 per cent in primary current expenditure reflected the large increase of 5.3 per cent in final consumption. Social benefits in cash increased by 3.8 per cent, compared with 2.8 per cent in 2000.

Among the final consumption items, compensation of employees increased by 5.1 per cent and rose from 10.5 to 10.6 per cent of GDP. The increase was mainly due to the fact that most of the additional costs of the 2000-01 labour contracts occurred in the latter year. Intermediate consumption grew by 4.1 per cent but remained unchanged in relation to GDP at 5.1 per cent. Purchases of social benefits in kind grew particularly fast for the second successive year (by 10.2 per cent in 2000 and 9.9 per cent in 2001) and rose from 2.1 per cent of GDP in 1999 to 2.3 per cent last year. The very large increase in spending on pharmaceuticals means that purchases of the other social benefits in kind remained basically unchanged in nominal terms.

General government expenditure and revenue
(millions of euros and percentage changes)

	2000	2001	2000/1999	2001/2000
EXPENDITURE				
Compensation of employees	122,810	129,028	4.3	5.1
Intermediate consumption .	59,276	61,720	7.9	4.1
Purchases of social benefits in kind	25,930	28,489	10.2	9.9
Social benefits in cash	195,344	202,728	2.8	3.8
Interest payments	75,265	77,111	0.6	2.5
Other current expenditure .	32,807	33,981	4.9	3.6
Current expenditure	**511,432**	**533,057**	**3.9**	**4.2**
as a percentage of GDP .	*43.9*	*43.8*		
Current expenditure, net of interest payments .	**436,167**	**455,946**	**4.5**	**4.5**
as a percentage of GDP .	*37.4*	*37.5*		
Investment (1)	28,021	27,122	3.6	−3.2
Investment grants	13,090	15,607	−0.4	19.2
Other capital expenditure (2) (3)	−11,652	−969	−384.8	−91.7
Capital expenditure (2) .	**29,459**	**41,760**	**−33.5**	**41.8**
Total expenditure, net of interest payments (2)	**465,626**	**497,706**	**0.8**	**6.9**
as a percentage of GDP	*40.0*	*40.9*		
TOTAL EXPENDITURE (2)	**540,891**	**574,817**	**0.8**	**6.3**
as a percentage of GDP .	*46.4*	*47.2*		
REVENUE				
Direct taxes	170,440	182,848	2.5	7.3
Indirect taxes	175,160	176,722	4.6	0.9
Social security contributions	148,074	154,519	4.9	4.4
Other current revenue	35,849	39,870	−2.2	11.2
Current revenue	**529,523**	**553,959**	**3.5**	**4.6**
as a percentage of GDP .	*45.5*	*45.5*		
Capital revenue	**5,105**	**3,244**	**−8.4**	**−36.5**
TOTAL REVENUE	**534,628**	**557,203**	**3.4**	**4.2**
as a percentage of GDP .	*45.9*	*45.8*		
NET BORROWING (2) ..	**6,263**	**17,614**	**−67.7**	**181.2**
as a percentage of GDP	*0.5*	*1.4*		
Primary surplus (2)	**69,002**	**59,497**	**24.5**	**−13.8**
as a percentage of GDP .	*5.9*	*4.9*		
Memorandum item:				
GDP	*1,164,767*	*1,216,583*	*5.1*	*4.04*

Source: Based on Istat data.
(1) The figure for 2001 includes the proceeds of the securitization of the proceeds of property disposals (€4 billion). – (2) The figure for 2000 includes receipts from the sale of third-generation UMTS licences (equal to 1.2 per cent of GDP). – (3) The figure for 2001 includes the proceeds of the securitization of lotto and enalotto receipts (€3 billion).

cont.

The increase in social benefits in cash reflected the automatic adjustment of pensions to take account of inflation; the adjustment was equal to 2.6 per cent, compared with 1.6 per cent in 2000. A countervailing influence was again exerted by the increase in 2000 in the retirement ages for private-sector payroll workers, from 64 to 65 for men and from 59 to 60 for women. The overall ratio of social benefits in cash to GDP declined by 0.3 percentage points in 2000 and by a further 0.1 points in 2001, when it was equal to 16.7 per cent.

Revenue

General government revenue rose by 4.2 per cent to €557.2 billion, while in relation to GDP it declined from 45.9 to 45.8 per cent. The ratio of tax and social security contributions to GDP declined from 42.5 to 42.3 per cent.

Tax revenue increased by 4 per cent, while in relation to GDP it declined from 29.7 to 29.6 per cent. Direct tax receipts grew by 7.3 per cent and rose from 14.6 to 15 per cent of GDP, while indirect tax receipts grew by only 0.9 per cent and fell from 15 to 14.5 per cent of GDP.

The performance of the main items of tax revenue is analyzed below on a cash basis, since the breakdown by individual taxes is not available on an accrual basis.

Receipts of direct taxes were sustained by the one-off tax on the revaluation of corporate assets, which had been introduced as part of the budget for 2000 and raised €5 billion. The most important taxes followed divergent paths: withholding tax on interest income and capital gains fell by about one fifth (€3.3 billion), whereas personal income tax rose by 4.7 per cent (€5.4 billion) and corporate income tax by 13.5 per cent (€3.9 billion).

The fall in withholding tax on interest income and capital gains was attributable to the managed savings component, where receipts fell from €7.9 billion to €0.4 billion, primarily as a result of the weakness of share prices. By contrast, the tax on bank interest income rose from €1.2 billion to €3.4 billion as a result of the unwinding of the tax credits banks had accumulated since the second half of 1996. There was also a significant increase in the tax on capital gains arising in connection with the sale of businesses (from €0.9 billion to €4.1 billion); most of this increase was of a one-off nature, however, since it was due to the elimination of the possibility of settling the related liabilities in instalments over five years.

As regards personal income tax, the amounts withheld on employee earnings rose by 8.1 per cent, after declining by 0.8 per cent in 2000; the self-assessed component rose by 2.9 per cent, after falling by 4.7 per cent in 2000. Decree Law 268 of 30 September 2000 resulted in the effects of the tax reliefs provided for in the budget for 2001 having also been felt in 2000.

The growth in receipts of corporate income tax benefited from the good performance of profits in 2000 and the reduction in the size of the payment on account companies were required to make in that year.

Turning to indirect taxes, receipts of the regional tax on productive activities (Irap) rose by 13.3 per cent, those of VAT by 2.7 per cent and those of excise taxes on mineral oils by 2.4 per cent. By contrast, income from state monopolies remained virtually unchanged, while revenue from lotto and lotteries fell by 13.1 per cent and other business taxes by 3.9 per cent. The latter result was partly due to the reduction in the taxation of electricity for commercial and industrial purposes introduced in the budget for 2001.

Social security contributions recorded an increase of 4.4 per cent (€6.4 billion), which was less than the growth in gross earnings (5.1 per cent). The difference was largely due to the reduction of 0.8 percentage points in the rate payable by employers introduced in the budget for 2001.

In September, the Forecasting and Planning Report assumed that GDP would grow by 2 per cent (which turned out to be slightly optimistic) and estimated that net borrowing for the year would be 1.1 per cent of GDP, a value that was confirmed in the stability programme update submitted in November.

The improvement in Italy's budget deficit from 1.7 per cent of GDP in 2000 to 1.4 per cent in 2001 was the result not only of the above-mentioned measures to curb expenditure but also to others, some of which were introduced during the year, that generated additional one-off revenue amounting to more than 1 per cent of GDP. These measures included: a) the securitizations of public property and future lotto and enalotto receipts (0.6 per cent of GDP); b) the tax on the revaluation of corporate fixed assets; and c) the changes made in the tax on capital gains arising from the sale of businesses. The related revenue more than offset the fall in receipts from the tax on managed savings (from 0.7 per cent of GDP in 2000 to less than 0.1 per cent in 2001) caused by the weakness of share prices.

The difference between the borrowing requirement, net of settlements of past debts and privatization receipts, and net borrowing remained as large as in 2000 (at around 1.5 per cent of GDP). The latter difference has been reduced by the recent revision of the estimate of net borrowing in that year, from 1.5 to 1.7 per cent of GDP, owing to higher-than-expected health expenditure.

Net borrowing in 2001 benefited both from the fall in interest payments, from 6.5 to 6.3 per cent of GDP, and from the increase in the primary surplus, from 4.7 to 4.9 per cent. The stability programme update submitted in December 2000 had envisaged an increase in the primary surplus from an estimated 5.2 per cent in 2000 to 5.4 per cent in 2001.

Primary current expenditure rose slightly in relation to GDP (from 37.4 to 37.5 per cent); the stability programme update had envisaged a reduction of 0.7 percentage points. The fastest-growing expenditure items were compensation of employees, as a result of the renewal of labour contracts, and purchases of social benefits in kind, above all in the health sector (see box).

Investment expenditure rose from 2.4 to 2.6 per cent of GDP, excluding the revenue generated by the securitization of public property, which was accounted for as negative investment in the budget accounts.

The ratio of taxes and social security contributions to GDP declined from 42.5 to 42.3 per cent. That of total current revenue remained unchanged at 45.5 per cent; the stability programme update of December 2000 had envisaged a reduction of 0.7 percentage points. The divergence of the outcome from this forecast was largely due to the higher-than-expected receipts from the taxes on the revaluation of corporate fixed assets and capital gains arising from the sale of businesses.

The borrowing requirement and the public debt in Italy

The general government gross borrowing requirement increased from €26.6 billion in 2000 to €40.4 billion in 2001 and from 2.3 to 3.3 per cent of GDP; the state sector borrowing requirement saw a similar increase, from €14.5 billion to €34.1 billion and from 1.2 to 2.8 per cent of GDP (Tables 22, a21 and a22).

Compared with 2000, the borrowing requirement was adversely affected by the reduction in privatization receipts (€4.3 billion, as against €15.5 billion in 2000, when they consisted largely of the proceeds of the sale of third-generation telephony licences) and the increase in payments classified as settlements of past debts. The latter rose from €4.6 billion to €7.2 billion (which rises to €9.9 billion when the tax credit refunds paid via the Post Office are included, although analogous transactions carried out in 2000 using different instruments were not included among settlements of past debts). On the other hand the borrowing requirement benefited from the increase from €1.3 billion to €6.7 billion in the receipts actually produced by securitizations.

Excluding settlements of past debts and privatization receipts, the general government borrowing requirement declined from 3.2 to 2.9 per cent of GDP.

Table 22

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

	1999	2000	2001 (1)
General government gross borrowing requirement . . .	8,171 (15,821)	26,617 (51,537)	40,389 (78,205)
as a percentage of GDP	*0.7*	*2.3*	*3.3*
General government borrowing requirement net of settlements and privatization receipts (2)	24,553 (47,542)	37,486 (72,584)	34,771 (67,327)
as a percentage of GDP	*2.2*	*3.2*	*2.9*
State sector gross borrowing requirement	–376 (–727)	14,514 (28,103)	34,071 (65,970)
as a percentage of GDP	. .	*1.2*	*2.8*
State sector borrowing requirement net of settlements and privatization receipts (2) . . .	16,007 (30,994)	25,384 (49,150)	28,453 (55,092)
as a percentage of GDP	*1.4*	*2.2*	*2.3*
Memorandum items:			
Settlements of past debts	6,259 (12,118)	4,599 (8,904)	9,947 (19,261)
Privatization receipts (2)	–22,641 (–43,839)	–15,469 (–29,951)	–4,329 (–8,383)

(1) Provisional. – (2) Privatization receipts include the part of the proceeds of the sale of third-generation telephony licences used to reduce the public debt (e10,709 million). The balance of these proceeds (e1,190 million) was accounted for under revenue.

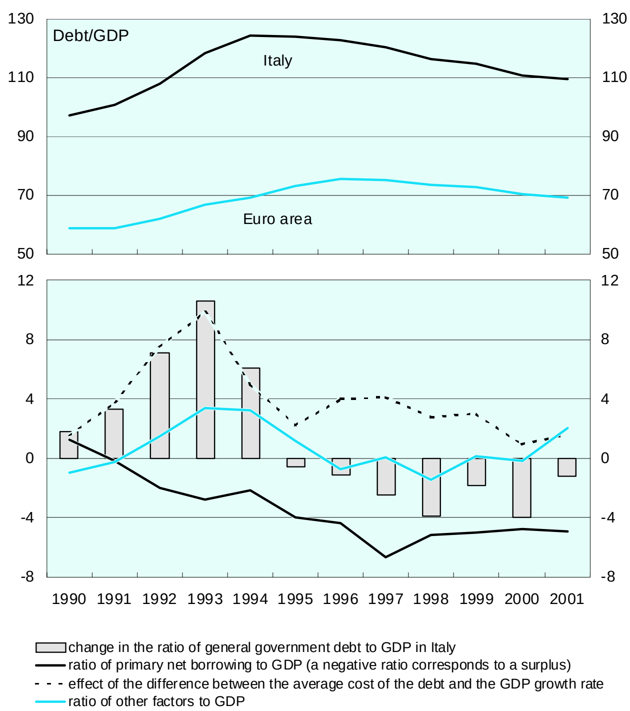
The public debt grew by €43 billion to €1,330.7 billion (Table a23). The increase was €2.6 billion more than the gross borrowing requirement (in 2000 the increase had been €8.2 billion less). In view of the almost complete absence of an effect due to the euro exchange rate (which in 2000 had boosted the lira value of liabilities denominated in foreign currencies by €1.2 billion), the main factors that contributed to the difference were: a) the increase of €4 billion in the Treasury's liquid balances held with the Bank of Italy (as against a reduction of €9.6 billion in 2000); and b) issue discounts and other residual items, which together reduced the debt by around €1.5 billion, whereas they had increased it by €0.2 billion in 2000.

The average residual maturity of the domestic public debt lengthened from 5.7 years at the end of 2000 to 5.8 at the end of 2001. The financing of the borrowing requirement included net domestic issues of medium and long-term securities amounting to €15.4 billion (€19.1 billion in 2000) and of short-term securities totaling €11.3 billion (compared with €17.5 billion of net redemptions in 2000), together with net new foreign loans totaling €9.1 billion (€12.3 billion in 2000).

At the end of the year the general government debt was equal to 109.4 per cent of GDP, down by 1.2 percentage points on the end of 2000, the smallest decrease since 1996.

Figure 31

Ratio of public debt to GDP in the euro area and Italy; and breakdown of the change in the Italian ratio (1)
(*percentages*)



(1) For the method of obtaining the breakdown of the change in the ratio of debt to GDP, see the note to Figure 30 in *Economic Bulletin*, No. 32, 2001.

Since the primary surplus was basically unchanged, the smaller reduction in the debt ratio in

2001 was due, for more than 2 percentage points, to the differences in the financial flows that contributed to the change in the debt but not to net borrowing (in particular, the proceeds of privatizations, the settlements of past debts and the change in the liquid balances held with the Bank of Italy); another 0.7 points can be attributed to the widening of the gap between the average cost of the debt (which rose from 5.9 to 6 per cent) and the growth in nominal GDP (which fell from 5.1 to 4.4 per cent; Figure 31).

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

Interest rates and the exchange rate of the euro

Against the background of diminishing inflationary pressures and weak domestic and foreign demand, the monetary policy stance in the euro area was expansionary in 2001. After reducing Eurosystem official interest rates in May and August, the ECB Governing Council lowered them by another 0.5 percentage points following the terrorist attacks in the United States and then again in November; the minimum bid rate on main refinancing operations currently stands at 3.25 per cent (Figure 32).

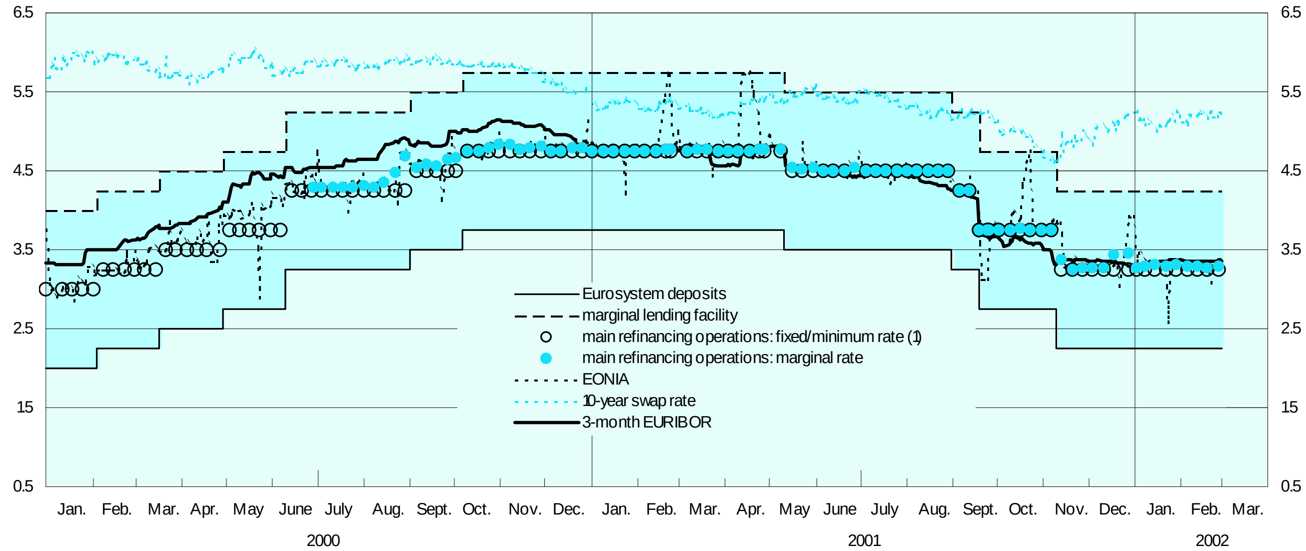
Since the end of 2001 the results of the conflict in Afghanistan and the signs of world economic recovery have led to a rise in the yield curve. Expectations of further reductions in short-term rates have faded. At the beginning of March, in line with the market's forecast for the timing of the economic upturn, the curve of futures rates showed expected yields holding steady until June and rising by more than half a percentage point in the second half of the year (Figure 33).

The improvement in the outlook for growth has pushed long-term rates up. At the beginning of March the ten-year rate on euro interest rate swaps was 5.2 per cent, 0.5 percentage points higher than the low it had touched at the end of October. The differential vis-à-vis dollar swap rates, which had virtually disappeared in the period following the September attacks, has gradually widened to around 0.4 points in favour of dollar-denominated assets.

Figure 32

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

(daily data; percentages)

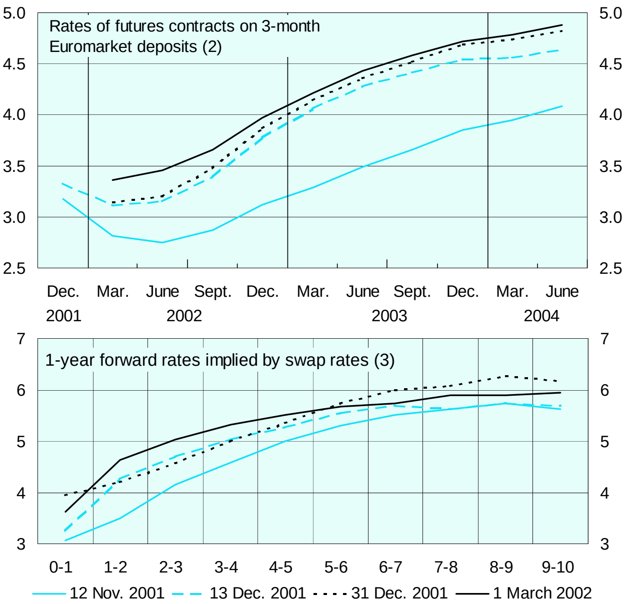


Sources: ECB, Reuters and Telerate.

(1) Fixed rate until 21 June 2000, minimum rate thereafter.

Figure 33

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



Source: Reuters.

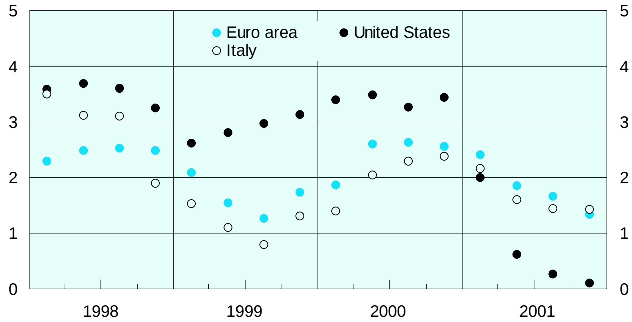
(1) Each curve relates to the contract date indicated in the legend. – (2) The horizontal axis shows the settlement dates for the futures contracts to which the yields refer. – (3) The horizontal axis shows the period to which the yield refers, expressed in years from the contract date indicated; the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

The real short-term interest rate in the euro area, calculated on the basis of surveys of expected inflation, fell to around 1.3 per cent in the fourth quarter of 2001, more than one point lower than in the same period of the previous year (Figure 34) and substantially lower than the average of the last thirty years (2.8 per cent in the case of Germany). According to the expectations now prevailing in financial markets, real rates are likely to start rising again later in the year. Real-short term rates in the United States still reflect the weak cyclical phase of the US economy and are currently close to zero; they are expected to rise during the year but nonetheless to remain lower than those in the euro area.

The yield on France’s 10-year bonds indexed to consumer prices, which is an indicator of the real long-term rate in euros and had fallen below 3.2 per cent in mid-November, has risen to around 3.4 per cent. Similar values are also derived from indicators calculated on the basis of the 10-year swap rate and survey findings for long-term inflation expectations. In the United States the yield on 10-year CPI-indexed Treasury bonds stands at about 3.3 per cent.

Figure 34

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



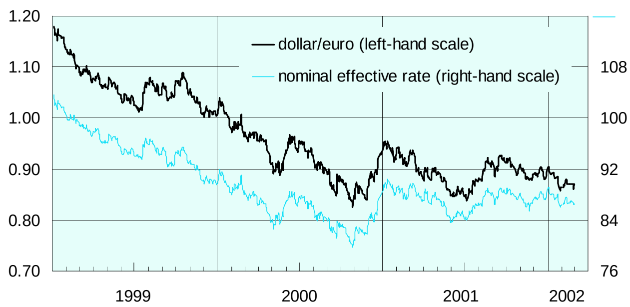
Sources: Based on data from Reuters, *Consensus Forecasts* and OECD.

(1) Nominal 3-month rates on Euromarket deposits (averages 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 euro-dollar exchange rate rose during the summer but then weakened, especially with the appearance of incipient economic recovery in the United States (Figure 35); in March 2002 it turned upwards again. By contrast, the euro continued to appreciate against the yen as the economic outlook deteriorated in Japan. The nominal effective exchange rate of the euro was 1.7 per cent lower at the beginning of March 2002 than at the end of last October.

Figure 35

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



Sources: ECB and Bank of Italy.

The money supply and credit

Euro banknotes and coins were put into circulation between 1 January and 28 February. Despite its complexity, the operation went smoothly in the twelve countries of the area. From mid-January onwards the euro accounted for the bulk of the currency in circulation; from the first weeks of January all ATMs were supplying euro banknotes.

In 2001 the approach of the changeover prompted holders of cash to accelerate its conversion into other instruments. This accentuated the contraction in currency in circulation under way in the euro area since the end of 2000. In December the twelve-month reduction was 32.1 per cent in the area as a whole and 17.3 per cent in Italy. At the start of January the frontloading of the new banknotes caused a surge in currency in circulation, which then began to contract again, however, with the gradual withdrawal of national banknotes and coins. Over the twelve months to the end of February there was a reduction of 15.8 per cent in the area as a whole and of 24.2 per cent in Italy.

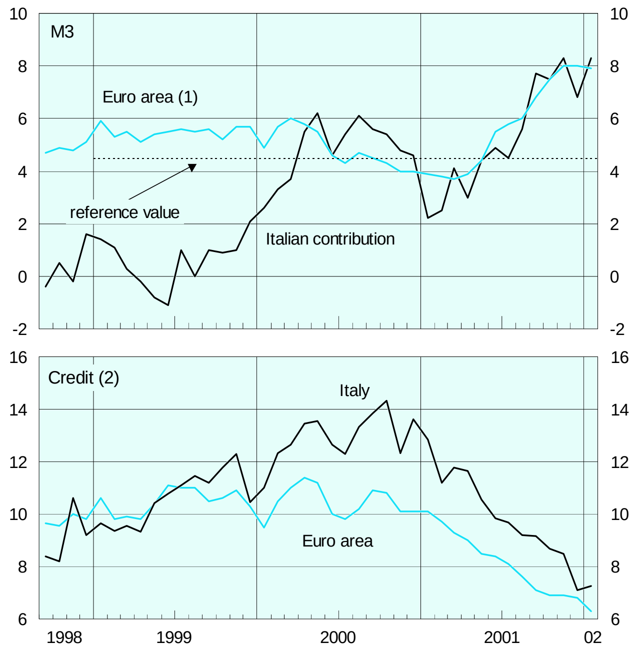
In the euro area the twelve-month growth in M3 continued to accelerate, rising to 7.9 per cent in January (Figure 36); the three-month moving average was equal to 8 per cent. However, on a seasonally adjusted basis the monthly change was smaller both in December (2.8 per cent annualized) and January (4.8 per cent). In December the ECB Governing Council confirmed 4.5 per cent as the reference value for the growth in M3 over the medium term.

Since November new statistical measurements have made it possible to exclude money-market securities and bonds with a maturity of up to two years purchased by non-residents of the euro area from the M3 time series. The revised growth in M3 in 2001 is around 0.7 percentage points lower than that calculated previously, but the aggregate is still found to have accelerated during the year.

The rapid growth in M3 has been fueled by the small yield differential between longer-term instruments and the more liquid ones included in the money supply. However, it is not entirely attributable to the behaviour of interest rates and the other traditional determinants of money demand, i.e. the price level and real income. The increase in volatility in equity markets contributed to the shift of funds into less-risky short-term assets. The faster growth in M3 primarily reflects the expansion in overnight deposits (13.3 per cent in the twelve months ending in January 2002), deposits redeemable at up to three months' notice (8.7 per cent) and marketable instruments (16 per cent).

Figure 36

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.

The Italian component of M3 grew by 8.3 per cent in the twelve months to January 2002. As in the rest of the area, the increase in the aggregate came principally from that in overnight deposits and deposits redeemable at up to three months' notice (11.3 and 10.7 per cent respectively); there was a sharp acceleration in money-market fund units, especially from September onwards, in concomitance with the heightening of uncertainty on stock markets.

Lending decelerated in the euro area, reflecting both the slowdown in economic activity and the fall in the demand for loans in connection with major corporate actions. Bank lending to the private sector rose by 6.3 per cent in the twelve months ending in January.

In Italy the twelve-month increase in bank lending to the private sector came down from 10.5 per cent in September to 8.5 per cent in January (Table 23). Total finance to the private sector, for which data are available up to September, rose by 13.2 per cent as a consequence of the very rapid growth in bonds and loans from abroad, which expanded by 79.8 and 20.7 per cent respectively.

Table 23

Credit and financial assets in Italy (1)

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

	Total credit						Financial assets (3)					
		General government debt (2)	Total finance to 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	3.9	33.9	7.0	–2.5	–2.0	–2.4	–12.6	41.4
2000 – Dec. . .	6.9	1.3	14.4	14.4	22.9	13.8	5.3	3.3	2.9	4.5	–3.6	9.8
2001 – Jan. . .	7.5	2.7	13.8	13.5	27.1	14.6	5.9	4.1	1.6	7.7	–2.7	9.8
Feb. . .	7.2	3.0	13.0	12.2	15.9	16.4	6.2	4.4	2.2	7.7	–1.5	10.1
Mar. . .	7.6	3.1	13.7	13.1	26.6	15.6	6.3	5.0	3.6	7.1	–0.4	9.1
Apr. . . .	7.6	3.1	13.7	12.9	22.1	16.9	6.3	4.4	2.8	6.5	0.5	10.5
May . .	7.7	3.4	13.6	11.5	51.9	20.7	6.3	5.5	3.9	7.8	–1.1	8.2
June . .	7.2	3.0	12.6	10.6	76.8	17.5	6.1	5.4	3.9	7.9	–3.3	7.6
July . . .	7.3	3.1	12.7	11.3	75.0	14.3	5.6	5.5	3.7	8.4	–4.4	5.8
Aug. . .	6.8	2.4	12.6	10.4	63.5	18.7	6.0	6.2	4.9	8.4	–5.7	5.6
Sept. . .	7.1	2.4	13.2	10.5	79.8	20.7	6.5	7.0	6.7	8.3	–9.6	5.5
Oct. . . .	. . . .	2.8	. . . .	10.0	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Nov. . .	. . . .	2.6	. . . .	10.0	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Dec. . .	. . . .	. . . .	. . . .	8.3	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
2002 – Jan. . .	. . . .	. . . .	. . . .	8.5	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
	Percentage shares of stocks											
1999 – Dec. . .	100.0	57.6	42.4	34.6	0.6	7.2	100.0	69.2	37.4	29.7	2.1	30.8
2000 – Dec. . .	100.0	54.9	45.1	36.7	0.7	7.7	100.0	68.5	36.6	29.9	2.0	31.5
2001 – Sept. . .	100.0	54.2	45.8	36.4	1.0	8.3	100.0	69.4	36.8	31.5	1.1	30.6

(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 central governments and MFIs: households, non-financial corporations, insurance corporations, non-profit institutions serving households, non-money-market funds, and 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.

Households' financial saving and corporate financing in Italy

The Italian financial accounts for the first nine months of 2001 point to a slight increase in the household sector's financial surplus and a small decrease in the corporate sector's financial deficit.

Italian households' financial balance (the difference between the flow of financial assets and liabilities) showed a surplus of €50.8 billion between January and September, up from €46.8 billion in the same period of 2000 (Table 24).

Households' portfolio choices were considerably influenced by the fall in share prices. On the asset

Table 24

Financial assets and liabilities (1)

	Households (2)				Non-financial corporations			
	Flows		Stocks		Flows		Stocks	
	Millions of euros		Millions of euros	Percentage composition	Millions of euros		Millions of euros	Percentage composition
	Jan.-Sept. 2000	Jan.-Sept. 2001	Sept. 2001	Sept. 2001	Jan.-Sept. 2000	Jan.-Sept. 2001	Sept. 2001	Sept. 2001
Assets								
Cash and sight deposits	−9,641	−3,252	381,898	15.8	7,877	3,291	99,906	8.4
Other deposits	−3,938	2,095	265,673	11.0	2,482	−484	10,664	0.9
Short-term securities	−3,591	6,887	26,824	1.1	1,098	−197	312	0.0
Medium and long-term securities	30,897	46,662	455,867	18.9	2,173	−5,178	33,609	2.8
of which: government securities	*17,870*	*28,056*	*240,464*	*9.9*	*−997*	*−3,316*	*20,998*	*1.8*
Investment fund units	3,996	−12,042	348,698	14.4	56	−167	4,850	0.4
Shares and other equities	−5,948	−6,697	338,958	14.0	9,858	18,858	537,892	45.3
External assets	26,974	9,635	233,010	9.6	10,482	17,711	274,419	23.1
of which: short-term securities	*87*	*29*	*866*	*0.0*	*−71*	*144*	*1,899*	*0.2*
medium and long-term securities	*1,831*	*14,543*	*90,881*	*3.8*	*−131*	*1,427*	*20,299*	*1.7*
shares and other equities	*14,242*	*−272*	*95,193*	*3.9*	*3,158*	*11,487*	*132,411*	*11.1*
investment fund units	*11,399*	*−5,625*	*40,739*	*1.7*	*12*	*293*	*10,029*	*0.8*
Other financial assets (3)	30,035	23,009	366,905	15.2	−8,609	−11,754	226,813	19.1
Total assets	**68,784**	**66,297**	**2,417,833**	**100**	**25,417**	**22,080**	**1,188,465**	**100**
Liabilities								
Short-term debt (4)	1,916	−68	56,331	18.7	28,187	11,651	320,683	15.9
of which: bank	*1,748*	*−259*	*55,457*	*18.4*	*22,328*	*4,448*	*287,722*	*14.3*
Medium and long-term debt (5)	18,897	14,235	221,646	73.5	17,699	19,313	275,967	13.7
of which: bank	*17,387*	*12,187*	*199,678*	*66.2*	*13,235*	*11,296*	*211,966*	*10.5*
Shares and other equities	–	–	–	–	11,197	2,820	845,468	42.0
External liabilities	–	–	–	–	−2,774	15,954	268,622	13.4
of which: shares and other equities	–	–	–	–	*−7,901*	*6,678*	*111,581*	*5.5*
Other financial liabilities (6)	1,184	1,286	23,489	7.8	−5,261	−7,570	300,544	14.9
Total liabilities	**21,997**	**15,453**	**301,466**	**100**	**49,048**	**42,168**	**2,011,284**	**100**
Balance	**46,787**	**50,844**	**2,116,367**		**−23,631**	**−20,088**	**−822,819**	

Source: Financial accounts.

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

Mergers and acquisitions in the main industrial countries

Mergers and acquisitions increased sharply in the second half of the nineties (see box: "Mergers and acquisitions in the nineties: an international comparison", Economic Bulletin *No. 31, 2000). According to Thomson Financial, which tracks most such operations, there were 34,147 mergers and acquisitions in the main industrial countries between 1996 and 2001, compared with 19,996 between 1990 and 1995 (Table 1). The total value of transactions for which the terms are known rose from $1,390 billion to $8,100 billion.*

The scale of M&A activity is greatest in the Anglo-Saxon countries, which have well-developed financial markets, less concentrated ownership structures and institutional investors that play an active role in corporate governance. In the period 1996-2001, the ratio of the value of transactions to GDP was 9.7 per cent in the United States and 10.3 per cent in the United Kingdom. In Italy the ratio was 2.9 per cent, similar to that in France and Spain. The ratio in Japan was less than 1 per cent.

A significant share of the M&A activity in the last decade involved firms from the same industry. The operations were motivated by a desire to increase the size of businesses in order to exploit the opportunities for growth in sectors undergoing liberalization or experiencing technological change rather than by an intention to diversify productive activity. The three sectors that registered the largest amount of M&A activity by value were banking and finance, telecommunications and energy distribution, all of which are at different stages of being liberalized in the various countries.

