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## SYMBOLS AND CONVENTIONS

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

In the following tables:

- the phenomenon in question does not occur;
- .... the phenomenon occurs but its value is not known;
- .. the value is known but is nil or less half the final digit shown.

# *Economic Developments and Policies*

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## THE WORLD ECONOMY AND INTERNATIONAL FINANCE

World economic activity, which had been slowing since the second half of 2000, was only moderately affected by the climate of uncertainty created by the terrorist attacks of 11 September. In the United States, swift monetary and budgetary action provided substantial support to the economy, enabling GDP to grow by an annualized 2.7 per cent in the fourth quarter of 2001.

The American recovery gained momentum in the first quarter of this year, driven by consumption and a reduction in destocking. Tax relief measures and increased government transfers bolstered household spending.

The growth in US imports acted as a stimulus to world trade, boosting economic activity in Canada, Japan and the emerging Asian countries. World merchandise trade, which had reached a low point at the end of 2001, began to pick up at the start of this year, accelerating in the second quarter. In the first six months of 2002, it is estimated to have expanded by more than 4 per cent on the second half of 2001.

Since the summer, however, flagging demand and the renewed fall in share prices that began in the spring have started to dampen economic activity in the United States.

The decline in the prices of traditional shares and technology stocks in the United States and the euro area was accompanied by an increase in their volatility. In some instances, it was greater than that recorded in the wake of the 11 September attacks.

The fall in equity prices in traditional sectors since March reflects a generalized increase in investor risk aversion since corporate accounting irregularities came to light at the beginning of the year and heightened international political tensions.

From the very beginning of the year, the collapse of Enron, the US energy giant, undermined market confidence in corporate governance. At the end of June, serious irregularities were discovered in the accounts of a number of other large companies (Worldcom and Xerox in the United States and Vivendi in Europe). Doubts were revived about the reliability of corporate financial statements, especially those of heavily indebted or structurally complex firms.

The decision of the US Congress on 30 July to introduce much more stringent regulations governing accounting practices brought only temporary stability to the markets. The risk premium on equities, which had dropped to an exceptionally low level in the second half of the 1990s, rose closer to its historical average in the wake of the fall in share prices.

Since September, uncertainty about the international political situation, and especially the timing and duration of any war with Iraq, has increased significantly.

The composition of financial wealth shifted towards government securities and highly rated corporate bonds as huge volumes of funds were withdrawn from equities. Yields have fallen to their lowest level in forty years. In many of the main industrial economies, the reduction in the equity component of portfolios has been coupled with an

increase in the share of real estate in households' aggregate wealth. This rebalancing has pushed up house prices; with equity prices going from initial stability to sharp downturn over the past two years, the positive correlation between the two observed in the second half of the 1990s no longer holds.

Demand for housing has been buoyed by the pronounced decline in mortgage rates and by financial innovation, which has reduced the fixed transaction costs on such loans. As a consequence, households, especially in the United States, have been able to take out new mortgages at lower cost and renegotiate existing ones for larger amounts, which has helped boost consumption.

The recomposition of international portfolios also caused the dollar to depreciate sharply against the other leading currencies between March and July. A further factor was renewed concern about the widening US current account deficit.

From the end of the spring, international investors sharply reduced their exposure to Turkey and a number of Latin American countries in response to growing political uncertainty against a background of persistent macroeconomic disequilibria. Tensions remained high despite the International Monetary Fund's decision last August to grant substantial financial assistance to Brazil and Uruguay. By contrast, the emerging countries of Asia and Central and Eastern Europe did not experience any deterioration in the terms of their access to international capital markets.

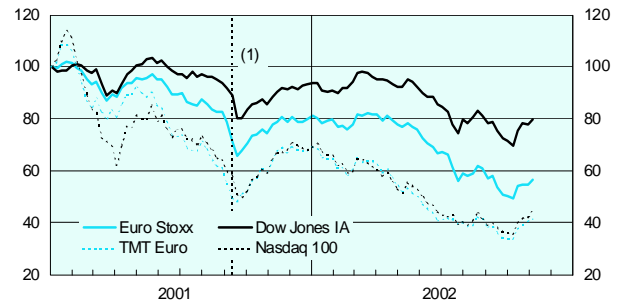
### Financial market performance since the spring

Between March and 8 November (the end of the first of the three monthly data observation periods), the Dow Jones industrial average and the Euro Stoxx index, which are primarily composed of the shares of traditional companies, fell by 19 and 34 per cent respectively (Figure 1). Like traditional shares, the prices of technology stocks also fell simultaneously in both the US and Europe, but more sharply (32 and 40 per cent respectively).

Figure 1

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

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



Source: Thomson Financial Datastream.  
(1) 11 September 2001.

At the beginning of August, the volatility of share prices implicit in the prices of options on the Nasdaq 100 index reached 70 per cent, up from 30 per cent at the end of March; that for the Standard & Poor's 500 index rose from 15 per cent to 50 per cent. After a brief rise in prices in August, increased uncertainty triggered a new downturn and higher volatility in September. This trend was reversed in mid-October and prices rose appreciably.

On 8 November, the dividend yield in the United States was broadly in line with underlying economic conditions.

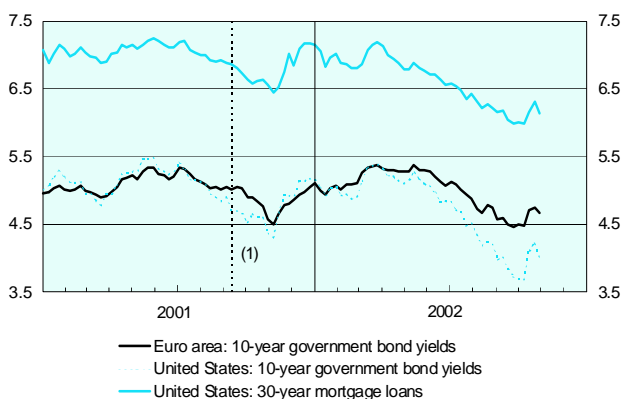
Following the rebalancing of portfolios towards less risky assets, yields on US government bonds fell by 1.6 percentage points to 3.8 per cent between the end of March and 8 November (Figure 2). Investors became more selective, which benefited higher-rated private issuers: although the interest rate differential vis-à-vis risk-free instruments widened by 0.8 percentage points, the yield on BAA-rated bonds fell by 0.8 points to 6.8 per cent. By contrast, issuers of high-yield bonds were penalized as their risk premium rose by 3.6 percentage points, pushing yields up to 13.8 per cent (Figure 3).

Mortgage refinancing continued briskly in the United States in the first half of 2002. Renegotiated loans amounted to \$560 billion, a pace comparable to the exceptional \$1.16 trillion recorded in 2001 as a whole. Rising house prices, which increased by 7 per

cent between the second half of 2001 and the first half of 2002, and low and falling mortgage interest rates, which averaged 6.9 per cent in the period, were contributory factors. The continued fall in mortgage rates in the third quarter, to below 6 per cent, is likely to stimulate additional refinancing in the last part of the year as well (Figure 2).

Figure 2

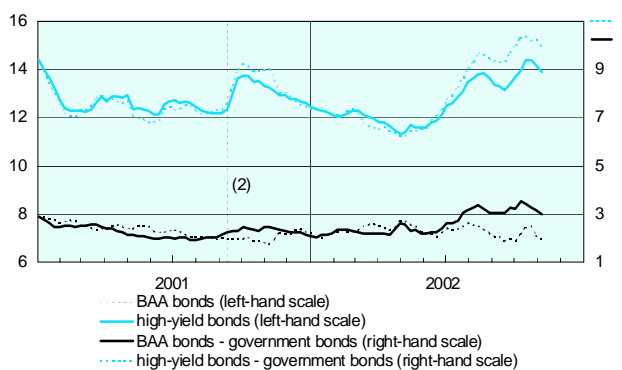
**Long-term interest rates**  
(average weekly data; percentages)



Sources: Freddie Mac and national statistics.  
(1) 11 September 2001.

Figure 3

**Bond yields and risk premiums in the United States (1)**  
(average weekly data; percentages and percentage points)



Sources: Lehman Brothers for BAA-rated corporate bonds and for high-yield bonds. Thomson Financial Datastream for 10-year government bonds.  
(1) Risk premiums are calculated as yield differentials between corporate bonds and 10-year government bonds. - (2) 11 September 2001.

The behaviour of bank lending differed in the United States and the euro area. In the United States, lending to business has been declining since the summer of 2001, a development apparently not

connected with supply factors. The Federal Reserve quarterly survey of large banks in August showed the number of banks that had tightened their lending criteria had fallen further, while demand for financing was soft as firms cut back on their investment plans.

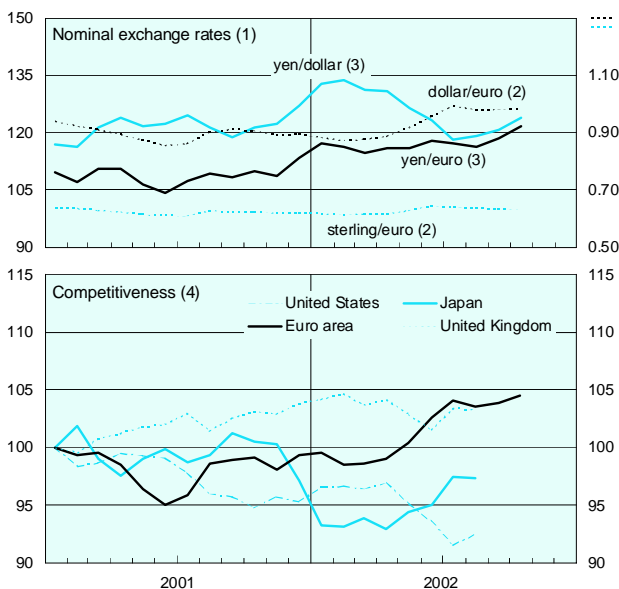
Despite the economic slowdown and falling stock markets, commercial banks' return on equity decreased only slightly, to 13.6 per cent. After declining for seven years, their capital adequacy ratio rose by 0.6 percentage points to about 13 per cent.