The rise in M&A activity was especially pronounced in sectors producing technology goods, where the drive to consolidate was aimed at obtaining rapid access to new technologies through external growth. The value of operations in high-tech sectors increased from 17 per cent of total M&A activity in the leading industrial countries between 1990 and 1995 to about 28 per cent between 1996 and 2001 (Table 2). The share was 29 per

Table 1

Mergers and acquisitions in the main industrial countries (1)

	1990-95			1996-2001			2000		2001	
	Number	Total value		Number	Total value		Number	Total value	Number	Total value
		$ billions	% of GDP		$ billions	% of GDP		$ billions		$ billions
Australia	628	29.5	1.5	1,423	91.7	4.0	320	27.3	320	22.8
Belgium	251	7.1	0.5	354	57.8	3.9	66	2.4	65	12.9
Canada	1,421	41.6	1.2	2,888	287.4	7.3	688	110.5	628	58.5
France	1,663	81.9	1.0	1,563	269.6	3.2	380	39.5	228	27.8
Germany	1,913	37.3	0.3	3,039	437.0	3.5	733	80.4	444	35.7
Italy	852	55.0	0.8	1,048	198.2	2.9	261	42.7	218	20.3
Japan	216	56.1	0.2	2,291	234.5	0.9	614	74.5	587	27.0
Netherlands	565	25.6	1.3	635	127.2	5.5	140	41.6	70	17.2
Spain	510	25.6	0.8	1,042	99.3	2.8	233	38.8	180	10.7
Sweden	473	33.8	2.4	793	126.0	8.9	215	17.9	148	18.0
Switzerland	412	14.6	1.0	485	85.9	5.6	113	3.3	75	5.2
United Kingdom	2,349	170.9	2.7	4,484	848.6	10.3	979	312.3	788	109.3
United States	8,743	811.2	2.1	14,102	5,272.3	9.7	2,879	1,325.8	1,936	557.1
Total main industrial countries (2)	19,996	1,390.2	1.3	34,147	8,135.5	6.1	7,621	2,117.0	1,687	922.5
Euro area	6,767	256.0	0.7	9,696	1,310.3	3.4	2,360	282.6	1,687	145.9
World	26,062	1,570.3		50,787	8,960.2		11,680	2,349.1	1,299	1,096.4

Sources: Thomson Financial and SDC Platinum.
(1) Mergers and acquisitions involving majority interests. – (2) G10 countries, Australia and Spain.

cont.

cent in the United States and the euro area (compared with 23 and 6 per cent, respectively, in the first half of the decade), where transactions mainly involved the software, electronics and telecommunications industries. The proportion in Italy was 21 per cent (compared with 12 per cent in 1990-1995).

International economic integration has been accompanied by an increase in the number of cross-border mergers and acquisitions. The incidence of such operations in total M&A activity was 24 per cent between 1996 and 2001 in the leading industrial countries, compared with 22 per cent in the previous six-year period. The percentage rose from 10 to 13 per cent for concentrations involving US target firms, from 33 to 39 per cent for euro-area firms and from 30 to 36 per cent for those involving Italian firms.

M&A activity fell off considerably in 2001 in all the main industrial countries in conjunction with the slump in share prices. The volume of operations decreased with respect to 2000 from 7,621 to 5,687 in number and from $2,117 billion to $923 billion in value.

The number of mergers and acquisitions involving US firms decreased by 33 per cent to 1,936 and their value fell from $1,326 billion to $557 billion, with an especially large contraction in operations involving non-financial firms. Transactions in the euro area decreased in number from 2,360 to 1,687 and in value from $283 billion to $126 billion. The decline was greatest in services and wholesale and retail trade.

Mergers and acquisitions involving Italian companies declined by 16 per cent to 218 in 2001; their total value fell by 52 per cent, from $43 billion to $20 billion. Measured by number of transactions, the largest decrease came in the financial sector, whose share of the total diminished from 19 to 13 per cent. By value, however, M&A activity in this sector actually increased, while services and wholesale and retail trade saw their shares shrink.

Table 2

Mergers and acquisitions by sector in the main industrial countries (1)
(percentages of the total value of operations in the country/geographical area)

	Manufacturing and natural resources (2)				Services and wholesale and retail trade				Finance				*Memorandum item:* high-tech sectors (3)			
	1990-95	1996-01	2000	2001	1990-95	1996-01	2000	2001	1990-95	1996-01	2000	2001	1990-95	1996-01	2000	2001
Australia	48.7	48.1	55.6	37.5	36.2	24.4	9.3	49.8	15.1	27.5	35.1	12.7	1.3	14.3	5.1	43.7
Belgium	15.0	22.4	4.3	1.6	21.2	20.7	76.7	73.9	63.8	56.9	19.0	24.5	3.9	1.7	0.7	7.0
Canada	65.2	51.9	35.8	61.9	25.3	35.6	58.7	21.6	9.5	12.5	5.5	16.5	4.5	14.9	22.7	2.0
France	46.3	43.6	19.3	72.7	22.6	29.1	47.2	13.3	31.1	27.3	33.5	14.0	5.0	9.1	3.2	24.0
Germany	39.3	15.5	22.5	13.7	31.1	65.6	43.1	10.9	29.6	18.9	34.4	75.4	3.6	57.4	36.1	1.6
Italy	44.9	15.1	27.0	11.1	10.0	35.7	56.1	29.9	45.1	49.2	16.9	59.0	11.6	21.1	2.4	0.2
Japan	13.6	14.7	10.9	53.5	5.5	26.4	20.0	26.2	80.9	58.9	69.1	20.3	1.4	21.3	11.2	40.3
Netherlands	15.9	38.5	33.3	9.3	27.5	34.8	32.7	7.7	56.6	26.7	34.0	83.0	5.5	13.5	8.2	0.8
Spain	40.2	11.7	4.7	29.1	27.4	53.9	89.8	66.4	32.4	34.4	5.5	4.5	1.6	16.9	37.6	0.1
Sweden	75.4	65.5	55.2	21.8	12.4	17.7	34.0	34.2	12.2	16.8	10.8	44.0	22.0	39.2	16.8	3.1
Switzerland	52.6	51.2	51.4	67.4	14.2	7.8	47.2	23.2	33.2	41.0	1.4	9.4	10.4	39.5	70.7	2.2
United Kingdom	37.7	31.4	40.7	20.8	38.1	42.0	36.9	33.6	24.2	26.6	22.4	45.6	16.2	24.6	41.3	3.4
United States	33.5	36.2	45.7	40.8	41.2	42.2	38.0	31.1	25.3	21.6	16.3	28.1	23.1	28.7	24.5	27.0
Total main industrial countries (4)	36.8	34.6	40.6	37.8	34.6	41.2	39.5	30.4	28.6	24.2	19.9	31.8	17.3	27.8	25.6	20.1
Euro area	39.9	24.2	20.9	26.0	21.1	44.4	49.7	27.9	39.0	31.4	29.4	46.1	5.6	28.5	20.7	10.1
World	36.8	34.6	39.2	36.8	33.8	40.5	40.4	30.2	29.4	24.9	20.4	33.0	16.4	27.3	27.1	20.1

Sources: Thomson Financial and SDC Platinum.

(1) The sectors refer to that of the company being acquired. – (2) Includes “Other”: non-financial holding companies, other unclassified sectors and general government. – (3) Includes pharmaceuticals, data processing equipment, software and hardware, electronic apparatus, telecommunications and communications, and aerospace. – (4) G10 countries, Australia and Spain.

side, there was very rapid growth in holdings of medium and long-term securities (€46.7 billion for the domestic component and €14.5 billion for foreign securities) and a decline in holdings of equity (€6.7 billion for Italian shares and €0.3 billion for foreign shares). Households also made net disposals of units of Italian and foreign investment funds (e12 billion and €5.6 billion respectively). Shares and investment fund units declined from 44 to 34 per cent of households' total financial assets between September 2000 and September 2001.

Foreign assets made up 9.6 per cent of the total in September, compared with 8.6 per cent a year earlier. Presumably, a substantial proportion consisted of securities issued by developing countries, the bulk of them purchased in the late nineties at a time when the nominal yields on Italian government securities were declining sharply.

Households' gross liabilities rose by €15.5 billion, compared with €22 billion in the same period of 2000.

Non-financial firms' financial deficit for the first nine months amounted to €20.1 billion, compared with €23.6 billion in the same period of 2000. The increase in domestic liabilities fell by half to €26.2 billion, mainly owing to the deceleration in short-term debt. Most of the growth of €16 billion in external liabilities came from the expansion in debt (€5.2 billion) and shares (€6.7 billion). Overall, firms' liabilities in the form of shares and other equity grew by €9.5 billion, compared with €3.3 billion in the first nine months of 2000. The increase in shares was smaller than that in debt. Leverage, expressed as the ratio of debt to the sum of debt and shareholders' equity, was 42.4 per cent, five percentage points above the ten-year low recorded at the end of 1999 but nonetheless lower than the levels of the first half of the nineties, when it exceeded 50 per cent. According to data collected by Mediobanca, the recent increase in leverage was faster among larger companies.

Among the financial assets held by firms, there was a large increase in shares and other equity, both foreign (€11.5 billion) and Italian (€18.9 billion). A contribution to this result came from mergers and acquisitions, whose amount remained substantial during the year (see box).

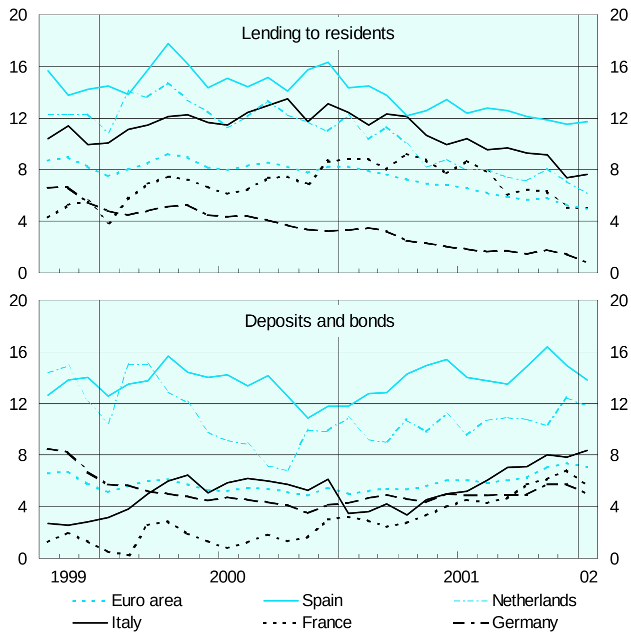
Bank lending in Italy

In the fourth quarter of 2001 bank lending in Italy slowed down. The twelve-month growth in lending to resident customers fell to 7.7 per cent in January 2002, compared with 9.7 per cent in September (Table 25 and Figure 37). The deceleration mainly involved large firms and finance companies, which in the last part of 2000 and the first few months of 2001 had made ample use of bank credit in connection with major corporate actions.

Figure 37

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 not arising from transactions.

The twelve-month growth in lending to non-financial firms was equal to 8.3 per cent in January, compared with 14.5 per cent in 2000 (Table 26), in line with expectations based on the trend in investment and interest rates. The slowdown in the growth in lending to the service sector from 19.2 per cent in 2000 to 9.8 per cent in the twelve months to January 2002 was largely due to the reduction in lending to telecommunications companies. The small

Table 25

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											
			Overnight		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 – Dec.	5,377.6	4.4	1,648.8	7.2	2,159.7	5.4	1,276.8	–4.1	174.9	21.5	2,563.2	7.8	6,909.0	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	8.9	7,015.3	8.2
Feb.	5,480.4	3.4	1,614.5	2.6	2,223.1	6.6	1,323.4	–3.8	215.8	22.4	2,630.5	9.1	7,028.2	7.9
Mar.	5,518.8	3.6	1,623.9	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	3.7	1,653.5	2.4	2,241.2	6.7	1,323.8	–2.5	224.9	13.2	2,675.5	8.9	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	8.4	7,144.2	6.9
June	5,625.3	4.8	1,715.8	6.2	2,240.6	5.3	1,330.7	–0.9	224.5	21.4	2,725.6	8.7	7,195.3	6.7
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	4.5	1,337.2	0.5	233.9	25.0	2,733.7	8.1	7,169.9	6.2
Sept.	5652.1	5.1	1,733.6	9.1	2,237.5	3.6	1,342.5	1.5	228.2	20.6	2,744.2	7.9	7,223.2	5.9
Oct.	5,675.5	5.5	1,732.4	9.2	2,241.1	3.3	1,351.8	2.9	236.9	25.9	2,762.6	8.0	7,250.3	5.6
Nov.	5,732.5	6.1	1,780.8	10.8	2,242.1	2.8	1,365.0	4.5	229.5	19.9	2,764.6	9.0	7,317.1	5.8
Dec.	5,870.9	6.6	1,879.7	12.9	2,262.2	2.7	1,404.9	5.8	220.0	13.9	2,772.9	9.1	7,340.6	5.3
2002 – Jan.	5,828.9	6.5	1,830.8	13.3	2,259.2	1.9	1,414.5	6.4	220.2	3.0	2,787.9	8.3	7,353.6	4.9
							Italy (6)							
2000 – 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	32.6	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	–15.8	54.8	–3.5	82.0	26.8	327.5	10.8	951.9	9.7
Oct.	615.1	5.3	412.9	7.2	57.0	–14.4	54.8	–2.4	83.6	20.7	327.8	10.7	958.0	9.3
Nov.	608.1	6.5	407.5	9.5	56.4	–13.3	54.8	–1.4	82.7	16.1	331.1	11.0	974.2	9.1
Dec.	643.9	6.4	446.1	9.4	57.2	–11.7	57.2	0.1	76.2	11.6	334.7	10.6	980.6	7.4
2002 – Jan.	626.5	6.9	428.3	11.3	55.9	–11.4	57.3	3.0	77.6	3.2	336.5	11.1	980.9	7.7

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

Syndicated lending by Italian banks

Syndicated loans are operations in which one or more arranging banks, after having specified the amount, form and terms of the loan with the borrower, invite other intermediaries to provide a share of the funds on the same contractual conditions.

Compared with bond issues, syndicated loans allow borrowers to obtain large amounts of funds more quickly and increase the flexibility of determining interest rates, terms of use and repayment arrangements. Banks benefit by diversifying their exposure to credit risk.

The arranging banks are responsible for assessing borrowers' creditworthiness and monitoring their performance. Syndicated loans enable them to satisfy the demand for large loans while conserving their capital. For the other banks, participation in the syndicate allows them to enter sectors and geographical areas that would otherwise be difficult to penetrate. Each participant remains responsible for the prudent management of its share of the loan.

According to Dealogic Capital Data, which tracks syndicated loans whose terms are known, the total value of syndicated bank loans to private sector enterprises in more than 80 countries rose from €800 billion in 1995 to €1,818 billion in 2001 (Table 1).

Very large loans have increased their share of total syndicated lending, with the proportion of loans larger than €1 billion rising from 37 to 54.7 per cent of total new loans. The average number of banks participating in each syndicate has increased from four to seven.

Between 1995 and 2001, US firms' share of new loans fell from 68.3 to 60.4 per cent and that of UK enterprises from 10.5 to 9 per cent. By contrast, the share of firms in the four main euro-area countries increased from 5.4 to 8.9 per cent and that of Japanese companies from 0.6 to 4.6 per cent. Lending to Italian residents rose from €5 billion to €31 billion (from 0.6 to 1.7 per cent of the total), reflecting increased demand for financing on the part of large firms. Last year, three loans to telecommunications and energy corporations accounted for more than 60 per cent of the credit granted to the 29 Italian firms that made recourse to syndicated loans.

US banks dominate the syndicated loan market thanks to their long experience in the sector and the extensive use of this form of lending by American firms. In 2001, they acted as arranger in loans worth €946 billion, or 52 per cent of the world total, with nearly two thirds of the total being arranged by just three intermediaries. German banks have strengthened their

Table 1

Syndicated loans for which the terms are known (1)
(billions of euros and percentages)

	Borrower				Arranging bank	
	1995		2001		2001	
	Amount	% of total	Amount	% of total	Amount	% of total
United States	547	68.3	1,097	60.4	946	52.0
United Kingdom	84	10.5	164	9.0	158	8.7
Japan	5	0.6	84	4.6	112	6.2
Italy	5	0.6	31	1.7	24	1.3
Germany	23	2.8	53	2.9	200	11.0
France	11	1.4	52	2.9	97	5.3
Spain	5	0.6	26	1.4	12	0.7
Other	120	15.2	311	17.1	269	14.8
Total	**800**	**100.0**	**1,818**	**100.0**	**1,818**	**100.0**

Source: Dealogic Capital Data.

(1) The data are for syndicated loans granted to private-sector enterprises. Nationality is determined on the basis of the group to which the borrower and the arranging bank belong. If there is more than one arranger, the amount of credit is allocated by dividing the loan amount equally among them.

cont.

position (to 11 per cent) through the acquisition of a number of US banks that specialize in syndicated lending. The share held by British banks was 8.7 per cent, while French and Japanese banks had shares of 5.3 and 6.2 per cent respectively. Although growing, Italian banks' share remains modest: in 2001 they acted as arranger for loans amounting to €24 billion, or 1.3 per cent of the total. Including participation in loans arranged by other banks, Italian banks' share of total credit granted rises to 3.2 per cent.

According to prudential returns,[1] the stock of syndicated loans disbursed by Italian banks to resident borrowers amounted to €57 billion at the end of 2001, compared with an average of €33.2 billion in the period 1995-1999 (Table 2). Within this aggregate, loans granted as arranger totaled €16 billion. Syndicated loans represented more than a fifth of the annual growth in lending to Italian firms; in December they accounted for 11 per cent of outstanding bank loans to Italian companies.

At the end of last year 363 Italian banks had participated in at least one syndicated loan to a resident borrower. Forty-two per cent of the total lending volume was accounted for by just ten banks, and the activity of arranging such loans is even more concentrated.

Syndicated loans to non-residents increased from €15.2 billion in 2000 to €22 billion in 2001, mainly due to the sharp rise in the participation of the foreign branches of Italian banks. At the end of 2001 they had provided €14.9 billion, about three quarters of the total granted to non-residents (52.2 per cent in 1995).

[1] Prudential returns track the volume of credit actually disbursed by Italian banks and their foreign branches, including transactions that are not publicized abroad.

Table 2

Syndicated loans disbursed by Italian banks and their foreign branches (1)
(billions of euros and percentages)

	Value of syndicated loans disbursed (2)				
	Total	As arranger (3)		As participant (4)	
			Share of foreign branches		Share of foreign branches
			To residents		
1995	31,516	9,184	7.7	22,331	9.5
1996	29,870	9,297	6.2	20,573	7.7
1997	36,522	11,123	4.9	25,399	7.6
1998	36,478	11,909	1.8	24.569	3.1
1999	31,594	9,853	2.2	21,741	2.7
2000	47,528	15,332	2.1	32,196	1.8
2001	56,958	15,979	1.0	40,979	1.5
			To non-residents		
1995	8,009	1,546	38.0	6,463	52.2
1996	7,781	1,349	35.3	6,432	58.0
1997	9,453	1,322	33.2	8,131	63.1
1998	10,290	1,600	16.7	8,690	64.3
1999	15,205	1,318	46.3	13,887	77.1
2000	22,202	2,687	65.2	19,515	75.2
2001	22,015	2,398	62.8	19,617	75.7

Source: Prudential returns.

(1) Value of "pooled operations" tracked by prudential returns. – (2) Sum of loans disbursed as arranger and as participant. – (3) Comprises loans by the arranging bank in operations set up by the head offices or foreign branches of Italian banks. – (4) Comprises participation in syndicated loans by the head offices or foreign branches of Italian banks, regardless of the nationality of the arranger.

The international activity of Italian banks

The integration of financial markets over the last decade was accompanied by an expansion in banks' international activity. According to the Bank for International Settlements, the stock of foreign loans by banks established in the OECD countries and the main offshore financial centres nearly doubled during the nineties, exceeding $10 trillion at the end of 2000.

Episodes of financial instability shook Mexico (1994), South-East Asia (1997), Russia (1998), Brazil (1999), Turkey and Argentina (2001). The crises, whose effects were attenuated in part by international financial assistance, underscored the risks associated with international lending.

The internationalization of the Italian banking system is modest by comparison with the other main euro-area countries. In 2001 total secured and unsecured foreign loans by Italian banks amounted to 26 per cent of GDP, compared with 108 per cent for German banks, 62 per cent for French banks and 61 per cent for Spanish banks. Of Italian banks' total international lending, 82 per cent was directed towards OECD countries, a proportion broadly in line with the average for the other main euro-area countries.

At the end of 2001 Italian banks' overall exposure to countries not belonging to the OECD came to €78 billion (see table). Their lending to developing countries totaled €49 billion and accounted for 4.4 per cent of total international bank lending to the latter, compared with 19.3 per cent for the United States, 15.1 per cent for Germany, 13.2 per cent for Spain, 9.7 per cent for the United Kingdom, 6.6 per cent for France and 6.2 per cent for Japan. Italian banks' exposure to offshore centres amounted to about €29 billion, or 1.6 per cent of the total, the smallest share among the G7 countries.

The international activity of Italian banks and banking groups is subject to specific supervisory regulations on country risk. Banks that lend to residents of non-OECD countries are required to cover that risk, in addition to counterparty and market risk, by way of adjustments to supervisory capital or writedowns. For the most highly exposed banks, the minimum adjustments and writedowns for each non-OECD borrower country are determined as a percentage of the exposure. The coefficients for calculating the adjustments and writedowns are decided every six months in collaboration with the Italian Bankers' Association using a methodology that takes account of macroeconomic conditions, debt-servicing performance and financial market indicators.[1]

In December 2001 loans subject to adjustments totaled an estimated €12 billion. Minimum capital adjustments appear to have amounted to €1.8 billion, €400 million less than in December 2000.

The decline in minimum capital adjustments is largely due to an improvement in the average risk of the

cont.

increase of 4.5 per cent in lending to manufacturing firms was partly due to the restructuring of the liabilities of several large groups. There was a further increase in large companies' recourse to syndicated loans (see box).

The growth in bank borrowing by finance and insurance companies slowed from 25.3 per cent in 2000 to 8.7 per cent in the twelve months ending in January 2002. The deceleration was especially marked for leasing companies, which were affected by the slowdown in economic activity.

Lending to households expanded by 9.8 per cent in the twelve months ending in January, compared with 13.3 per cent in 2000. Lending for the purchase of housing showed a further large increase of €29.2 billion in 2001, close to the figure recorded in 2000, during a phase of lively activity in the real-estate market. Consumer credit continued to grow at a rapid pace, expanding by 19.3 per cent in the twelve months ending in December.

Credit conditions remain easy. For all categories of customer the take-up of overdraft facilities

Italian banks' exposure to non-OECD countries and minimum supervisory capital adjustments
(millions of euros) (1)

	Market share (% of total banks reporting to the BIS) (2)	Total exposure (3)		Minimum capital adjustments (4)	
		Dec. 2000	Dec. 2001 (5)	Dec. 2000	Dec. 2001 (5)
Developing and Central and Eastern European countries	4.4	49,469	48,800	1,956	1,570
of which: Central and Eastern Europe	*9.7*	*8,121*	*9,400*	*852*	*450*
of which: Croatia	*37.8*	*4,230*	*5,800*		
Russia	*5.0*	*2,492*	*2,200*		
Latin America	*7.7*	*32,787*	*32,400*	*602*	*680*
of which: Argentina	*8.3*	*9,482*	*8,200*		
Brazil	*7.5*	*13,008*	*14,600*		
Peru	*34.1*	*6,652*	*5,800*		
Asia	*0.7*	*4,270*	*3,500*	*92*	*60*
Offshore centres	1.6	26,006	29,500	199	230
Total non-OECD countries	**3.0**	**75,475**	**78,300**	**2,155**	**1,800**

(1) The data include South Korea, an OECD member that has restructured its foreign debt in the last five years. – (2) Market share is calculated on loans in September 2001. – (3) For secured and unsecured loans and guarantee commitments in all currencies (including local currencies). – (4) Applied to unsecured international exposures. Trade credits carry a 15 per cent weighting. – (5) Estimate.

borrower countries. By macro-area, adjustments for the countries of Central and Eastern Europe decreased, reflecting a substantial reduction in the risk level of Russia and Croatia over the course of 2001. Adjustments increased for Latin America, where the impact of the rise in the coefficient for Argentina more than offset the reduction in exposures. Adjustments for Asia, Africa, the Middle East and the offshore centres remained low.

[1] *The country-risk rules, introduced in 1993 and amended in 1998 (see the box "Revision of supervisory rules on country risk",* Economic Bulletin *No. 27, 1998), were recently reviewed to address issues regarding lending by Italian banks' branches and subsidiaries in non-OECD countries. Loans to local residents other than the public sector are not subject to minimum adjustments, but the banks are required to assess counterparty risk carefully, taking specific account of potential repayment difficulties with borrowers that show currency mismatching between assets and liabilities and operate in a highly fragile economic environment.*

remained limited, albeit slightly higher than the lows touched at the end of 2000.

Bank lending rates adjusted rapidly to the conditions obtaining in the money market (Figure 38).

Starting in the summer the average short-term lending rate fell by 0.8 percentage points to stand at 5.8 per cent in January, in line with the decline registered in the euro area as a whole.

Between the middle of 2001 and January of this year the rate on new medium and long-term bank loans to firms came down in Italy to 4.6 per cent, a decline of 0.9 percentage points (compared with one of 0.6 points in the euro area). For medium and long-term loans to households (comprising mortgage loans for house purchase and consumer credit with a maturity of more than 18 months), the rate was equal to 6 per cent in January, 0.8 points lower than in June 2001; in the euro area the rate on loans for house purchase fell by 0.5 points.

Table 26

Lending and bad debts of Italian banks by sector of economic activity (1)
(percentages)

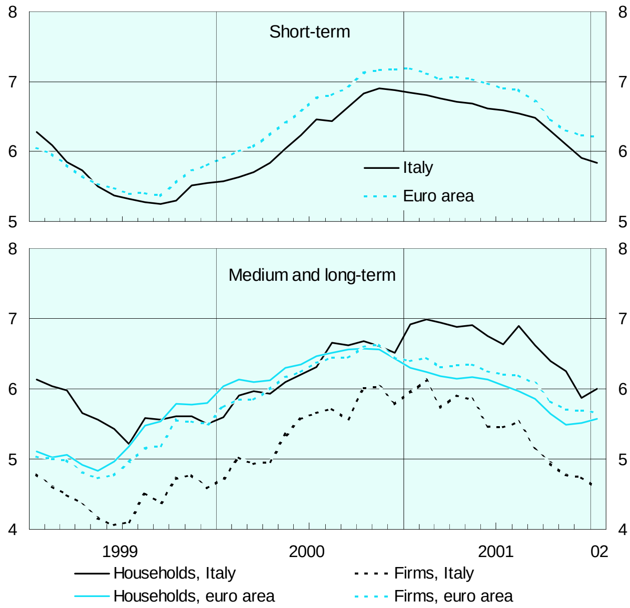
	General government	Finance and insurance companies	Enterprises						Households		Total
				Holding companies	Non-financial corporations						
						Manufacturing industry	Construction	Services	Consumer households	Sole proprietor-ships	
					12-month percentage changes in lending (2)						
2000 – December	−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	−2.0	22.7	10.1	10.8	10.0	7.4	6.9	10.4	10.6	4.9	10.4
December	−5.6	10.3	8.7	8.4	8.7	4.0	6.9	11.2	9.4	3.6	7.6
2002 – January . .	−4.2	8.7	8.6	13.1	8.3	4.5	8.1	9.8	9.8	4.2	7.6
					12-month percentage changes in bad debts (3)						
2000 – December	−6.3	−12.2	−16.1	−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
December	−4.6	−29.7	−13.2	−2.3	−13.3	−14.2	−14.4	−13.3	−9.4	−10.0	−12.3
2002 – January . .	−6.4	−31.7	−12.7	−1.5	−12.9	−13.1	−14.5	−12.9	−10.5	−9.6	−12.0
					Ratio of bad debts to total lending (4)						
2000 – 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	5.4	13.2	4.8
December	0.1	0.5	4.8	1.4	5.1	4.0	11.9	4.4	5.4	13.2	4.7
2002 – January . .	0.1	0.5	4.8	1.4	5.1	4.0	11.6	4.4	5.4	13.2	4.7
					Percentage composition of lending						
2000 – December	7.1	11.8	55.4	3.8	51.6	19.7	5.6	21.9	19.7	6.0	100.0
2001 – December	6.3	12.1	55.9	3.8	52.1	19.1	5.6	22.6	20.0	5.8	100.0

(1) The data on loans exclude repos, bad debts and other minor items included in the aggregate reported in Table 25. – (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.

Loan quality continued to improve. Over the year the ratio of bad debts to total lending came down by 1 percentage point to 4.7 per cent, the lowest figure since 1990. Securitization transactions involving loans totaling €8.4 billion helped to reduce the stock of bad debts by 12 per cent in the twelve months ending in January 2002. For the Italian banking system, the risks arising from activity with foreign counterparties remain limited. In particular, the exposure to Enron, the distressed US group, amounts to a little less than €1 billion, while that to Argentina is around €8.2 billion.

Figure 38

Bank lending rates in Italy and in 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 reported by 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 with a maturity of up to 18 months; that for the euro area regards loans to firms with a maturity of up to 12 months. For medium and long-term lending to households, the rate for Italy refers to new lending with a maturity of more than 18 months (including lending to finance the purchase of consumer durables); that for the euro area mainly consists of loans for house purchase.

Italian banks' funding, securities holdings and profitability

Domestic funding increased by 8.3 per cent in the year to January, compared with 6.1 per cent in 2000 (Table 27). The growth reflected the sharp pick-up in current account deposits in the second half of the year, partly due to the narrowing of the yield differential with Treasury securities (Figure 39). Repurchase agreements, which expanded rapidly in the first half of the year, slowed in the second. Bonds increased swiftly (11.1 per cent in the twelve months to January), especially subordinated bonds, which jumped by 29.8 per cent. About 13 per cent of new issues were placed on the Euromarket, compared with 18 per cent in 2000.

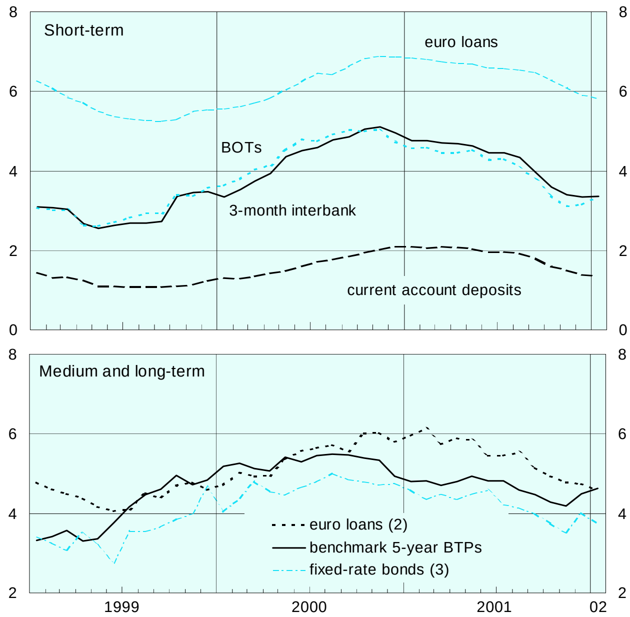
The average deposit rate at Italian banks was 1.5 per cent at the end of January, 0.7 points lower than in December 2000. In the euro area, the rate on term deposits of up to one year fell by 1.2 points.

The decline in banks' securities holdings continued, although more slowly than in 2000. The ratio of securities to total lending fell from 21.4 per cent at the end of 2000 to 20 per cent in January 2002, a low level by historical standards and 5.4 percentage points below the euro-area average.

Banks' net liabilities towards non-residents, excluding exchange rate variations, increased by €28.5 billion, or 36.7 per cent, in the twelve months to January.

Figure 39

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



Sources: Based on Bank of Italy, MTS and MID data.

(1) Rates refer to operations in euros. – (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.

Preliminary data on banks' earnings for 2001 show a decline in gross operating profit for the first time since 1997 (6.9 per cent), as an increase of 8.1 per cent in net interest income, which was mainly attributable to the growth in lending, failed to offset the fall in other revenues. The decline in the financial markets reduced commissions from asset management services and income from securities and foreign exchange trading. Gross income fell by 1.2

Table 27

Assets and liabilities of Italian banks (1)

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

	1999	2000	2001 (2)				January 2002	
			Q1	Q2	Q3	Q4	Stocks	12-month % change
Assets								
Securities	–5.4	–16.0	–25.9	4.9	–11.8	–11.2	183,108	–10.8
of which: government securities	*–6.8*	*–20.3*	*–31.7*	*7.9*	*–17.4*	*–19.5*	*129,035*	*–15.5*
Loans	10.0	13.1	8.8	6.0	9.5	6.1	980,946	7.7
of which: (3) *short-term (a)*	*6.5*	*18.5*	*11.0*	*3.5*	*9.8*	*2.5*	*464,344*	*5.9*
medium and long-term (b)	*13.2*	*10.1*	*8.4*	*10.2*	*11.5*	*5.7*	*462,666*	*9.5*
(a)+(b)	*9.8*	*14.2*	*9.7*	*6.8*	*10.6*	*4.1*	*927,010*	*7.6*
repos	*30.5*	*–18.3*	*–25.0*	*35.6*	*–62.5*	*–5.7*	*4,751*	*–19.3*
bad debts (4)	*–7.2*	*–13.8*	*–3.8*	*–37.4*	*–1.4*	*–0.5*	*45,785*	*–12.0*
Memorandum item: bad debts at estimated realizable value (4)	*–16.2*	*–20.1*	*–5.9*	*–47.3*	*21.1*	*6.2*	*20,759*	*–15.5*
External assets	–15.5	1.6	22.7	–8.6	1.0	–37.1	179,519	–6.0
Liabilities								
Domestic funding (5)	2.9	6.1	4.6	7.4	10.2	8.7	962,986	8.3
Deposits	0.6	4.0	0.0	6.3	10.2	8.6	626,502	6.9
of which: (6) *overnight*	*10.0*	*6.0*	*–0.4*	*8.1*	*18.7*	*10.7*	*428,274*	*11.3*
with agreed maturity	*–22.2*	*–16.1*	*–21.7*	*–10.5*	*–17.1*	*4.6*	*55,854*	*–11.3*
redeemable at notice	*0.0*	*–6.6*	*–6.5*	*–1.1*	*2.4*	*7.1*	*57,306*	*3.0*
repos	*–16.3*	*35.7*	*29.7*	*17.2*	*0.6*	*1.8*	*77,580*	*3.2*
Bonds (5)	8.0	10.7	13.9	9.5	10.2	9.0	336,485	11.1
External liabilities	3.8	11.6	50.3	6.5	–9.7	–18.6	294,170	2.6

(1) The figures for January 2002 are provisional. The percentage changes are adjusted to take account of reclassifications, 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) Some 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.

per cent, while operating expenses rose by 3.1 per cent, with staff costs increasing by 1.7 per cent and the number of employees by 0.5 per cent.

The government securities market

Net issues of government securities in the euro area amounted to €94.2 billion in 2001, an increase of 11.7 per cent on the previous year. In Italy, net issues increased from €13 billion to €31.3 billion (Table 28), reflecting developments in the overall borrowing requirement.

Net issues of Treasury bills rose to €11.7 billion, as against net redemptions of €17.6 billion in 2000. Net issues of Treasury bonds fell from €47.6 billion to €38.3 billion and Republic of Italy issues decreased from €13.8 billion to €9 billion. The average residual maturity of Italian government securities remained unchanged at about five years and ten months (Figure 40).

Government securities were mainly purchased by the non-financial sector and non-residents, while banks and investment funds made net redemptions (Table 29).

Table 28

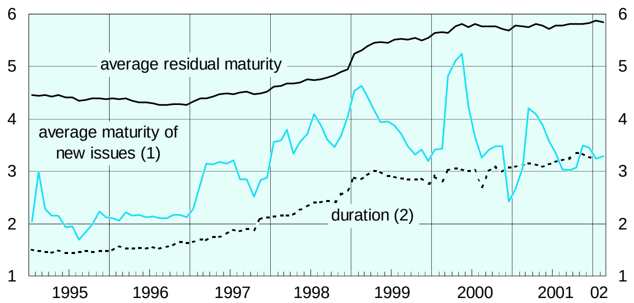
Issues of Italian government securities (1)
(millions of euros)

	2000	2001	2000	2001
	Gross issues		**Net issues** (2)	
BOTs	164,650	188,677	–17,550	11,717
CTZs	33,317	35,528	–22,462	–16,476
CCTs	19,870	28,330	–7,860	–9,812
BTPs	106,737	119,929	47,626	38,256
Other	1,167	54	–577	–1,446
Total	**325,741**	**372,517**	**–824**	**22,239**
Republic of Italy issues	19,145	22,530	13,804	9,049
Total government securities	**344,886**	**395,047**	**12,980**	**31,288**

(1) At face value. Rounding may cause discrepancies in totals. – (2) Net of issue differences; includes buybacks and redemptions made by drawing on the sinking fund for the redemption of government securities.

Figure 40

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



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

Beginning at the end of August the yield differential between 10-year Treasury bonds and the German Bunds of the same maturity narrowed steadily from 0.37 to 0.27 percentage points; that between the other main euro-area benchmark securities and the Bund decreased to a similar degree. The deterioration in Germany’s public finances and expectations of large issues of long-term German government securities in 2002 may have contributed.

Trading on the MTS market remained brisk in the last quarter of 2001: average daily turnover was equal to €8.9 billion, compared with €8.5 billion in the same period of 2000. Turnover stayed at this level in the first two months of 2002. The EuroMTS market in London registered average daily turnover of €3.8 billion in the first two months of 2002, 13 per cent lower than in the same period the previous year. Italian securities’ share of total volume fell from 50 to 37 per cent, while that of German securities declined from 12 to 9 per cent. By contrast, trading in Belgian instruments rose from 3 to 8 per cent of total turnover and that in Greek paper from 1 to 6 per cent.

Bank and corporate bonds

In the euro area, net issues of bank and other corporate bonds exceeded the already high level recorded in 2000. Net issues of medium and long-term bonds totaled €372.6 billion, an increase of 17.7 per cent.

Table 29

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

	Government securities						Corporate bonds	Total public sector securities and corporate bonds	Listed Italian shares
	BOTs	CTZs	CCTs	BTPs	Other (2)	Total			
					Net purchases January-December 2001				
Central bank	−78	−200	1,921	345	1	1,989	6	1,995	201
Banks	3,522	−4,480	−7,384	−4,870	−956	−14,168	−1,999	−16,167	−2,868
Investment funds	9,936	−5,841	1,124	−8,528	−181	−3,490	2,135	−1,355	−1,787
Other investors (3)	−1,663	−5,955	−5,473	51,309	10,337	48,555	64,992	113,547	10,625
of which: non-residents (4)	*−2,918*	*−991*	*−10,342*	*23,920*	*9,331*	*19,000*	*9,866*	*28,866*	*−2,684*
Total	**1,717**	**−16,476**	**−9,812**	**38,256**	**9,201**	**32,886**	**65,134**	**98,020**	**6,171**
					Stocks at end-December 2001				
Central bank	..	..	7,712	16,044	40,527	64,283	210	64,493	5,994
Banks	9,789	2,931	44,570	30,329	6,920	94,539	34,844	129,383	2,441
Investment funds	14,445	4,131	25,945	74,753	2,796	122,070	10,684	132,754	25,854
Other investors (3)	89,576	41,515	147,734	509,889	83,913	872,627	309,832	1,182,459	540,690
of which: non-residents (4)	*57,595*	*23,928*	*40,199*	*283,287*	*76,326*	481,335	....	*481,335*	*77,644*
Total	**113,810**	**48,577**	**225,961**	**631,015**	**134,156**	**1,153,519**	**355,570**	**1,509,089**	**574,978**
Percentage share of total government securities	**9,9**	**4,2**	**19,6**	**54,7**	**11,6**	**100**			

(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, 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 for October 2001.

Net issues by Italian banks and firms increased by 83.6 per cent to €77.8 billion. The largest increments were recorded by non-financial enterprises and financial companies other than banks. Gross issues connected with securitizations were substantial (e35 billion, compared with €12.9 billion in 2000); large individual operations were conducted by government agencies (€5.3 billion by the Ministry of the Economy, €1.7 billion by the INPS and €600 million by the SACE).

Gross Eurobond issues by euro-area banks and enterprises rose by 11.2 per cent to €417.2 billion in 2001. Following a sharp contraction in the third quarter in the euro area and in Italy, issues began to rise again in the fourth (Table 30).

Eurobond issues by non-financial enterprises in the private sector were again concentrated in a few industries, with car manufacturers and telecommunications companies accounting for respectively 33 and 20 per cent of the euro-area total.

Gross Eurobond issues by Italian firms increased from €46.6 billion to €71.6 billion; their share of total euro-area issues rose from 12.4 to 17.2 per cent. Issues by non-financial enterprises were large, at €27.6 billion.

Table 30

Gross Eurobond issues by private sector companies resident in the euro area (1)

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

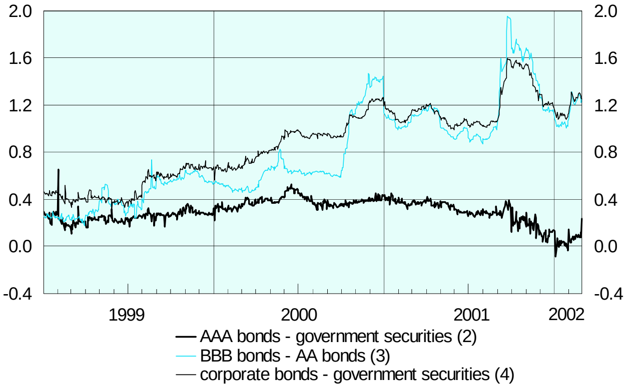
	1995	1996	1997	1998	1999	2000	2001	2001 Q1	2001 Q2	2001 Q3	2001 Q4
Italy											
Gross issues *(number of operations)*	22	27	32	41	105	188	259	53	92	42	72
(millions of euros)	2,662	4,281	5,337	8,861	45,860	46,613	71,597	12,254	24,900	9,582	21,861
of which: non-financial enterprises (millions of euros)	*213*	*446*	*1,695*	*4,041*	*24,102*	*11,032*	*27,571*	*3,785*	*11,522*	*1,520*	*10,744*
Rated issues (2) *(percentage share)*	20	49	25	24	81	56	68	60	74	70	66
France											
Gross issues *(number of operations)*	83	90	91	65	178	245	256	77	67	64	48
(millions of euros)	7,988	10,598	15,131	11,737	45,594	49,990	59,503	13,807	22,886	8,577	14,232
of which: non-financial enterprises (millions of euros)	*829*	*1,507*	*3,793*	*3,816*	*28,753*	*25,398*	*34,262*	*9,802*	*11,999*	*5,980*	*6,480*
Rated issues (2) *(percentage share)*	56	89	45	59	58	42	58	46	64	64	56
Germany											
Gross issues *(number of operations)*	123	238	250	291	588	663	456	154	106	106	90
(millions of euros)	14,303	36,358	37,508	48,072	111,035	126,012	117,741	47,911	26,939	21,294	20,966
of which: non-financial enterprises (millions of euros)	*895*	*3,482*	*4,047*	*4,980*	*15,444*	*27,041*	*41,483*	*18,124*	*13,731*	*4,091*	*5,536*
Rated issues (2) *(percentage share)*	31	59	62	55	60	64	77	86	70	84	57
Euro area											
Gross issues *(number of operations)*	536	689	723	702	1,406	1,795	1,775	504	475	379	417
(millions of euros)	51,850	89,298	96,916	116,596	312,561	375,139	417,231	120,248	127,088	60,566	109,328
of which: non-financial enterprises (millions of euros)	*3,188*	*8,181*	*12,879*	*20,959*	*91,459*	*104,623*	*139,034*	*36,556*	*50,830*	*14,958*	*36,690*
Rated issues (2) *(percentage share)*	39	63	50	51	71	60	73	76	74	77	69

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 41

Corporate bond yield differentials (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 bears a rating not lower than BBB3 or BBB–. – (2) Yield differential between AAA-rated bonds and government securities (French and German). – (3) Yield differential between BBB-rated and AA-rated bonds. – (4) Yield differential between all bonds issued by non-financial sector and government securities (French and German).

The yield differential between the bonds of non-financial enterprises and government securities, which had widened in the wake of the terrorist attacks in the United States, narrowed significantly from the second half of October as the economic outlook improved. At the end of January, the differential was close to 1 percentage point, the same as before September 2001 (Figure 41). In February, it increased by about 0.2 points, reflecting the effects of the Enron collapse and the high level of debt at a number of firms. The differential between BBB-rated and AA-rated bonds exhibited a similar pattern, standing at 1.2 points at the end of February.

The stock markets

By the end of October last year the main European stock markets had almost regained their early-September levels. They then stabilized through January 2002. The markets began to weaken again in February, primarily as a result of the uncertainty generated by the Enron affair and the difficulties of several large US corporations (Figure 42).

At the end of February the Dow Jones Euro Stoxx index, which tracks the shares of large euro-area firms, had declined by 3.3 per cent since the start of 2002 and by 22.2 per cent since the end of 2000. In Italy, the general stock market index was 0.9 per cent lower than at the start of the year and 25.7 per cent down on December 2000, a larger fall than those recorded in France (24.7 per cent), Germany (19.8) and Spain (7.6).

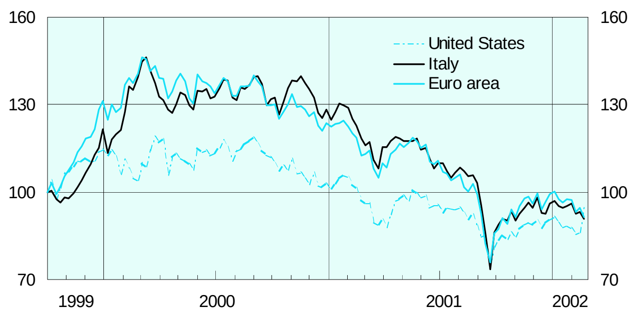
Italian banking shares have fallen significantly since the end of 2000 (32.8 per cent, compared with a fall of 25.2 per cent in Germany and a rise of 14.9 per cent in France). The earnings/price ratio of Italian banks, which had sunk especially low between 1998 and 2000, returned to near the level prevailing in the other main euro-area countries. However, the fall in the prices of telecommunications shares was smaller in Italy (26.6 per cent since the end of 2000, compared with 55 per cent in France and 49.2 per cent in Germany).

Earnings/price ratios on the main European stock markets have stabilized since the end of 2001 (Figure 43), and the differential with the real yield on long-term bonds has increased from its particularly low level in recent years.

In 2001 new listings declined on all the main stock markets compared with the previous year. In the G10 countries, they decreased from 942 to 314 in number and from €135 billion to €50 billion in value.

Figure 42

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



Source: Bloomberg.

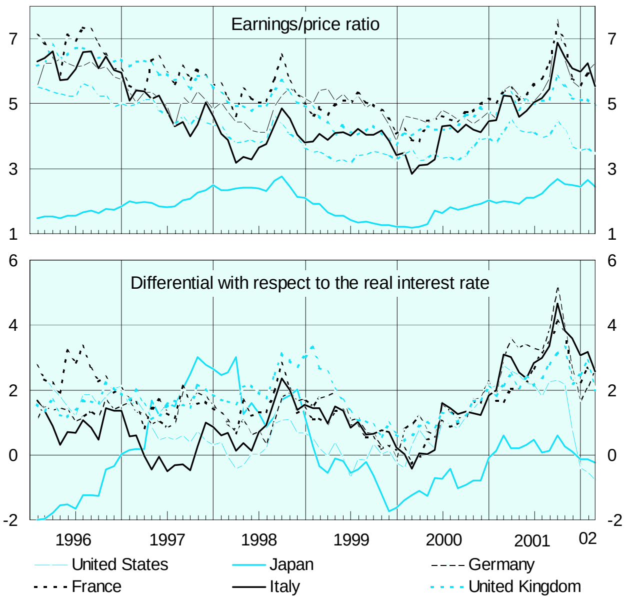
(1) Indices: MIB for Italy, Dow Jones Euro Stoxx for the euro area, Standard & Poor's 500 for the United States.

In Italy, 17 companies were admitted to listing in 2001 (45 in 2000), of which 4 joined the Nuovo Mercato, compared with 31 in 2000. Including capital increases, share issues raised €6.2 billion, compared with €9.1 billion the previous year.

Figure 43

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.

At the end of December 2001, the total capitalization of listed Italian companies was about €575 billion. As a proportion of GDP it fell from 70 to 47 per cent, compared with 49 per cent in Germany, 75 per cent in Spain and 84 per cent in France.

In 2001, the general decline in share prices led to a sharp fall in daily trading volume on both the main market (37.4 per cent) and the Nuovo Mercato (20.8 per cent). Average daily turnover in futures on the MIB30 index fell by 15.8 per cent in value compared with 2000, while that in options decreased by 24.4 per cent.

Investment funds

In 2001, investment funds controlled by Italian intermediaries recorded net redemptions of more than €2.2 billion, compared with net subscriptions of €29.2 billion in 2000 (Table 31). Against the background of highly turbulent stock markets, redemptions were concentrated in equity and balanced funds. In January, subscriptions slightly exceeded redemptions.

Table 31

Net assets and fund-raising by investment funds controlled by Italian intermediaries (1)

(*millions of euros*)

	2000	2001	2001 January	2002 January
		Net assets *(end-of-period data)*		
Italian funds	449,931	403,689	453,793	402,123
Foreign funds (2) ..	94,770	104,664	97,642	105,284
Total ...	**544,701**	**508,353**	**551,435**	**507,407**
		Net fund-raising		
Italian funds	–6,895	–20,356	–1,895	–102
Foreign funds (2) ..	36,056	18,124	1,199	492
Total ...	**29,161**	**–2,232**	**–696**	**390**
		Gross fund-raising		
Italian funds	335,768	218,585	21,178	15,625
Foreign funds (2) ..	100,201	97,174	5,375	4,426
Total ...	**435,969**	**315,761**	**26,553**	**20,051**

Sources: Bank of Italy and Assogestioni.

(1) The figures refer to harmonized investment funds. The data for the period between October 2001 and January 2002 are provisional. – (2) Value of units subscribed by Italian investors.

At the end of January, the net assets of foreign and Italian funds controlled by Italian intermediaries totalled €507 billion, a decline of 8 per cent in twelve months; net assets of Italian funds came to €402 billion, a decrease of 11.4 per cent.

SHORT-TERM ECONOMIC PROSPECTS

The world economy

The growth of the world economy slowed down in 2001 as a lagged effect of the rise in oil prices and the halt in the expansion of investment, especially in high technology. Year-on-year world output and trade increased by 2.4 and 1 per cent respectively, compared with 4.7 and 12.4 per cent in 2000 (Table 32).

Table 32

Actual and forecast performance of selected international macroeconomic variables

(percentage changes on previous year)

	2001 (1)	2002 (2)		
		IMF	OECD	Professional forecasters (3)
GDP (4)				
United States	1.2	0.7	0.7	1.6-2.7
Japan	–0.5	–1.0	–1.0	–2.3 - –1.0
Euro area	1.5*	1.2	1.4	1.0-1.5
Emerging economies	3.8*	4.1	–	2.9-3.1
of which: Asia	*4.9**	*5.1*	–	*4.6-6.2*
Latin America	*1.0**	*1.7*	–	*0.1-1.2*
Consumer prices (5)				
United States	2.8	1.6	1.2	1.1-1.6
Japan	–0.7	–1.0	–1.4	–1.3 - –1.1
Euro area	2.7	1.4	2.1	1.7-1.9
Emerging economies	6.9*	5.7	–	7.8
of which: Asia	*2.5**	*2.7*	–	*1.6-2.4*
Latin America	*6.3**	*5.2*	–	*12.1-14.1*
World trade (4) (6)	1.0*	2.2	2.0	–
Oil prices				
Average of the three leading grades ($ per barrel)	24.3	18.5	21.5 (7)	20.5 (8)

Sources: IMF, *World Economic Outlook: Interim Assessment Following the Events of September 11, 2001,* December 2001; OECD, *Economic Outlook,* December 2001.

(1) The figures marked by an asterisk are IMF estimates. – (2) Forecasts. – (3) Interval defined on the basis of the minimum and maximum values estimated by leading professional forecasters since the beginning of February 2002. – (4) At constant prices. – (5) For the OECD, GDP deflator. – (6) Goods and services. – (7) Price of OECD countries' imports. – (8) WTI.

After the slowdown registered in the first half of the year, during the summer some leading indicators pointed to an imminent upturn. The terrorist attacks of 11 September sowed uncertainty, aggravating the slackness of economic activity. Thanks to the support provided by economic policy measures, above all in the United States, and to the easing of international tensions, the economic repercussions of those tragic events were less severe and less persistent than had been feared.

In the United States the cyclical downturn that began in the second half of 2000 appears to be over. In the fourth quarter of 2001 GDP grew at an annual rate of 1.4 per cent, fueled by consumption and public spending. In the first two months of this year the index of manufacturers' confidence rose to a level consistent with a recovery in activity. Private non-farm employment increased modestly in February. The rebuilding of inventories, which had shrunk to historically very low levels for the phase of the cycle, is apparently already under way. Thanks in part to the good performance of consumption in January, GDP may grow at an annual rate of nearly 3 per cent in the first quarter.

In the euro area, where economic activity diminished slightly in the last few months of 2001, the indicators again suggest that the worst phase of the cycle is past.

In Japan GDP decreased again in the fourth quarter, by 4.5 per cent on an annual basis, owing mainly to the contraction of investment. At the end of February the Government announced a plan to reduce the bad debts held by banks. In the first week of March share prices rose substantially.

In the emerging countries growth slowed to a little less than 4 per cent in 2001, despite rapid expansion in China, India and Russia. In the newly industrialized economies of Asia, which were hard hit by the slump in high-technology products, economic activity stagnated. Towards the end of the year signs of recovery began to be perceptible.

Economic and social conditions in Argentina are worrying, with a financial crisis that has led the country to suspend debt servicing. The parity of the peso with the dollar has been abandoned. The repercussions on the other countries of the area have been limited. The Government has pledged to prepare an adjustment plan capable of restoring investors' confidence and permitting the reactivation of financial assistance from the international community.

The scenarios set out by leading professional forecasters in the past two months are more optimistic than those that were drawn up by the IMF and the OECD in December. They assume that oil prices will remain broadly stable at today's levels.

In the United States economic activity is expected to pick up in the course of the year to produce twelve-month growth rates of between 3 and 4 per cent in the fourth quarter. On average for the year, growth is forecast to be between 1.6 and 2.7 per cent, and in 2003 could be nearly 4 per cent. Financial markets anticipate that short-term interest rates will remain steady through June and rise by half a percentage point in the second half of 2002.

Output is expected to pick up in the euro area as well, gaining momentum in the second half of the year. However, the sluggishness of the German economy will continue to inhibit the recovery.

In Japan the balance-sheet difficulties of banks and firms are retarding the economy's emergence from the recession. Output, sustained by exports, is expected to return to modest growth, but not before the third quarter.

The main risk in these scenarios is that the US recovery may prove less robust than forecast. The higher risk premium on corporate bonds, due largely to the fears prompted by the collapse of Enron, has increased the cost of finance. This may slow the recovery in investment, which could also be affected by the sharp decline in profits in 2001 and the significant increase in corporate indebtedness. Consumer spending, which helped to buffer the cyclical downturn during 2001, could also be less robust than in previous recoveries, owing to the high level of household debt. Refinancing of home mortgages has diminished sharply in recent months as long-term interest rates have risen. Financial incentives for the purchase of motor vehicles are now coming to an end.

The euro area

Economic activity slowed significantly in the euro area in 2001. The worsening of expectations for export orders was reflected in a halt to growth in investment. The German economy, which is highly specialized in the production of capital goods, was severely affected by the slowdown in world trade: growth in GDP fell from 3 per cent in 2000 to 0.6 per cent; investment, after rising by 8.7 per cent in 2000, fell by 2.2 per cent.

The growth of around 2 per cent in euro-area consumption was considerably less than in the previous year, primarily owing to the lagged effects of the rise in the price of oil.

Industrial production stagnated during the summer, although some leading indicators pointed to a possible recovery towards the end of the year. The situation deteriorated following the terrorist attacks of 11 September, with a substantial fall in industrial production in October and November. The co-ordinated action of the monetary authorities of the leading countries and the easing of international tensions created the conditions for a revival of confidence and a recovery in economic activity. Firms' expectations for production and total orders began to improve in the last few months of 2001. The main economic indicators began to show a gradual improvement in December. In February 2002 the index of business confidence rose for the third successive month.

The average rise in the harmonized consumer price index in 2001 was slightly larger than in 2000 (2.7 per cent, as against 2.4 per cent). In the second half of the year the fall in the prices of oil and other raw materials, the easing of the pressures on food prices and the generally weak economic conditions, contributed to a slowdown in inflation. Wage moderation was another factor. The twelve-month increase in prices in December was equal to 2.1 per cent, compared with the peak of 3.4 per cent recorded in May.

In January 2002 the twelve-month rise in the harmonized index was 2.6 per cent owing to a series of temporary factors including bad weather and increases in regulated prices and indirect taxes in some countries. Preliminary estimates indicate that the rise in February was 2.5 per cent.

On 1 January the public began to use banknotes and coins denominated in euros. At the end of the same month nearly all cash transactions were being carried out in the new currency. The period of dual circulation has ended. As of 1 March 2002 the euro is the only currency that is legal tender in the twelve euro-area countries. The process of creating a monetary union that was launched in the mid-eighties has been completed. There is no evidence of the introduction of euro notes and coins having had a significant impact on the average level of prices.

Starting in the last few months of 2001, the slope of the euro yield curve has grown steeper, mainly as a result of the rise in long-term interest rates associated with the strengthening of expectations of a recovery in economic activity as international tensions abated. After widening by more than half a point since the end of November, the differential between the yield on ten-year swaps and the three-month interbank rate is currently over two percentage points.

At the end of the first ten-day period in March futures contracts showed that the market expected short-term interest rates to remain stable until the end of June and then to rise by around 0.75 percentage points in the second half of the year.

The real short-term interest rate calculated on the basis of surveys of inflation expectations was slightly below 2 per cent at the end of February. Market expectations are for it to rise to around 2.5 per cent by the end of the year, which would be close to its long-run average level in Germany.

The real long-term interest rate calculated on the basis of ten-year French bonds indexed to consumer prices has risen to 3.4 per cent.

M3 has continued to grow at a rapid pace; in January the twelve-month increase, calculated as a three-month moving average, was equal to 8 per cent. The growth in the money supply is still being affected by the shift in the composition of portfolios in response to the uncertainty prevailing in financial markets, which became more pronounced in the wake of the 11 September terrorist attacks. In December and January the month-on-month growth in money was moderate (2.8 and 4.8 per cent respectively on an annual basis). Lending to the private sector also slowed down in the last part of the year.

After recovering in the last quarter of 2001, share prices on the leading European stock exchanges weakened again in January, reflecting the widespread fears caused in financial markets by the collapse of Enron. Since the end of February clearer signals of an imminent cyclical upturn have led to a generalized rise in share prices.

On the leading European stock exchanges price-earnings ratios are now comparable to those recorded in 1996 and well below the peaks reached in the first quarter of 2000.

In 2001 the slowdown in economic activity and the fiscal reliefs granted to families and firms in several countries produced the first worsening in the euro-area budget deficit since 1993. Many countries failed to achieve the objectives established in their stability programmes. In Germany and Portugal the deficit exceeded 2 per cent of GDP.

The stability programmes submitted in the last few months envisage that the consolidation process will resume this year and all the euro-area countries have undertaken to achieve budgetary positions close to balance or in surplus in 2004. The improvement is to be produced by curbing expenditure, so as to permit a gradual reduction in the tax burden.

The scenarios prepared by leading professional forecasters indicate a small increase in economic activity as early as the current quarter. Fueled initially by exports, the recovery is expected to gather pace in the second half of the year and bring growth rates back close to the potential, thanks in part to a gradual recovery in investment and consumption. Continued wage moderation and stable oil prices are expected to contribute to a gradual reduction in inflation to less than 2 per cent in the second half of the year.

The Italian economy

The slowdown of the Italian economy in 2001 was significant but nonetheless smaller than that of the other leading euro-area countries. GDP growth amounted to 1.8 per cent, compared with 2.9 per cent in 2000, and became slightly higher than the average for the area. The rates of increase in consumption and fixed investment fell by more than half from the previous year; the change in stocks was nil. The contribution of net exports remained slightly positive but was much smaller than in 2000 owing to the unfavourable trend of exports.

Labour market developments were positive. In October 2001 the number of persons in work was up by around 250,000, or 1.2 per cent, compared with twelve months earlier. The increase was mainly in the more stable forms of employment, thanks in part to the tax incentives introduced with the Finance Law for 2001. The unemployment rate fell to 9.2 per cent in December 2001, compared with 9.9 per cent a year earlier; over the same period the unemployment rate rose in Germany and France by 0.3 and 0.2 percentage points respectively.

In the fourth quarter GDP contracted by 0.8 per cent on an annual basis. Preliminary estimates of industrial production for the first few months of 2002 indicate that the bottom of the cycle was reached in November and point to a recovery that could gain pace in the spring. GDP is expected to show an upturn in the current quarter.

The harmonized index of consumer prices rose by an average of 2.7 per cent last year. As in the rest of the euro area, the inflation rate diminished from the spring onwards, falling from 3 per cent in April to 2.3 per cent in December.

Euro banknotes and coins enter circulation

On 1 January 2002, euro banknotes and coins began to circulate and national currencies simultaneously began to be withdrawn. The changeover was a success, especially in the light of the exceptional nature of the operation, which was unprecedented in its size and complexity.

In Italy, the main aspects of the changeover had been decided in January 2001 and set out in the national plan for the changeover to the euro drawn up by the Euro Committee at the Ministry for the Economy and Finance, on which the Bank of Italy played an active part.[1] The three-stage plan envisaged a gradual introduction of the new currency to minimize inconvenience for the general public and costs for businesses. The preparatory phase, which ended on 31 December 2001, was followed by a period of dual circulation that ran from 1 January to 28 February 2002. From 1 March the lira ceased to be legal tender, but lira cash in circulation before that date can be exchanged for euros at no charge for the next ten years at branches of the Bank of Italy and until 30 June 2002 at any Italian bank or post office.

***Frontloading.** – At 31 December 2001 2,454 million banknotes had been produced as planned by the Bank of Italy, for a total of €98.3 billion in the various denominations. The notes were to be used to replace all lira banknotes (3,074 million notes with a value of 126,164 billion lire) and to build stocks of the new currency.*

Frontloading of the euro to banks and post offices began on 1 September for coins and 1 November for notes and continued until 28 December. The value of the notes distributed was in line with the European average if compared with the amount produced at 31 December 2001 (21 per cent), but lower than average in relation to lira banknotes and coins in circulation on that date (33 per cent, compared with 49 per cent for the area as a whole). The value of frontloaded coins amounted to 82 per cent of those minted compared with a European average of 73 per cent.

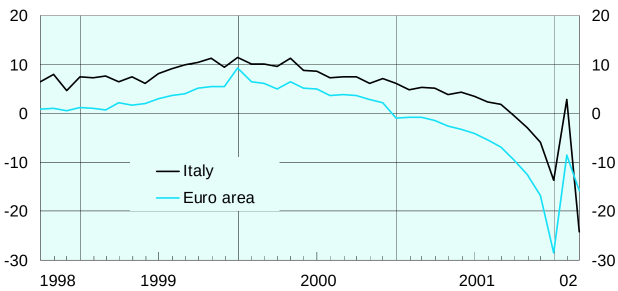
Distribution of banknotes and coins by banks and post offices to retailers (sub-frontloading) was not as extensive as in the rest of the euro area. The procedures and timetables for these operations differed for large commercial chains and smaller retailers. According to data supplied by the banks, €54 million in banknotes and €225 million in coins were distributed during this stage, equal to 0.3 and 4 per cent, respectively, of the amount delivered during the first stage of frontloading.

Starting on 15 December, post offices and banks began to sell standard sets of euro coins worth €12.91 to enable people to familiarize themselves with the new coins. The banking and postal systems received kits with a total value of €388.1 million, and it is estimated that a third of these were bought by the public.

***Cash and the dual circulation period.** – The growth of banknotes and coins in circulation, as calculated from Eurosystem and central government accounts and including amounts held by banks, began to slow in the first half of 2001 (Figure 1). In December 2001, the twelve-month decrease was equal to 28.5 per cent in the euro area and 13.6 per cent in Italy. This early decline was presumably due to the repatriation of euro-area banknotes, mainly German marks, used as a means of payment and as a form of saving, from countries outside the area. The early conversion of cash holdings by operators in the underground economy may have also contributed.*

Figure 1

Currency in circulation in the euro area and in Italy (1)
(monthly data; 12-month percentage changes)



(1) Notes and coins in circulation (including cash held by banks). Provisional data for February 2002.

cont.

At the end of February 2002, the twelve-month decrease in currency in circulation was 15.8 per cent in the euro area and 24.2 per cent in Italy, after a temporary increase registered in January as a result of the frontloading.

Currency in circulation declined as a proportion of the euro-area M3 money supply from 6.9 per cent in January 1999 to 4.4 per cent at the end of 2001. In Italy, where cash is more frequently used in transactions, it fell from 8.1 to 7.1 per cent.

Because of the increase in value of the lowest denomination banknote from 1,000 lire to 5 euros, in Italy the proportion of coins increased to 4.7 per cent of the value of all cash in circulation, compared with an average of 2 per cent in the two preceding years.

In the area as a whole, the ratio between the value of euro banknotes and all banknotes in circulation (the euro progress ratio) was 33 per cent on 1 January, rising to 86 per cent by 28 February. In Italy, the corresponding figures were 25 and 85 per cent (Figure 2). This pattern appears consistent with the gradual approach set out in the national plan, which was intended to ensure an orderly changeover. The euro progress ratio in Italy is broadly in line with the average for the area, allowing for differences in the frontloading of banknotes, which automatically shifts the starting point of the curve. Country-level analyses also indicate that the length of the dual circulation period in the different countries does not seem to have influenced the behaviour of the euro progress ratio significantly. Taking into account any currency lost, destroyed or kept by collectors, at the end of the period the replacement of banknotes and coins was virtually complete in all the countries of the area.

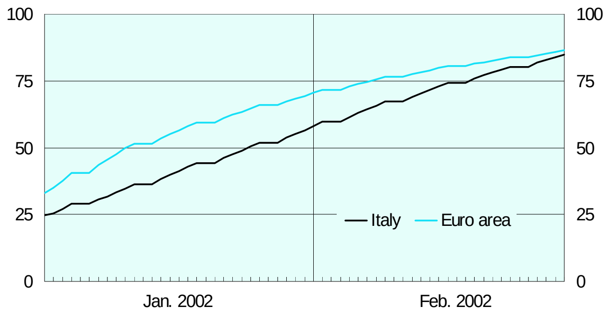
In Italy, the use of the euro in retail transactions spread quickly, broadly in line with the European average. The first euro notes began to return to the Bank of Italy from the second week in January, thus confirming its growing use in the payments system. According to the Ministry for the Economy and Finance and the European Commission, on 14 January the share of euro cash transactions in the retail sector exceeded 90 per cent in Italy and in the area as a whole.

ATMs. *– Automated teller machines and debit and credit cards were assigned an important role in the preparations for the changeover to the euro. According to the Italian Banking Association, the conversion of ATMs was completed sooner than foreseen in the national plan. In the first week in January, about 95 per cent of cash machines were distributing euros, compared with the 90 per cent forecast originally; by 12 January this had risen to 100 per cent. In January, there was a marked increase in the number of transactions on ATMs (up 50 per cent compared with the same period in 2001).*

Figure 2

Ratio of euro banknotes to total notes in circulation

(percentage points)



Alternatives to cash. *– Since 1 January 2002, all debit and credit card payments have been denominated exclusively in euros. The introduction of the new currency was accompanied by an increase in the use of debit cards. In the first three weeks of the year, the PagoBancomat circuit registered an increase of 73 per cent in the number of transactions and a drop of 35 per cent in the average transaction amount compared with the same period in 2001. This suggests that debit cards were increasingly replacing cash in low-value purchases. More recent data show a decline in the pace of growth in the number of transactions, which for January as a whole was about 55 per cent higher than a year earlier. The value of credit card transactions in January 2002 increased by about 10 per cent compared with the same period the previous year, in line with the corresponding increase observed in 2001.*

cont.

Measuring currency in circulation. *– Beginning this year it is no longer possible to measure the actual quantity of banknotes and coins held in each euro-area country directly. In the balance sheets of the national central banks, this quantity appears under liabilities as a fraction of the overall value of euro banknotes in circulation, in proportion to each NCB's share of the ECB's capital. By convention, 8 per cent of the total is allocated to the ECB's balance sheet.*

From January 2002, monetary statistics published by the Bank of Italy show the Italian component of currency in circulation as the combination of a conventional value of euros and any residual lire. The other national central banks use similar procedures.