**Exchange rates**

The weakness of the dollar since the beginning of the year came to an end in July. After peaking in February, the US currency depreciated by 7 per cent in effective nominal terms over the period, while the country's competitiveness increased by 5 per cent. Since August the dollar has fluctuated around slightly stronger levels against the other main currencies (Figure 4).

Figure 4

**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 2001=100, based on producer prices of manufactured goods. A rise corresponds to a loss of competitiveness.

The dollar's fall, which coincided with investors' loss of confidence in the wake of the Enron collapse,

also reflected concern over the United States' growing current account deficit. Despite the pronounced economic slowdown, the deficit declined only slightly in 2001, to 3.9 per cent of GDP, compared with 4.2 per cent the previous year. It resumed its expansion during the first half of this year, reaching 4.6 per cent of GDP. At the end of 2001, the country's net external debtor position increased to \$2,309 billion (equal to 22.9 per cent of GDP), compared with \$1,583 billion (16.1 per cent of GDP) a year earlier.

The dollar depreciated by about 15 per cent against the euro in the first half of 2002. The euro was worth \$1.01 in July and has fluctuated around values slightly under parity since then.

On international bond markets, the ratio of euro-denominated issues by non-residents to total bonds denominated in a currency other than that of the issuer's country rose by 3 percentage points to 29 per cent. Data on the assets of BIS reporting banks suggest that the increase was almost entirely absorbed by euro-area residents. The euro gained importance as an invoicing currency with non-euro-area countries between 2000 and 2001, being used in about 50 per cent of transactions in France and Spain. By contrast, its role as a central bank reserve currency did not change: at the end of 2001, 13 per cent of world currency reserves were in euros, a similar proportion to the previous two years. According to the BIS triennial survey, however, the proportion of transactions on foreign exchange markets involving euros in 2001 was smaller than that of operations involving the currencies of the future euro area and other currencies in 1998.

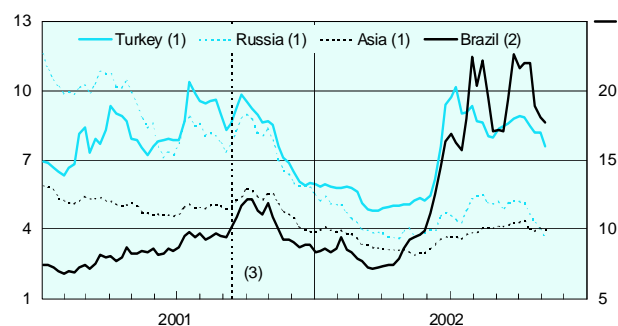
### The financial situation in the emerging countries

The economic and financial crisis in Argentina spread to Uruguay through the channels of trade, banking and finance. In June the country abandoned its fixed exchange rate system and in the summer, after a serious banking crisis, the IMF intervened with a programme of financial assistance. Financial market conditions in Brazil also began to deteriorate

rapidly at the beginning of June owing to uncertainty surrounding the outcome of the elections and concern about the size of the public debt and the extent of its financial and foreign currency indexation. In the first three weeks of the month, the interest rate differential on government bonds denominated in foreign currency rose by 7 percentage points to 17 points; at the end of July it had widened to 24 points (Figure 5). The announcement of an IMF financial package in August produced only a temporary attenuation of the tensions, and at the end of October the risk premium was still above 20 percentage points. Between the beginning of June and the end of October, the real depreciated by 32 per cent against the dollar. The election victory of the opposition candidate on 27 October, which had been widely expected, had virtually no effect on financial markets, and on 8 November the risk premium stood close to 17 percentage points. Tensions on the Brazilian financial markets spread to Venezuela, but did not have any effect on Mexico or Chile, where underlying economic conditions are sounder.

Figure 5

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



Sources: J.P. Morgan for Brazil; Thomson Financial Datastream for the other countries.

(1) Left-hand scale. - (2) Right-hand scale. - (3) 11 September 2001.

Growing political uncertainty in Turkey, which had experienced a serious banking crisis in early 2001, caused interest rate differentials on foreign-currency government bonds to rise from 6 percentage points at the beginning of June to more than 10 in July, before gradually narrowing to 7.5 points (Figure 5). The Turkish lira depreciated by 16 per cent against the



dollar between May and July before stabilizing thereafter.

Economic expansion, the absence of serious macroeconomic imbalances and the structural reforms introduced in recent years enabled the emerging Asian countries to continue to tap the international capital market on favourable terms. On 8 November, the average interest rate differential on government bonds denominated in foreign currency was 4 percentage points (Figure 5).

### Economic developments and policies in the United States

The slowdown in consumption in the second quarter of this year dampened the pace of output growth in the United States, causing it to fall from an annualized 5.0 per cent in the first quarter to 1.3 per cent. It picked up again in the third quarter, rising to 3.1 per cent, stimulated by the 4.2 per cent upturn in consumption as financial incentives for car purchases were revived. In September consumption fell by 0.6 per cent. Households' propensity to spend began to reflect the significant fall in financial wealth, a slower-than-expected recovery in the labour market and growing uncertainty about the outlook.

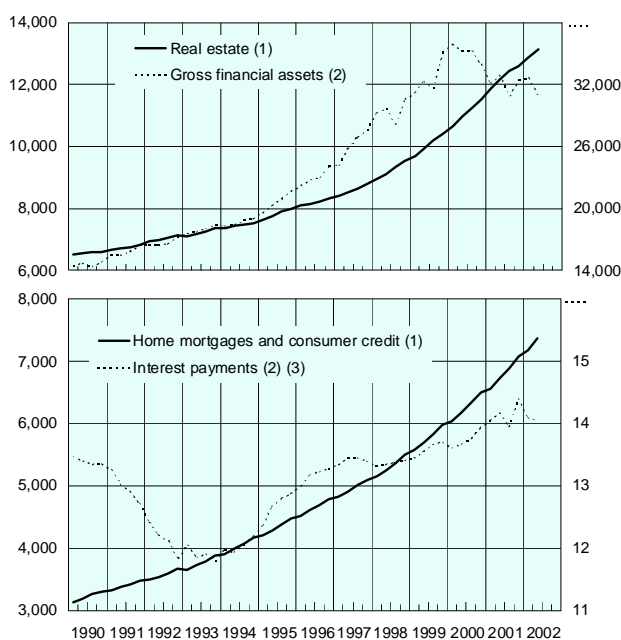
Households' gross financial wealth decreased by about \$1.4 trillion in the first half of the year (14 per cent of GDP). The fall was only partially offset by the \$570 billion increase in the value of property, which now represents about 27 per cent of their total assets. The contraction in total assets and the slight increase in debt caused households' net wealth to fall by more than 41 percentage points to 515 per cent of disposable income. At close to 14 per cent of disposable income, interest outlays are still high by historical standards (Figure 6).

After stabilizing in the second quarter, payroll employment in the non-agricultural sector stagnated until October. The unemployment rate, which had

peaked at 6 per cent in April, fell slightly in the following months, reaching 5.7 per cent in October.

Figure 6

### US households' assets and liabilities (billions of current dollars, unless otherwise indicated)



Source: Federal Reserve.

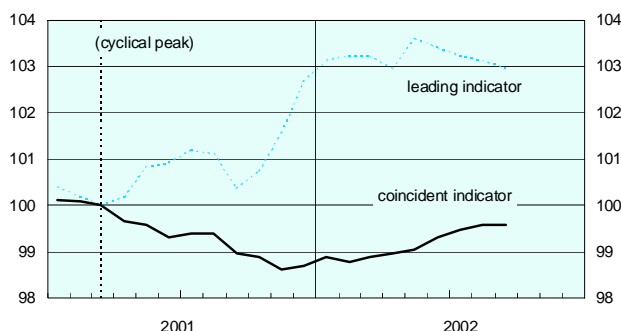
(1) Left-hand scale. - (2) Right-hand scale. - (3) As a percentage of disposable income.

The fall in business investment that had begun in the fourth quarter of 2000 virtually came to a halt in the first half of 2002. The second and third quarters saw a recovery in IT investment. In the summer, however, capital formation showed signs of renewed weakness.

In recent months, the decline in the main leading indicators points to a slackening of economic activity in the current quarter. In September, the Conference Board's leading indicator fell for the fourth month running. Its index of consumer confidence, which had been slipping since June, dropped sharply in October due to a decline in assessments of both current conditions and the outlook. The Institute of Supply Management's Purchasing Managers' Index, which fell between July and October, signals the pronounced weakness of activity in manufacturing (Figure 7).

**Figure 7**

**Coincident and leading indicators of the business cycle in the United States**  
(indices, March 2001 = 100)



Source: Conference Board.

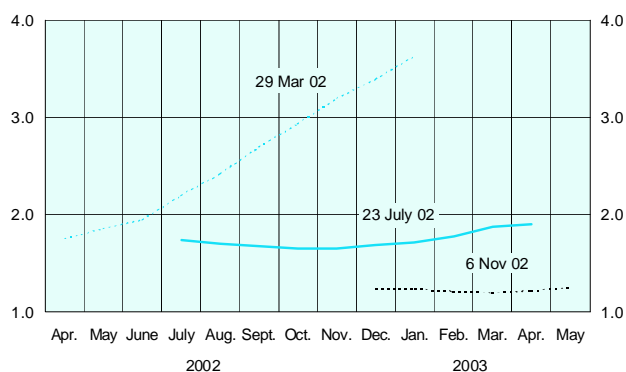
Reflecting the slowdown in economic activity, the twelve-month rate of increase in consumer prices, excluding food and energy products, declined from 2.8 per cent in November 2001 to 2.2 per cent in September 2002. The differential widened between the change in service prices, which increased by 3.6 per cent in September (3.7 per cent on average in 2001) and that in goods prices, which fell by 1.1 per cent (compared with a 0.3 per cent increase in 2001). The GDP price deflator slowed more sharply, rising by just 0.8 per cent in the year to the third quarter of 2002, compared with 2.6 per cent in the third quarter of 2001.

The recovery was accompanied by additional large gains in productivity. Although productivity growth in 2000 and 2001 was adjusted sharply downwards following the recent revision of national accounts data, it is still faster than in similar cyclical phases in the past. In the private non-agricultural sector, hourly labour productivity was 4.9 per cent higher in the first three quarters of 2002 than in the same period of 2001. Despite accelerating somewhat in the period, labour costs continued to rise at a moderate pace, causing unit labour costs to decline by 2.5 per cent. However, the large rise in non-labour production costs in a highly competitive environment curbed the recovery in unit profit margins. The nominal profits of the corporate sector, which had increased sharply in the fourth quarter of 2001, increased slightly in the first quarter of this year and stabilized in the second.

The curve of expected money market rates has progressively shifted downwards since last spring, and the likelihood of a monetary tightening has gradually declined. On 13 August the Federal Reserve revised its assessment of the relative risks of inflation and economic slowdown, indicating that the latter was considered to be more serious. The greater-than-expected weakness of the economy prompted the Fed to lower its target for the federal funds rate by 0.5 points, to 1.25 per cent, on 6 November. At the same time, it again revised its assessment of the balance of risks, assigning equal weight to the risk of inflation and of a further slackening of economic activity. The financial markets had anticipated the timing but not the extent of the cut in interest rates and now expect they will remain stable throughout the first half of 2003 (Figure 8).

**Figure 8**

**United States: forward interest rates implicit in futures on 30-days federal funds, at various dates (1)**  
(percentages)



Source: Thomson Financial Datastream.

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

Federal budget projections published by the Congressional Budget Office (CBO) at the end of August point to a pronounced deterioration with respect to estimates made last March. The budget outturn for the 2002 fiscal year ending last September reflects the introduction of spending and tax relief measures totaling the equivalent of 1.5 per cent of GDP. Taking into account the impact of automatic stabilizers, the overall change amounts to nearly 3 percentage points, producing a swing from a surplus of 1.3 per cent of GDP in fiscal 2001 to a deficit of 1.5

per cent (or \$159 billion) in 2002. Forecasts for the 2003 fiscal year put the deficit at \$145 billion, compared with the \$6 billion surplus estimated last March, partly owing to increased spending on security approved last April. The CBO's projections for 2003-2012 point to a deterioration of about \$1.4 billion in the cumulative balance compared with forecasts made last March. Most of the difference is attributable to a reassessment of technical assumptions about the elasticity of tax revenues to the economic cycle.

### **The economic and financial situation in Japan**

In the first six months of the year, Japan benefited from the upturn in international trade. After falling sharply in the last three quarters of 2001, economic activity was stable in the first quarter and then picked up in the second, buoyed by a robust expansion in exports. The domestic components of demand remain weak, however, and prices and wages continue to fall. The yen's appreciation in the first half of the year and the subsequent slowdown in world trade have dampened exports, which are expected to have slowed sharply in the third quarter.

In the second quarter, output rose by an annualized 2.6 per cent, exports by 24.9 per cent, and household consumption by 1.1 per cent. By contrast, private non-residential investment continued to fall, although less rapidly (Table 1). The upturn in economic activity did not have any significant effect on the labour market: after peaking at a record 5.5 per cent in December 2001, the unemployment rate has edged down to 5.4 per cent since June, while employment stopped contracting. Nonetheless, the sharp fall in nominal and real wages in the summer and the simultaneous reallocation of employment towards more part-time work eroded households' disposable income. Consumer prices continued to diminish, falling by 0.7 per cent in the twelve months to September.

Other signs of sagging economic activity emerged in the summer. After surging by 4.1 per cent between May and April, industrial production stagnated in the months that followed. Export growth

came to a halt in the third quarter, penalized by the yen's appreciation, among other factors. At the beginning of November, the Japanese currency was up almost 10 per cent against the dollar from March; competitiveness decreased by about 5 per cent between March and August. Although business confidence had risen between March and June, it improved only slightly in September and the climate remains markedly pessimistic. In August the leading indicator fell by 1.3 points to 94.5, while no change was recorded in September.

The stock market recovery under way since the beginning of the year tailed off in May; equity prices have fallen sharply since. On 8 November, the Nikkei index was 26 per cent lower than at the end of May, at the same level as in 1983. Banks registered heavy losses on their securities portfolios as a result. At the end of March 2002 the leading banks held equities with a value of ¥26 billion (5 per cent of assets) and government bonds worth ¥49 billion (9.5 per cent of assets). Standard & Poor's estimates that unrealized losses on leading banks' equity portfolios amounted to ¥3.6 trillion at the end of September. If that figure is confirmed at the close of the financial year in March 2003, the capital adequacy ratios of those banks could decline from the 10.5 per cent registered last March to close to the internationally agreed thresholds.

The most recent survey carried out by supervisory authorities shows a further deterioration in the quality of bank assets. In the six months ending in March 2002, the official estimate of non-performing loans (not taking account of provisions) was raised from ¥35.7 billion to ¥42 billion (from 7.4 to 8.9 per cent of lending and from 7.0 to 8.4 per cent of GDP). The Resolution and Collection Corporation set up in 1999 to acquire and recover financial institutions' bad debts has intervened on a limited scale. In the three years to March 2002, banks apparently disposed of barely ¥1,473 billion of assets to the agency, not even enough to offset the new bad debts that have emerged as economic conditions have deteriorated. To prevent the flight of deposits from weak banks to ostensibly stronger ones, the government decided to postpone until April 2005 the abolition of the unlimited guarantee on non-interest-bearing current accounts originally scheduled to take effect on 1 April 2003.

Table 1

**Economic indicators for the main industrial countries***(at constant prices; unless otherwise indicated, annualized percentage changes on previous period)*

	GDP	Household consumption (1)	Government consumption	Investment (2)	Changes in stocks (3)(4)	National demand	Net exports (3)(5)
<b>United States</b>							
2001 .....	2.5	3.7	-3.8	0.3	-1.2	0.4	-0.2
Q4 .....	6.0	10.5	-8.9	2.7	-1.4	2.9	-0.3
2002 .....							
Q1 .....	3.1	5.6	-0.5	5.0	2.6	5.6	-0.8
Q2 .....	1.8	1.4	-1.0	1.3	1.3	2.6	-1.4
Q3 .....	4.2	1.8	0.2	3.1	-0.1	3.1	-0.1
<b>Japan</b>							
2001 .....	1.4	2.7	-1.4	-0.1	-0.2	0.6	-0.7
Q4 .....	0.5	3.0	-9.1	-2.8	-1.2	-3.0	0.1
2002 .....							
Q1 .....	1.9	1.1	-6.4	..	-1.5	-2.0	1.9
Q2 .....	1.1	2.2	-3.2	2.6	0.8	1.0	1.6
<b>Euro area</b>							
2001 .....	1.8	1.9	-0.7	1.4	-0.4	0.9	0.5
Q4 .....	..	1.8	-3.4	-1.1	-0.9	-1.3	0.2
2002 .....							
Q1 .....	-0.5	3.0	-2.4	1.6	0.7	0.5	1.1
Q2 .....	1.2	1.6	-4.0	1.6	0.7	0.9	0.7
<b>United Kingdom</b>							
2001 .....	4.1	3.1	0.3	2.0	-0.6	2.6	-0.7
Q4 .....	4.6	7.3	-12.0	0.9	1.3	3.3	-2.6
2002 .....							
Q1 .....	1.9	12.3	-6.1	0.5	0.4	2.7	-2.4
Q2 .....	5.4	-10.4	-0.3	2.5	-2.6	-1.0	3.6
Q3 .....	....	....	....	(2.8)	....	....	....

Sources: National statistics and Eurostat.

(1) Comprises consumption of resident households and non-profit institutions serving households. - (2) For the United States, private investment; public investment is included under "government consumption". - (3) 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.

After sharply expanding the monetary base between the end of 2001 and last spring, the Bank of Japan reined in growth. The twelve-month rate of increase, which had jumped from 17 to 36 per cent between December and April, fell to 21 per cent in September. This increase in monetary base was not matched by an equivalent expansion in the broad monetary aggregate (M2+CDs), which has grown at a twelve-month rate of between 3.3 and 3.7 per cent since the beginning of the year.

On 18 September the Bank of Japan announced it would buy shares from commercial banks to limit the potential risks that could stem from a further fall in equity prices. The purchases, which will involve banks whose share portfolios exceed their tier 1 capital, will total ¥2 trillion. They will be carried out at market prices by the deadline of September 2003, which may be extended by one year. In the days immediately following this announcement the yield on government bonds rose by 0.26 percentage points

to 1.26 per cent, and issues at the 20 September auction were not fully subscribed for the first time. Since the last week of September, yields have fallen back to around 1 per cent, close to the level prior to the announcement.

On 30 October the new head of the banking supervision authority presented a "Financial Revival Plan" to solve the problem of non-performing loans, aiming to halve their share of total assets by the end of the 2004 fiscal year. The plan envisages amending existing legislation on the use of public funds to recapitalize banks in order to allow the authorities to provide fresh capital to individual banks more swiftly where necessary. The banks will be required to adopt more stringent criteria in assessing the quality of their loan portfolios. The adoption of restrictions on the inclusion of deferred tax assets in supervisory capital has been postponed.