[1] Participants on the Euro Committee included, among others, representatives of: the Prime Minister's Office, the Ministry of Foreign Affairs, the Ministry of the Economy and Finance, the Ministry of the Interior, the State Accounting Office, regional, provincial and municipal governments, the Bank of Italy, Consob, Isvap, the UIC, the Italian Banking Association, the Associazione nazionale fra le imprese assicuratrici, the Associazione fra le società italiane per azioni, the Post Office, Unioncamere, business associations (Confindustria, Confartigianato), retail and wholesale trade associations, and consumers.

The slowdown in inflation came to a halt in January on account of the large increases in the prices of unprocessed foods and in some regulated tariffs. On the basis of provisional data the twelve-month rate of consumer price inflation in February was 2.5 per cent. The effect on inflation of the introduction of euro notes and coins appears to have been less than 0.1 percentage points in both months. Surveys and professional forecasters suggest that inflation will fall below 2 per cent from the second quarter onwards.

While remaining slightly higher than the euro-area average, the growth in bank lending has fallen sharply in the last few months. Abundant credit continues to be available, as indicated by the proportion of overdraft facilities utilized, which remains at moderate levels for all categories of borrower. Lending to households continues to expand rapidly both for house purchases, buoyed by lively activity in the real-estate market, and in the form of consumer credit.

Bank lending rates remain moderate. The response to the easing of monetary conditions has been comparable in size and intensity to the pattern seen in similar cyclical phases in the past. Between October and January the average rate on short-term loans fell by 0.5 percentage points, while that on medium and long-term loans came down by 0.3 points.

Set against the growth in lending, there was a further decrease in Italian banks' holdings of liquid assets; the ratio of securities portfolios to total lending stood at approximately 20 per cent in January, a very low level compared both with historical experience and with the rest of the euro area. For the Italian banking system, the risks arising from exposure to emerging countries remain limited.

General government net borrowing fell from 1.7 per cent of GDP in 2000 to 1.4 per cent last year. The Forecasting and Planning Report for 2001 had indicated an objective of 0.8 per cent, which was subsequently raised to 1.1 per cent by the Report for 2002. There continued to be a large divergence between the borrowing requirement and net borrowing. The shortfall in economic growth with respect to expectations had a negative impact on the public finances.

The ratio of tax receipts and social security contributions to GDP came down by 0.2 percentage points, compared with a decrease of 0.5 points in 2000. The ratio of primary current expenditure to GDP rose by 0.1 points, after falling by 0.3 points in 2000. Fixed investment rose from 2.4 to 2.6 per cent of GDP.

According to the Government, net borrowing should fall to 0.5 per cent of GDP in 2002. With a view to achieving this result, the Government has provided for a budgetary adjustment of around 0.7 per cent of GDP; in order to avoid adverse effects on economic activity, recourse has been made to one-off revenue-raising measures amounting to around 1 per cent of GDP.

Budgetary action for 2002-2006, formulated with the Economic and Financial Planning Document published last June and confirmed with the stability programme of November, has the objective of achieving a small budget surplus.

The economic policy programme aims at a substantial reduction in the tax burden. This depends on bringing down the ratio of primary current expenditure to GDP, partly as a result of faster economic growth. The size of the planned adjustment calls for structural reforms in the main sectors of expenditure.

The reduction in the tax burden, labour market reforms, increased public investment and measures to improve the efficiency of general government and simplify tax law will strengthen the country's ability to produce and compete.

A more efficient organization of public and private employment services, an overhaul of employment incentives and social shock-absorbers, and adequate flexibility in contractual relations within the framework of an overall revision of employment arrangements, are essential for growth and productivity.

The law for major public works that was approved at the end of last year will make it possible to speed up the execution of the programme of priority measures to modernize the country's infrastructure established by the Interministerial Committee for Economic Planning, thereby helping to narrow the gap compared with the other main European countries and raise the economic system's productivity.

The mandate granted to the Government in fiscal matters envisages a reform of the central government tax system, to be phased in gradually. Personal income tax will be modified by reducing the number of brackets to two and turning what are now tax credits into deductions. For businesses, the dual income tax is to be abolished, the ordinary corporate income tax rate reduced from 36 to 33 per cent and the regional tax on productive activities phased out; there would be a return to the favourable tax treatment of debt financing that existed before the reform of 1998.

The mandate regarding the pension system aims at accelerating the development of supplementary pensions. A mixed system is envisaged, with private, funded pension schemes flanking the public, pay-as-you-go component. The mandate envisages a lengthening of people's working lives; it generates relatively modest expenditure savings. The reduction in social security contributions for newly-hired workers will boost employment. It remains necessary to lower the ratio of public pension expenditure to GDP.

The recent revision of Title V of the Constitution has increased the responsibilities of the regions and local authorities. It is an opportunity to reorganize the public sector and improve its efficiency. All levels of government must contribute to ensuring financial stability; it is essential that decentralization take place in compliance with the budget constraints. It will be necessary to create data-collection systems for the public finances permitting timely and complete knowledge of the activity of the various sectors of general government; more generally, there is a need for a framework law implementing the new constitutional principles.

The events of 11 September set back the start of recovery in Italy as well. The predictions of the international organizations and the main professional forecasters indicate that economic activity will gather strength in the course of the year; the expansion of world trade is expected to assist Italian exports, which would provide impetus for investment.

The implementing provisions of the budget for 2002

Parliament approved the Finance Law for 2002 in December without significantly changing the size of the adjustment compared with the budget measures proposed by the Government (see the box "The budget for 2002" in Economic Bulletin, *No. 33, 2001). The expected improvement in general government primary net borrowing compared with that on a current programmes basis remained equal to €9.1 billion. The amendments introduced by Parliament increased both expenditure and revenue by €480 million. Accordingly, the adjustment comprises a net increase in revenue of €11.48 billion and a net increase in expenditure of €2.38 billion.*

Parliament amended Article 1 of the Finance Bill by adding a provision requiring the Government to submit a report not later than 30 June 2002 on the effects on revenue of the tax incentives intended to foster investment and economic growth, such as the law known as the Tremonti-bis. After submitting the report, the Government will allocate the additional revenue expected from the measure intended to bring irregular employment into the open (Law 383/2001).

Revenue

The budget measures passed by Parliament provide for €14.74 billion of additional revenue and €3.26 billion of tax relief. Compared with the Government's original proposals, the increase in revenue is €1.21 trillion larger and tax relief is up by €730 million.

Increase in revenue. *– Most of the increase in revenue comes from property sales and the measures adopted as part of the Government's "100-days' programme" (especially those serving to bring irregular employment into the open and encourage the repatriation of capital from abroad).*

Parliament introduced a number of measures regarding the tax treatment of companies' fixed assets that are expected to produce additional revenue totaling €920 million. In more detail, the measures included: a) the exclusion from the assets of sole proprietorships, for direct tax purposes, of tangible fixed assets used in the business against payment of a tax in two instalments, the first in 2002 and the second in 2003; b) an extension of the period established for the assignment of tangible assets not used in the business to the shareholders of commercial enterprises; c) the extension – with reference to tangible assets shown in the balance sheet for the financial year

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

REVENUE	
Increase in revenue	**14,740**
Property sales	7,740
Irregular employment brought into the open	1,030
Repatriation of capital from abroad	980
Lotteries and the like	520
Voluntary revaluation of fixed assets	2,550
Change in Irpef rates	830
Provisions concerning firms (sector studies, etc.)	860
Modernization of the property register	230
Decrease in revenue	**-3,260**
Increase in tax credits for dependent children	-1,130
Early suppression of INVIM	-260
Suppression of tax on shop signs	-90
Extension of building renovation incentives	-500
Extension of measures regarding VAT	-100
Reduction in excise duties	-230
Extension of reliefs for agriculture	-230
Social security contribution reliefs	-720
Net change in revenue	**11,480**
EXPENDITURE	
Decrease in expenditure	**-3,870**
Domestic stability pact	-1,190
Staff costs	-810
Public entities and intermediate consumption	-590
Reform of banking foundations	-200
Other	-1,080
Increase in expenditure	**6,250**
Renewal of labour contracts	1,850
Other staff costs	80
Increase in minimum pensions	2,180
Measures for employment, the South, infrastructure and firms	1,290
Transfers to households and developing countries	360
Other	490
Net change in expenditure	**2,380**
TOTAL REDUCTION IN PRIMARY NET BORROWING	**9,100**

(1) Based on official estimates.

cont.

under way at 31 December 2001 – of the provisions concerning the tax treatment of the reserves created by credit institutions in connection with corporate restructurings under Law 218/1990 (known as the Amato Law); d) the extension to the financial years 2001 and 2002 of the possibility to bring revenues or fees into line with the results of sector studies without interest being charged or sanctions applied; e) the introduction of a tax to facilitate the unwinding of reserves and funds shown in the balance sheet for the financial year under way at 31 December 2001 in respect of which taxation has been deferred.

Lastly, provision has been made for the modernization of the property register. This will give additional impetus to the activity of bringing tax base into the net and is expected to produce €230 million of additional revenue.

***Decrease in revenue.** – The bulk of the decrease arises from provisions granting tax relief in relation to the composition of families and for the renovation of buildings. The changes made by Parliament increased the tax reliefs for families by a total of €280 million by: a) broadening the category of persons who will benefit as of 2002 from the increase to €516.46 in the tax credit for dependent children; b) increasing the tax credit for handicapped children to €774.69; and c) extending the incentives for the renovation of buildings for the whole of 2002.*

New reliefs amounting to €230 million have also been introduced for agriculture, by extending the special VAT regime to 2002 and the reduction in the Irap rate from 2.5 to 1.9 per cent to 2001.

The extension of some temporary reductions in excise duties is expected to result in an additional €230 million of reliefs.

Expenditure

The budget approved by Parliament provides for €6.25 billion of additional outlays and €3.87 billion of reductions in expenditure, up by respectively €680 million and €200 million compared with the Government's original proposals.

***Reduction in expenditure.** – The bulk of the reduction is to be produced by savings in staff costs and the so-called domestic stability pact. Compared with Government's original proposals, Parliament mainly increased the planned savings for intermediate consumption, interest payments and some allocations for social policies and the performing arts.*

Measures have been adopted aimed at improving the profitability of banking foundations and hence their disbursements to the sectors in which they operate. Accordingly, there is a corresponding reduction in the budget allocations to these sectors. In particular, both the Fund for Social Policies and the Fund for the Performing Arts will receive €100 million less.

Savings in interest payment amounting to €50 million are to be produced by postponing the issue of securities to settle tax credits connected with the annual payments made by firms for inclusion in the Company Register.

As regards staff costs, the amendments introduced by Parliament reduced the savings envisaged by the Government by around €70 million. The partial freeze on hiring was relaxed by the introduction of waivers for the Ministry of Justice, local authorities that had respected the Domestic Stability Pact in 2001 and some categories of public employee.

***Increase in expenditure.** – The bulk of the increase is attributable to the renewal of labour contracts and the increase in minimum pensions. Compared with the Finance Bill, the adjustment approved by Parliament involves larger allocations for staff costs and public works.*

The additional allocations for the renewal of labour contracts amount to €230 million. However, in view of the consequent increase in revenue, the net additional budget outlays will be around €100 million. The total additional allocation for staff costs consequently amounts to nearly €3.4 billion (€1.85 billion on a net basis). Apart from the foregoing, the contracts about to expire for some categories of fixed-term employees have been renewed.

Funds have been allocated for the design of public works to be built by regions and for the construction of local infrastructure, environmental protection and socio-economic development, and urban renewal. Lastly, provision has been made for transfers to municipalities with less than 3,000 inhabitants.

Starting from a situation in which the country's resources are not fully utilized, current trends suggest that economic activity will grow at an annual rate of 3 per cent in the fourth quarter. The upturn will draw additional strength from the launch of the programme of public investment. The increase in GDP in 2002 as a whole will depend crucially on the rapidity and intensity of the recovery, which will produce its full effects in 2003. A prompt and significant adjustment of businessmen's expectations to the economic and legislative reforms is necessary.

Based on information available at 11 March 2002. The Appendix is updated to 7 March 2002.

Documents

Bank of Italy Regulation of 31 December 2001 concerning the marketing in Italy of units or shares of non-harmonized foreign collective investment undertakings (*)

On 31 December 2001 the Bank of Italy issued an implementing regulation under the Consolidated Law on Financial Intermediation establishing the conditions and procedures for the authorization of the marketing in Italy of units or shares of non-harmonized foreign collective investment undertakings (i.e. those not falling within the scope of Directives 85/611/EEC and 88/220/EEC).

For the protection of Italian investors, the regulation provides that only foreign funds having operating arrangements comparable to those prescribed for Italian investment funds and Italian SICAVs may be marketed in Italy. It applies to all marketing channels including distance communication systems such as the Internet.

It is also required that such collective investment undertakings:

- be supervised in their home country by a public control authority that subjects their activity to controls similar to those applied to Italian collective investment undertakings;
- actually market their units or shares in their home country;
- adopt for their activity in Italy an organizational structure that facilitates the exercise of ownership rights by the participants. To this end, foreign collective investment undertakings must appoint a bank established in Italy as correspondent bank to handle the payments connected with investment in the funds. They must also have a stable organization in Italy to handle relations between the head office and investors in Italy. This role may be filled by an Italian branch of the collective investment undertaking or by another intermediary established in Italy (a bank, asset management company, securities firm, etc.).

Authorization of non-EU collective investment undertakings is subject to the existence of cooperation agreements between the Italian and home-country authorities and to reciprocity.

Authorization for the marketing of non-harmonized foreign collective investment undertakings is issued by the Bank of Italy after consulting Consob.

(*) *Prepared by the Financial Supervision Department. The test of the regulation is available on the Internet at www.bancaditalia.it.*

Survey on bank loan recoveries (*)

In recent months the Bank of Italy surveyed Italian banks concerning the length and cost of action to recover non-performing loans and the percentage recovered. Responses to the questionnaire were received from 253 banks, which at the reference date (December 1999) accounted for 90.5 per cent of total lending to Italian residents. The results were as follows:

– The most common credit recovery procedure is private settlement (41 per cent of non-performing loans), followed by bankruptcy proceedings (21 per cent) and foreclosure (10 per cent).

– The time for recovery varies with the type of procedure, from a maximum of six or seven years for bankruptcy proceedings or composition agreements between creditors and debtors down to about two years for private settlements.

– Recovery action entails an average cost of 1.2 euros per 100 euros of debt. Recovery costs amount to over 2 per cent of total operating expenses.

– The average recovery rate, gross of legal costs, was 37.5 per cent of the amounts owed, with substantial dispersion according to the length of time to recovery, the size of the loan, the degree of collateralization and the procedure chosen.

Banks need long-term statistics on the results of recovery actions in order to manage disputes efficiently, to correctly determine the price of loans transferred through securitization, and to adopt advanced methods of credit risk measurement.

Risk measurement is of special importance for the banks that have undertaken projects to introduce the more advanced methods of determining capital charges against credit risk envisaged by the Basel Committee's proposed revision of the Capital Accord.

The survey has highlighted the shortcomings inherent in the collection and handling of historical data on loan recoveries, reflecting a common condition of all the main countries' banking systems, as the Basel Committee has pointed out. The banks will therefore have to make a considerable effort to meet the growing need for data in this field as the scope of business and the regulatory framework evolve.

(*) *Prepared by the Banking Supervision Department. The results of the survey are available in* Bollettino di Vigilanza*, December 2001, and on the Bank of Italy website (www.bancaditalia.it).*

Supervisory instructions governing markets and support structures (*)

The Bank of Italy and Consob have released supervisory instructions on markets in financial instruments and central securities depositories. The instructions, drafted under the provisions of Part III of the Consolidated Law on Financial Intermediation and its implementing measures, thus complete the body of law in this sphere. Primary and secondary legislation give the two authorities a mandate to supervise financial markets, their support structures and their management companies, assigning them powers to obtain information and conduct inspections.

The Bank of Italy is charged with supervising wholesale markets in government securities and their management companies (Consolidated Law, Article 76) and trading in interbank funds (Article 79). Consob has authority under Article 74 for the supervision of regulated markets other than wholesale markets in government securities and under Article 78 for that of organized trading in financial instruments. The two authorities are jointly responsible, under Articles 77 and 82, for supervising market support structures: securities settlement systems, clearing and guarantee systems for financial derivatives, guarantee systems for trading and settlement of non-derivative financial instruments, and central securities depositories.

The instructions provide the management companies with a single framework of operational obligations. At the same time, they constitute an instrument for the exercise of supervision, rationalizing the flow of information between the authorities and the institutions under their supervision. In market supervision, the role of information is crucial. It permits monitoring of trading and of support structures with a view to safeguarding the efficiency and stability of the financial system. It also establishes the conditions for checking management companies' compliance with the rules.

The instructions, which were issued jointly with Consob in order to produce a single set of rules for the exercise of the institutional powers laid down in the Consolidated Law, consist of five parts, each covering one area subject to supervision:

I. wholesale markets in government securities and their management companies;

II. other regulated markets and their management companies;

III. central depositories of financial instruments;

IV. gross settlement services and clearing and settlement services for transactions in non-derivative instruments;

V. clearing and guarantee systems for transactions in derivatives.

For the areas in which one of the two authorities has primary jurisdiction, that authority is responsible for revising the instructions. This means the Bank of Italy for wholesale markets in government securities and Consob for other regulated markets.

The information requested concerns both the operations of the markets and systems and their management companies and is grouped into three distinct titles: a) the exercise of the activity; b) shareholders and corporate officers; c) the procedures for the exercise of supervision. Each title has a premise setting out the legal sources and purposes of the information powers.

(*) *Prepared by the Market Supervision Office. The instructions are published in the* Supplemento Ordinario *to* Gazzetta Ufficiale*, No. 40, 16 February 2002, Serie Generale.*

Speeches

Fact-finding with regard to the effects on the legal system of the amendments to Title V of Part II of the Constitution

Statement by Antonio Fazio, Governor of the Bank of Italy, to the First Standing Committee of the Senate of the Republic

Rome, 12 December 2001

The experience of most of the advanced nations with a federal system shows a shift in the course of the last century from the typical federalism of the liberal State, based on the self-sufficiency of the State and local authorities, to a cooperative form of federalism, characterized by the prevalence of "collaborative models". In many systems, including the Swiss and the German, legislative choices are made centrally and implemented locally.

In both the liberal and the collaborative models the State is always assigned the functions of general interest.

It should be noted that implementing federalism is independent of the notion of Federal State.

During the last few decades, both in Italy and in other countries, there has been increased decentralization of taxation and expenditure responsibilities. There are essentially political reasons for this process, which is supported by economic theory but which requires all local governments to be reasonably efficient in order to bring any benefits.

By assigning the management of each public service to the level of government closest to the area where the service is provided, supply is more responsive to user preferences. Citizens can exercise greater control over the behaviour of public administrators and competition between local governments may be stronger, to the benefit of the citizens themselves. There is also an increase in the technical efficiency of the public sector.

The full achievement of these advantages requires that decentralization should not segment the domestic market.

The stability of monetary and financial conditions is a public good falling under the responsibility of the State. The same can be said as regards effective counter-cyclical economic management.

All the decentralized entities must work together to achieve stability by keeping their budgets basically balanced. In the absence of effective control mechanisms, each entity could try to profit from the benefits produced by the disciplined behaviour of the others without making any contribution itself.

It is necessary to have budgetary rules applying at every level of government.

There must be a very close relationship between responsibility for expenditure and responsibility for funding; this presupposes that every level of government has adequate tax bases.

Decentralization must be combined with forms of solidarity designed to reduce the disparities between the various areas.

International experience has shown that local governments can generally borrow, but there are rules setting a limit to the overall deficit and restricting the use of loans to certain purposes. There is a fairly widespread use of mechanisms that redistribute resources across the country.

1. Decentralization in Italy

The republican Constitution of 1948 placed great emphasis on the Regions, five of which were granted a high degree of autonomy under special statutes.

The institution of the ordinary statute Regions was only achieved in the 1970s. The transfer of functions to the Regions began in 1972 and was completed in 1977. As part of this process, the possibility provided for in Article 118 of the Constitution of delegating some regional functions to Municipalities and Provinces was also implemented.

The tax reform of the early 1970s led to the centralization of tax collection at the State level. With the 1978 reform, most of the functions regarding health care were delegated to the Regions.

Consequently, the structure of Italian local finances came to be characterized by a high degree of centralization of revenue accompanied by a significant decentralization of expenditure.

Local government expenditure grew from 11 per cent of gross domestic product in 1970 to 13.1 per cent in 1980 and 14.8 per cent in 1990. At the same time, local government expenditure increased as a proportion of general government expenditure. Local governments' own revenue did not vary significantly; in 1990 it was still equal to 2.8 per cent of gross domestic product.

State transfers totaled 5 per cent of gross domestic product in the mid-1970s; in 1990 they had risen to 10 per cent.

During the 1980s, four-fifths of regional budget revenue consisted of State transfers. Most of this revenue was earmarked and destined to pay for health care. The expenditure of Provincial and Municipal authorities was concentrated on transport, education, culture and social action.

Between the late 1980s and the early 1990s, the persistence of very large public-sector deficits brought growing awareness of the need to increase the responsibility of local administrators with regard to both the management of services and their funding.

Innovations in the electoral system created a more direct relationship between local authorities and their electors, which helped to encourage the reform of local government finances.

Under Law 142/1990, Municipalities were granted all the administrative functions regarding their respective municipal territories and populations. At the same time a process was started to increase local authorities' powers of taxation. This included the introduction of specific new taxes, such as the municipal tax on buildings (ICI) and the regional tax on productive activities (Irap), and of surtaxes, for example that on personal income tax (Irpef), the rates of which could be modified by local authorities, albeit within strict pre-established limits.

Between 1990 and 2000, the ratio of local government revenue to gross domestic product rose from 2.8 to 7 per cent. This increase was basically due to the introduction of ICI in 1993 and Irap in 1998. The ratio of local governments' own revenue and expenditure increased from 19.1 to 52 per cent, but local governments' spending fell slightly in relation to gross domestic product. In 2000 Legislative Decree 56/2000 was passed and replaced most of the previous State transfers with co-participation in central government tax revenues, which for VAT is equal to 38.55 per cent.

2. Amendments to Title V of the Constitution

With the recent reform, Italy's institutional system has acquired markedly federalist features.

In the previous text of Article 114, the first article of Title V, local authorities were the elements into which “the Republic is divided”; in the new text they are among the constituent elements of the Republic.

The traits of federalism are evident in the reversal of the enumeration of the matters falling within respectively the jurisdiction of the central government and that of the Regions. In the 1948 Constitution the matters falling within the scope of the legislative power of the Regions were established expressly. In the new version, by contrast, the powers of the central government, exclusive and concurrent, are defined; all other powers are entrusted to the Regions.

The jurists who contributed to drafting the amendment to the Constitution and those who have testified here frequently referred to subsidiarity as the principle informing the new relationships between the various levels of government.

Under the principle of subsidiarity functions are allocated to the lowest possible level, where necessary entrusting higher levels with powers that supplement those of the lower levels.

The principle does not call into question the role and importance of the central government, which remains responsible for functions that cannot be performed at a lower level. The State is the ultimate guarantor of the general good, intervening in the matters within the powers of local governments only when the latter are unable to satisfy the needs of their local communities.

The first systematic, strictly juridical consideration of subsidiarity in modern times was that of Johannes Althusius in the seventeenth century. Althusius held that society was composed of a myriad of social bodies at different levels and was the product of a series of compacts concluded for the purpose of preserving the autonomy of each, yet not depriving them of the protection of those above them. The function of these compacts was to transfer to the “higher” levels that quantity of power strictly necessary to satisfy the needs of the members.

The principle of subsidiarity drew powerful impetus from the social doctrine of the Catholic Church. In the encyclical *Quadragesimo Anno,* in 1931, Pius XI asserted that “Just as it is gravely wrong to take from individuals what they can accomplish by their own initiative and industry and give it to the community, so also it is an injustice and at the same time a grave evil and disturbance of right order to assign to a greater and higher association what lesser and subordinate organizations can do.”

This line of thought is a central point of reference in the teaching of John Paul II. In his encyclical *Centesimus Annus*, of 1991, the Pope said: “Malfunctions and defects in the Social Assistance State are the result of an inadequate understanding of the tasks proper to the State. ... a community of a higher order should not interfere in the internal life of a community of a lower order, depriving the latter of its functions, but rather should support it in case of need and help to coordinate its activity with the activities of the rest of society, always with a view to the common good.”

In Title V the Regions, under the principle of subsidiarity, have become the “preferred level of legislation” for matters devolved to local authorities.

As for administrative functions, the principle is expressly recognized in the new text of Article 118 of the Constitution, which reads: “The administrative functions are assigned to the Municipalities save when, in order to ensure that they are exercised uniformly, they are conferred upon Provinces, metropolitan districts, Regions or the State on the basis of the principles of subsidiarity, differentiation and appropriateness.”

Other significant innovations involve relationships with European Community law and with Italy’s international obligations. As amended, Article 117 of the Constitution reads: “Legislative power shall be exercised by the State and by the Regions in observance of the Constitution and of the constraints deriving from European Community law and international obligations.”

This wording is certainly intended to embrace the innovations that have been made in monetary arrangements and institutions.

Before the amendment to Article 117, Italy had no constitutional provision that expressly attributed "superprimacy" to laws deriving from the ratification of treaties.

The specific reference to the constraints deriving from international obligations would now seem to confer "constitutional" status upon treaties. Domestic laws ensuing from the implementation of ratified treaties are thus apparently superior in rank to ordinary domestic legislation. It follows that the legitimacy of a national law contravening the internationally derived rules arising from the ratification of a treaty could be subject to the scrutiny of the Constitutional Court. It further follows that amendments to such internationally derived rules not consequent on a revision of the treaty would require an instrument of Constitutional rank.

Article 117 of the Constitution carries implications for the relations between the Government and Parliament. Ordinary statutes passed by Parliament, which embodies the sovereignty of the people, are subordinated, *de facto*, to laws whose substance is determined in large part by the Executive.

The amendment of Title V carries major implications for the organization of the public sector. It affects the procedures whereby the public finances perform the tasks of resource allocation, cyclical stabilization and income redistribution.

Article 117 includes among the matters under the exclusive power of the central government, the "determination of essential levels of benefits and services in relation to civil and social rights that must be ensured throughout the national territory." Relative to this power, Article 119 establishes that "State law shall institute a redistribution fund, without any restrictions on how it is to be used, for the areas with lesser tax levying capacity" and that the central government may appropriate additional resources to Regions, Provinces and Municipalities "to promote economic development, cohesion and social solidarity, to eliminate economic and social imbalances, and to assist the effective exercise of individual rights." Additional funds may be appropriated for the performance of specific tasks.

Financial independence, which the previous version of Article 119 reserved to the Regions "in the forms and within the limits set by the laws of the Republic", is now extended to all local authorities. Local authorities are no longer "assigned own taxes and shares of national taxes" but "have independent resources. They enact and collect taxes and enjoy own revenues ... they share in the revenue from national taxes relative to their territory."

Article 119 establishes that own revenues and the redistribution fund must cover the full cost of the functions assigned to local governments. Borrowing is permitted "only to finance investment" and "any central government guarantee of loans is precluded".

Article 120 reaffirms the ban on adopting customs duties or other measures impeding the free movement of goods and persons.

The assignment of responsibility for monetary policy and for banking and market supervision to the central government is a constant of federal states. This is the case in the United States, in Switzerland and in Germany, as well as in some important emerging countries.

In the new Constitution of the Italian Republic, matters regarding "the currency, the protection of savings, financial markets, the safeguarding of competition, and foreign exchange" are reserved exclusively to the central government.

By contrast, matters regarding savings banks, rural banks, banks and real-estate and agricultural credit institutions of a regional nature are the object of concurrent legislation. The actual wording of the allocation of tasks does not appear to be consistent with the developments that occurred in the early nineties, i.e. the transposition of the Second EU Banking Directive and the passage of the 1993 Banking Law.

3. Implementing the new constitutional dictate. A framework law

The wording of Article 117 of the Constitution makes it necessary to specify the relationship between regional laws and State law that lays down fundamental principles, i.e. to clarify whether the

Regions may exercise their legislative power even in the absence of a framework law on the matter.

A similar problem had arisen with the previous version of Article 117, which, like the new version, attributed concurrent legislative power on several matters to the ordinary statute Regions, laying down that this power was to be exercised “within the limits of the fundamental principles established by the laws of the State”.

The experience of the special statute Regions had already demonstrated the need for a framework law, not least, according to an authoritative opinion, in order to “restore the certainty of law between the Regions and the central government, give the Regions a sphere of real autonomy, protect the Constitutional Court from political tensions that it naturally is not able to resolve.”

Owing to contingent factors, such as the delay in adopting framework laws and the necessity of not postponing the reform further, the Regions were granted the power to legislate even without the fundamental principles having been established by the State. Law 281/1970 provided that concurrent regional legislative power was to be exercised within the limits of fundamental principles either expressly formulated by laws for each individual matter or deduced from the laws in force.

The advisability or, rather, the necessity of a framework law is all the more evident in view of the implications of decentralization for the public sector and the economy. Various aspects require the definition of common rules ensuring harmonious action of the different levels of government, particularly as regards tax-levying powers, redistributive mechanisms, the budget constraint and accounting methods. Only by operating in this way will it be possible to create the conditions that will increase the efficiency of the public administration and induce conduct having a positive impact on the equilibrium of the public finances.

4. Banking

The currency, the protection of savings and the safeguarding of the financial markets and competition are matters of fundamental general interest whose importance for the nation’s economy as a whole is enshrined in Articles 41 and 47 of the Constitution.

Some limited decentralization of rule-making and administrative functions with regard to banking was provided for in the case of some of the special statute Regions.

The new decentralization of banking-related functions to the ordinary statute Regions has to take account of the developments in banking, the financial markets and the legislation governing the sector.

The reform law, with specific reference to savings, confirms the continuing validity of the Constituent Assembly’s decision to reserve the matter to the central government so as to ensure the efficient allocation of financial resources within the country. In the proceedings of the Assembly we read that “savings must be invested where they are most useful and in greatest demand, where the best conditions are found for investment.”

The decentralized functions lie within the realm of concurrent powers and so the fundamental principles established by the central government must be observed in this case as in others.

The formulation adopted by Parliament in the recent reform, which refers to “savings banks, rural banks, banks and real-estate and agricultural credit institutions of a regional nature”, appears to be based on provisions regarding special statute Regions.

The dated nature of the texts employed as models has led to the use of an improper terminology that refers to categories of banks that no longer exist in the Italian legal system. If the constitutional wording cannot be amended, the implementing legislation will surely have to remedy this obvious incongruence.

The experience of the special statute Regions is not likely to offer useful points of comparison. The attribution of tasks to these Regions was grafted onto a legal order – that of the 1936 Banking Law – that has long been outdated. It delineated a controlled and segmented market characterized by scant competition, international closure, the sectoral and territorial specialization of intermediaries and public-sector ownership of the main credit institutions. Special credit, in particular, was a privileged channel for directing credit flows to sectors of the real economy and areas of the country indicated by governmental authorities.

Accompanying this was administrative and structural supervision based on the instrument of authorization and extending to important operating decisions, such as large loans, as well as to intermediaries' geographical expansion. The latter was the principal matter over which the special statute Regions had authority.

With the implementation of the Community banking directives and the passage of the 1993 Banking Law, the construction of the single European market in banking was completed. The entrepreneurial and competitive nature of banking was established for good, and responsibility for supervision was definitively attributed to the country where a bank had its registered office.

Freedom of establishment and the freedom to provide services preclude the possibility of individual member states limiting establishment and engagement in business on the part of EU banks.

Supervision has evolved in parallel towards a technical and prudential approach centred on the verification of sound and prudent management and the establishment of general rules that are neutral with respect to intermediaries' organizational and operating decisions. The scope of authorization has been drastically reduced and the related decisions are made on the basis of rigorously technical evaluations.

These important changes find expression in Article 159 of the 1993 Banking Law, which defines the powers of the special statute Regions. The Constitutional Court, called on to review Article 159, has confirmed its legitimacy. The Article reserves supervisory evaluation exclusively to the Bank of Italy, makes the measures issued by the regional governments subject to approval by the Bank of Italy, and identifies specific provisions of law from which regional legislation may not derogate. Emblematic is the change in the rules on the opening of bank branches, now substantially liberalized and expressly excluded from the scope of decentralized authority.

Article 159 reflects the altered context of institutions and markets.

Starting from Article 159, the framework law must now regulate the legislative powers of the ordinary statute Regions, preserving the consistency of the domestic legal system and the effectiveness of supervisory action.

The framework law must clearly and precisely determine the fundamental principles governing the regional legislative function, with the aim of preventing conflicts between the central government and the Regions.

In order to avoid a proliferation of different, mutually inconsistent notions, the framework law must first of all introduce a single definition of "regional bank". The requisite notion has to be based on parameters indicating a close link between a bank's operations and the Region in which it is established. A definition based only on the location of branches within the territory of a Region would be anachronistic in today's context of markets that are fully globalized and technologically integrated.

In deposit-taking, lending and providing services, traditional bank branches are now flanked by networks of financial salesmen, telephone and online services. Intermediaries avail themselves of remote access to the interbank and financial markets and to payment systems organized by means of domestic and international electronic channels.

The new configuration of the financial system requires that all the measures directly or indirectly aimed at promoting the "sound and prudent management of the persons subject to supervision" remain reserved to the national banking authority, so as to ensure effective and prompt supervisory action, taking account of the unitary responsibility for the credit function repeatedly upheld by the Constitutional Court.

These measures concern aspects directly linked to the protection of savings, for which the central government has exclusive authority even under the new formulation of Article 117.

5. The public finances

The general approach to decentralization – with reference to the definition of powers, the provision for a high degree of autonomous taxation and adequate redistribution mechanisms – creates the conditions for a more efficient public sector. In this respect it is crucial that rigorous budgetary constraints be adopted and observed.

“The harmonization of public budgets and the coordination of the public finances and the tax system” are matters covered by concurrent legislation; Article 117 assigns the power to legislate to the Regions, while reserving the task of laying down the fundamental principles to the central government.

5.1 Autonomous tax-levying powers

It is necessary to define the responsibilities of each level of government clearly, so as to be able to establish the resources needed with certainty and decide the role to be played by taxes payable directly to local authorities, the local surcharges applied to taxes collected by the central government and transfers from the central government budget. It is essential that the first two types of revenue should provide a significant share of local authorities’ total resources.

Autonomous taxation must not be an obstacle to the growth of the country’s economy. Excessive fragmentation of the tax system can be an impediment to the free circulation of persons and goods. It is necessary to establish in advance the taxes that local authorities can impose. Taxpayers must not be faced with a plethora of new bureaucratic formalities.