On the same day as the plan for the banking system was presented, the government and the central bank introduced measures to support the economy and the financial system. The Minister of Finance outlined a package that includes some ¥1 trillion of tax relief measures (0.2 per cent of GDP) and assistance for firms threatened with bankruptcy by the withdrawal of bank credit lines. The Bank of Japan simultaneously announced it would augment the supply of liquidity to the banking system through intervention in the money and government securities markets.

### **Economic developments in the emerging countries**

In the first half of 2002, economic developments in the emerging countries differed sharply. In Asia, performance was better than expected, and robust growth was buoyed by domestic and foreign demand. In Russia and the Central and Eastern European countries that are candidates to join the European Union output also grew, but at a slower pace. By contrast, difficulties in accessing international financial markets dampened economic activity in many Latin American countries and, from the spring, in Turkey.

In China, the expansionary stance of monetary policy helped boost output by 7.9 per cent in the first three quarters of 2002 compared with the corresponding period of 2001. In India, where trade liberalization is proceeding, the IMF forecasts that output will rise by almost 5 per cent again this year. The robust expansion in consumption and private sector investment in South Korea fostered an increase of 6 per cent in GDP between the first half of 2001 and the first half of this year; exports of goods and services increased by 7 per cent in the same period. In the Asian developing countries most open to international trade (which include Indonesia, Malaysia and Thailand), the growth in output in the first half of the year was driven by the pick-up in foreign demand, particularly in the IT sector, and is expected to top 3.5 per cent for the year (Table 2).

After a sharp slowdown in 2001, first-half output in Brazil was virtually unchanged on a year earlier. Inflation rose slightly in the first five months, to 8 per cent in May, then fell back to 7.5 per cent in August; however, the large depreciation in the real during the summer has not yet been fully passed through to prices. Despite the restrictive stance of budgetary policy (the primary surplus reached 3.7 per cent of GDP in 2001) net public debt rose to 59 per cent of output last June. Although three-quarters of the debt is held by residents, its composition makes it extremely vulnerable to any deterioration in financial market conditions, as 47 per cent of securities are indexed to overnight rates and 33 per cent are denominated in dollars. In Mexico, the upturn in exports, 90 per cent of which go to the United States, and the recovery in domestic demand following the adoption of a more expansionary monetary policy stance, helped to stabilize economic activity. Output, which had fallen by 1.6 per cent year-on-year in the second half of 2001, showed no change in the first six months of this year, with an acceleration in the second quarter (Table 2).

In Argentina, demand and output continued to contract sharply. In the second quarter, domestic demand fell by 20 per cent year-on-year, but the contribution of net exports helped to contain the fall in output to 14 per cent, compared with 16 per cent in the first quarter. Consumer prices, which accelerated

Table 2

**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)			
	2001	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2001	2001 Q4	2002 Q1	2002 Q2	2001	2001 Q4	2002 Q1	2002 Q2
<b>Latin America</b>													
Argentina .....	-4.4	-10.5	-16.3	-13.6	....	-6.4	-14.5	-24.1	-20.1	2.1	4.2	8.3	6.2
Brazil .....	1.5	-0.7	-0.7	1.0	....	0.5	....	....	....	1.0	....	....	....
Mexico .....	-0.3	-1.6	-2.0	2.1	....	0.4	-0.7	-1.4	2.2	-0.7	-0.8	-0.6	-0.2
<b>Asia</b>													
China .....	7.3	6.6	7.6	8.0	8.1	....	....	....	....	....	....	....	....
India (3) .....	5.4	6.4	6.0	....	....	....	....	....	....	....	....	....	....
Indonesia .....	3.3	1.6	2.5	3.5	....	5.0	-3.3	-3.3	-0.4	-1.4	4.9	5.8	3.9
Malaysia .....	0.4	-0.5	1.1	3.8	....	0.1	2.8	4.2	7.8	0.3	-2.9	-2.6	-3.1
Philippines .....	3.2	3.9	3.7	4.5	....	5.0	4.4	1.6	3.2	-2.0	-0.8	2.0	1.0
South Korea .....	3.0	3.7	5.8	6.3	....	1.8	5.5	8.7	8.0	1.5	-0.9	-1.3	-0.2
Taiwan .....	-2.2	-1.6	1.2	4.0	....	-5.2	-5.1	-3.1	0.5	2.7	3.2	4.1	3.6
Thailand .....	1.8	2.1	3.9	5.1	....	0.5	0.7	1.9	3.6	1.4	1.5	2.3	1.9
<b>Europe</b>													
Poland .....	1.0	0.3	0.5	0.8	....	-1.8	....	....	....	3.8	....	....	....
Russia .....	5.0	4.9	3.7	4.1	....	....	....	....	....	....	....	....	....
Turkey .....	-7.3	-10.4	1.9	8.2	....	-18.4	-21.4	-1.0	14.1	12.3	12.1	2.9	-5.0

Sources: National statistics, World Bank and OECD.

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

following the devaluation of the peso, began to slow from May onwards. In September, they registered a month-on-month increase of 2 per cent and a twelve-month rise of 39 per cent. On 8 November, the peso traded at 3.5 against the dollar, marking a depreciation of 70 per cent from its level on the eve of the exchange crisis.

After the severe recession that followed the grave financial crisis of 2001, economic activity in Turkey began to recover at the beginning of 2002, with output growing by 5 per cent in the first half compared with the corresponding period of 2001. Inflation, which was running at 70 per cent at the start of the year, fell to 37 per cent in September. The public-sector

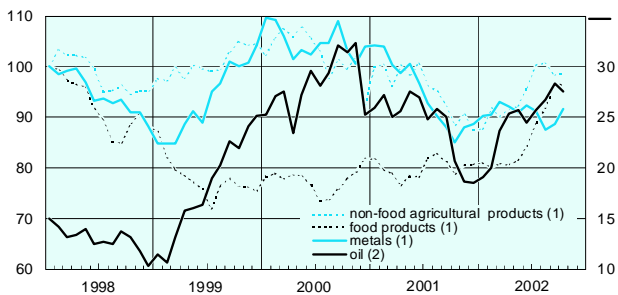
primary surplus for 2002 is forecast at 6.5 per cent of GDP, in line with the programme agreed with the IMF last February. The rescue operation mounted by the government to salvage the banking system after the 2001 crisis has so far cost the equivalent of almost 30 per cent of GDP. It has swelled the public debt, which was equal to 120 per cent of output at the end of 2001, raising concern about its sustainability.

The heightening of international political tensions during the summer caused oil prices to rise sharply. The average price for the three main grades increased by more than \$7 a barrel in the first five months of the year, to \$25.7, and stood at over \$28 at the beginning of October. In early November it fell to below \$25 in response to a slight improvement in the international situation (Figure 9). The prices of futures contracts on West Texas Intermediate

currently reflect expectations of a rapid easing of tensions and indicate that prices will gradually decline from their present level of about \$26 a barrel to \$24 in October 2003.

**Figure 9**

**World prices in dollars of oil and other raw materials**  
(monthly average data)



Source: IMF.  
(1) Indices, January 1998 = 100; left-hand scale. - (2) Dollars per barrel. Average prices for WTI, Brent and Dubai; right-hand scale.

## ECONOMIC DEVELOPMENTS IN THE EURO AREA AND ITALY

### Production, demand and the balance of payments

#### Economic activity

In the second half of 2001 economic activity in the euro area stagnated, reflecting the cyclical slowdown in the United States and the crisis of confidence following the events of 11 September. At the end of the year the leading international organizations expected a scenario of rapid economic recovery, driven by a return to high rates of activity in the United States, the revival of world trade and the dissipation of tensions in the Middle East. In the early months of 2002 the main qualitative cyclical indicators corroborated this view. The expectations, however, have not been fulfilled.

In the first half of 2002 the GDP of the euro area grew at an annualized rate of 0.9 per cent while imports continued to decline. Exports and national

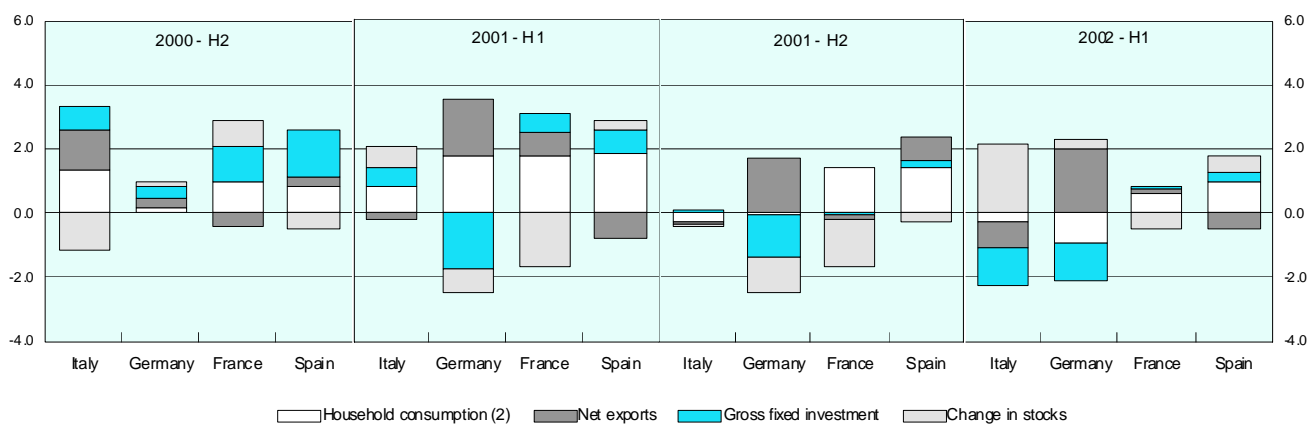
demand stagnated, gross fixed investment continued to fall and household consumption remained weak (Table 3).