Harmful forms of fiscal competition must be avoided. Defining minimum levels of service will help to ensure the availability of public services that meet citizens’ needs.

5.2 Redistribution mechanisms

The redistribution fund is an innovation compared with the existing text of the Constitution. Elements of solidarity are introduced to counterbalance the tendency implicit in federalism for differentiation to become more pronounced.

There are two possible models for redistributing resources among local authorities: the vertical model, which redistributes taxes accruing to the central government, and the horizontal model, which uses resources provided by the economically stronger local authorities.

The vertical model prevailed for a long time in Italy. Legislative Decree 56/2000 has introduced a model of redistribution with horizontal features.

The new text of the Constitution does not specify which model is to be used in future. It is essential that the amounts to be redistributed should be established *ex ante* and take account of the different levels of taxation. It is necessary to ensure that expenditure does not exceed the resources available and that central government is not called upon to make good the shortfalls.

The redistribution fund cannot prevent the gaps between the per capita resources available in the various Regions from widening. Differentiating the production costs of public services would make it possible to reduce the related quantity and quality disparities.

5.3 Budgetary constraints

It is necessary to reaffirm the joint responsibility of all levels of government for preserving the stability that is the key feature of the architecture of the European Union’s economic policy.

The European rules basically require budgets to be balanced after adjusting for the effects of the economic cycle. The rules refer to the accounts of general government as a whole, but it is the central government that is responsible for seeing they are observed.

The lack of symmetry between the distribution of national powers and the allocation of responsibility established at the European level may result in local authorities having an incentive to behave opportunistically, by overspending and leaving it up to the central government to correct the consequent imbalances.

This would preclude proper use of the scope for implementing stabilization policies under the Stability and Growth Pact.

The Domestic Stability Pact introduced in 1998 is intended to make the budgetary choices of local authorities compatible with the objectives at the national level. The system needs to be improved further, *inter alia* in the light of the amendments to the Constitution.

It is necessary to establish the principle that each entity must balance its budget net of investment expenditure. For local government finances as a whole, precise limits must be set on expenditure on capital account financed by market borrowings. Two thirds of the Regions' revenue comes from taxes, such as VAT, the regional tax on productive activities, personal income tax and sales taxes on energy products, receipts of which depend heavily on the level of economic activity; flexible mechanisms are needed to counter the effects of the business cycle. These could be central government transfers or withdrawals from previously established reserves that would be determined, within given limits, on the basis of the performance of the main macroeconomic variables using a predetermined formula. The possibility of making compliance with the budget constraint a condition for financing investment with borrowed funds should be considered.

As regards the distribution among the various entities of the total deficit permitted for investment purposes, a cooperative method appears preferable. Decisions would be taken in a multi-stage process, moving from the regional to the municipal level. The limitation of resources and the conflicts of interest between the potential beneficiaries might contribute to increasing the attention paid in evaluating the projects to be financed.

To comply with the European rules, the amounts local authorities can borrow must by offset by a larger central government surplus.

The State could influence the allocation of resources to projects of national interest by matching the funds invested locally only for such works, in conformity with the new text of Article 119.

5.4 Reporting systems. Local government statistics

The application of the redistribution mechanisms provided for in the new text of the Constitution requires a common set of accounting rules.

The harmonization of accounting standards does not limit the autonomy of the Regions. The adoption of rules of disclosure and common methods of reporting is not a diminution of autonomy but a necessary condition for its legitimation, as is also the case outside the public sector.

Local authorities' accounts are not homogeneous, complete or timely today. The transparency of the financial situation of general government is reduced; the market's evaluation of the results of individual entities may suffer. The observation of deficits on the financing side carried out with reference to the change in authorities' financial liabilities gives the overall balance of the public finances but it does not allow the determinants to be analyzed; there is a danger that it will not be possible to correct trends that are likely to increase the deficit.

The services provided by local authorities account for more than half the total provided by the public sector and are equal to about 10 per cent of GDP. It is essential that the accounts of the public sector be supplemented by statistics on the type, quality and quantity of services provided and permit the evaluation of their cost effectiveness.

A broader range of statistics on the most important aspects of local activities will provide valuable data for the economy and, more generally, for society.

The State must fully perform the task of "coordinating the statistical and electronic processing of the data" of central, regional and local government. A common accounting system, capable of promptly providing complete data for all levels of government, must be defined rapidly with a framework law.

6. Conclusions

The federalist principles on which the amendments to Title V of the Constitution are based on the principle of solidarity.

Decentralization, in line with the choices of the drafters of the Constitution, responds to the needs of self-government; it must use redistribution mechanisms and strengthen the country's unity.

It is an opportunity to modernize the public sector, to bring it closer to the needs of citizens, to make it more efficient and to increase its contribution to growth, in a context of a gradual reduction in territorial disparities.

The measures adopted can be further improved and developed.

It is necessary to address the problems that could arise with regard to the effects on Italian law of international treaties and agreements and study some questions concerning the application of the new provisions.

The autonomy granted to local authorities must be accompanied by responsibility. The benefits of decentralization are reaped where citizens are able to control the work of local administrators effectively, through a suitable balance between political representation and taxation.

The Bank of Italy, as part of the process of decentralization under way, is strengthening the role of its branches, which provide effective points from which to observe the country's variegated local realities.

In addition to the observation and analysis of the regional economies, the role of the branches in the supervision of local and provincial banks and markets has also been reinforced.

The institutional fora that are taking shape are important for the specification of the implementing rules for decentralization policies.

The process must be set within an adequate legislative framework.

Action must be taken promptly to establish stringent budgetary rules, an adequate degree of fiscal autonomy, forms of redistribution of resources, rigorous criteria for the coordination of the compilation of statistics and data processing, and effective reporting systems.

It is an opportunity for a general reform of public-sector accounting.

The process of decentralization offers the possibility of redefining the boundary between public and private. It is also a change permitting the introduction of more far-reaching forms of subsidiarity. The structural reforms that the economy and society need fall within the scope of the central government's authority. The legal framework can and must be revised in conjunction with these reforms.

Italy's competitiveness and economic growth and employment will benefit.

Recovery and growth of the Italian economy

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

Lodi, 2 February 2002

1. Recent economic developments

The decade-long expansion of the US economy came to an end in the first half of last year.

Investment in machinery and software, which had already turned slightly down at the end of 2000, fell by 4.2 per cent on an annual basis in the first quarter of 2001 and by 15.4 per cent in the second. Investment in plant, which had shown a further rise of 12 per cent on an annual basis in the first quarter, recorded a fall of the same order of magnitude in the second.

In the first half of 2001 the growth in GDP was sustained by consumption. The weakness of world demand was reflected in exports, which had already begun to contract in the last part of 2000.

A gradual recovery in economic activity had been expected to get under way in the closing months of last year, in view of the pronounced monetary expansion implemented from January onwards and the tax relief approved in May.

In a situation already marked by cyclical weakness, the events of 11 September caused a decline in consumption. Between the second and third quarters GDP fell by 1.3 per cent on an annual basis. Investment in machinery and plant continued to contract, falling at an annual rate of 9 per cent.

In October war-related requirements caused orders for capital goods to rise by a very substantial 28 per cent; there was also an increase of 5.8 per cent in demand for non-defence capital goods.

In December the contraction in industrial production that had been under way since the last months of 2000 practically came to an end. The survey of manufacturing firms' purchasing managers showed significant improvements in November and December. The index for services, starting from 40.6 in October, had already reached 51.3 in November and rose to 54.2 in December, indicating a return to expansion.

The unemployment rate rose sharply in the autumn. Thanks to the flexibility of job shedding, labour productivity continued to rise even during the recession, thereby safeguarding the profitability of investments.

In addition to the tax refunds approved in May, for a total of $110 billion in the two years 2001 and 2002, $80 billion is to be spent on reconstruction and homeland security. In total the budgetary measures already approved to sustain the economy and speed up the recovery in production are equivalent to about 2 per cent of annual GDP. Other measures amounting to around $70 billion have been proposed.

As early as October the foreign exchange and financial markets appeared confident of the start of a new period of economic growth. The dollar, after regaining its early-September level, has appreciated further. The risk premiums on corporate bonds have diminished. Share prices have more than made good the fall recorded in the wake of the terrorist attacks.

In Japan GDP contracted by 2.2 per cent on an annual basis in the third quarter of last year; in the second quarter there had been a contraction of nearly 5 per cent. The expansionary fiscal policy stance and the abundant supply of monetary base do not yet appear capable of reviving domestic demand. The economy is weighed down by structural imbalances and is probably suffering from the consequences of a long period of investment in traditional sectors, which are exposed to growing competition from the newly industrialized Asian countries.

Consumer price deflation continues, with adverse repercussions on corporate revenues; the difficulties of firms and the fall in share prices are impinging on the banking system. The official figure for the ratio of non-performing loans, including allowances, to GDP was already 6.3 per cent in March 2001.

The December quarterly Tankan survey indicated a new worsening of the business climate. The Government has announced a second supplementary budget of around ¥4 trillion or 0.8 per cent of GDP to support domestic demand; it has pledged to promote the necessary structural reforms.

The euro area has been affected by the deceleration of the US economy and the persistent difficulties in Japan. After slowing down in the first half of 2001, economic activity stagnated in the third quarter. The performance of the German economy has been especially poor; after rising in the first half of 2001, industrial production has been falling for the last six months. Investment has been on a downward path since the last part of 2000; in the third quarter consumption also declined.

In Argentina, after a period of political instability and rioting triggered by the deterioration in economic conditions that ultimately led to the freezing of bank deposits, it was finally decided to abandon the parity with the dollar, which had clearly been unsustainable for some time. The servicing of the country’s foreign debt was suspended. The peso was devalued by 29 per cent; the market has inflicted a much larger depreciation.

Turkey has made good progress in the adjustment of its public finances. There remains the problem of restoring the banking system to health. After contracting sharply in 2001, GDP should start to grow again this year.

2. Problems facing the world economy

Recovery in Europe and the other industrial countries will depend crucially on the return to growth in the United States.

There are also signs of an upturn in Asia, particularly in the two most populous countries, and in the transition economies.

The need for policies that can make for more harmonious and sustained growth of the world economy is now evident.

Throughout the second half of the last century and especially in the last two decades, international integration has fostered the growth of investment and output in the emerging countries that have succeeded in producing industrial goods for which there is a large market.

Some parts of the world have been excluded from economic progress. In many emerging countries the expansion of output has been accompanied by recurrent financial and banking crises, with ruinous effects on employment and consumption and consequent social and political tensions.

In most of the developing countries agriculture and labour-intensive branches of industry still account for a large and sometimes predominant share of value added.

The liberalization of world trade has involved agricultural products and textiles only to a limited extent. In Japan, the European Union and the United States these goods continue to benefit from a high degree of protection.

The conclusion of the Uruguay Round in 1994 created the conditions for a more open system of trade based on more transparent rules. The subsequent implementation of the agreements has been marked by major contradictions. The failure of the meeting of the member countries of the World Trade Organization in Seattle generated new tensions.

Significant progress was made at the meeting held in Doha last November.

China and Taiwan were admitted to the WTO. Agreement was reached to proceed with the multilateral trade system and foster greater participation by backward countries.

As regards agriculture, the objectives set for the negotiations include a substantial reduction in industrial countries' import duties and domestic production support measures, together with the elimination of their export subsidies.

Important results should also come from the start of negotiations to attenuate the restrictions on direct investment and reduce import duties on industrial products, especially textiles and clothing.

The efficiency gains to be made by exploiting comparative advantages and economies of scale in production more effectively can increase world trade and output significantly; this will benefit the industrial countries as well.

We must proceed resolutely in the direction indicated, both at national level and in the competent international fora.

2.1 Financing the emerging countries and development assistance

The flow of savings to the developing countries and above all foreign direct investment promote the transfer of technologies and the utilization of these countries' plentiful supply of labour.

Balanced growth requires favourable domestic conditions, first of all respect for human rights, the protection of private property and the certainty of the law. A stable monetary and credit system is indispensable.

In the early stages of development it is normal for a country to have recourse to foreign debt. The uses to which the borrowed funds are put must generate the means for their repayment.

The industrial countries must also be committed to spreading the benefits of globalization to the backward economies, especially where the basic conditions for attracting private capital are lacking.

The debt reduction initiative for the heavily indebted poor countries is well under way; it will make it easier for these countries to take part in world trade.

An important opportunity for coordinating the various initiatives to foster development will be provided by the conference the United Nations is organizing in March at Monterrey in Mexico. The conference should indicate ways to mobilize the resources needed to achieve the poverty-reduction objectives set in the Millennium Summit of September 2000.

Official development assistance has diminished considerably in relation to donor countries' GDP, from 0.7 per cent in the early 1960s to 0.2 per cent in the second half of the 1990s.

This trend must be reversed. Foreign aid has an essential role to play in triggering growth mechanisms; in the very poor countries it is the main source of finance. The industrial countries must commit themselves to meeting the objectives that have been agreed and resume the supply of aid and finance, which could rise to 1 per cent of GDP.

International relations free from tensions, the absence of conflicts and orderly social conditions within the emerging countries are prerequisites for faster growth and a fairer distribution of its fruits.

2.2 Migration

Mass migrations have enormously influenced the history of the world's peoples and the evolution of the economy. International labour mobility is limited by the restrictive policies of the industrial countries.

In the present context of demographic decline and aging populations, immigration can make a positive contribution to our societies if it is regulated in a farsighted and discerning way. It can allow the high rate of economic growth of recent decades to be maintained.

We must be open-minded about immigration, especially in a period of rapid technological progress. Action is needed to facilitate the training of immigrants and their integration in the receiving countries. This is a task the advanced economies will not be able to shirk, not least in view of the pressures generated by population growth in the backward countries.

The policies of the European countries need to be coordinated.

The regulation of immigration is intended to guarantee security and legality. The cultural identity of our countries must be preserved and turned to good account. We must present immigrants, who come in search of better living standards, with a shared core of values, rights and duties that they should be asked to accept in full. It is not a question of interfering with their moral or religious convictions; it is necessary to foster their integration with the other members of the community. It is in the search for solutions to practical problems that prejudices are overcome.

3. The Italian economy

In the fourth quarter of 2000 Italy's GDP was 0.9 per cent higher than the average for the year.

In the first quarter of 2001 output continued to grow at an annual rate of nearly 4 per cent; the excess of supply with respect to demand led to a substantial rise in stocks. In the second quarter the weakness of export demand and the downturn in investment resulted in GDP remaining basically unchanged. In the third quarter it grew by 0.6 per cent, sustained again by stockbuilding. Consumption and investment remained unchanged.

As world demand weakened, the fall in exports became more pronounced.

Investment in building and construction continued to grow in the first half of the year, boosted by tax incentives. On the other hand investment excluding construction remained on the downward trend that had emerged in the last part of 2000 after five years of rapid growth; in the third quarter it expanded by about 1 per cent, probably benefiting from the initial effects of the measure granting tax relief for reinvested profits.

Employment followed a rising trend in 2001.

Some 335,000 new jobs, corresponding to more than four fifths of the increase over the year, were full-time and permanent; another 55,000 were part-time or fixed-term. The large proportion of more stable forms of employment can be attributed to the good performance of the economy in 2000 and the early part of last year; the fiscal incentives introduced by the Finance Law for 2001 played a decisive role.

The unemployment rate continued to decline, falling to 9.2 per cent in October. In the North of Italy it fell to 3.8 per cent.

In the first eleven months of 2001 the overall balance of payments swung back into surplus as a result of the improvement in the terms of trade. This brought an increase in purchasing power; however, despite the increase in employment and the tax cuts provided for in the budget, household spending grew more slowly.

The twelve-month rate of inflation has been falling since April; in December it was 2.4 per cent. Last year the annual average rate of consumer price inflation was 2.7 per cent. Preliminary data for the largest cities showed a month-on-month rise in consumer prices of 0.4 per cent in January. In a situation of abiding wage moderation and weak energy prices, inflation will continue to come down over the year.

From the end of May onwards equity prices headed downwards on all the main euro-area stock exchanges. The terrorist attacks of 11 September caused a further fall. The action taken by the American and European monetary authorities and the tax measures enacted by the US government helped to restore market confidence. Equities have been recovering since mid-September; yesterday the main European stock market indexes were higher than at the beginning of September.

The current prices of Italian shares do not appear to be far from their equilibrium values.

Let me take this opportunity to remind analysts, investors and intermediaries of the need to value individual securities in the light of the growth prospects of the firm and sector in question in accordance with financial rationality and on the basis of reliable forecasts of the relevant monetary and macroeconomic parameters.

A repetition of the mistakes made during the earlier period of widespread euphoria would be deleterious. The confidence of investors in intermediaries and other market participants must be preserved, or better, reinforced.

4. The public finances and structural reforms

Excluding settlements of past debts and privatization receipts and including tax refunds paid through the Post Office, the state sector borrowing requirement in 2001 was 59 trillion lire, compared with 49 trillion in 2000.

For the broader general government aggregate, financing data show a borrowing requirement of 97.8 trillion lire in the first eleven months of 2001, compared with 84.1 trillion in the corresponding period of 2000.

In December the Treasury accounts recorded a surplus of around 35 trillion lire, compared with 20.2 trillion in December 2000.

Some 10 trillion lire of the substantial improvement in the central government finances in December can be attributed to the steps taken to accelerate the sale of public real estate and bring forward the receipt of the proceeds of lotteries. Restrictions on disbursements had been in effect since the summer. The result for the year was also influenced by one-off receipts.

In 1999 the general government borrowing requirement was 47.6 trillion lire; in 2000 it rose to 72.6 trillion. In view of the improvement that occurred in December, the figure for 2001 should not be significantly different.

Reducing the ratio of debt to GDP necessarily depends on reducing the difference between disbursements and receipts on a cash basis.

From 1991 to 1998 there was no substantial divergence between the general government borrowing requirement, on a cash basis, and general government net borrowing, on an accrual basis.

With the entry into force of the new European System of Accounts, the gap amounted to nearly 10 trillion lire in 1999 and widened to more than 38 trillion in 2000. The new system is designed to measure net borrowing on an accrual basis.

The state budget deficit on an accrual basis is much larger than general government net borrowing on the basis of the European System of Accounts.

The Minister for the Economy has set up a committee to investigate the large discrepancies between the various aggregates in view of their importance in obtaining a timely and accurate picture of the state of the general government accounts. It is necessary to analyze the causes of the wide gap between the borrowing requirement on a cash basis, calculated using figures that are certain, and net borrowing, which is based on the new European System of Accounts.

Preparatory work is under way on a reform of the system for the definition of data and their computerized collection that will make it possible to obtain prompt and detailed information on the accounts of the various components of general government.

The need for such an overhaul has been made urgent by the amendment of Title V of the Constitution, which provides for a high degree of decentralization of the activities of the public sector.

The equilibrium of the public finances, an appropriate structure of expenditure and revenue, and the size of the aggregates themselves in relation to the size of the economy are the cornerstones of the Government's economic policy, which is aimed at promoting stability and growth.

The large reduction in the budget deficit in the 1990s was the result of the fall in interest payments and the rise in revenue; between the second half of the 1980s and the second half of the 1990s the ratio of taxes and social security contributions to GDP rose by roughly 6 percentage points.

The average rate of growth of the Italian economy in the 1990s was more than half a percentage point below that of the other European Union countries, where economic activity expanded modestly in comparison both with earlier decades and with the United States. There was no reduction in the size of the underground economy, where tax and social security obligations are evaded and safety rules widely ignored.

These tendencies have to be reversed.

The Economic and Financial Planning Document moves in that direction.

The Government plans a radical simplification of the revenue-raising system with far-reaching implications for firms and individuals and a significant reduction in taxes and social security contributions in relation to GDP. Bringing irregular activities into the open will permit a better distribution of the tax and contribution burden, to the advantage of all those who fulfil their obligations.

Given Italy's exposure to international competition, this will help to improve the country's competitiveness and thereby have a positive effect on investment and employment.

The planned reduction in taxes and social security contributions is to be achieved through a progressive reduction in the ratio of public expenditure to GDP on the order of one percentage point per year for the next five years.

The decrease in the ratio is also entrusted to an acceleration in GDP.

The reduction in current expenditure, with respect to its trend value and not in absolute terms, must be appropriately distributed among the various components.

The changes for pensions envisage a lengthening of employees' working lives and a speeding up, through use of severance pay provisions and tax incentives, of the growth of supplementary pensions. This is an essential aspect of a reform of the pension system intended to adjust the balance between the public and private components.

The reduction in social security contributions for newly-hired workers fosters employment, but pension expenditure must be curbed in relation to GDP to ensure the financial sustainability of the public pension system. In the EU countries the ratio was 10.4 per cent in 2000; in Italy it was 13.8 per cent for the main pension schemes.

Pension expenditure is set to increase as a consequence of the aging of the population. Bringing part of the underground economy into the open will immediately help to attenuate the imbalances in the pension system by increasing contributions. Looking ahead, a gap remains between equilibrium and actual contribution rates; under the law in force today the shortfall would be equal to 15 percentage points for private-sector payroll workers in 2010.

The ratio of healthcare expenditure to GDP, equal to 5.3 per cent in 1998, is estimated to have risen to around 6 per cent in 2001. The recent agreements between the central government and the regions should keep it at this level. The plans to overcome the inefficiencies in the sector will help to improve the quality and increase the quantity of the services provided.

Parliament is examining proposals for new labour market rules that will strengthen and supplement the changes made in the last few years. It is these changes, together with a reduction in the incidence of social security contributions since 2001, that have made it possible in the last four years to recoup the large fall in employment that occurred between 1991 and 1995, when some 1.2 million jobs were lost. At the end of 2001 employment was 2.3 per cent higher than ten years earlier.

5. The outlook

The dramatic events of 11 September heavily affected the US and world economies.

The cyclical upturn was set back by around three months.

Economic activity reached its lowest point in America in the second half of the year. According to preliminary estimates, there was already a small increase in GDP in the fourth quarter.

The indicator of confidence among non-manufacturing firms pointed to a moderate expansion as early as December. That for manufacturing firms improved to 49.9 in January; the indicator of consumer confidence also rose.

The unemployment rate declined to 5.6 per cent in January, from 5.8 per cent in December.

The first quarter of this year could mark the start of the recovery. GDP is expected to start growing again in the second quarter, at an annual rate of 2 per cent. The recovery will gain strength in the second half of 2002, with forecast annual growth rates of at least 3.5 per cent.

Expectations of a new phase of growth in the United States are sustained in the short term by the strongly expansionary stance of fiscal policy and monetary policy, and in the medium term by the fundamental strength of the American economy.

A reallocation of resources among the various sectors is likely. Those hit hardest by the events of last September are suffering from a deterioration in profitability, with repercussions on employment and investment. But the rate of productivity growth for the economy as a whole is not likely to be affected in the medium term.

The diffusion of the new technologies is still far from complete. Available estimates indicate that labour productivity should continue to increase over a relatively long period by between 2 and 2.5 per cent a year.

The international organizations forecast a return to growth of between 3.5 and 4 per cent in 2003. The rise in capital spending in that year is also expected to be robust, on the order of 5 per cent.

In the European Union, the slowdown in 2001 was less intense; GDP increased by 1.7 per cent. Growth of around 1.5 per cent is forecast for 2002. The potential growth rate is estimated at between 2 and 2.5 per cent, well below that of the United States owing to the slower growth in both the labour force and productivity.

Given the initial level of spare capacity, in 2003 the increase in output is likely to exceed the potential rate.

In 2001 the Italian economy achieved growth of around 2 per cent. In the summer the official projections had indicated an increase of 2.4 per cent.

Industrial production fell steadily during 2001 in Italy and in Europe, reflecting the negative trend in world trade.

In Italy electricity consumption points to a substantial increase in industrial production in December, followed by a modest decline in January.

During the 1990s the growth in Italian industrial production was very disappointing in comparison with the previous decades and with the other European economies. The response to both domestic and foreign demand, in terms of the type and quality of production, was totally inadequate and the capacity to produce high-tech goods insufficient.

The loss of competitiveness in manufactures reduced Italy’s share of world trade from 5 per cent in 1990 to 3.7 per cent in 2000. The re-entry of the lira into the European exchange rate mechanism in the second half of the decade was not accompanied by an increase in productivity in line with that of the other main industrial countries. Unit labour costs rose more rapidly, partly owing to the high level of taxation and social security contributions.

The labour market reforms introduced towards the end of the decade gave an immediate impulse to employment growth, even if with fixed-term jobs.

The measures covered by the enabling bill now before Parliament are intended to complete the reform of the labour market. More flexible forms of employment will allow the supply of labour to better match a demand that must necessarily take account of international competition far more than in the past. Adjustments to legislation will foster the spread of more stable forms of employment, with beneficial effects on workers' training and skills, productivity and, hence, investment.

A structural increase in the labour force participation rate is necessary.

An end to the more precarious forms of employment and the absorption of the wide swathe of irregular jobs into the formal economy, at least on a partial or limited basis, will require greater economic growth, the elimination of the most serious rigidities and, looking ahead, a progressive reduction in the tax burden.

The aging of the population will make public pension expenditure rise faster than GDP.

While safeguarding the entitlements of workers who are retired or nearing retirement age, changes must be made to raise the average effective age of retirement in order to avoid a further increase in the ratio between retirees and active workers.

The monetary cure of the second half of the 1990s, culminating in the adoption of the single currency in 1999, and the improvement in the public finances must now be followed by an adjustment of the underlying structures that will put the economy back on a path of sustained growth.

This is the challenge for the decade that has just begun.

The keystone of an economic policy aimed at stability and higher potential and actual growth is a reduction in the ratio of current public expenditure to GDP.

The progressive reduction in the burden of taxes and social security contributions and a more diversified, and above all more flexible, labour market will help to recoup the competitiveness lost by the Italian economy during the last decade.

Economic recovery requires an impulse from investment demand.

The ratio of public investment to GDP fell during the 1990s. The insufficient infrastructural endowment of many developed areas in the North became more evident.

The environment and natural resources must be safeguarded, or better, enhanced. Investments in this direction bring deferred but high profits and immediate benefits to society.

In the economically most backward regions, the negative externalities connected with the lack of public capital must be reduced and eventually eliminated. Innovative business investment can count on human capital consisting of an increasingly well-trained pool of workers who are able and willing to contribute to the development of those regions.

The new law for the planning and execution of major public works must bring a substantial increase in activity in this sector. Additional investment, amounting to a significant share of GDP, must contribute to the acceleration of growth during this year and the subsequent ones.

European funds must be fully utilized. Substantial support can come from the higher share of expenditure that can be financed by supranational institutions, in line with the recommendations of the Council of Europe.

The financial market has seen the volume of transactions expand remarkably over the last five years, rising to levels well above those of the first half of the 1990s; the Italian market is in the vanguard in Europe for operational efficiency and technology.

In the last five years the structures of the banking system have been strengthened. By historical standards, the progress made is exceptionally great. Average bank size has grown appreciably, the privatization of the banking system has nearly been completed, and profitability has increased. In a context of progressive deregulation, competition has grown, to the benefit of households and firms. Further major consolidations are under way. Additional progress is necessary in the quality of services provided, costs and profitability.

These advances make a larger share of national savings available to the private sector than in the past. A contribution will come from the repatriation of capital.

The process of decentralization inspired by principles of federalism that was introduced with the amendment of Title V of the Constitution is laden with consequences.

An allocation of public spending closer to the needs of local communities, in accordance with the principle of subsidiarity, can improve the efficiency and competitiveness of the economy.

However, the decentralization of legislation and administration could lead to an excessive growth in public spending while also aggravating the disparities between the more affluent and the disadvantaged regions. Instances of tax competition could arise.

A framework law is needed to define the procedures for applying the new rules and to serve as a base for coordinating the activity of the public sector at central and local level. The balanced-budget requirement will brake the expansion of expenditure. The solidarity fund will help to correct disparities in welfare.

The opportunity for a far-reaching reorganization of government must be grasped, so that public administrations more effectively serve the population and the productive sector.

The ability of the economic system to produce wealth and to distribute it equitably is entrusted in the first place to private enterprise, which has to be regulated and supplemented by the action of public institutions.

We must take up the challenge and succeed in achieving an efficient economy, greater growth and full participation by the entire population – above all young people – in the fruits of that growth.

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)	1997	1998	1999	2000	2001	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4
	(percentage changes on previous period on an annual basis; seasonally adjusted quarterly data)										
Industrial countries											
United States	21.6	4.4	4.3	4.1	4.1	1.2	1.9	1.3	0.3	–1.3	1.4
Japan	7.8	1.8	–1.1	0.7	2.4	. . . .	1.1	4.1	–4.8	–2.1	. . . .
Euro area	16.1	2.3	2.9	2.6	3.4	. . . .	2.4	2.2	0.3	0.6	. . . .
Germany	*4.7*	*1.4*	*2.0*	*1.8*	*3.0*	*0.6*	*0.6*	*1.6*	*0.2*	*–0.7*	*–1.0*
France	*3.3*	*1.9*	*3.4*	*3.0*	*3.6*	*2.0*	*4.2*	*1.6*	*0.8*	*1.8*	*–0.6*
Italy	*3.1*	*2.0*	*1.8*	*1.6*	*2.9*	*1.8*	*3.4*	*3.5*	*–0.2*	*0.6*	*(–1.0)*
United Kingdom	3.2	3.4	3.0	2.1	3.0	2.4	2.2	3.0	1.8	1.9	0.1
Canada	1.9	4.3	3.9	5.1	4.4	1.5	1.6	1.1	0.9	–0.6	2.0
	(percentage changes on year-earlier period)										
Emerging countries											
Latin America											
Argentina	1.1	8.1	3.9	–3.4	–0.8	. . . .	–1.9	–2.0	–0.2	–4.9	. . . .
Brazil	2.8	3.3	0.1	0.8	4.4	1.5	3.7	4.3	2.1	0.5	–0.7
Mexico	1.9	6.8	4.9	3.7	6.6	–0.3	4.7	2.0	0.1	–1.5	–1.6
Asia											
China	10.8	8.8	7.8	7.1	8.0	7.3	7.3	8.1	7.8	7.0	6.6
India	5.4	4.8	6.5	6.1	4.0	. . . .	1.5	4.4	5.3	. . . .	. . . .
Indonesia	1.3	4.9	–13.4	0.8	5.6	2.6	7.8	3.2	3.5	2.1	1.6
Malaysia	0.4	7.3	–7.4	6.1	8.3	0.4	6.3	3.1	0.5	–1.2	–0.5
South Korea	1.8	5.0	–6.7	10.9	8.8	. . . .	4.6	3.7	2.7	1.8	. . . .
Taiwan	. . . .	6.7	4.6	5.4	5.9	–1.9	3.8	0.9	–2.4	–4.2	–1.9
Thailand	0.9	–1.4	–10.8	4.2	4.4	. . . .	3.2	1.8	1.9	1.5	. . . .
Europe											
Poland	0.8	6.8	4.8	4.1	4.0	. . . .	2.4	2.3	0.9	0.8	. . . .
Russia	2.5	0.9	–4.9	5.4	8.3	. . . .	6.8	4.9	5.3	4.9	. . . .
Turkey	1.0	7.6	3.2	–4.7	7.3	. . . .	8.4	–2.1	–8.9	–7.0	. . . .

(1) On the basis of purchasing power parities.

Table a2

Industrial production

	1998	1999	2000	2001	August 2001	September 2001	October 2001	November 2001	December 2001	January 2002
					(percentage changes on previous period; seasonally adjusted data)					
Industrial countries										
United States	5.1	3.7	4.5	–3.7	–0.3	–1.1	–0.6	–0.4	–0.3	–0.1
Japan	–7.2	1.0	5.4	–7.6	0.8	–2.9	–0.2	–1.7	1.5	–1.0
Euro area	4.3	2.0	5.5	0.2	1.3	–0.6	–1.6	–0.7	0.3	. . . .
Germany	*4.2*	*1.5*	*6.2*	*0.4*	*2.0*	*–1.4*	*–1.8*	*–1.0*	. .	. . . .
France	*5.3*	*2.0*	*3.5*	*0.9*	. .	*–0.6*	*–0.9*	*0.3*	*–0.9*	. . . .
Italy	*1.9*	*0.1*	*3.1*	*–0.7*	*0.6*	*–1.0*	*–0.2*	*–2.5*	*1.6*	. . . .
United Kingdom	1.0	0.7	1.8	–2.2	0.7	–1.2	–1.4	–0.1	–0.3	. . . .
Canada	3.4	5.6	5.5	–2.8	–0.1	–2.2	0.1	–0.2	–0.9	. . . .
					(percentage changes on year-earlier period)					
Emerging countries										
Latin America										
Argentina	1.4	–5.8	–1.9	–5.3	–5.7	–7.2	–7.5	–10.8	–17.7	–17.2
Brazil	–2.0	–0.7	6.7	1.4	–0.3	–1.7	–3.2	–1.8	–6.1	. . . .
Mexico	6.3	4.2	7.8	–3.5	–5.2	–5.5	–4.7	–3.9	–3.6	. . . .
Asia										
China	9.6	9.9	11.2	9.7	8.1	9.5	8.8	7.9	8.7	40.4
India	3.4	7.6	6.6	2.2	2.7	1.6	1.6	1.8	1.6	. . . .
Indonesia	–13.3	–12.9	–8.1	. . . .	–	–	–	–	–	–
Malaysia	–7.2	9.1	19.1	–4.1	–7.3	–9.3	–8.4	–5.5	–7.7	. . . .
South Korea	–7.4	24.2	16.8	1.6	–5.9	5.1	–1.3	5.0	3.3	10.2
Taiwan	2.7	7.7	7.4	–7.6	–7.9	–14.3	–6.9	–6.7	–6.1	12.0
Thailand	–12.0	14.1	3.1	1.3	2.1	–1.4	2.4	1.4	1.3	1.3
Europe										
Poland	4.7	4.8	7.5	0.2	0.4	–3.8	1.6	–0.6	–4.8	–1.4
Russia	–5.2	11.0	11.9	5.0	5.1	5.5	3.5	4.7	2.6	2.2
Turkey	0.9	–5.2	5.8	–7.1	–10.0	–9.2	–13.6	–14.5	–9.4	. . . .

Table a3

Consumer prices

	1997	1998	1999	2000	2001	September 2001	October 2001	November 2001	December 2001	January 2002
	(percentage changes on year-earlier period)									
Industrial countries										
United States	2.3	1.6	2.2	3.4	2.8	2.6	2.1	1.9	1.6	1.1
Japan	1.7	0.7	–0.3	–0.7	–0.7	–0.8	–0.8	–1.0	–1.2	–1.4
Euro area	1.7	1.2	1.1	2.4	2.7	2.5	2.4	2.0	2.1	. . . .
Germay	*1.5*	*0.6*	*0.6*	*2.1*	*2.4*	*2.1*	*2.0*	*1.5*	*1.5*	. . . .
France	*1.3*	*0.7*	*0.6*	*1.8*	*1.8*	*1.6*	*1.8*	*1.3*	*1.4*	. . . .
Italy	*1.9*	*2.0*	*1.7*	*2.6*	*2.7*	*2.6*	*2.5*	*2.3*	*2.3*	. . . .
United Kingdom	2.8	2.7	2.3	2.1	2.1	2.3	2.3	1.8	1.9	2.6
Canada	1.6	1.0	1.7	2.7	2.5	2.6	1.9	0.7	0.7	1.3
Emerging countries										
Latin America										
Argentina	0.5	0.9	–1.2	–0.9	–1.1	–1.1	–1.7	–1.6	–1.5	0.6
Brazil	6.9	3.2	4.9	7.1	6.8	6.5	7.1	7.6	7.7	7.6
Mexico	20.6	15.9	16.6	9.5	6.4	6.1	5.9	5.4	4.4	4.8
Asia										
China	2.8	–0.8	–1.4	0.3	0.7	–0.1	0.2	–0.3	–0.3	1.0
India	7.2	13.2	4.7	4.0	3.8	4.7	4.8	5.1	5.1	4.5
Indonesia	6.2	58.4	20.5	3.7	11.5	13.0	12.5	12.9	12.6	14.4
Malaysia	2.7	5.3	2.7	1.5	1.4	1.4	0.9	1.5	1.2	1.1
South Korea	4.4	7.5	0.8	2.3	4.3	3.2	3.6	3.4	3.2	2.6
Taiwan	0.9	1.7	0.2	1.3	. .	–0.5	1.0	–1.1	–1.7	–1.7
Thailand	5.6	8.1	0.3	1.5	1.7	1.4	1.4	1.0	0.8	0.8
Europe										
Poland	15.1	11.8	7.3	10.1	5.5	4.3	4.0	3.6	3.6	3.5
Russia	14.8	27.6	85.7	20.8	21.6	20.1	18.9	18.8	18.8	19.2
Turkey	85.7	84.6	64.9	54.9	54.4	61.8	66.5	67.3	68.5	73.2

Table a4

External current account

	1997	1998	1999	2000	2001	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4
					(billions of dollars; seasonally adjusted quarterly data)					
Industrial countries										
United States	–139.8	–217.5	–324.4	–444.7	. . . .	–116.3	–111.8	–107.6	–95.0	. . . .
Japan	94.2	121.2	106.9	116.9	91.2	24.9	25.5	16.8	24.4	29.4
Euro area	62.0	27.0	–28.4	–64.9	–8.6	–16.3	–6.9	–9.0	1.3	6.5
Germany	*–3.1*	*–4.6*	*–18.3*	*–18.5*	*10.2*	*–7.9*	*0.6*	*–3.9*	*6.3*	*8.2*
France	*38.0*	*37.7*	*36.3*	*21.3*	. . . .	*3.0*	*7.1*	*2.5*	*9.1*	. . . .
Italy	*33.3*	*22.6*	*8.1*	*–5.8*	*3.1*	*–2.8*	*–0.4*	. .	*–0.5*	. . . .
United Kingdom	–2.8	–8.0	–30.9	–25.6	. . . .	–7.7	–3.0	–6.5	–2.9	. . . .
Canada	–8.2	–8.5	1.2	18.0	. . . .	5.6	8.9	5.8	3.6	. . . .
					(billions of dollars; quarterly data, not seasonally adjusted)					
Emerging countries										
Latin America										
Argentina	–12.3	–14.6	–12.0	–8.9	. . . .	–2.0	–3.1	–1.1	–0.8	. . . .
Brazil	–30.8	–33.4	–25.4	–24.6	–23.2	–9.0	–6.7	–6.7	–4.1	–5.8
Mexico	–7.4	–16.1	–14.0	–17.8	. . . .	–6.2	–4.7	–3.5	–3.2	. . . .
Asia										
China	29.7	29.3	15.7	20.5	. . . .	–	–	–	–	–
India	–3.0	–6.9	–3.2	–4.3	. . . .	–0.3	0.7	–0.3	–0.6	. . . .
Indonesia	–5.0	4.1	5.8	8.0	. . . .	2.5	2.1	1.3	. . . .	. . . .
Malaysia	–5.9	9.5	12.6	8.4	. . . .	2.0	1.8	1.6	1.9	. . . .
South Korea	–8.2	40.4	24.5	11.4	. . . .	3.2	3.1	3.7	1.0	. . . .
Taiwan	7.2	3.5	8.4	8.9	. . . .	4.0	4.1	3.4	4.5	. . . .
Thailand	–3.1	14.3	12.5	9.4	6.2	2.2	1.4	1.0	1.7	2.1
Europe										
Poland	–4.3	–6.9	–11.6	–9.9	. . . .	–2.1	–2.2	–2.2	–0.9	. . . .
Russia	2.1	0.7	24.7	46.3	. . . .	12.9	11.8	9.4	7.1	. . . .
Turkey	–2.6	2.0	–1.4	–9.8	. . . .	–2.9	–0.5	1.2	2.0	. . . .

Table a5

Short-term interest rates

(percentages)

	US	Japan	Euro area	UK	Canada
			Official reference rates *(end-of-period data)*		
1997	5.50	0.50	–	7.25	4.50
1998	4.75	"	–	6.25	5.25
1999	5.50	"	3.00	5.50	5.00
2000	6.50	"	4.75	6.00	6.00
2001 – Feb.	5.50	0.35	4.75	5.75	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
Oct.	2.50	"	"	4.50	3.00
Nov.	2.00	"	3.25	4.00	2.50
Dec.	1.75	"	"	"	"
2002 – Jan.	"	"	"	"	2.25
Feb.	"	"	"	"	"
			Money market rates *(period averages)*		
1998	5.47	0.81	3.94	7.36	5.07
1999	5.33	0.31	2.96	5.48	4.92
2000	6.46	0.32	4.39	6.13	5.70
2001	3.69	0.16	4.26	4.98	4.00
2001 – 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	5.22	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
Oct.	2.31	0.11	3.60	4.36	2.90
Nov.	2.03	0.07	3.39	3.97	2.28
Dec.	1.83	0.08	3.35	4.05	2.12
2002 – Jan.	1.74	0.15	3.34	4.02	2.01
Feb.	1.82	0.14	3.36	3.98	2.12

Table a6

Long-term interest rates and share price indices

(period averages)

	US	Japan	Germany	France	Italy	UK	Canada
				Bond yields *(percentages)*			
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
2001	5.02	1.34	4.80	4.94	5.19	5.01	5.48
2001 – 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
Oct.	4.57	1.36	4.60	4.72	4.96	4.86	5.23
Nov.	4.65	1.34	4.45	4.57	4.80	4.67	5.18
Dec.	5.09	1.35	4.74	4.87	5.05	4.94	5.41
2002 – Jan.	5.04	1.43	4.86	4.93	5.14	5.02	5.34
Feb.	4.91	1.52	4.92	4.99	5.20	5.04	5.32
				Share price indices *(indices, 1995=100)*			
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
2001	220.33	86.57	218.65	268.00	258.79	162.81	174.37
2001 – 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
Oct.	198.77	77.70	180.76	228.66	216.62	146.86	155.29
Nov.	208.63	76.14	194.96	241.30	225.65	153.18	167.47
Dec.	211.38	73.82	199.22	241.97	228.65	152.53	173.39
2002 – Jan.	210.41	72.59	202.92	241.20	229.53	152.73	172.49
Feb.	203.24	70.24	193.74	231.91	223.00	150.33	172.25

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	
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
2001	0.896	108.68	1.386	0.6219	7.452	8.048	9.255	1.511	276.50
1999 – 4th qtr.	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
4th "	0.896	110.45	1.416	0.6209	7.441	7.969	9.481	1.473	276.50
2001 – 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	272.85
Sept.	0.911	108.20	1.426	0.6229	7.441	7.999	9.674	1.491	293.10
Oct.	0.906	109.86	1.422	0.6239	7.437	7.997	9.578	1.479	278.75
Nov.	0.888	108.68	1.415	0.6184	7.445	7.922	9.417	1.466	275.50
Dec.	0.892	113.38	1.408	0.6201	7.443	7.991	9.436	1.475	276.50
2002 – Jan.	0.883	117.12	1.413	0.6166	7.433	7.921	9.227	1.475	282.30
Feb.	0.870	116.23	1.388	0.6116	7.430	7.785	9.183	1.477	296.85

Table a8

Indicators of competitiveness (1)

(period averages; indices, 1993=100)

	US	Japan	Germany	France	Italy	UK	Canada	Switzerland
1996	100.2	87.7	98.3	100.8	103.7	101.5	101.0	104.4
1997	105.2	83.1	93.3	96.1	104.0	117.2	101.3	95.9
1998	108.7	79.7	94.7	96.2	105.5	123.9	97.9	97.8
1999	107.0	90.4	91.1	94.0	102.5	124.2	97.8	95.4
2000	113.2	95.3	84.6	90.4	99.1	124.0	97.4	90.1
2001	118.8	85.5	87.1	90.7	100.3	120.9	94.8	92.6
1999 – 4th qtr.	106.5	97.2	88.6	92.7	101.2	125.3	97.9	92.9
2000 – 1st qtr.	108.5	95.2	86.5	91.8	100.3	126.6	99.6	90.2
2nd "	112.0	96.4	84.6	90.5	99.1	125.2	98.0	90.5
3rd "	114.4	95.4	84.2	90.0	98.7	122.0	96.9	89.9
4th "	118.0	94.3	83.4	89.4	98.2	122.2	95.0	89.8
2001 – 1st qtr.	120.6	86.2	87.2	91.1	101.2	119.0	93.8	91.1
2nd "	120.9	84.9	86.2	90.1	99.3	120.7	95.2	90.4
3rd "	117.6	85.7	87.2	90.7	99.9	121.4	95.6	92.9
4th "	116.0	85.3	87.6	91.1	100.9	122.5	94.6	96.1
2000 – Dec.	118.3	91.6	84.6	90.0	99.7	121.5	94.5	91.2
2001 – Jan.	121.8	85.9	87.2	91.2	101.3	118.8	93.2	91.6
Feb.	119.9	87.6	87.1	91.1	101.1	118.3	94.2	90.8
Mar.	120.1	85.1	87.3	91.2	101.1	119.7	93.9	91.0
Apr.	121.2	83.8	87.0	90.7	100.5	120.2	94.1	91.1
May	120.9	85.0	86.0	90.1	99.0	120.7	95.3	89.8
June	120.7	85.8	85.7	89.6	98.4	121.0	96.1	90.2
July	119.2	84.8	86.3	89.9	98.9	122.3	96.8	91.7
Aug.	116.9	85.3	87.5	91.0	100.2	120.4	95.7	92.6
Sept.	116.7	86.9	87.7	91.0	100.4	121.6	94.5	94.3
Oct.	115.3	86.4	87.7	91.3	100.9	122.4	95.0	95.7
Nov.	117.1	86.0	87.3	90.7	100.5	122.1	93.5	96.1
Dec.	115.7	83.4	87.8	91.2	101.3	123.1	95.3	96.5

(1) Based on the producer prices of manufactures. A rise in the index corresponds to a decrease in competitiveness.

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				
1991	1.4	2.3	1.5	1.6	0.4	1.0	2.9	1.1	–1.4
1992	0.8	7.4	1.9	–1.4	–1.5	–1.4	1.9	0.1	7.3
1993	–0.9	–10.9	–2.7	–6.7	–14.9	–10.9	–3.7	–3.8	9.0
1994	2.2	8.1	3.2	–6.3	6.7	0.1	1.5	3.4	9.8
1995	2.9	9.7	4.1	0.9	10.6	6.0	1.7	–0.8	12.6
1996	1.1	–0.3	0.8	3.6	3.7	3.6	1.2	–2.8	0.6
1997	2.0	10.1	3.5	–2.0	5.5	2.1	3.2	1.7	6.4
1998	1.8	8.9	3.2	–0.2	7.2	4.0	3.2	2.0	3.4
1999	1.6	5.3	2.4	5.6	7.7	5.7	2.4	2.0	0.3
2000	2.9	9.4	4.3	3.5	7.1	6.5	2.7	–4.3	11.7
2001	1.8	0.2	1.4	3.7	1.5	2.4	1.1	2.6	0.8
					Implicit prices				
1991	7.6	0.5	6.4	8.0	4.0	5.9	6.9	7.8	3.9
1992	4.5	1.1	3.8	5.1	2.8	4.0	5.5	2.4	0.9
1993	3.9	14.8	5.8	3.2	4.9	4.1	5.5	4.5	10.4
1994	3.5	4.8	3.6	3.5	3.1	3.2	5.0	1.0	3.3
1995	5.0	11.1	6.1	2.5	5.3	3.9	6.0	4.8	8.8
1996	5.3	–2.9	3.8	2.5	2.9	2.7	4.4	6.9	1.0
1997	2.4	1.4	2.1	2.6	1.3	1.9	2.2	4.8	0.3
1998	2.7	–1.3	1.8	1.7	1.9	1.8	2.1	2.2	1.0
1999	1.7	0.4	1.4	1.5	1.1	1.2	2.1	1.0	–0.2
2000	2.1	12.0	4.0	3.2	1.7	2.3	2.8	10.3	4.5
2001	2.6	1.6	2.4	2.6	1.4	1.9	2.9	. .	3.3

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: domestic	Level of orders: foreign	Level of orders: total	Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal
	(indices, 1995=100)				*(average balance of monthly responses; percentage points)*				
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	21.9	–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	28.4	–7.6
2001	107.0	107.4	107.2	106.8	–15.0	–13.3	–13.9	16.0	1.8
1994 – 1st qtr.	91.4	93.7	82.0	92.2	–32.4	–1.6	–19.1	18.0	–2.3
2nd "	94.7	97.1	87.1	95.9	–19.1	9.1	–7.5	25.9	–1.0
3rd "	96.0	97.8	90.4	97.0	–15.3	10.7	–5.9	27.9	–4.7
4th "	97.5	97.7	91.8	99.3	–4.7	17.2	4.9	28.6	–9.3
1995 – 1st qtr.	98.9	98.9	94.6	99.0	–2.7	24.7	6.2	23.6	–4.7
2nd "	99.2	99.4	97.7	99.2	–1.4	21.7	5.2	21.8	0.3
3rd "	100.3	100.6	100.1	100.9	–4.6	13.0	1.4	23.9	–1.7
4th "	101.6	101.1	107.6	100.9	–13.9	6.9	–7.5	18.4	1.3
1996 – 1st qtr.	101.1	99.4	103.9	100.6	–24.9	–8.3	–17.8	9.9	5.0
2nd "	98.7	99.5	103.5	97.5	–31.4	–19.9	–24.2	5.7	6.3
3rd "	98.7	99.2	100.8	97.8	–31.3	–19.7	–22.9	6.2	5.7
4th "	98.0	100.1	100.7	96.3	–30.9	–19.8	–26.1	8.6	–2.0
1997 – 1st qtr.	99.0	102.4	101.1	98.7	–20.9	–14.6	–16.1	15.8	–5.0
2nd "	102.1	103.2	103.3	101.7	–14.7	–7.6	–12.2	16.5	. .
3rd "	103.5	103.1	102.5	102.3	–12.4	–2.3	–3.6	23.5	–4.3
4th "	104.9	104.2	105.2	105.0	–10.6	0.6	–2.1	26.5	–3.0
1998 – 1st qtr.	104.3	103.6	103.7	106.0	–7.9	–0.3	–2.1	25.5	–1.7
2nd "	105.2	104.1	104.5	105.8	–14.7	–3.6	–8.2	17.2	1.7
3rd "	104.5	104.4	103.2	104.1	–17.8	–10.0	–14.3	10.1	. .
4th "	103.3	103.7	99.7	103.8	–22.3	–18.8	–20.8	9.9	1.3
1999 – 1st qtr.	103.6	105.0	102.8	104.4	–28.9	–28.0	–27.1	10.3	1.7
2nd "	103.1	103.2	101.1	102.9	–23.7	–21.9	–21.2	15.3	–1.0
3rd "	105.0	106.3	102.3	105.3	–11.8	–11.0	–10.6	24.5	–0.7
4th "	106.1	106.0	103.6	106.4	–4.8	–3.4	–0.5	29.3	–5.3
2000 – 1st qtr.	106.3	102.8	103.7	106.8	4.1	7.0	7.6	30.1	–9.3
2nd "	107.8	106.1	106.1	108.6	6.9	6.7	10.5	29.9	–7.3
3rd "	107.6	105.8	107.8	108.6	7.4	7.0	10.4	29.7	–7.3
4th "	109.2	109.8	111.7	109.8	2.1	5.2	5.9	23.8	–6.3
2001 – 1st qtr.	108.9	107.3	109.9	108.3	–7.6	–2.0	–5.1	20.3	0.3
2nd "	107.2	107.6	107.7	107.0	–12.4	–10.2	–10.2	22.9	4.7
3rd "	106.8	107.9	106.7	107.4	–16.4	–17.3	–15.9	13.9	0.3
4th "	105.0	106.7	104.6	104.3	–23.8	–23.8	–24.5	6.8	2.0

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
2001	1,126	5,133	1,707	13,548	21,514	2,267	23,781	9.5	60.4
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
4th "	1,149	5,145	1,740	13,664	21,698	2,225	23,923	9.3	60.8

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)	*32.6*	*28.6*	*26.8*	*9.9*	*7.2*	*17.1*	*3.1*	*79.6*	*3.1*	*14.3*	*17.4*	*3.0*	*100.0*	*59.4*	*100.0*
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	. .	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
2001	2.0	2.0	3.3	2.4	6.4	4.0	–2.0	2.7	5.8	3.1	3.6	2.3	2.7	2.6	2.7
1999 – July	1.2	1.2	2.7	0.6	0.8	0.8	5.1	1.8	–3.3	2.1	1.0	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	. .	0.6	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	3.0	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	1.3	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	3.5	2.2	2.7	2.2	2.7
July	1.5	1.4	2.8	1.3	2.5	1.8	13.9	2.5	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	3.2	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	13.3	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	3.3	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
Oct.	2.1	2.2	3.5	2.7	6.9	4.4	–7.9	2.6	1.5	2.9	2.7	2.2	2.5	2.7	2.6
Nov.	1.9	2.0	3.5	2.8	6.7	4.4	–9.9	2.4	0.4	3.0	2.5	2.2	2.4	2.6	2.3
Dec.	1.9	2.1	3.7	2.8	6.3	4.2	–9.8	2.5	0.5	2.6	2.2	2.2	2.4	2.8	2.3
2002 – Jan.	2.0	2.1	3.7	2.8	7.7	4.8	–6.5	2.8	–2.8	2.2	1.3	2.1	2.4	2.7	2.3

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 2002. – (4) The calculation of the sub-indices is based on the disaggregation into 207 elementary items. – (5) Includes medicines, for which the reference is to the aggregate calculated by Istat; around one third of this aggregate consists of products in the so-called "C" band, the prices of which are not regulated. – (6) Percentage changes published by Istat and calculated on indices rounded to the first decimal place.

Harmonized index of consumer prices: Italy (1)

(percentage changes on year-earlier period)

	Non-food and non-energy products	Services	Total net of food and energy products	Food products			Energy products	Total net of fresh food and energy products	Total
				Processed	Fresh				
Weights	*35.1*	*37.5*	*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
2001	1.8	2.9	2.4	2.5	5.8	3.9	1.6	2.4	2.7
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	1.9	0.4	2.0	1.1	–0.5	1.7	1.5
June	1.2	2.5	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	2.3	1.9	1.2	0.1	0.7	8.0	1.8	2.1
2000 – Jan.	1.5	2.4	1.9	1.3	–0.1	0.7	9.6	1.8	2.2
Feb.	1.5	2.6	2.0	1.3	0.2	0.8	10.0	1.9	2.4
Mar.	1.5	2.6	2.0	1.3	0.3	0.9	12.7	1.9	2.6
Apr.	1.6	2.3	2.0	1.3	0.9	1.1	9.8	1.9	2.4
May	1.7	2.3	2.0	1.4	1.3	1.3	11.2	1.9	2.5
June	1.8	2.4	2.1	1.5	1.7	1.5	13.1	2.0	2.7
July	1.7	2.3	2.0	1.1	2.2	1.6	13.1	1.9	2.6
Aug.	1.7	2.4	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	2.2	2.0	1.3	3.0	2.0	11.9	1.9	2.7
Nov.	2.0	2.2	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	2.5	2.2	1.5	4.3	2.7	9.2	2.1	2.7
Feb.	1.8	2.4	2.1	1.6	5.2	3.1	8.0	2.0	2.7
Mar.	1.9	2.5	2.2	1.6	5.1	3.1	5.4	2.1	2.6
Apr.	2.0	3.0	2.5	2.5	4.9	3.5	6.7	2.5	3.0
May	1.9	3.0	2.5	2.6	5.5	3.8	4.8	2.5	2.9
June	1.8	2.9	2.4	2.7	6.2	4.2	3.7	2.4	2.9
July	1.8	3.1	2.5	2.8	6.8	4.5	0.5	2.5	2.8
Aug.	1.8	3.1	2.5	2.9	6.7	4.5	–0.3	2.5	2.8
Sept.	1.9	3.2	2.6	2.9	6.3	4.4	–3.0	2.6	2.6
Oct.	1.8	3.2	2.5	2.9	6.3	4.3	–3.5	2.6	2.5
Nov.	1.7	3.2	2.5	2.9	6.2	4.3	–5.1	2.5	2.3
Dec.	1.7	3.4	2.5	3.0	5.8	4.2	–5.0	2.6	2.3

Source: Eurostat.
(1) Indices, 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 the table are those for January 2001.

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	*31.8*	*38.4*	*70.2*	*12.3*	*8.0*	*20.3*	*9.5*	*82.5*	*100.0*
1998	0.9	1.9	1.4	1.4	1.9	1.6	–2.6	1.4	1.1
1999	0.7	1.5	1.1	0.9	. .	0.6	2.4	1.1	1.1
2000	0.8	1.7	1.3	1.1	1.7	1.4	13.3	1.2	2.3
2001	1.4	2.5	2.0	2.9	7.2	4.6	2.8	2.1	2.6
1999 – Jan.	0.9	1.7	1.3	1.2	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	1.2	1.2	0.3	1.2	1.1
May	0.6	1.5	1.1	0.8	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	1.4	1.0	0.7	–1.6	–0.2	5.0	1.0	1.2
Sept. . . .	0.5	1.4	0.9	0.7	–1.1	–0.1	6.4	0.9	1.2
Oct.	0.6	1.3	0.9	0.9	–0.4	0.4	6.5	0.9	1.4
Nov.	0.7	1.4	1.0	0.9	–0.2	0.5	7.3	1.0	1.5
Dec. . . .	0.7	1.5	1.1	1.0	–0.3	0.5	10.1	1.1	1.7
2000 – Jan.	0.7	1.6	1.1	1.0	–0.5	0.4	12.1	1.1	1.9
Feb.	0.6	1.6	1.1	1.0	–0.1	0.6	13.6	1.1	2.0
Mar.	0.7	1.6	1.1	1.0	–0.5	0.4	15.3	1.1	2.1
Apr.	0.7	1.8	1.2	0.9	0.2	0.6	10.3	1.2	1.9
May	0.7	1.6	1.1	1.0	0.5	0.8	12.0	1.1	1.9
June . . .	0.8	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	1.6	13.4	1.2	2.3
Aug.	0.8	1.8	1.3	1.1	3.3	2.0	11.9	1.3	2.3
Sept. . . .	1.0	1.8	1.4	1.3	3.3	2.1	15.6	1.4	2.8
Oct.	1.0	1.9	1.4	1.2	3.2	2.0	14.6	1.4	2.7
Nov.	1.0	1.9	1.5	1.4	3.5	2.2	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.	1.0	2.2	1.7	1.6	4.5	2.7	7.8	1.7	2.4
Feb.	1.1	2.2	1.7	2.0	4.7	3.1	8.2	1.7	2.6
Mar.	1.3	2.2	1.8	2.2	6.7	3.9	5.6	1.8	2.6
Apr.	1.4	2.4	1.9	2.5	7.3	4.4	7.8	2.0	2.9
May	1.5	2.5	2.1	2.8	9.2	5.3	8.6	2.2	3.4
June . . .	1.5	2.5	2.0	3.0	9.0	5.4	5.5	2.2	3.0
July	1.4	2.5	2.0	3.3	8.7	5.4	2.9	2.2	2.8
Aug.	1.4	2.5	2.0	3.4	7.7	5.1	2.1	2.3	2.7
Sept. . . .	1.6	2.6	2.2	3.5	7.7	5.2	–1.3	2.4	2.5
Oct.	1.6	2.8	2.2	3.6	7.7	5.2	–2.7	2.4	2.4
Nov.	1.5	2.7	2.2	3.5	6.5	4.7	–5.0	2.4	2.1
Dec. . . .	1.6	2.8	2.3	3.6	6.5	4.7	–4.5	2.5	2.1

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	1.5
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	1.3
2001	2.7	2.4	2.4	1.5	1.8	1.5	3.7	3.4	2.6	2.2
1999 – Jan. . . .	1.5	1.9	0.2	0.8	0.3	0.9	1.5	2.2	0.8	1.4
Feb. . . .	1.4	1.8	0.1	0.7	0.3	0.8	1.8	2.4	0.8	1.3
Mar. . . .	1.4	1.6	0.5	0.9	0.4	0.8	2.1	2.5	1.0	1.3
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	1.1
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	1.1	1.0
Sept. . .	1.9	1.8	0.8	. .	0.6	0.6	2.5	2.4	1.3	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	1.1
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	2.3	1.2
Aug. . . .	2.6	1.9	1.8	0.7	2.0	0.6	3.6	2.7	2.3	1.3
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	0.9	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	2.4	1.7
Feb. . . .	2.7	2.0	2.5	1.2	1.4	1.2	4.0	3.3	2.6	1.7
Mar. . . .	2.6	2.1	2.5	1.3	1.4	1.1	4.0	3.3	2.6	1.8
Apr. . . .	3.0	2.5	2.9	1.2	2.0	1.5	4.0	3.3	2.9	2.0
May . . .	2.9	2.5	3.6	1.6	2.5	1.5	4.2	3.4	3.4	2.2
June . .	2.9	2.4	3.1	1.7	2.2	1.5	4.2	3.4	3.0	2.2
July . . .	2.8	2.5	2.6	1.6	2.2	1.7	3.8	3.3	2.8	2.2
Aug. . . .	2.8	2.5	2.6	1.6	2.0	1.8	3.8	3.4	2.7	2.3
Sept. . .	2.6	2.6	2.1	1.7	1.6	1.8	3.4	3.3	2.5	2.4
Oct. . . .	2.5	2.6	2.0	1.8	1.8	1.8	3.2	3.5	2.4	2.4
Nov. . . .	2.3	2.5	1.5	1.7	1.3	1.7	2.8	3.5	2.1	2.4
Dec. . .	2.3	2.6	1.5	1.7	1.4	1.9	2.9	3.6	2.1	2.5

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		Food products		Non-energy products	Energy products		
		Excluding vehicles						
Weights	*20.5*	*18.5*	*14.5*	*9.5*	*41.0*	*14.5*	*71.0*	*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
2001	2.2	2.2	2.8	1.2	1.3	2.7	1.6	1.9
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	0.9	0.4
Oct.	2.1	2.1	3.1	1.3	–0.2	–8.0	0.7	–0.6
Nov.	1.8	1.8	3.0	1.1	–0.7	–10.7	0.3	–1.3
Dec.	1.9	1.8	2.2	1.2	–0.9	–10.1	0.2	–1.3

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
2001	1.6	0.7	9.0	1.3	3.0	1.4	2.0	–3.2	1.8	1.3
2000 – 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	1.8	2.5	4.1	1.5	2.8
June	2.0	1.0	14.2	1.7	4.3	1.5	2.1	1.8	1.6	2.3
July	1.7	0.2	9.9	1.1	3.1	1.4	1.4	–2.2	1.6	1.3
Aug.	1.6	–0.2	8.4	1.0	2.7	1.6	1.1	–4.2	1.6	1.0
Sept.	1.6	–0.7	5.9	0.5	1.9	1.2	0.8	–8.7	1.5	–0.3
Oct.	2.1	–1.0	–0.5	0.4	0.6	1.2	0.2	–13.8	1.6	–1.5
Nov.	1.8	–1.1	–2.3	0.3	0.1	0.6	. .	–16.9	1.9	–2.2
Dec.	1.7	–1.3	–1.1	0.1	0.1	0.8	–0.3	–13.1	1.4	–1.5
	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	1.4	5.0	19.2	3.0	5.5
2001	3.2	1.4	–2.0	1.9	1.7	2.1	1.3	2.7	1.6	2.2
2000 – July	1.4	7.1	23.1	3.4	5.4	1.4	5.7	19.3	3.3	5.7
Aug.	1.7	6.9	20.3	3.5	5.1	1.5	5.8	18.3	3.5	5.7
Sept.	1.9	6.9	23.7	3.4	5.5	1.6	5.8	22.0	3.5	6.4
Oct.	2.4	6.8	25.5	3.3	6.0	1.9	5.5	23.6	3.5	6.7
Nov.	2.2	6.3	23.0	3.3	5.7	1.7	5.3	21.7	3.3	6.5
Dec.	2.4	5.9	16.5	3.4	5.0	1.6	5.0	15.6	3.2	5.5
2001 – Jan.	2.6	5.1	8.6	3.3	3.9	1.7	4.5	12.4	3.0	4.9
Feb.	3.0	4.8	5.7	3.2	3.6	2.0	4.1	11.2	2.9	4.6
Mar.	3.4	4.1	2.7	3.1	3.2	2.4	3.5	9.1	2.8	4.2
Apr.	3.6	2.9	3.6	2.4	2.8	2.4	2.6	10.6	2.3	4.2
May	3.6	2.2	4.0	2.1	2.7	2.4	1.9	9.3	2.0	3.7
June	3.6	1.5	2.2	1.8	2.4	2.5	1.5	7.0	1.9	3.2
July	3.7	1.0	–0.1	1.7	2.0	2.2	0.7	2.8	1.4	2.1
Aug.	3.3	0.4	–2.4	1.5	1.6	2.1	0.3	1.4	1.1	1.7
Sept.	3.0	–0.2	–7.0	1.3	0.6	2.0	–0.2	–2.1	0.8	0.7
Oct.	2.7	–1.1	–11.4	1.0	–0.4	1.7	–0.8	–7.3	0.4	–0.7
Nov.	2.7	–1.5	–13.4	0.8	–0.8	1.9	–1.1	–9.6	0.3	–1.3
Dec.	2.7	–2.0	–11.5	0.4	–0.8	1.9	–1.3	–7.8	0.1	–1.1

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 – 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.	1.2	21.2	8.5	2.0	3.9	2.7
Feb.	2.8	25.4	11.1	2.3	5.3	3.6
Mar.	4.7	28.7	13.7	2.8	5.9	4.1
Apr.	4.9	28.8	13.7	3.1	6.9	4.7
May	6.1	28.4	14.5	3.5	7.8	5.3
June	6.9	27.0	14.5	3.6	8.4	5.6
July	7.0	25.4	14.5	3.8	7.6	5.4
Aug.	7.1	23.2	14.2	4.2	7.1	5.4
Sept.	7.2	21.9	13.5	4.5	7.6	5.9
Oct.	7.6	23.1	13.2	5.3	9.3	7.0
Nov.	7.8	26.4	13.9	4.4	10.3	6.9
Dec.	6.6	27.9	15.3	3.6	9.8	6.2
2001 – Jan.	5.8	23.8	12.8	2.7	8.6	5.3
Feb.	5.6	17.2	10.0	4.1	7.1	5.4
Mar.	5.3	11.3	7.5	5.2	6.3	5.6
Apr.	5.7	9.5	7.1	6.0	6.0	5.9
May	4.4	7.4	5.4	5.8	5.4	5.6
June	3.9	7.3	5.0	6.0	5.2	5.6
July	3.2	7.3	4.5	6.0	4.7	5.3
Aug.	2.5	5.6	3.3	5.1	4.1	4.5
Sept.	1.6	2.4	1.4	4.3	2.9	3.5
Oct.	0.8	–3.7	–1.6	3.7	1.7	2.7

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
						(millions of euros)					
1999	22,044	1,125	–10,392	–906	–191	–4,179	–4,684	–3	–7	2,799	3,201
2000	10,366	1,170	–13,096	–723	–200	–4,077	–4,905	–72	162	3,102	3,625
2001	(19,444)	(83)	(–11,721)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
2001 – 1st qtr. . .	2,250	–1,855	–2,676	–676	–89	907	473	–46	87	431	550
2nd ” . . .	4,462	1,452	–5,331	–573	–71	–1,589	–2,097	–24	–90	280	315
3rd ” . . .	5,543	1,858	–3,633	–761	–108	–304	–781	–190	–27	270	285
4th ” . . .	(7,189)	(–1,372)	(–80)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
2001 – Jan.	–315	–714	–611	–162	–50	34	–62	–12	11	258	295
Feb.	854	–493	–1,021	–238	–19	–3	–138	–6	14	199	239
Mar.	1,711	–648	–1,044	–276	–20	876	673	–28	62	–27	16
Apr.	1,515	–142	–690	–244	–26	–241	–402	–16	–63	76	84
May	1,519	316	–1,910	–200	–27	–281	–450	–6	3	86	97
June	1,428	1,278	–2,732	–129	–18	–1,067	–1,245	–1	–29	118	133
July	3,244	1,318	–1,223	–250	–27	–203	–390	–173	–8	99	99
Aug.	1,997	29	–1,324	–235	–48	–402	–565	–6	–5	75	75
Sept.	302	510	–1,086	–276	–33	301	174	–10	–14	96	111
Oct.	2,490	–161	168	–191	–40	–160	. . . .	–11	–3	217	. . . .
Nov.	(2,336)	(–263)	(–159)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Dec.	(2,363)	(–948)	(–89)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
						(billions of lire)					
1999	42,683	2,178	–20,122	–1,754	–369	–8,092	–9,070	–6	–14	5,420	6,198
2000	20,072	2,266	–25,358	–1,399	–387	–7,894	–9,497	–139	313	6,005	7,018
2001	(37,649)	(162)	(–22,694)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
2000 – 4th qtr. . .	3,795	–731	–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	1,064
2nd ” . . .	8,640	2,812	–10,323	–1,110	–138	–3,077	–4,060	–46	–175	542	609
3rd ” . . .	10,733	3,597	–7,035	–1,474	–208	–588	–1,513	–367	–52	523	552
4th ” . . .	(13,920)	(–2,656)	(–155)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
2001 – Jan.	–610	–1,383	–1,183	–313	–96	65	–121	–23	22	500	572
Feb.	1,654	–954	–1,977	–462	–34	–6	–267	–11	27	386	462
Mar.	3,313	–1,254	–2,021	–534	–39	1,697	1,304	–54	120	–52	30
Apr.	2,933	–276	–1,335	–473	–51	–467	–778	–32	–123	147	163
May	2,941	613	–3,698	–387	–52	–545	–871	–12	5	167	188
June	2,765	2,475	–5,290	–250	–35	–2,065	–2,410	–2	–57	229	257
July	6,281	2,553	–2,369	–485	–53	–392	–754	–335	–15	191	191
Aug.	3,867	57	–2,564	–454	–92	–779	–1,095	–12	–10	146	146
Sept.	585	987	–2,102	–535	–63	583	336	–20	–28	186	215
Oct.	4,821	–311	325	–370	–77	–309	. . . .	–21	–7	420	. . . .
Nov.	(4,523)	(–509)	(–308)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Dec.	(4,575)	(–1,836)	(–172)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .

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		
				(millions of euros)				
1999	–6,309	6,487	–121,493	97,858	–31,471	37,196	1,766	7,099
2000	–13,368	14,517	–86,340	60,085	987	28,963	2,501	–3,058
2001	(–15,764)	(15,795)	(–40,058)	(31,290)	(–18,481)	(22,326)	(–330)	(484)
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
3rd ”	–2,755	3,692	–756	–9,989	10,908	–5,883	36	1,789
4th ”	(–2,579)	(3,127)	(–5,693)	(4,893)	(5,013)	(–9,582)	(–280)	(105)
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	–1,507	1,359	–1,068	–753	9,498	–11,730	132	1,416
Aug.	–1,561	800	–2,630	–5,308	6,527	631	76	725
Sept.	313	1,533	2,942	–3,928	–5,117	5,216	–172	–352
Oct.	–242	2,007	–2,880	–610	1,750	–2,311	106	–508
Nov.	(–1,117)	(359)	(–2,368)	(834)	(2,773)	(–1,801)	(–434)	(–128)
Dec.	(–1,220)	(761)	(–445)	(4,669)	(490)	(–5,470)	(48)	(741)
				(billions of lire)				
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
2001	(–30,523)	(30,583)	(–77,563)	(60,586)	(–35,784)	(43,229)	(–639)	(937)
2000 – 4th qtr.	–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
3rd ”	–5,334	7,149	–1,464	–19,341	21,121	–11,391	70	3,464
4th ”	(–4,994)	(6,055)	(–11,023)	(9,474)	(9,706)	(–18,553)	(–542)	(203)
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	–20,589	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	3,477	15,293	–15,897	978	–1,013
June	–1,715	3,638	–8,928	20,428	–34,433	22,445	–370	482
July	–2,918	2,631	–2,068	–1,458	18,391	–22,712	256	2,742
Aug.	–3,022	1,549	–5,092	–10,278	12,638	1,222	147	1,404
Sept.	606	2,968	5,696	–7,606	–9,908	10,100	–333	–682
Oct.	–469	3,886	–5,576	–1,181	3,388	–4,475	205	–984
Nov.	(–2,163)	(695)	(–4,585)	(1,615)	(5,369)	(–3,487)	(–840)	(–248)
Dec.	(–2,362)	(1,473)	(–862)	(9,040)	(949)	(–10,591)	(93)	(1,435)

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
					(millions of euros)						
1999	353,612	387,551	–33,939	31,943	–119	–6,175	–8,171	22,641	–6,259	–24,553	–16,007
2000	350,866	363,063	–12,197	–8,283	–1,126	–6,137	–26,617	15,469	–4,599	–37,486	–25,384
2001	356,998	416,139	–59,141	20,654	432	–1,902	–40,389	4,329	–9,947	–34,771	–28,453
2000 – 1st qtr.	73,190	81,783	–8,593	–3,001	–671	–1,509	–13,103	22	–3,095	–10,030	–7,219
2nd ”	70,049	82,989	–12,939	84	17,259	–753	–13,608	40	–329	–13,319	–9,135
3rd ”	88,533	76,135	12,397	–18,968	–14,625	204	–6,367	72	–152	–6,287	–7,730
4th ”	119,094	122,156	–3,061	13,602	–3,089	–4,080	6,461	15,335	–1,023	–7,851	–1,299
2001 – 1st qtr.	73,661	89,131	–15,470	414	1,232	–242	–15,297	4,263	–2,289	–17,272	–17,332
2nd ”	68,753	81,978	–13,226	306	17,737	556	–12,364	57	–3,539	–8,882	–8,958
3rd ”	97,754	118,831	–21,077	14,354	–18,406	726	–5,997	1	–1,334	–4,664	–3,406
4th ”	116,831	126,199	–9,368	5,579	–130	–2,942	–6,731	8	–2,785	–3,954	1,244
					(billions of lire)						
1997	622,037	600,295	21,742	–53,782	–	–6,417	–38,457	21,179	409	–60,045	–52,642
1998	595,727	657,514	–61,787	10,687	–	–1,701	–52,801	15,277	–4,770	–63,308	–58,503
1999	684,688	750,403	–65,715	61,850	–231	–11,956	–15,821	43,839	–12,118	–47,542	–30,994
2000	679,372	702,987	–23,616	–16,038	–2,181	–11,883	–51,537	29,951	–8,904	–72,584	–49,150
2001	691,245	805,758	–114,513	39,991	837	–3,683	–78,205	8,383	–19,261	–67,327	–55,092
2000 – 1st qtr.	141,715	158,354	–16,639	–5,810	–1,300	–2,922	–25,371	42	–5,992	–19,421	–13,979
2nd ”	135,634	160,688	–25,054	163	33,418	–1,457	–26,349	78	–638	–25,789	–17,688
3rd ”	171,424	147,419	24,005	–36,728	–28,317	395	–12,327	140	–294	–12,173	–14,968
4th ”	230,599	236,526	–5,927	26,337	–5,981	–7,900	12,510	29,692	–1,981	–15,201	–2,516
2001 – 1st qtr.	142,628	172,582	–29,954	802	2,385	–468	–29,620	8,255	–4,432	–33,443	–33,560
2nd ”	133,124	158,732	–25,609	592	34,343	1,076	–23,941	110	–6,853	–17,197	–17,345
3rd ”	189,278	230,089	–40,811	27,794	–35,638	1,406	–11,611	2	–2,584	–9,030	–6,596
4th ”	226,215	244,355	–18,139	10,803	–252	–5,697	–13,033	16	–5,392	–7,657	2,409

(1) Tax revenue already booked in the budget accounts (see the methodological notes).

Table a22

Financing of the general government borrowing requirement

	Medium and long-term securities		Short-term securities		PO deposits	Lending by banks		Other		Borrowing requirement
		of which: issued abroad		*of which:* issued abroad		Resident banks	Non-resident banks		*of which:* change in central bank current accounts	
					(millions of euros)					
1999	23,161	–2,714	–17,681	368	8,996	1,774	–897	–7,181	–7,255	8,171
2000	35,192	16,057	–17,703	–237	4,660	–1,714	–3,566	9,747	9,708	26,617
2001	25,538	10,177	11,613	319	9,968	–3,443	–1,373	–1,913	–2,119	40,389
2000 – 1st qtr. .	21,267	5,220	–4,339	272	1,991	–3,813	–1,630	–372	603	13,103
2nd ” . .	19,567	5,760	–300	2,787	235	143	–487	–5,550	–5,822	13,608
3rd ” .	2,519	4,495	–1,800	–3,008	430	–1,832	–166	7,216	6,934	6,367
4th ” .	–8,160	583	–11,264	–287	2,004	3,788	–1,282	8,453	7,992	–6,461
2001 – 1st qtr. .	22,242	5,815	13,507	692	2,399	–1,202	–24	–21,624	–20,548	15,297
2nd ” . .	10,622	–965	6,028	502	967	–403	–447	–4,402	–5,073	12,364
3rd ” .	–10,562	369	2,579	–212	2,137	–3,334	–205	15,382	14,197	5,997
4th ” .	3,236	4,957	–10,501	–663	4,465	1,496	–697	8,730	9,305	6,731
					(billions of lire)					
1997	107,135	6,556	–81,771	. .	11,641	3,271	628	–2,447	–3,020	38,457
1998	82,919	1,668	–35,371	. .	6,400	–3,677	–13,790	16,320	15,578	52,801
1999	44,845	–5,256	–34,235	713	17,418	3,435	–1,737	–13,905	–14,048	15,821
2000	68,142	31,091	–34,278	–458	9,023	–3,320	–6,904	18,873	18,797	51,537
2001	49,448	19,705	22,487	618	19,300	–6,667	–2,659	–3,704	–4,102	78,205
2000 – 1st qtr. .	41,178	10,107	–8,402	527	3,855	–7,383	–3,157	–720	1,168	25,371
2nd ” . .	37,887	11,153	–581	5,396	456	276	–942	–10,746	–11,272	26,349
3rd ” .	4,877	8,703	–3,485	–5,824	833	–3,548	–322	13,972	13,427	12,327
4th ” .	–15,800	1,128	–21,810	–557	3,880	7,335	–2,483	16,368	15,474	–12,510
2001 – 1st qtr. .	43,066	11,259	26,153	1,340	4,645	–2,328	–47	–41,869	–39,786	29,620
2nd ” . .	20,567	–1,868	11,672	972	1,872	–781	–866	–8,523	–9,822	23,941
3rd ” .	–20,451	715	4,993	–410	4,138	–6,456	–396	29,784	27,490	11,611
4th ” .	6,266	9,599	–20,332	–1,283	8,646	2,897	–1,350	16,905	18,016	13,033

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)			Central government debt
									Treasury payments accounts	Sinking fund	
					(millions of euros)						
1999	910,921	119,777	103,300	73,529	59,396	2,369	1,269,293	29,151	29,047	5	1,236,153
2000	942,976	101,997	107,960	68,350	62,486	3,927	1,287,696	19,554	15,126	4,219	1,248,367
2001	965,011	113,570	117,928	63,832	64,318	6,051	1,330,711	23,539	21,287	176	1,289,435
2000 – Mar. .	931,115	115,437	105,291	68,163	61,991	2,744	1,284,741	28,491	28,407	42	1,250,073
June .	949,455	115,061	105,526	67,823	62,991	3,075	1,303,931	34,373	32,883	1,388	1,268,477
Sept.	954,894	113,261	105,956	65,899	62,931	3,361	1,306,302	27,442	25,290	2,046	1,271,041
Dec. .	942,976	101,997	107,960	68,350	62,486	3,927	1,287,696	19,554	15,126	4,219	1,248,367
2001 – Mar. .	965,289	115,506	110,359	67,132	61,890	2,815	1,322,991	40,076	28,260	11,632	1,283,403
June .	976,522	121,611	111,326	66,319	63,325	4,122	1,343,225	45,775	43,004	1,962	1,304,166
Sept.	964,166	124,070	113,462	62,765	63,230	4,598	1,332,292	30,873	29,642	1,126	1,293,991
Dec. .	965,011	113,570	117,928	63,832	64,318	6,051	1,330,711	23,539	21,287	176	1,289,435
					(billions of lire)						
1996	1,460,578	381,599	164,557	152,450	171,018	3,995	2,334,197	56,459	54,751	13	2,290,624
1997	1,609,273	287,195	176,198	157,193	154,834	4,133	2,388,827	58,997	53,547	4,237	2,338,794
1998	1,700,895	265,927	182,598	140,225	123,326	4,490	2,417,461	43,168	42,072	134	2,365,791
1999	1,763,788	231,921	200,016	142,373	115,007	4,588	2,457,694	56,443	56,243	11	2,393,525
2000	1,825,856	197,493	209,040	132,344	120,991	7,603	2,493,326	37,863	29,288	8,169	2,417,176
2001	1,868,523	219,902	228,340	123,596	124,537	11,717	2,576,615	45,577	41,218	342	2,496,694
2000 – Mar. .	1,802,891	223,518	203,871	131,982	120,032	5,313	2,487,606	55,166	55,004	82	2,420,478
June .	1,838,401	222,789	204,327	131,323	121,968	5,955	2,524,762	66,555	63,670	2,688	2,456,114
Sept.	1,848,933	219,303	205,159	127,598	121,852	6,507	2,529,353	53,135	48,969	3,963	2,461,078
Dec. .	1,825,856	197,493	209,040	132,344	120,991	7,603	2,493,326	37,863	29,288	8,169	2,417,176
2001 – Mar. .	1,869,061	223,651	213,684	129,985	119,836	5,451	2,561,668	77,597	54,720	22,524	2,485,016
June .	1,890,811	235,471	215,556	128,412	122,614	7,982	2,600,846	88,632	83,267	3,799	2,525,217
Sept.	1,866,886	240,233	219,694	121,530	122,430	8,904	2,579,677	59,779	57,394	2,181	2,505,517
Dec. .	1,868,523	219,902	228,340	123,596	124,537	11,717	2,576,615	45,577	41,218	342	2,496,694

(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.

ECB interest rates

Date announced	Standing facilities			Main refinancing operations			Memorandum item: official reference rate for instruments linked to the former official discount rate		
	Date effective	Deposit facility	Marginal lending facility	With effect from	Fixed rate *(for fixed rate tenders)*	Minimum bid rate *(for variable rate tenders)*	Order issued by the Governor: Date issued	Order issued by the Governor: Date effective	Rate
22.12.1998	1.1.1999	2.00	4.50	7.1.1999	3.00	–			
22.12.1998	4.1.1999	2.75	3.25	–	–	–			
22.12.1998	22.1.1999	2.00	4.50	–	–	–	23.12.1998	28.12.1998	3.00
8.4.1999	9.4.1999	1.50	3.50	14.4.1999	2.50	–	9.4.1999	14.4.1999	2.50
4.11.1999	5.11.1999	2.00	4.00	10.11.1999	3.00	–	6.11.1999	10.11.1999	3.00
3.2.2000	4.2.2000	2.25	4.25	9.2.2000	3.25	–	4.2.2000	9.2.2000	3.25
16.3.2000	17.3.2000	2.50	4.50	22.3.2000	3.50	–	18.3.2000	22.3.2000	3.50
27.4.2000	28.4.2000	2.75	4.75	4.5.2000	3.75	–	28.4.2000	4.5.2000	3.75
8.6.2000	9.6.2000	3.25	5.25	15.6.2000	4.25	–	10.6.2000	15.6.2000	4.25
8.6.2000	–	–	–	28.6.2000	–	4.25	–	–	–
31.8.2000	1.9.2000	3.50	5.50	6.9.2000	–	4.50	1.9.2000	6.9.2000	4.50
5.10.2000	6.10.2000	3.75	5.75	11.10.2000	–	4.75	6.10.2000	11.10.2000	4.75
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
8.11.2001	9.11.2001	2.25	4.25	14.11.2001	–	3.25	9.11.2001	14.11.2001	3.25

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	4.38
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
2001	4.13	4.06	4.00	4.01	4.05	4.38	4.33	4.26	4.15	4.05
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
Oct.	3.38	3.37	3.33	3.62	3.37	3.95	3.71	3.59	3.47	3.36
Nov.	3.10	3.21	2.98	–	3.11	3.49	3.42	3.39	3.26	3.16
Dec.	3.02	3.15	3.20	–	3.15	3.32	3.42	3.35	3.27	3.33
2002 – Jan.	3.21	3.37	3.38	3.52	3.36	3.29	3.35	3.35	3.34	3.51

(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).

Table a26

Bank interest rates: funds raised from resident customers in lire/euros

	Deposits			Certificates of deposit			Bonds	
	Current account average	Overall average	Maximum	Average for stocks	Average for issues with maturities of less than 6 months	Average for issues with maturities of from 18 to 24 months	Average for stocks	Average for fixed rate issues
1997	3.36	4.19	5.79	6.63	4.95	4.73	7.15	5.07
1998	1.70	2.29	3.72	5.05	3.11	3.04	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	1.38	1.47	3.53	3.27	2.55	2.92	4.28	4.02
2001 – Jan.	2.08	2.19	4.68	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	3.48	3.69	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
Oct.	1.60	1.69	3.97	3.47	2.94	3.22	4.46	3.75
Nov.	1.50	1.59	3.77	3.37	2.73	3.06	4.39	3.51
Dec.	1.38	1.47	3.53	3.27	2.55	2.92	4.28	4.02
2002 – Jan.	(1.37)	(1.45)	(3.43)	(3.15)	(2.55)	(2.87)	(4.21)	(3.75)

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	3.59	5.91	6.77	5.83	4.74	5.87	7.25
2001 – Jan.	4.72	6.84	7.63	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	6.72	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
Oct.	3.99	6.29	7.22	6.03	4.94	6.39	7.50
Nov.	3.78	6.10	7.00	5.96	4.77	6.25	7.25
Dec.	3.59	5.91	6.77	5.83	4.74	5.87	7.25
2002 – Jan.	(3.51)	(5.84)	(6.73)	(5.60)	(4.59)	(6.00)	....

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
	(millions of euros)										
1997	*(5,601)*	*(160,156)*	*(64,085)*	*(642,687)*	*(45,266)*	*(25)*	*(7,153)*	*(104,435)*	*(25,650)*	*(181,967)*	*(2,303)*
1998	6,153	135,831	61,386	690,677	61,721	34	10,795	83,440	32,795	188,283	2,880
1999	6,150	154,756	63,160	761,321	57,705	45	12,756	67,629	37,806	176,844	5,399
2000	7,013	187,708	61,446	861,353	58,760	111	15,770	69,308	43,388	146,097	7,936
2001 – Sept. . .	5,654	187,910	56,506	895,394	58,972	123	13,624	75,665	40,133	153,612	9,866
Oct. . . .	6,009	187,163	56,793	901,185	60,912	123	13,050	72,839	40,064	155,411	9,773
Nov. . .	6,428	202,464	57,098	917,127	52,318	123	13,254	76,603	41,323	152,927	10,327
Dec. . .	8,687	205,076	58,003	922,575	49,945	124	13,771	65,094	42,488	149,149	13,509
2002 – Jan. . . .	(20,338)	(183,669)	(57,957)	(922,989)	(52,712)	(124)	(13,329)	(61,107)	(41,644)	(156,926)	(12,429)
	(billions of lire)										
2001 – Sept. . .	10,948	363,845	109,411	1,733,724	114,186	239	26,381	146,507	77,709	297,435	19,104
Oct. . . .	11,634	362,398	109,967	1,744,938	117,941	239	25,268	141,036	77,574	300,917	18,924
Nov. . .	12,446	392,025	110,557	1,775,806	101,302	239	25,663	148,325	80,012	296,109	19,997
Dec. . .	16,820	397,082	112,309	1,786,355	96,706	239	26,664	126,040	82,268	288,792	26,156
2002 – Jan. . . .	(39,380)	(355,633)	(112,220)	(1,787,156)	(102,064)	(240)	(25,808)	(118,319)	(80,633)	(303,852)	(24,066)

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
	(millions of euros)					
1997	*(137,396)*	*(5,532)*	*(584,262)*	*(78,247)*	*(86)*	*(7,796)*
1998	138,429	7,180	570,435	85,872	97	10,079
1999	181,345	7,922	575,519	98,653	38	6,133
2000	206,307	6,964	598,170	107,605	34	7,032
2001 – Sept. . .	190,580	6,783	602,121	120,673	1,129	9,193
Oct. . . .	191,963	6,704	608,355	118,334	960	7,302
Nov. . . .	200,154	6,681	601,448	119,567	714	5,794
Dec. . . .	192,934	7,214	636,656	109,572	291	5,525
2002 – Jan. . . .	(182,805)	(7,489)	(619,013)	(118,480)	(925)	(9,185)
	(billions of lire)					
2001 – Sept. . . .	369,014	13,133	1,165,868	233,656	2,186	17,801
Oct.	371,691	12,982	1,177,940	229,127	1,859	14,140
Nov.	387,552	12,936	1,164,565	231,514	1,383	11,219
Dec.	373,572	13,969	1,232,738	212,160	564	10,697
2002 – Jan.	(353,960)	(14,500)	(1,198,577)	(229,409)	(1,792)	(17,784)

than shares, at market value				Shares and other equity							
Residents of other euro-area countries			Rest of the world	Residents of Italy		Residents of other euro-area countries		Rest of the world	Fixed assets	Remaining assets	Total assets
MFIs	General govern-ment	Other sectors		MFIs	Other sectors	MFIs	Other sectors				
(millions of euros)											
(977)	*(1,277)*	*(1,013)*	*(10,264)*	*(17,779)*	*(13,607)*	*(2,441)*	*(3,286)*	*(2,473)*	*(43,784)*	*(270,392)*	*(1,606,621)*
1,941	3,479	1,636	16,617	28,871	16,828	4,235	3,395	3,018	44,595	136,932	1,535,542
4,339	3,080	4,870	17,888	39,051	21,512	5,078	5,193	4,601	44,719	147,969	1,641,869
3,705	4,581	5,355	15,392	40,803	26,636	5,947	8,239	7,318	46,283	158,053	1,781,201
4,094	6,403	6,809	14,273	42,932	26,834	5,703	10,738	9,047	47,311	156,805	1,828,408
4,287	5,743	6,370	14,885	42,935	27,941	6,208	10,878	7,339	47,884	160,436	1,838,227
4,320	5,413	6,445	14,558	42,870	29,560	6,243	10,717	7,282	48,134	165,797	1,871,333
4,039	4,671	6,279	13,286	42,957	30,513	6,481	10,393	6,454	48,397	176,266	1,878,155
(4,903)	(4,179)	(6,530)	(12,514)	(43,013)	(30,768)	(6,462)	(10,195)	(7,467)	(47,676)	(195,952)	(1,892,878)
(billions of lire)											
7,927	12,397	13,185	27,636	83,129	51,958	11,042	20,791	17,517	91,606	303,617	3,540,292
8,300	11,119	12,334	28,822	83,135	54,101	12,021	21,062	14,209	92,717	310,647	3,559,304
8,364	10,482	12,479	28,189	83,007	57,236	12,088	20,751	14,101	93,201	321,028	3,623,406
7,820	9,045	12,158	25,725	83,176	59,081	12,550	20,124	12,498	93,709	341,299	3,636,615
(9,493)	(8,091)	(12,644)	(24,230)	(83,284)	(59,574)	(12,512)	(19,741)	(14,457)	(92,313)	(379,415)	(3,665,124)

Rest of the world	Money market fund shares/units	Debt securities issued	Capital and reserves	Remaining liabilities	Total liabilities
(millions of euros)					
(132,097)	*(3,689)*	*(204,728)*	*(101,204)*	*(351,583)*	*(1,606,621)*
126,992	4,772	251,032	108,545	232,109	1,535,542
135,738	13,065	271,553	118,265	233,637	1,641,869
157,710	10,075	302,481	123,930	260,894	1,781,201
168,638	21,921	327,488	132,584	247,298	1,828,408
165,644	23,540	327,829	133,015	254,579	1,838,227
167,261	24,413	331,111	133,072	281,119	1,871,333
171,121	26,164	334,672	133,633	260,372	1,878,155
(165,580)	(27,891)	(336,485)	(136,304)	(288,722)	(1,892,879)
(billions of lire)					
326,529	42,445	634,105	256,719	478,836	3,540,292
320,732	45,580	634,766	257,554	492,934	3,559,303
323,862	47,270	641,120	257,662	544,323	3,623,406
331,337	50,661	648,016	258,750	504,151	3,636,615
(320,607)	(54,005)	(651,525)	(263,922)	(559,044)	(3,665,124)

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				
	(millions of euros)						
1997	*(305,709)*	*(102,483)*	*(29,954)*	*(61,390)*	*(73,972)*	*(10,773)*	*(193,362)*
1998	342,868	71,697	23,219	61,147	59,670	17,325	231,537
1999	377,194	57,548	16,596	61,159	50,033	11,276	255,953
2000	400,004	48,889	11,021	57,107	68,243	12,799	285,320
2001 – Aug.	379,838	45,105	5,389	54,302	90,551	12,950	308,165
Sept.	400,271	44,344	5,345	54,748	81,821	13,272	310,012
Oct.	404,387	44,637	5,188	54,799	83,513	13,072	310,548
Nov.	399,296	44,092	5,145	54,798	82,572	12,699	314,147
Dec.	438,230	44,577	5,818	57,148	76,075	12,481	317,688
2002 – Jan.	(419,956)	(45,306)	(3,542)	(57,278)	(77,513)	(12,459)	(319,498)
	(billions of lire)						
2001 – Aug.	735,470	87,336	10,435	105,144	175,331	25,075	596,691
Sept.	775,033	85,862	10,350	106,007	158,427	25,699	600,267
Oct.	783,002	86,430	10,045	106,106	161,704	25,311	601,304
Nov.	773,146	85,375	9,963	106,105	159,882	24,589	608,274
Dec.	848,532	86,312	11,266	110,655	147,301	24,168	615,129
2002 – Jan.	(813,148)	(87,725)	(6,858)	(110,906)	(150,087)	(24,123)	(618,634)

Table a30

Banks: loan and securities portfolios

(end-of-period data)

	Loans to residents of Italy						Loans to non-residents of Italy	Bad debts and unpaid and pro-tested bills	*Memorandum item:* bad debts: estimated realizable value
	Short-term		Medium and long-term		Total				
		of which: in lire/euros		*of which:* in lire/euros		*of which:* in lire/euros			
	(millions of euros)								
1997	322,610	290,631	312,226	296,387	634,836	587,019	13,141	64,464	38,295
1998	341,918	308,356	336,112	322,320	678,030	630,675	15,578	64,590	36,561
1999	367,387	345,141	384,004	379,488	751,392	724,630	18,452	60,233	30,759
2000	435,839	409,264	423,112	418,061	858,952	827,325	22,160	51,903	24,551
2001 – Aug.	445,570	419,327	445,562	440,080	891,132	859,407	19,959	44,853	21,608
Sept.	448,711	422,767	448,165	442,678	896,876	865,444	21,157	45,119	21,879
Oct.	449,293	423,993	454,097	448,432	903,391	872,425	20,195	45,599	22,480
Nov.	460,319	433,842	459,470	453,883	919,789	887,725	20,333	45,514	22,318
Dec.	463,482	438,471	461,348	455,650	924,830	894,120	21,288	45,536	21,926
	(billions of lire)								
2001 – Aug.	862,743	811,931	862,729	852,114	1,725,472	1,664,045	38,645	86,847	41,839
Sept.	868,825	818,590	867,769	857,144	1,736,595	1,675,734	40,965	87,363	42,364
Oct.	869,953	820,965	879,255	868,285	1,749,209	1,689,250	39,102	88,292	43,528
Nov.	891,301	840,036	889,658	878,840	1,780,959	1,718,876	39,369	88,128	43,214
Dec.	897,426	848,998	893,295	882,261	1,790,721	1,731,258	41,220	88,169	42,454

	Securities: book value							
	Italian government securities					Other securities		Total
		BOTs and BTEs	CTZs	CCTs	BTPs		*of which:* bonds issued by banks	
	(millions of euros)							
1997	178,279	17,408	10,065	96,832	51,178	26,261	25,693	204,540
1998	176,850	25,038	10,914	86,526	52,244	33,089	32,648	209,939
1999	158,869	17,365	9,309	75,148	54,525	37,517	34,640	196,386
2000	127,582	7,846	7,819	66,346	42,600	40,274	36,037	167,856
2001 – Aug.	121,436	11,467	4,539	60,523	42,216	37,674	33,588	159,111
Sept.	123,369	11,031	4,938	63,647	41,048	38,200	34,140	161,569
Oct.	123,041	11,701	4,196	62,661	41,974	37,656	33,658	160,696
Nov.	121,250	12,482	3,352	62,982	40,041	39,246	34,553	160,497
Dec.	116,877	12,016	3,526	60,932	38,215	40,953	36,121	157,831
	(billions of lire)							
2001 – Aug.	235,134	22,203	8,788	117,189	81,742	72,948	65,036	308,081
Sept.	238,876	21,359	9,562	123,238	79,480	73,965	66,104	312,841
Oct.	238,240	22,657	8,125	121,329	81,273	72,911	65,170	311,151
Nov.	234,773	24,169	6,490	121,950	77,531	75,991	66,904	310,765
Dec.	226,306	23,267	6,827	117,981	73,995	79,297	69,941	305,603

Italian investment funds: securities portfolios and net assets (1)

(end-of-period market values)

	Residents							
	Government securities					Bonds	Shares	Total
		BOTs	CTZs	BTPs	CCTs			
	(millions of euros)							
1999	161,703	7,275	21,957	91,906	38,115	8,012	44,645	214,361
2000	125,957	4,111	9,484	84,634	25,621	8,773	44,275	179,004
2001 (2)	122,306	14,162	3,878	76,156	26,081	10,793	26,053	159,152
1999 – 4th qtr. . .	161,703	7,275	21,957	91,906	38,115	8,012	44,645	214,361
2000 – 1st qtr. . .	139,740	8,615	16,012	77,387	35,380	8,176	46,894	194,811
2nd " . .	135,483	8,017	13,653	81,720	29,918	8,684	46,759	190,926
3rd " . .	127,943	7,234	11,279	78,983	28,114	8,615	46,272	182,830
4th " . .	125,957	4,111	9,484	84,634	25,621	8,773	44,275	179,004
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
3rd " . .	118,087	11,464	4,539	73,210	26,812	9,677	25,102	152,866
4th " (2)	122,306	14,162	3,878	76,156	26,081	10,793	26,053	159,152
2000 – Dec.	125,957	4,111	9,484	84,634	25,621	8,773	44,275	179,004
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	113,917	8,409	4,070	73,137	26,090	9,138	33,680	156,736
Aug.	115,519	9,984	3,658	73,264	26,415	9,451	31,147	156,117
Sept.	118,087	11,464	4,539	73,210	26,812	9,677	25,102	152,866
Oct. (2) .	123,921	13,329	4,813	75,759	27,815	9,837	25,526	159,284
Nov. (2) .	126,112	15,046	3,708	77,647	27,619	9,772	26,258	162,142
Dec. (2) .	122,306	14,162	3,878	76,156	26,081	10,793	26,053	159,152
	(billions of lire)							
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
3rd " . .	228,648	22,197	8,789	141,754	51,915	18,737	48,604	295,990
4th " (2)	236,817	27,421	7,509	147,459	50,500	20,898	50,446	308,161
2000 – 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	15,254	86,809	341,184
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	220,574	16,282	7,881	141,613	50,517	17,694	65,214	303,483
Aug.	223,676	19,332	7,083	141,859	51,147	18,300	60,309	302,285
Sept.	228,648	22,197	8,789	141,754	51,915	18,737	48,604	295,990
Oct. (2) .	239,945	25,809	9,319	146,690	53,857	19,047	49,425	308,417
Nov. (2) .	244,187	29,133	7,180	150,346	53,478	18,921	50,843	313,951
Dec. (2) .	236,817	27,421	7,509	147,459	50,500	20,898	50,446	308,161

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

Non-residents		Other financial assets	Total portfolio	Net assets	*Memorandum items:* gross subscriptions	net subscriptions	
	shares						
			(millions of euros)				
234,114	125,287	271	448,745	475,301	362,927	61,276	 1999
238,401	135,174	178	417,584	449,931	335,768	–6,895	 2000
210,608	102,881	151	369,912	403,689	218,585	–20,356	.... (2) 2001
234,114	125,287	271	448,745	475,301	84,899	–14,775	..... 4th qtr. – 1999
259,701	153,725	119	454,631	488,193	132,283	–2,926	..... 1st qtr. – 2000
249,386	145,308	109	440,421	471,484	81,937	–1,392	..... 2nd ”
258,024	150,750	104	440,958	472,178	60,798	–1,222	..... 3rd ”
238,401	135,174	178	417,584	449,931	60,750	–1,355	..... 4th ”
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 ”
196,042	89,665	89	348,997	386,634	51,299	–9,320	..... 3rd ”
210,608	102,881	151	369,912	403,689	56,313	2,611	.. (2) 4th ”
238,401	135,174	178	417,584	449,931	16,454	–719	.... Dec. – 2000
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
223,808	115,967	179	380,723	417,640	15,420	–1,552	.... July
212,770	105,251	180	369,067	408,625	11,737	580	.... Aug.
196,042	89,665	89	348,997	386,634	24,142	–8,348	.... Sept.
200,627	92,354	160	360,070	396,275	21,927	2,440	.... (2) Oct.
207,694	98,838	162	369,997	402,561	18,504	47	.... (2) Nov.
210,608	102,881	151	369,912	403,689	15,882	124	.... (2) Dec.
			(billions of lire)				
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	92,134	–7,938	..... 2nd ”
379,590	173,616	172	675,752	748,628	99,329	–18,046	..... 3rd ”
407,794	199,215	292	716,250	781,651	109,037	5,056	.. (2) 4th ”
461,609	261,733	345	808,555	871,188	31,859	–1,392	.... Dec. – 2000
484,478	273,250	366	826,028	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
433,353	224,543	347	737,183	808,664	29,857	–3,005	.... July
411,980	203,794	349	714,613	791,208	22,726	1,123	.... Aug.
379,590	173,616	172	675,752	748,628	46,745	–16,164	.... Sept.
388,255	178,609	310	696,982	767,084	42,457	4,724	.... (2) Oct.
401,935	191,160	314	716,197	779,254	35,829	91	.... (2) Nov.
407,794	199,215	292	716,250	781,651	30,750	240	.... (2) Dec.