Growth in the first half was modest in all the main countries of the area. In France and Spain national demand again supplied the principal impulse. In Germany GDP rose by 0.5 per cent on an annual basis, after falling by 0.7 per cent in the previous six months. The increase was due exclusively to the external components, most notably another sharp drop in imports (Figure 10).

In Italy GDP was basically flat in the first half of the year, as in the second half of 2001. The sole positive contribution came from stockbuilding, while there was a further reduction in exports and, to a lesser degree, in private consumption, and a fall in gross fixed investment (Table 4).

Figure 10

Contributions to the growth of GDP in the major euro-area countries (1)  
(at constant prices; percentage points)



Source: National statistics.

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



Table 3

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

	On the corresponding period						On the previous period, annualized				
	2001			2002			2001		2002		
	Q3	Q4	Year	Q1	Q2	H1	Q3	Q4	Q1	Q2	H1
<b>GDP</b>											
Germany .....	0.4	0.1	0.6	-0.2	0.1	-0.1	-0.8	-1.2	1.1	1.1	0.5
France .....	2.0	0.2	1.8	0.5	1.0	0.7	2.0	-2.0	2.4	1.6	1.1
Italy .....	1.7	0.6	1.8	..	0.2	0.1	0.3	-0.9	0.5	0.9	0.2
Spain .....	3.0	2.3	2.8	2.0	2.0	2.0	4.2	0.1	2.1	1.8	1.5
Euro area .....	1.3	0.4	1.4	0.3	0.7	0.5	0.8	-1.1	1.6	1.6	0.9
<b>Imports</b>											
Germany .....	-0.3	-5.6	1.0	-5.4	-3.9	-4.7	-7.9	-2.5	-10.3	6.0	-4.5
France .....	-1.2	-7.4	0.1	-3.4	-1.2	-2.3	-2.4	-11.7	8.6	2.0	1.5
Italy .....	-0.1	-3.6	0.2	-3.0	-1.8	-2.4	-9.3	-5.7	-1.0	9.8	0.4
Spain .....	0.1	-0.2	3.7	-1.8	-2.5	-2.1	-7.9	1.4	-2.7	-0.6	-1.2
Euro area .....	-0.3	-4.4	1.4	-4.5	-2.6	-3.6	-5.4	-4.8	-4.5	4.9	-2.3
<b>Exports</b>											
Germany .....	5.2	-0.5	5.0	0.2	1.8	1.0	3.8	-3.9	2.9	4.6	1.6
France .....	-0.4	-5.8	0.5	-4.1	-0.2	-2.2	-2.3	-8.6	6.2	4.6	1.9
Italy .....	-2.0	-2.5	0.8	-5.2	-2.1	-3.7	-8.7	-0.7	-9.6	12.0	-2.4
Spain .....	2.2	-2.4	3.4	-2.5	-1.4	-2.0	-0.4	-4.0	-6.1	5.2	-2.9
Euro area .....	1.4	-2.6	2.8	-2.8	0.1	-1.4	-0.3	-4.1	-1.4	6.4	-0.2
<b>Household consumption (1)</b>											
Germany .....	1.5	1.6	1.5	-0.5	-1.1	-0.8	-0.8	-1.8	-2.5	0.6	-1.6
France .....	3.2	2.7	2.6	1.9	1.9	1.9	4.2	0.5	1.3	1.5	1.2
Italy .....	0.7	0.2	1.1	-0.5	-0.5	-0.5	-1.6	0.3	-1.4	0.7	-0.4
Spain .....	2.8	2.7	2.7	2.3	1.7	2.0	1.5	2.6	1.4	1.3	1.7
Euro area .....	1.8	1.6	1.8	0.6	0.3	0.5	0.7	..	-0.5	1.2	0.1
<b>Gross fixed capital formation</b>											
Germany .....	-6.7	-7.0	-5.3	-5.5	-6.4	-5.9	-6.8	-5.1	-3.8	-9.8	-5.6
France .....	2.6	..	2.3	-0.3	0.4	0.1	1.9	-2.1	1.4	0.5	0.3
Italy .....	1.5	1.8	2.4	-2.0	-3.3	-2.6	0.5	-1.6	-9.4	-2.4	-5.8
Spain .....	2.6	1.5	2.5	1.1	1.3	1.2	3.8	-5.3	3.7	3.2	1.2
Euro area .....	-1.6	-2.5	-0.7	-2.8	-3.1	-2.9	-2.5	-3.4	-2.4	-4.0	-3.1
<b>National demand</b>											
Germany .....	-1.4	-1.6	-0.8	-2.1	-1.9	-2.0	-4.8	-0.6	-3.4	1.4	-1.5
France .....	1.8	-0.1	1.7	0.8	0.7	0.8	2.1	-2.8	2.9	0.9	0.9
Italy .....	2.4	0.3	1.6	0.8	0.3	0.5	0.3	-2.4	3.3	0.2	1.1
Spain .....	2.2	3.0	2.8	2.2	1.6	1.9	1.5	1.8	3.0	0.1	2.0
Euro area .....	0.7	-0.2	0.9	-0.2	-0.3	-0.3	-1.1	-1.3	0.5	0.9	0.2

Source: Based on national statistics.

(1) Consumption of resident households and non-profit institutions serving households.

Table 4

**Italy: resources and uses of income**  
(seasonally adjusted at constant prices; annualized percentage changes  
on the previous period, unless otherwise indicated)

	As a percentage of GDP in 2001	2001				2002			
		Q3	Q4	H2	Year	Q1	Q2	H1	H1 (1)
<b>Resources</b>									
GDP .....	-	0.3	-0.9	..	1.8	0.5	0.9	0.2	-
Imports .....	28.3	-9.2	-5.7	-5.1	0.2	-1.0	9.8	0.4	-0.1
Goods .....	22.1	-9.0	-3.3	-4.8	-0.2	-3.1	0.7	-2.2	0.5
Services .....	6.3	-10.3	-13.4	-6.3	1.6	6.8	46.3	9.9	-0.6
Total resources .....	-	-1.9	-2.0	-1.2	1.4	0.1	2.8	0.3	-
<b>Uses</b>									
Gross fixed capital formation .....	20.8	0.5	-1.6	0.6	2.4	-9.4	-2.4	-5.8	-1.2
Construction .....	8.5	-1.2	0.6	0.8	3.7	-3.7	1.0	-1.5	-0.1
Machinery, equipment and sundry products	9.7	2.2	-5.2	0.1	0.8	-13.9	-6.6	-10.0	-1.0
Transport equipment .....	2.6	-0.1	5.0	1.8	4.4	-10.6	2.1	-3.8	-0.1
Consumption of resident households .....	59.9	-1.6	0.3	-0.5	1.1	-1.4	0.7	-0.5	-0.3
Non-durable goods .....	26.6	-2.5	-1.0	-1.1	0.8	-2.0	1.5	-0.9	-0.2
Durable goods .....	7.3	-7.4	11.5	-2.1	-1.5	-14.3	-0.4	-5.0	-0.4
Services .....	27.0	..	-2.3	-0.1	1.9	2.5	-3.3	-0.2	..
Other domestic uses (2) .....	17.4	6.5	-11.8	1.4	2.5	39.9	1.3	15.0	2.5
Total national demand .....	98.1	0.3	-2.4	..	1.6	3.3	0.2	1.1	1.0
Exports .....	30.3	-8.7	-0.7	-5.0	0.8	-9.6	12.0	-2.4	-0.7
Goods .....	24.0	-7.9	2.5	-4.6	0.2	-12.5	16.8	-2.1	-0.5
Services .....	6.3	-11.8	-12.0	-6.6	3.0	2.1	-4.8	-3.3	-0.2

Source: Based on Istat data.

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

Output was weak across the board in Italy. Value added in industry declined for two consecutive halves for the first time since 1993, falling by more than 1 per cent on an annual basis. The persistent decline in the manufacturing sector, more marked for capital goods and transport equipment, was flanked by a fall

in the construction sector. The positive business expectations recorded in the first half by the ISAE surveys were not realized (Figure 11). In services, where activity has been decelerating since the second half of 2000, the increase in value added was the smallest since 1992.

### The crisis in the Italian automotive industry

After growing strongly in the second half of the 1990s, the European automobile market has contracted sharply since last year, with an especially steep decline in Italy. In the first nine months of 2002, new automobile registrations declined by 3.7 per cent in Europe and 10.7 per cent in Italy. The Fiat Group recorded the largest fall in sales among European car manufacturers, with figures from the Association of European Auto Makers (ACEA) showing a decrease of 18 per cent. By comparison, sales contracted by 6.4 per cent at Volkswagen, 2.6 per cent at Renault and 2.2 per cent at Ford, while Peugeot-Citroën and Toyota posted gains of 1.2 and 14 per cent respectively. The Volkswagen Group held about 19 per cent of the European market in 2001, and the PSA Group (Peugeot-Citroën) is strengthening its position as the second largest car manufacturer on the continent, with a share of more than 14 per cent.

Until the early 1990s, Fiat Auto was the second largest group in Europe, with a market share of between 14 and 15 per cent. That fell to 11.8 per cent in 1997 and 9.6 per cent in 2001. The decline in its share of the Italian market, the second largest in Europe in terms of registrations, has been dramatic. In the mid-1980s the Fiat, Lancia and Alfa Romeo brands controlled about 60 per cent of the domestic market. By 1995 this had fallen to 45.4 per cent and last year it was less than 35 per cent. Increased competition in the small car market has eroded Fiat's traditional customer base, while the group has not significantly strengthened its presence in more profitable segments.

Fiat Auto's strategy for geographical diversification, undertaken partly to further its project to manufacture a world car for emerging markets, required considerable direct investment abroad, especially in a number of countries (Argentina, Brazil, Poland and Turkey) that have been shaken by severe economic crises in recent years.

In 2000 the Fiat Group joined forces with General Motors to establish Fiat Auto Holdings B.V., incorporated in the Netherlands, to which Fiat transferred the industrial and commercial activities of the Fiat automobile arm. General Motors took a 20 per cent stake in the new venture for \$2.4 billion, while Fiat paid the same amount for 6 per cent of GM. The agreement also gave Fiat an option to sell GM its entire stake in Fiat Auto Holdings B.V. at any time in a five-and-a-half-year period beginning in 2004 at a fair market value to be determined by a group of leading international banks.

In 2001 the Fiat Group recorded consolidated turnover of €58 billion, a slight rise (0.8 per cent) on 2000. According to the Group's third quarter report, in the first nine months of 2002 consolidated turnover was 5.4 per cent lower than in the year-earlier period, primarily owing to a contraction of 12.3 per cent in the car segment and one of 22.8 per cent in components. The deterioration in profitability in the first nine months was due to the large operating losses recorded by Fiat Auto Holding B.V. (€1,163 million). The Group posted a consolidated net loss of €976 million.

In December 2001 the Fiat board announced a restructuring plan that envisaged the rationalization or closure of 18 plants (two in Italy and 16 abroad), with the loss of 6,000 jobs, all abroad. It also provided for a capital increase of €1 billion, to be carried out in 2002; the issue of a \$2.2 billion 5-year bond, guaranteed by Fiat and convertible into GM shares, which was placed in December 2001; and the reorganization of Fiat Auto into four independent units (Fiat-Lancia, Alfa Romeo, Sviluppo internazionali and Servizi).

Fiat's creditor banks have closely monitored the Group's emerging difficulties. In May 2002 a plan was drawn up to restore the Group's financial health, with measures including the consolidation of short-term debt.

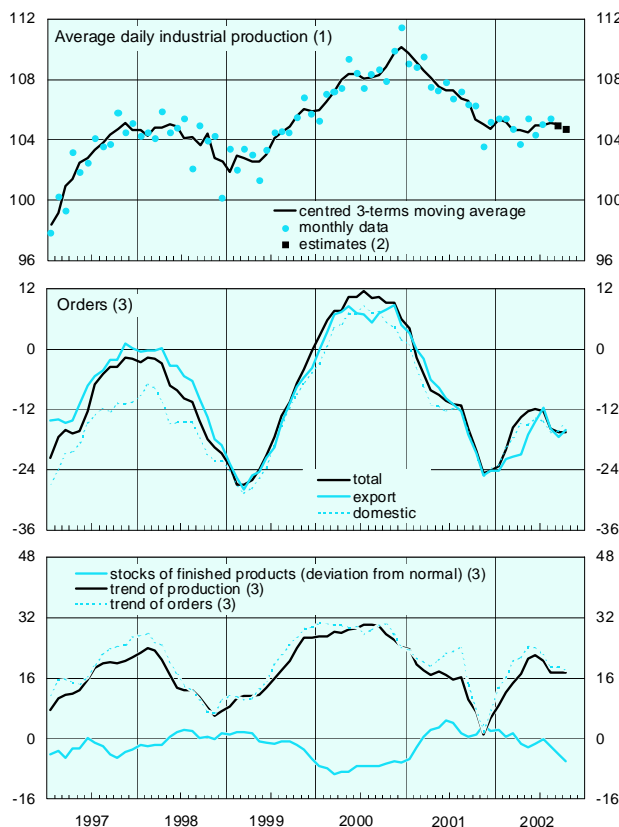
Italian banks' exposure to the Fiat Group complies with the limits established by supervisory regulations on the concentration of risk, which implement EU rules. The loans to the Group are secured against its assets.

On 9 October 2002, Fiat announced a new reorganization plan for the group's automobile operations in Italy, and on 31 October asked the Government to declare a "state of crisis" at the carmaker. The plan's provisions include recourse to extraordinary wage supplementation at zero hours for 7,608 workers and mobility benefits for another 458 employees. The Government is meeting with the trade unions and Fiat to determine the measures to be taken.

At the end of 2001 Fiat Auto Holdings B.V. had just over 55,000 employees, of which about 36,500 in Italy. Assuming that output per employee of the company is equal to the average annual productivity of the transport equipment sector as indicated in the national accounts (€49,000 in 2001), the company's estimated contribution to Italian GDP would be between 0.1 and 0.2 per cent. Taking account of indirectly generated employment, estimated at between 80,000 and 140,000 jobs, the overall contribution to GDP rises to between 0.4 and 0.6 per cent.

**Figure 11**

**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.

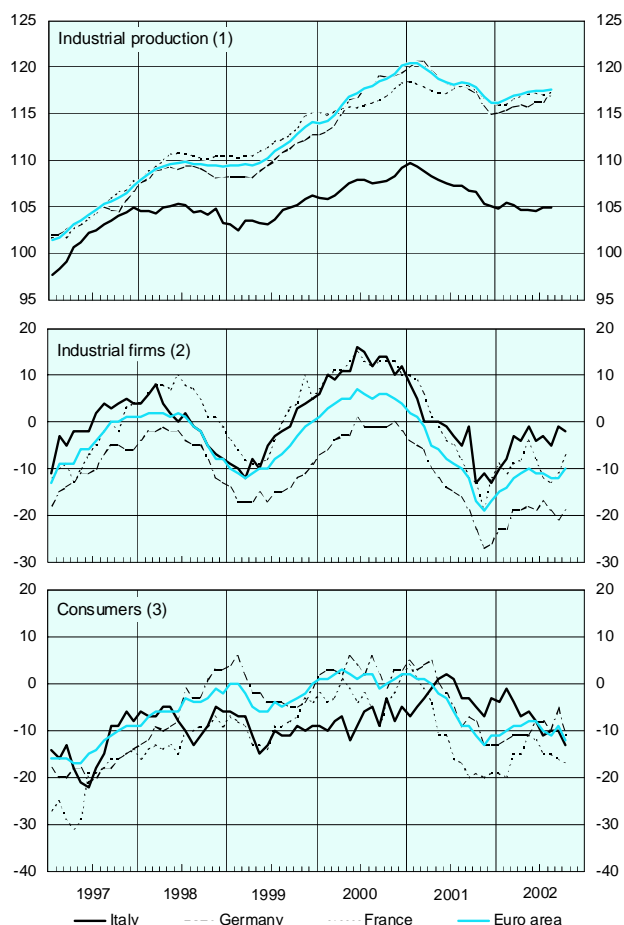
In Italy and Germany the cyclical weakness comes on top of longer-term growth that is substantially lower than in the rest of the euro area.

The latest available indicators signal that economic activity in Europe remained weak over the summer. In the euro area as a whole, industrial production stagnated in July and August (Figure 12); it dipped slightly in France and increased modestly in Germany. The EuroCOIN coincident indicator, which provides a monthly estimate of the rate of change in area-wide GDP, seasonally adjusted and shorn of the erratic component, declined in June, July

and August according to preliminary estimates; it registered a slight increase in September (Figure 13).

**Figure 12**

**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.

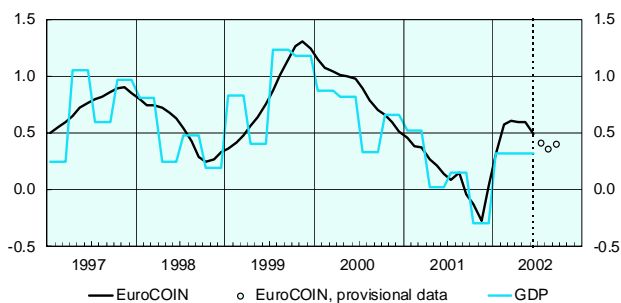
(1) Index, 1995=100. Moving averages for the three months ending in the reference month. Data adjusted for the different number of working days in the month and seasonally adjusted. - (2) Climate of confidence calculated by the European Commission as the average of the seasonally adjusted percentage 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.

The index of industrial production in Italy rose by an average of 0.5 per cent in July and August, after falling by 1 per cent in June; according to estimates based on electricity consumption, industrial output was basically unchanged in September and October compared with the two preceding months. During the

summer the ISAE surveys found a significant worsening in industrial firms' assessments of the level of both domestic and foreign orders. In September, however, there was an improvement, with more favourable expectations regarding production and domestic demand (Figure 11). In October the climate of confidence worsened slightly, partly as a consequence of the crisis that hit the automobile industry; expectations for production three months ahead again deteriorated.

Figure 13

**EuroCOIN indicator of the euro-area business cycle and GDP (1)**  
(three-month percentage changes)

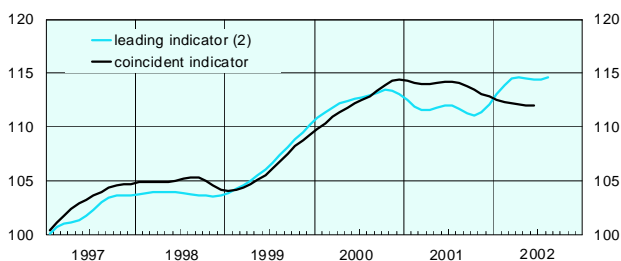


(1) The method of constructing the indicator is described in the "Note metodologiche" section of the Appendix to the Bank's Annual Report for 2001 in Italian.

The composite leading indicator developed by the Bank of Italy and ISAE suggests that economic activity will continue to stagnate in the second half of the year (Figure 14), chiefly reflecting the deterioration in overall business and consumer sentiment.

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 indicators is described in the "Note metodologiche" section of the Appendix to the Bank's Annual Report for 2001 in Italian. The sectoral indices of production of basic chemicals, rubber and plastic were recently added to the variables of the leading indicator. - (2) The performance of the indicator leads that of the economy by an average of 5-6 months.

## Household consumption

Spending by households in the euro area contracted slightly in the first quarter of the year and then revived in the second with an annualized increase of 1.2 per cent, reflecting a temporary improvement in the indicators of confidence. Consequently, household consumption was basically flat in the first six months overall.