Table a32

Italian investment funds: net purchases of securities (1)

	Residents					
	Government securities					Bonds
		BOTs	CTZs	BTPs	CCTs	
	(millions of euros)					
1999	–18,371	–4,644	–12,047	–1,583	469	2,893
2000	–31,053	–2,890	–11,481	–5,307	–11,150	536
2001 (2)	–3,404	9,936	–5,841	–8,528	1,124	2,044
1999 – 4th qtr.	–20,291	–703	–4,672	–9,305	–5,492	822
2000 – 1st qtr.	–19,289	1,328	–4,862	–13,441	–2,317	138
2nd "	–1,718	–416	–2,279	6,030	–4,912	516
3rd "	–7,378	–749	–2,471	–2,643	–1,574	–167
4th "	–2,667	–3,053	–1,870	4,747	–2,347	48
2001 – 1st qtr.	–8,065	877	–3,304	–4,823	–733	–780
2nd "	–4,819	2,983	–1,715	–5,211	–930	166
3rd "	4,843	3,409	–128	–1,741	3,371	1,413
4th " (2)	4,637	2,667	–694	3,248	–584	1,245
2000 – Dec.	–2,205	–942	–614	1,669	–2,193	–82
2001 – Jan.	–2,685	–331	–815	–1,904	91	–827
Feb.	–5,390	–67	–1,889	–2,840	–211	–42
Mar.	10	1,276	–599	–79	–613	89
Apr.	–372	766	–285	–1,063	190	–139
May	–4,426	516	–1,633	–3,270	–170	400
June	–22	1,701	203	–878	–950	–94
July	1,125	380	–593	–1,338	2,597	796
Aug.	1,249	1,577	–405	–261	337	385
Sept.	2,469	1,452	869	–142	437	232
Oct. (2)	5,078	1,847	232	1,819	1,048	292
Nov. (2)	2,684	1,710	–1,097	2,326	–147	–81
Dec. (2)	–3,125	–889	172	–898	–1,485	1,035
	(billions of lire)					
2001 – 1st qtr.	–15,616	1,698	–6,397	–9,339	–1,419	–1,510
2nd "	–9,331	5,776	–3,321	–10,090	–1,801	321
3rd "	9,377	6,601	–248	–3,371	6,527	2,736
4th " (2)	8,978	5,164	–1,344	6,289	–1,131	2,411
2000 – Dec.	–4,269	–1,824	–1,189	3,232	–4,246	–159
2001 – Jan.	–5,199	–641	–1,578	–3,687	176	–1,601
Feb.	–10,436	–130	–3,658	–5,499	–409	–81
Mar.	19	2,471	–1,160	–153	–1,187	172
Apr.	–720	1,483	–552	–2,058	368	–269
May	–8,570	999	–3,162	–6,332	–329	775
June	–43	3,294	393	–1,700	–1,839	–182
July	2,178	736	–1,148	–2,591	5,028	1,541
Aug.	2,418	3,053	–784	–505	653	745
Sept.	4,781	2,811	1,683	–275	846	449
Oct. (2)	9,832	3,576	449	3,522	2,029	565
Nov. (2)	5,197	3,311	–2,124	4,504	–285	–157
Dec. (2)	–6,051	–1,721	333	–1,739	–2,875	2,004

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

Table a32

		Non-residents		Other financial assets	Total portfolio	
Shares	Total		shares			
		(millions of euros)				
–5,322	–20,800	83,640	40,988	8	62,848	 1999
–1,996	–32,513	35,526	39,693	126	3,139	 2000
–5,767	–7,127	–7,577	–12,374	1,613	–14,704	. . . . (2) 2001
1,551	–17,918	9,818	16,095	–8	–8,108	. . . . 4th qtr. – 1999
–3,947	–23,098	13,894	18,288	6	–9,198	. . . . 1st qtr. – 2000
1,460	258	7,531	5,550	69	7,858	. . . . 2nd ”
–40	–7,585	7,438	6,422	45	–102	. . . . 3rd ”
531	–2,088	6,663	9,433	6	4,581	. . . . 4st ”
–1,954	–10,799	5,821	–3,539	–463	–5,441	. . . . 1st qtr. – 2001
59	–4,594	–6,918	–4,877	389	–11,123	. . . . 2nd ”
–2,297	3,959	–8,917	–4,832	403	–4,555	. . . . 3rd ”
–1,575	4,307	2,438	874	1,284	8,029	. . . . . . (2) 4th ”
–684	–2,971	3,924	3,796	23	976	. . . . Dec.– 2000
–556	–4,068	7,354	1,669	–498	2,788	. . . . Jan.– 2001
–144	–5,576	–78	–1,531	–42	–5,696	. . . . Feb.
–1,254	–1,155	–1,454	–3,677	77	–2,532	. . . . Mar
51	–460	1,772	408	–145	1,167	. . . . Apr.
–237	–4,263	–10,349	–7,111	429	–14,183	. . . . May
245	129	1,659	1,826	105	1,893	. . . . June
–377	1,544	–3,039	398	119	–1,376	. . . . July
–816	818	–398	–473	213	633	. . . . Aug.
–1,104	1,597	–5,480	–4,756	71	–3,812	. . . . Sept.
–613	4,757	–764	–1,083	508	4,501	. . . . (2) Oct.
–390	2,213	1,314	132	–80	3,447	. . . . (2) Nov.
–572	–2,662	1,886	1,825	856	80	. . . . (2) Dec.
		(billions of lire)				
–3,783	–20,910	11,271	–6,852	–896	–10,535	. . . . 1st qtr. – 2001
114	–8,895	–13,395	–9,443	753	–21,537	. . . . 2nd ”
–4,448	7,666	–17,266	–9,356	780	–8,820	. . . . 3rd ”
–3,050	8,340	4,721	1,692	2,486	15,546	. . . . . . (2) 4th ”
–1,324	–5,753	7,598	7,350	45	1,890	. . . . Dec.– 2000
–1,077	–7,877	14,239	3,232	–964	5,398	. . . . Jan.– 2001
–279	–10,797	–151	–2,964	–81	–11,029	. . . . Feb.
–2,428	–2,236	–2,815	–7,120	149	–4,903	. . . . Mar.
99	–891	3,431	790	–281	2,260	. . . . Apr.
–4,59	–8,254	–20,038	–13,769	831	–27,462	. . . . May
474	250	3,212	3,536	203	3,665	. . . . June
–730	2,990	–5,884	771	230	–2,664	. . . . July
–1,580	1,584	–771	–916	412	1,226	. . . . Aug.
–2,138	3,092	–10,611	–9,209	137	–7,381	. . . . Sept.
–1,187	9,211	–1,479	–2,097	984	8,715	. . . . (2) Oct.
–755	4,285	2,544	256	–155	6,674	. . . . (2) Nov.
–1,108	–5,154	3,652	3,534	1,657	155	. . . . (2) Dec.

Table a33

Portfolio management services (1)

(end-of-period market values)

		Government securities			Bonds		Shares	
		BOTs	BTPs	CCTs	Italian	Foreign	Italian	Foreign
	(millions of euros)							
2000 - 4th qtr. (2)								
Banks	42,815	1,277	22,074	15,480	4,846	12,198	8,765	4,473
Securities firms	8,232	74	5,236	2,148	981	2,554	2,241	1,185
Asset management cos	47,497	719	35,060	9,496	17,002	4,480	11,036	3,974
Total	**98,544**	**2,070**	**62,370**	**27,124**	**22,829**	**19,232**	**22,042**	**9,632**
2001- 1st qtr. (2)								
Banks	40,358	1,083	21,081	14,434	4,385	13,355	7,870	4,278
Securities firms	7,589	40	5,251	1,915	824	2,097	1,648	829
Asset management cos	57,421	923	44,346	10,020	22,470	4,051	14,215	4,762
Total	**105,368**	**2,046**	**70,678**	**26,369**	**27,679**	**19,503**	**23,733**	**9,869**
2001 - 2nd qtr. (2)								
Banks	41,298	1,135	22,019	14,708	4,166	13,363	7,739	4,429
Securities firms	7,462	20	5,262	1,764	863	2,290	1,636	953
Asset management cos	58,752	994	42,599	12,988	24,280	3,595	12,684	4,171
Total	**107,512**	**2,149**	**69,880**	**29,460**	**29,309**	**19,248**	**22,059**	**9,553**
2001 - 3rd qtr. (2)								
Banks	41,204	1,089	20,961	15,726	4,198	13,064	6,140	2,722
Securities firms	7,715	123	5,310	1,863	775	2,271	1,218	772
Asset management cos	71,349	1,166	53,003	13,944	29,930	3,716	10,876	2,849
Total	**120,268**	**2,378**	**79,274**	**31,533**	**34,903**	**19,051**	**18,234**	**6,343**
	(billions of lire)							
2000 - 4th qtr. (2)								
Banks	82,901	2,473	42,741	29,973	9,383	23,619	16,971	8,661
Securities firms	15,939	143	10,138	4,159	1,899	4,945	4,339	2,294
Asset management cos	91,967	1,392	67,886	18,387	32,920	8,674	21,369	7,695
Total	**190,808**	**4,008**	**120,765**	**52,519**	**44,203**	**37,238**	**42,679**	**18,650**
2001- 1st qtr. (2)								
Banks	78,144	2,097	40,819	27,948	8,491	25,859	15,238	8,283
Securities firms	14,694	77	10,167	3,708	1,595	4,060	3,191	1,605
Asset management cos	111,183	1,787	85,866	19,401	43,508	7,844	27,524	9,221
Total	**204,021**	**3,962**	**136,852**	**51,058**	**53,594**	**37,763**	**45,953**	**19,109**
2001 - 2nd qtr. (2)								
Banks	79,964	2,198	42,635	28,479	8,067	25,874	14,985	8,576
Securities firms	14,448	39	10,189	3,416	1,671	4,434	3,168	1,845
Asset management cos	113,760	1,925	82,483	25,148	47,013	6,961	24,560	8,076
Total	**208,172**	**4,161**	**135,307**	**57,043**	**56,750**	**37,269**	**42,712**	**18,497**
2001 - 3rd qtr. (2)								
Banks	79,782	2,109	40,586	30,450	8,128	25,295	11,889	5,271
Securities firms	14,938	238	10,282	3,607	1,501	4,397	2,358	1,495
Asset management cos	138,151	2,258	102,628	26,999	57,953	7,195	21,059	5,516
Total	**232,871**	**4,604**	**153,496**	**61,056**	**67,582**	**36,888**	**35,306**	**12,282**

(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	
			(millions of euros)				
							2000- 4th qtr. (2)
110,410	21,252	2,032	206,791	213,367	16,347	–6,903	. . . . Banks
10,466	12,090	146	37,895	39,346	3,199	–1,186	. . . . Securities firms
49,861	2,155	90	136,095	139,399	20,100	8,338	Asset management cos
170,737	**35,497**	**2,268**	**380,781**	**392,112**	**39,646**	**249**	. . . **Total**
							2001- 1st qtr. (2)
99,499	22,547	1,693	193,987	200,443	14,460	–7,852	. . . . Banks
9,588	13,175	818	36,569	37,533	3,902	–565	. . . . Securities firms
48,670	1,859	94	153,539	158,855	37,624	20,483	Asset management cos
157,757	**37,581**	**2,605**	**384,095**	**396,831**	**55,986**	**12,066**	. . . **Total**
							2001- 2nd qtr. (2)
95,467	25,086	1,597	193,144	197,612	13,726	–2,821	. . . . Banks
9,470	16,848	813	40,333	41,373	6,193	3,554	. . . . Securities firms
50,107	2,034	112	155,740	160,785	9,691	1,016	Asset management cos
155,044	**43,968**	**2,522**	**389,217**	**399,770**	**29,610**	**1,749**	. . . **Total**
							2001- 3rd qtr. (2)
81,774	24,464	1,183	174,748	184,001	9,734	–6,590	. . . . Banks
8,259	16,036	780	37,824	38,904	3,467	679	. . . . Securities firms
50,351	1,709	92	170,871	177,308	32,607	22,904	Asset management cos
140,384	**42,209**	**2,055**	**383,443**	**400,213**	**45,808**	**16,993**	. . . **Total**
			(billions of lire)				
							2000- 4th qtr. (2)
213,784	41,150	3,935	400,403	413,136	31,652	–13,366	. . . . Banks
20,265	23,410	283	73,375	76,184	6,194	–2,296	. . . . Securities firms
96,544	4,173	174	263,517	269,914	38,919	16,145	Asset management cos
330,593	**68,732**	**4,391**	**737,295**	**759,235**	**79,765**	**482**	. . . **Total**
							2001- 1st qtr. (2)
192,657	43,657	3,278	375,611	388,112	27,998	–15,204	. . . . Banks
18,565	25,510	1,584	70,807	72,674	7,555	–1,094	. . . . Securities firms
94,238	3,600	182	297,293	307,586	72,850	39,661	Asset management cos
305,460	**72,767**	**5,044**	**743,712**	**768,372**	**108,404**	**23,363**	. . . **Total**
							2001- 2nd qtr. (2)
184,850	48,573	3,092	373,979	382,630	26,577	–5,462	. . . . Banks
18,336	32,622	1,574	78,096	80,109	11,991	6,882	. . . . Securities firms
97,021	3,938	217	301,555	311,323	18,764	1,967	Asset management cos
300,207	**85,134**	**4,883**	**753,629**	**774,063**	**57,333**	**3,387**	. . . **Total**
							2001 - 3rd qtr. (2)
158,337	47,369	2,291	338,359	356,276	18,848	–12,760	. . . . Banks
15,992	31,050	1,510	73,237	75,329	6,713	1,315	. . . . Securities firms
97,493	3,309	178	330,852	343,316	63,136	44,348	Asset management cos
271,821	**81,728**	**3,979**	**742,449**	**774,920**	**88,697**	**32,903**	. . . **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
			(millions of euros)			
1998	64,541	354,215	418,756	85,326	120,734	624,816
1999	71,961	389,876	461,837	65,747	128,860	656,444
2000	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	71,439	403,462	474,901	56,277	126,945	658,123
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	392,514	462,458	55,369	128,571	646,398
Sept. . . .	68,919	414,263	483,182	55,327	129,590	668,099
Oct.	67,360	418,813	486,173	53,580	130,616	670,369
Nov.	65,925	411,798	477,723	53,319	131,172	662,214
Dec.	66,028	450,835	516,863	52,623	135,123	704,609
2002 – Jan.	72,978	432,537	505,515	57,571	140,369	703,454
			(billions of lire)			
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	758,572	895,738	109,910	245,701	1,251,349
Apr.	139,442	769,385	908,827	105,720	247,128	1,261,675
May	138,325	781,211	919,537	108,967	245,800	1,274,304
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	760,013	895,444	107,209	248,948	1,251,601
Sept. . . .	133,446	802,125	935,571	107,128	250,921	1,293,620
Oct.	130,427	810,935	941,362	103,745	252,908	1,298,015
Nov.	127,648	797,352	925,000	103,240	253,985	1,282,225
Dec.	127,848	872,938	1,000,786	101,893	261,635	1,364,314
2002 – Jan.	141,304	837,509	978,813	111,472	271,792	1,362,078

Table a34

Repos	Money market fund shares/units	Debt securities up to 2 years and money market paper	Total monetary liabilities	Contribution to euro-area money		
				M1	M2	M3
(millions of euros)						
60,493	4,772	16,762	706,843	412,842	618,902	700,763
50,754	13,058	10,682	730,938	455,986	650,593	724,309
68,303	10,039	11,553	761,980	481,955	665,349	754,828
75,203	10,392	11,587	740,331	454,621	638,284	735,233
77,405	11,406	11,567	739,028	450,225	633,573	733,675
81,622	12,613	11,334	751,837	457,649	641,307	746,461
79,932	14,448	11,054	757,035	463,673	645,904	750,984
87,344	14,991	10,991	771,449	469,646	652,868	765,684
82,567	15,763	10,584	770,783	472,572	656,806	765,370
84,899	16,791	10,966	771,301	470,261	652,792	765,005
90,837	17,892	11,111	766,238	457,024	640,964	760,317
82,027	21,881	11,088	783,095	477,839	662,756	777,387
83,692	23,500	10,997	788,558	480,461	664,657	782,490
82,740	24,356	10,619	779,929	471,568	656,060	773,458
76,214	26,103	10,495	817,421	508,482	696,228	808,662
77,644	27,826	10,490	819,415	485,541	683,480	799,032
(billions of lire)						
145,613	20,122	22,436	1,433,481	880,269	1,235,890	1,423,610
149,877	22,085	22,397	1,430,958	871,757	1,226,768	1,420,593
158,042	24,422	21,946	1,455,759	886,132	1,241,744	1,445,350
154,770	27,975	21,404	1,465,824	897,796	1,250,645	1,454,108
169,122	29,027	21,282	1,493,734	909,361	1,264,129	1,482,571
159,872	30,521	20,493	1,492,444	915,027	1,271,754	1,481,963
164,387	32,512	21,233	1,493,447	910,552	1,263,982	1,481,256
175,885	34,644	21,514	1,483,644	884,922	1,241,079	1,472,179
158,826	42,368	21,469	1516,283	925,225	1,283,275	1,505,231
162,050	45,502	21,293	1,526,861	930,302	1,286,955	1,515,112
160,207	47,160	20,562	1,510,154	913,084	1,270,308	1,497,624
147,570	50,542	20,321	1,582,747	984,558	1,348,085	1,565,787
150,340	53,879	20,312	1,586,609	940,138	1,323,402	1,547,142

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
				(millions of euros)				
1998	696,977	58,583	64,346	13,882	424,067	165,276	214,583	3,922
1999	725,158	52,708	(35,642)	5,996	(408,617)	146,686	(237,941)	7,695
2000 – Sept. . . .	719,458	49,334	(32,342)	4,937	(405,361)	115,271	(258,925)	8,580
Oct. . . .	726,313	48,859	(34,324)	4,724	(414,963)	113,325	(259,833)	8,606
Nov. . .	712,734	48,519	(35,256)	3,811	(411,429)	114,701	(261,050)	8,716
Dec. . . .	755,355	(48,150)	(31,167)	2,979	(413,738)	113,326	(266,891)	8,764
2001 – Jan. . . .	733,702	(47,278)	(39,049)	2,268	(426,209)	109,958	(268,281)	7,892
Feb. . . .	732,694	(46,812)	(38,829)	2,223	(422,293)	105,661	(271,676)	7,839
Mar. . .	743,275	(46,001)	(41,348)	1,867	(421,919)	103,424	(277,812)	7,929
Apr. . . .	751,576	(45,485)	(40,938)	2,706	(426,556)	102,570	(283,047)	7,778
May . . .	765,134	(44,685)	(40,135)	2,833	(431,575)	97,586	(290,128)	8,233
June . . .	763,702	(44,310)	(38,542)	3,797	(428,941)	96,036	(295,700)	8,041
July . . .	764,759	(43,674)	(39,360)	3,926	(432,069)	96,283	(299,469)	9,316
Aug. . . .	759,930	(42,841)	(41,148)	4,892	(436,266)	95,974	(301,508)	9,606
Sept. . . .	774,318	(42,822)	(44,122)	5,289	(431,655)	96,448	(304,432)	9,775
				(billions of lire)				
2000 – Sept. . . .	1,393,065	95,525	(62,622)	9,560	(784,888)	223,196	(501,348)	16,613
Oct. . . .	1,406,338	94,605	(66,460)	9,147	(803,479)	219,428	(503,108)	16,663
Nov. . .	1,380,045	93,945	(68,266)	7,379	(796,637)	222,091	(505,464)	16,876
Dec. . . .	1,462,572	(93,232)	(60,349)	5,767	(801,109)	219,429	(516,773)	16,969
2001 – Jan. . . .	1,420,645	(91,543)	(75,609)	4,392	(825,255)	212,909	(519,464)	15,282
Feb. . . .	1,418,693	(90,641)	(75,184)	4,305	(817,673)	204,589	(526,039)	15,179
Mar. . .	1,439,180	(89,070)	(80,060)	3,614	(816,949)	200,257	(537,920)	15,352
Apr. . . .	1,455,254	(88,072)	(79,266)	5,239	(825,927)	198,602	(548,056)	15,061
May . . .	1,481,506	(86,523)	(77,712)	5,486	(835,645)	188,952	(561,767)	15,941
June . . .	1,478,732	(85,795)	(74,628)	7,351	(830,545)	185,952	(572,555)	15,569
July . . .	1,480,781	(84,739)	(76,211)	7,601	(836,603)	186,431	(579,853)	18,038
Aug. . . .	1,471,430	(82,953)	(79,674)	9,471	(844,728)	185,832	(583,802)	18,599
Sept. . . .	1,499,289	(82,914)	(85,432)	10,242	(835,800)	186,749	(589,462)	18,927

Table a35

Other domestic assets held by non-money-market funds	Other financial assets	Total domestic financial assets	External financial assets		Total financial assets	*Memorandum items:* shares/units of investment funds	
				held by non-money-market funds			non-money-market investment funds
(millions of euros)							
39,419	881	1,498,856	310,610	110,517	1,809,466	372,274	367,502
44,642	905	(1,505,623)	(671,039)	231,718	(2,176,662)	475,301	462,243
46,272	929	(1,512,620)	(741,316)	258,488	(2,253,936)	472,178	462,954
48,654	920	(1,533,866)	(750,153)	260,965	(2,284,020)	474,891	465,764
47,853	927	(1,517,769)	(727,939)	244,156	(2,245,708)	458,876	449,568
44,280	(935)	(1,560,518)	(718,514)	239,260	(2,279,032)	449,931	439,891
44,833	(948)	(1,560,300)	(732,331)	255,367	(2,292,630)	453,793	443,401
40,143	(948)	(1,553,396)	(726,471)	240,319	(2,279,867)	433,916	422,510
37,259	(962)	(1,568,575)	(733,566)	234,523	(2,302,141)	424,262	411,649
39,191	(962)	(1,587,756)	(751,689)	243,357	(2,339,444)	433,291	418,843
36,750	(966)	(1,609,373)	(760,413)	242,939	(2,369,786)	432,961	417,970
34,917	(959)	(1,607,070)	(759,358)	239,364	(2,366,427)	425,139	409,376
33,680	(984)	(1,614,086)	(743,713)	229,339	(2,357,799)	417,640	400,849
31,147	(1,006)	(1,613,847)	(727,613)	217,938	(2,341,460)	408,625	390,733
25,102	(1,002)	(1,623,452)	(716,605)	200,622	(2,340,057)	386,634	364,752
(billions of lire)							
89,595	1,799	(2,928,841)	(1,435,388)	500,504	(4,364,229)	914,264	896,403
94,208	1,781	(2,969,979)	(1,452,500)	505,299	(4,422,479)	919,517	901,845
92,657	1,795	(2,938,810)	(1,409,487)	472,751	(4,348,297)	888,507	870,485
85,738	(1,811)	(3,021,584)	(1,391,237)	463,272	(4,412,821)	871,188	851,749
86,808	(1,836)	(3,021,161)	(1,417,990)	494,460	(4,439,151)	878,666	858,543
77,728	(1,836)	(3,007,794)	(1,406,644)	465,323	(4,414,438)	840,178	818,093
72,144	(1,862)	(3,037,185)	(1,420,382)	454,099	(4,457,567)	821,485	797,063
75,884	(1,863)	(3,074,323)	(1,455,473)	471,205	(4,529,796)	838,969	810,993
71,158	(1,870)	(3,116,181)	(1,472,364)	470,396	(4,588,545)	838,330	809,304
67,608	(1,857)	(3,111,721)	(1,470,322)	463,473	(4,582,042)	823,184	792,662
65,215	(1,905)	(3,125,307)	(1,440,028)	444,062	(4,565,335)	808,664	776,152
60,309	(1,948)	(3,124,843)	(1,408,855)	421,987	(4,533,698)	791,208	756,565
48,604	(1,940)	(3,143,442)	(1,387,540)	388,458	(4,530,982)	748,628	706,259

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
			(millions of euros)			
1998	690,677	12,118	2,885	702,795	79,752	782,547
1999	761,349	(12,991)	5,450	(774,341)	(158,206)	(932,547)
2000 – Sept. ...	823,355	(15,542)	7,286	(838,897)	(169,185)	(1,008,082)
Oct.	831,971	(15,156)	7,028	(847,127)	(169,651)	(1,016,778)
Nov.	845,708	(13,529)	7,179	(859,237)	(172,561)	(1,031,798)
Dec.	861,353	(16,001)	7,995	(877,354)	(180,169)	(1,057,523)
2001 – Jan.	859,656	(14,845)	8,120	(874,501)	(181,811)	(1,056,311)
Feb.	859,000	(13,594)	8,018	(872,594)	(185,295)	(1,057,889)
Mar.	874,042	(15,452)	7,883	(889,493)	(185,871)	(1,075,364)
Apr.	880,160	(16,069)	8,314	(896,229)	(188,478)	(1,084,707)
May	872,170	(19,896)	9,627	(892,066)	(195,337)	(1,087,403)
June	886,595	(22,698)	9,608	(909,293)	(196,070)	(1,105,363)
July	895,736	(23,781)	9,594	(919,518)	(196,651)	(1,116,169)
Aug.	889,357	(23,186)	9,825	(912,543)	(202,690)	(1,115,232)
Sept. ...	895,394	(24,449)	9,932	(919,843)	(205,057)	(1,124,900)
			(billions of lire)			
2000 – Sept. ...	1,594,237	(30,093)	14,108	(1,624,330)	(327,589)	(1,951,919)
Oct.	1,610,920	(29,346)	13,609	(1,640,266)	(328,490)	(1,968,756)
Nov.	1,637,520	(26,195)	13,900	(1,663,715)	(334,125)	(1,997,840)
Dec.	1,667,813	(30,982)	15,480	(1,698,794)	(348,856)	(2,047,650)
2001 – Jan.	1,664,525	(28,744)	15,723	(1,693,270)	(352,035)	(2,045,304)
Feb.	1,663,255	(26,322)	15,526	(1,689,577)	(358,781)	(2,048,359)
Mar.	1,692,381	(29,919)	15,264	(1,722,299)	(359,896)	(2,082,195)
Apr.	1,704,227	(31,113)	16,098	(1,735,340)	(364,945)	(2,100,285)
May	1,688,757	(38,524)	18,640	(1,727,281)	(378,225)	(2,105,506)
June	1,716,688	(43,949)	18,604	(1,760,637)	(379,645)	(2,140,281)
July	1,734,387	(46,047)	18,576	(1,780,434)	(380,770)	(2,161,204)
Aug.	1,722,035	(44,895)	19,024	(1,766,929)	(392,462)	(2,159,391)
Sept. ...	1,733,724	(47,340)	19,232	(1,781,064)	(397,047)	(2,178,111)

Table a36

	General government debt			Credit		
		held domestically		Total domestic	Total	*Memorandum item:* shares placed domestically, held by Italian MFIs
			held by Italian MFIs			
	F	G		G+C	E+F	
			(millions of euros)			
	1,248,514	1,181,222	313,251	1,884,017	2,031,062	18,446
	(1,269,293)	(1,198,602)	(300,126)	(1,972,943)	(2,201,840)	28,559
	(1,306,302)	(1,217,417)	278,040	(2,056,314)	(2,314,384)	33,092
	(1,312,215)	(1,221,885)	279,070	(2,069,011)	(2,328,993)	33,926
	(1,314,775)	(1,226,796)	275,932	(2,086,033)	(2,346,574)	35,386
	(1,287,696)	(1,203,382)	270,790	(2,080,736)	(2,345,219)	34,641
	(1,300,583)	(1,213,358)	271,879	(2,087,858)	(2,356,895)	34,704
	(1,310,567)	(1,220,364)	273,782	(2,092,958)	(2,368,456)	34,425
	(1,322,991)	(1,231,808)	272,705	(2,121,302)	(2,398,355)	35,759
	(1,330,352)	(1,236,277)	277,264	(2,132,505)	(2,415,058)	38,646
	(1,339,199)	(1,241,717)	274,830	(2,133,783)	(2,426,602)	39,585
	(1,343,225)	(1,251,177)	276,765	(2,160,470)	(2,448,588)	39,482
	(1,335,829)	(1,242,133)	270,862	(2,161,650)	(2,451,998)	36,737
	(1,329,556)	(1,237,120)	268,365	(2,149,663)	(2,444,788)	35,512
	(1,332,292)	(1,241,993)	274,165	(2,161,836)	(2,457,191)	32,516
			(billions of lire)			
	(2,529,353)	(2,357,248)	538,360	(3,981,579)	(4,481,271)	64,076
	(2,540,803)	(2,365,899)	540,355	(4,006,165)	(4,509,559)	65,690
	(2,545,760)	(2,375,409)	534,280	(4,039,124)	(4,543,600)	68,517
	(2,493,326)	(2,330,072)	524,322	(4,028,867)	(4,540,976)	67,075
	(2,518,280)	(2,349,388)	526,430	(4,042,657)	(4,563,584)	67,196
	(2,537,612)	(2,362,955)	530,117	(4,052,532)	(4,585,971)	66,656
	(2,561,668)	(2,385,113)	528,031	(4,107,413)	(4,643,863)	69,239
	(2,575,920)	(2,393,765)	536,858	(4,129,106)	(4,676,205)	74,828
	(2,593,051)	(2,404,299)	532,145	(4,131,580)	(4,698,557)	76,648
	(2,600,846)	(2,422,616)	535,891	(4,183,253)	(4,741,127)	76,448
	(2,586,525)	(2,405,104)	524,462	(4,185,539)	(4,747,730)	71,132
	(2,574,379)	(2,395,399)	519,628	(4,162,328)	(4,733,770)	68,374
	(2,579,674)	(2,404,834)	530,857	(4,185,898)	(4,757,784)	62,959

Supervisory capital and capital adequacy (on a consolidated basis) (1)
(millions of euros)

	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)
June 1999									
Banks in the Centre and North	85,629	23,464	16,987	104,247	10.8	27,236	6	85	0.1
Banks in the South	5,358	888	639	6,135	14.1	2,665	2	3	. .
Total ...	90,986	**24,352**	**17,626**	**110,382**	**11.0**	**29,901**	**8**	**88**	**0.1**
December 1999									
Banks in the Centre and North	83,633	24,763	20,490	103,755	10.4	25,222	7	1,329	1.6
Banks in the South	5,797	826	681	6,503	15.1	3,063	2	2	. .
Total ...	**89,430**	**25,589**	**21,171**	**110,258**	**10.6**	**28,285**	**9**	**1,331**	**1.6**
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	32,643	27,653	114,724	10.1	24,022	1	8	. .
Banks in the South	3,611	393	247	3,902	17.2	2,087	2	1	. .
Total ...	**91,418**	**33,036**	**27,900**	**118,626**	**10.3**	**26,109**	**3**	**9**	**. .**
June 2000									
Banks in the Centre and North	94,417	35,606	30,821	123,370	10.5	29,612	1	19	. .
Banks in the South	3,723	379	230	3,974	18.1	2,213		–	
Total ...	**98,139**	**35,984**	**31,051**	**127,344**	**10.7**	**31,825**	**1**	**19**	. .

(1) For banks not belonging to a banking group, the data are obtained from the reports they submit on a solo basis. The branches of foreign banks are not included. – (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: Eurostat, Istat and national statistics.

For India, GDP at factor cost (fiscal year: April-March).

Table a2

Sources: IMF, Eurostat, Istat and national statistics.

For Italy, see the notes to Table a10.

For China, industrial value added. For Indonesia and Thailand, manufacturing.

Table a3

Sources: IMF, Eurostat, Istat and national statistics.

For the euro area, Germany, France and Italy, harmonized consumer prices. For the United Kingdom, consumer prices excluding mortgage interest.

Table a4

Sources: IMF, 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, repo 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 central government 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 the Governing Council of the ECB announced that, starting from the operation to be settled on 28 June 2000, the main refinancing operations of the Eurosystem would be conducted as variable rate tenders. 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. The data refer only to harmonized funds. Rounding may cause discrepancies in totals.

Table a32

"Other financial assets" include CDs, banker's acceptances and commercial paper. The data refer only to harmonized funds. Rounding may cause discrepancies in totals.

Table a33

The amounts shown for each category of intermediary refer to the portfolio management services they provide directly. "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 Poste Italiane S.p.A. 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).

As of January 2002, the Italian monetary aggregates include notes and coins in circulation denominated in euros.

Owing to the cross-border migration of euro notes and coins, the currency in circulation in the various countries no longer corresponds to the quantities they have issued. In order to measure the currency in circulation for inclusion here, the Bank of Italy is conventionally allocated a share of the total issue of euro notes on the basis of its share of the ECB's capital (the so-called Capital Share Mechanism). Each country's share of the ECB's capital is equal to the arithmetic mean of its shares of the euro-area's total population and total income.

Until December 2001 the item "Currency in circulation" comprises Bank of Italy banknotes and Treasury coins. As of January 2002, the Italian component of the currency in circulation in the euro area includes the remaining quantity of lira currency in circulation and the euro currency conventionally allocated to the Bank of Italy by applying the Capital Share Mechanism. This differs from the quantity obtained by applying the harmonized accounting methods for the note circulation in the euro area since it is calculated by applying the Capital Share Mechanism to 100% of the total value of the euro notes in circulation, thus including the 8% share distributed by the NCBs but allocated for accounting purposes to the ECB.

"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 coin in lire and the other euro-area currencies, for M1, and bonds issued by MFIs resident in the rest of the euro area, for M3. For further details on the methods used to compile these statistics, see “Note metodologiche e informazioni statistiche – Aggregati monetari e creditizi dell’area dell’euro: le componenti italiane” in the series Supplements to the *Statistical Bulletin*, Volume X, No. 33, 12 June 2000.

Table a35

All the items refer to the financial assets of the Italian “money holding sector” (see the note to Table a34); the share of each item held by non-money-market funds is shown separately.

“Total monetary assets” comprise currency in circulation, current account deposits, deposits with agreed maturity up to 2 years, deposits redeemable at notice up to 3 months, repos, money market fund shares/units and money market paper, and debt securities up to 2 years.

“Other deposits” comprise deposits with agreed maturity over 2 years, deposits redeemable at notice over 3 months and forward 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 core or supplementary capital is admitted, with or without restrictions, according to the item.

Paid-in capital, reserves, provisions for general banking risks and innovative capital instruments – net of any own shares or capital parts held, intangible assets and loss for the year – are the elements of core capital, which is included in the calculation of supervisory capital without restriction. Revaluation reserves, provisions for losses, hybrid capital instruments and subordinated liabilities – net of any revaluation losses on securities held as financial fixed assets and other negative items – constitute supplementary capital, which is included in the calculation of supervisory capital up to the amount of core capital.

The regulations governing the solvency ratio require banking groups and banks not belonging to a group to satisfy a minimum capital requirement of 8 per cent, defined as the ratio of their supervisory capital to the total of their on- and off-balance-sheet assets, weighted according to their potential riskiness.

The calculation of the excess amounts and shortfalls of supervisory capital (“Excess capital” and “Capital shortfalls”) is based on the assumption of a minimum capital requirement of 8 per cent for all banks, including those belonging to banking groups, for which the supervisory regulations envisage a requirement of 7 per cent provided that the group as a whole satisfies the 8 per cent requirement.

The solvency ratio figures take account of the prudential requirements for market risks.

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	—	*Istituto per i servizi assicurativi del commercio estero* Export Credit Insurance Institute
UIC	—	*Ufficio italiano dei cambi* Italian Foreign Exchange Office

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