The evolution of household consumption differed in the main euro-area countries. In Germany it decreased by 1.6 per cent on an annual basis in the first half, despite a slight recovery in the second quarter; over and above the elements of uncertainty common to the other countries of the area, the contraction in real gross wages and salaries, due to the fall in employment, may have been a factor. In France and Spain household consumption expanded at relatively brisk rates of more than 1 per cent, contributing about 1 percentage point to the growth of GDP in both countries. In France it actually accelerated from the beginning of the year.

In Italy private consumption diminished for the second consecutive half-year, partly owing to the continuing weakness in households' spending capacity. Gross wages and salaries rose in the first half of 2002 by around 3 per cent in real terms on an annual basis, driven more than in the past by the increase in employment as measured by standard labour units (2.7 per cent). However, according to preliminary estimates, the slowdown in self-employment income and the contraction in net interest income braked the growth in households' disposable income.

The weakness of consumption in Italy mainly affected purchases of goods. Spending on consumer durables, more sensitive to the uncertainty of the short-term economic outlook, declined for the third successive half. The fall was particularly pronounced for purchases of transport equipment (which account for around one third of the total), after the high level of purchases recorded last year owing to compliance with the new European regulations. According to the National Association of Automobile Makers, spending on new cars nonetheless turned upwards in

the third quarter, partly in response to the temporary ecological incentives introduced in July. Signs of a possible recovery in household consumption come from the customary September telephone survey of industrial and service companies conducted by the Bank of Italy. The expectations of consumer goods manufacturers and distributors regarding the level of domestic orders for the following six months were more favourable than their assessments of current orders.

### Investment and stocks

Capital formation in the euro area showed a further, steady decline in the first half of the year, which also marked the first time since 1993 that it had contracted for three successive calendar halves. The fall was the consequence of steep declines in Germany and Italy and stagnation in France. It reflected not only uncertainty about the timing and strength of the recovery, but also the persistence of ample spare capacity.

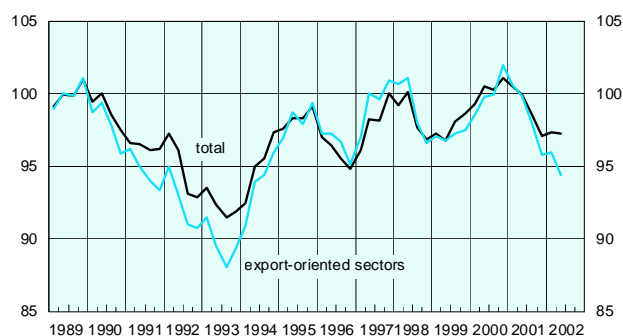
The fall in investment was very substantial in Germany, where the contraction under way for three halves continued at an average annualized rate of more than 6 per cent. The decline steepened in the second quarter of 2002, when investment dropped by around 10 per cent. The decrease involved spending on both construction and, to a greater extent, capital equipment. In France investment decelerated sharply in the second quarter as a consequence of the decline in the capital equipment component. Spain alone recorded sustained investment growth (above 3 per cent in both quarters).

In Italy investment plans for 2002, recorded at the beginning of the year by the Bank of Italy's regular survey of firms in industry excluding construction, indicated a modest overall increase in capital spending, with a contraction for manufacturing firms. According to the Bank's survey of the economy in September, actual investment was slightly below the planned level, presumably owing in part to the unfavourable trend of demand and the intensification

of the risks weighing on the Italian and world economy. These factors, together with the low plant capacity utilization rate, at its lowest levels since 1996 (Figure 15), limited the effectiveness of the tax incentives introduced in October 2001.

Figure 15

### 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.

The fall in gross fixed investment in Italy in the first half subtracted more than one percentage point from GDP growth on an annual basis. This decline, which came on the heels of the pronounced deceleration that began in the second half of 1999, involved all components except residential building. Spending on machinery and equipment diminished at an annualized rate of 10 per cent, the sharpest fall since 1993; that on transport equipment decreased by around 4 per cent.

Construction investment contracted by 1.5 per cent on an annual basis as a consequence of the decline in non-residential building (4.5 per cent), which was the first in four years and, according to available information, depended in part on the reduction in public works investment. Spending on residential buildings grew by 1 per cent, with a smaller boost than in the past from the incentives for housing renovation introduced by Law 449/1997.

On the basis of the Bank of Italy's September survey of the economy, investment is likely to remain weak next year. Around three quarters of the firms interviewed did not plan to increase their investment

outlays in 2003. This pattern is confirmed both by the latest ISAE surveys of industrial firms and by information published by UCIMU, the machine tool industry's trade association. The ISAE found that capital goods manufacturers' view of the current level of orders remained negative in the summer and demand forecasts were considerably less positive than they had been at the start of the year. The UCIMU data indicate a sharp drop in domestic orders for machine tools in the third quarter.

Stocks were drawn down further in the euro area in the first half of 2002; the lower rate of destocking compared with the previous six months generated a small positive contribution to GDP growth. Germany followed a similar pattern; in France, by contrast, the change in stocks subtracted around half a percentage point from GDP growth on an annual basis.

In Italy stockbuilding provided the main impulse for GDP growth in the first half of the year, contributing more than two percentage points on an annual basis. A factor was the rapid but temporary upturn in business expectations regarding the trend of demand, as found by the ISAE surveys in the first few months of the year (Figure 11).

**Exports and imports**

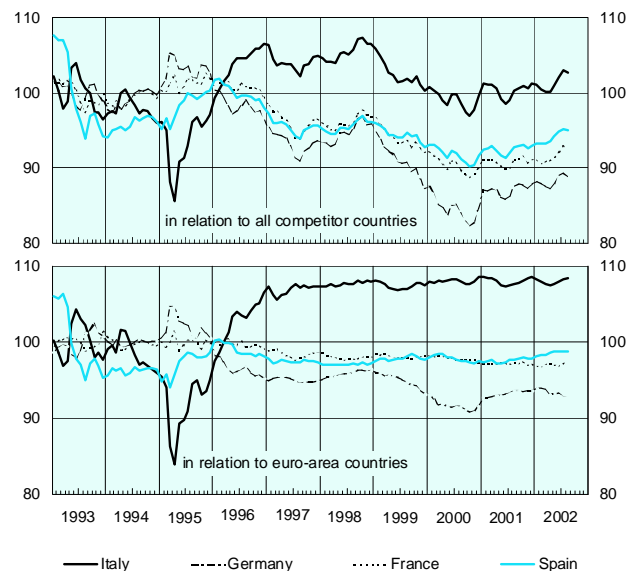
Euro-area exports of goods and services stagnated in the first six months of 2002 overall, after falling by around 3 per cent on an annual basis in the previous six months. In the second quarter, however, the gradual recovery of international trade led to a reversal in the downtrend that had been under way since the start of 2001, with export growth exceeding 7 per cent. Imports also turned upwards, after contracting at an average rate of more than 4 per cent in the five preceding quarters; nevertheless they fell by more than 2 per cent in the first six months as a whole (Table 5).

The major countries turned in differing export performances, even though their competitiveness, measured on the basis of the producer prices of manufactures, all showed a similar slight worsening

(Figure 16). The annualized increase of more than 1.5 per cent in the exports of Germany and France in the first half contrasted with declines of more than 2 per cent in Italy and Spain. German imports shrank for the second consecutive half at a rate of almost 5 per cent, reflecting the weakness of economic activity. In France, after declining in both halves of last year, imports rose by 1.5 per cent; in Spain they fell by 1.2 per cent. The recovery of trade that began in the spring involved all the main economies of the area except France.

**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.

Italian exports of goods and services at constant prices rose by 12 per cent on an annual basis in the second quarter, after falling in the four preceding quarters. According to foreign trade data, this increase was attributable mainly to exports of goods to non-EU countries. Italian imports of goods and services, which were stationary over the first six months of the year as a whole, also showed an increase of around 10 per cent in the second quarter.

Table 5

**Balance of payments of the euro area**  
(net flows in millions of euros)

	2001			2002	
	H1	Jan.-Aug.	Year	H1	Jan.-Aug.
<b>Current account</b> .....	<b>-28,073</b>	<b>-23,606</b>	<b>-13,778</b>	<b>16,902</b>	<b>29,209</b>
Goods .....	21,153	39,129	75,830	59,040	84,909
Exports .....	515,684	687,240	1,032,971	521,914	695,740
Imports .....	494,531	648,111	957,141	462,872	610,829
Services .....	-2,050	984	921	1,832	4,001
Income .....	-26,370	-34,261	-39,746	-22,791	-32,133
Current transfers .....	-20,809	-29,459	-50,783	-21,180	-27,570
<b>Capital account</b> .....	<b>6,515</b>	<b>7,502</b>	<b>8,924</b>	<b>6,567</b>	<b>7,754</b>
<b>Financial account</b> .....	<b>44,612</b>	<b>12,882</b>	<b>-40,508</b>	<b>-48,813</b>	<b>-71,764</b>
Direct investment .....	-93,696	-102,409	-101,495	-19,369	-21,292
outward .....	-171,978	-207,226	-225,835	-97,203	-106,683
inward .....	78,282	104,819	154,343	77,834	85,391
Portfolio investment .....	-19,902	-14,343	38,137	15,282	33,950
Equity securities .....	36,027	48,798	122,568	17,987	17,096
assets .....	-82,621	-97,598	-108,569	-46,562	-49,691
liabilities .....	118,648	146,396	231,137	64,539	66,787
Debt instruments .....	-55,929	-63,141	-84,431	-2,705	16,856
assets .....	-92,004	-118,169	-179,385	-75,905	-92,136
liabilities .....	36,075	55,028	94,954	73,200	108,992
Financial derivatives .....	13,575	3,693	-3,736	-1,188	-10,080
Other investment .....	132,561	109,763	8,765	-47,218	-77,275
Reserve assets .....	12,071	16,175	17,815	3,678	2,930
<b>Errors and omissions</b> .....	<b>-23,054</b>	<b>3,220</b>	<b>45,356</b>	<b>25,343</b>	<b>34,801</b>

Source: ECB.

In the first half of the year the volume of Italy's exports of goods and services fell overall by 2.4 per cent on an annual basis, while world trade expanded by more than 4 per cent, thus continuing the loss of market shares under way since the mid-1990s. The

structural causes of this phenomenon (non-price disadvantages, product specialization, heightened competition from the emerging and transition countries) were compounded by the slump in world demand for capital goods even in the technologically



less advanced sectors in which the Italian machinery industry – which accounts for around 30 per cent of the value of Italy's exports – is specialized.

According to foreign trade data, Italian goods exports fell by 2 per cent in volume in the first seven months of 2002 compared with the same period of 2001. The decline was larger in sales to EU markets, which fell further by around 4 per cent. Exports were down in all the main sectors except chemicals. Against the drop of 9.3 per cent in the volume of sales to Germany, Italian exporters lowered prices only slightly (average unit values, which approximate their behaviour, decreased by 1.1 per cent compared with the year-earlier period). The contraction in sales to Germany involved all the main sectors and was accompanied by a larger loss of market share, to the benefit of the transition economies and China, than that suffered by the other industrial countries. The decline in the volume of exports to France and the United Kingdom was less pronounced (1.3 and 0.6 per cent, respectively).

By contrast, the volume of Italian exports to non-EU markets was practically the same in the first seven months of 2002 as a year earlier. A decrease in the first quarter was followed by a recovery in the second. A fall in sales to Japan (1 per cent), South-East Asia and, to a greater extent, the Mercosur area of Latin America, was offset by increases in exports to the United States (2 per cent), China, Russia and the central and eastern European countries. The overall performance of Italian exports to the United States was in line with the growth in demand. US imports of Italian transport equipment, chemical and pharmaceutical products, furniture and jewellery rose, while those of clothing, footwear and machinery fell substantially.

According to foreign trade statistics, the volume of Italian imports in the first seven months decreased by 0.6 per cent from a year earlier, continuing the contraction that began in the first half of 2001. The decline in imports involved mostly machinery and transport equipment. Imports of chemical products expanded; those of crude oil and natural gas remained nearly unchanged, whereas their average unit value fell by 16.5 per cent.

The decline in imports from EU countries involved machinery and equipment (and, in particular, electrical equipment, including computers). German products continued to expand their market share in Italy, thanks above all to the increase in sales of motor vehicles and parts. By contrast, imports from non-EU countries were unchanged overall. There was a sharp drop in those of transport equipment and, to a lesser extent, of electrical and other machinery and equipment. Imports of textiles, clothing, leather and footwear slowed from 2001 but still continued to grow, notwithstanding a large decrease in Italian exports in these sectors.

### **The balance of payments**

According to provisional data for the first eight months of 2002, the euro area's external current account was in surplus by €29.2 billion, a swing of nearly €53 billion from the deficit of €23.6 billion deficit in the same period a year earlier (Table 5). Almost all of the improvement came from the increase in the trade surplus. The latter amounted to €84.9 billion, higher than the surplus in all of 2001 (when the surplus in the first eight months had been €39.1 billion). This result reflected a 5.8 per cent decline in the value of imports and a 1.2 per cent increase in that of exports compared with the same period of 2001. The reduction in the value of imports stemmed in part from the fall in prices of fossil fuels, which were lower on average than in the same period of 2001, despite having risen since the start of the year. It also reflected the weakness of the recovery of domestic demand in the euro area.

In the first eight months of 2002 there were net direct and portfolio investment inflows of €12.7 billion, compared with net outflows of €116.8 billion in the same period of 2001. This confirmed the tendency that has prevailed since the middle of last year. In particular, the net outflow of direct investment collapsed from €102.4 billion to €21.3 billion. The balance on portfolio investment showed net inflows of €34 billion, compared with net outflows of €14.3 billion in the first eight months of 2001.

Inward direct investment declined from €104.8 billion to €85.4 billion, while direct investment abroad by euro-area residents was virtually halved, falling from €207.2 billion to €106.7 billion. The breakdown by geographical area of direct investment is currently not available; on the basis of national statistics of the counterparty countries, it appears that the decrease in direct investment abroad largely involved the United States.

As in the second half of 2001, the composition of portfolio investment showed a reallocation in favour of less risky assets and those issued in the euro area. Euro-area investors reduced their investment abroad in shares from €97.6 billion to €49.7 billion, although there appears to have been a recovery from the lows recorded towards the end of 2001. They also cut back their investment in debt securities from €118.2 billion to €92.1 billion. Non-residents more than halved their net purchases of euro-area shares (from €146.4 billion to €66.8 billion), largely replacing them with investment in debt instruments, which rose from €55 billion to €109 billion.

The balance on the "other investment" account, which includes bank credits and debts, showed net outflows of €77.3 billion, as against net inflows of €109.8 billion a year earlier. Given greatly reduced demand for financing of investment abroad, euro-area banks reduced their net liabilities.

Germany's current account balance for the first eight months improved considerably, going from a deficit of €5 billion in 2001 to a surplus of €27.1 billion. France's surplus for the first eight months rose from €15.1 billion to €20.5 billion. Spain's current account deficit for the first seven months was trimmed from €9 billion to €8.1 billion. In all three countries, and especially in Germany, the leading contribution came from a larger reduction in imports than in exports. Germany's trade surplus for the first eight months rose by €23 billion to €80.9 billion, while France's trade balance went from a deficit of €0.7 billion to a surplus of €8.7 billion. Spain's deficit in the first seven months narrowed from €19.1 billion to €17.1 billion.

In the first eight months of 2002 Italy's current account balance showed a deficit of €3.1 billion,

€1.9 billion more than in the same period of 2001 (Table 6). The deterioration was attributable to the swing in the balance on services from a surplus of €1.1 billion to a deficit of €2.5 billion and, to a lesser extent, the growth in the deficit on income. The trade surplus rose from €10.5 billion to €11.9 billion. The deficit on current transfers fell from €3 billion to €2 billion, thanks to the reduction in that on private transfers.

Table 6

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

	2001		2002
	January-August	Year	January-August
<b>Current account</b> .....	<b>-1,195</b>	<b>-178</b>	<b>-3,130</b>
Goods .....	10,519	17,775	11,872
Exports .....	180,415	270,877	171,635
Imports .....	169,896	253,102	159,763
Services .....	1,133	338	-2,494
Income .....	-9,836	-11,575	-10,461
Current transfers .....	-3,011	-6,716	-2,047
<b>Capital account</b> .....	<b>627</b>	<b>938</b>	<b>1,104</b>
<b>Financial account</b> .....	<b>1,372</b>	<b>-2,889</b>	<b>1,220</b>
Direct investment .....	-11,001	-7,377	-2,677
outward .....	-22,280	-23,995	-13,296
inward .....	11,279	16,618	10,619
Portfolio investment ...	-6,509	-7,640	-198
Equity securities ....	-15,581	-11,507	-17,108
assets .....	-15,224	-11,153	-9,974
liabilities .....	-357	-354	-7,134
Debt instruments ....	9,072	3,867	16,910
assets .....	-24,810	-28,917	-5,092
liabilities .....	33,882	32,784	22,002
Financial derivatives ...	122	-477	-716
Other investment .....	18,029	12,121	3,762
Reserve assets .....	731	484	1,049
<b>Errors and omissions</b> ...	<b>-804</b>	<b>2,129</b>	<b>806</b>

(1) Provisional data for July and August 2002.

Given similar decreases in export and import volumes (Table 4) and an improvement in the terms of trade due to the reduction in the average values of imports, the current value of Italy's foreign trade diminished. In the first eight months of 2002 imports *cif* fell by 4.4 per cent compared with the same period of 2001, while exports fell by 3.5 per cent. The latter declined in all of Italy's main sectors of specialization. The factor mainly responsible for the widening of the overall *cif-fob* surplus was the reduction in the deficit on fossil fuels, owing to the fall in average unit values: the average unit values of oil and gas imports fell by an average of 16.5 per cent in the first seven months compared with the year-earlier period, against a decline of around 13 per cent in the price of oil in euros.

The deterioration of the balance on services in the first eight months was caused both by a 3.2 per cent reduction in receipts and by a 4.9 per cent increase in outlays. In particular, receipts from foreign travel fell by 7 per cent while outlays rose by 6.2 per cent; the surplus decreased from €9.3 billion to €7 billion. Spending on business trips declined, because of the slowdown in economic activity. On the other hand, visitors and tourist receipts from the European countries rose, reflecting the tendency to replace overseas destinations with vacation spots closer to home, out of fear of new terrorist attacks. According to data broken down by sector, which are available up to June, the deficit on "other business services" rose from €1.1 billion to €1.8 billion.

The aggregate current account and capital account balance in the first eight months of the year was in deficit by €2 billion (0.2 per cent of GDP). The financial account showed a small surplus of €1.2 billion, virtually unchanged from a year earlier; there was a substantial decline in both financial inflows and outflows, particularly on account of portfolio investment (Table a20). Last year the fall in the equity markets had already been accompanied by a large reduction in purchases of shares abroad by Italian residents. The "errors and omissions" item of Italy's balance of payments was again practically nil.

Foreign direct investment in Italy edged downwards from €11.3 billion to €10.6 billion, while outward direct investment fell from €22.3 billion to

€13.3 billion. Portfolio investment flows were in balance, compared with a net outflow of €6.5 billion in the first eight months of 2001. Inflows contracted from €40 billion to €15 billion, outflows from €33.5 billion to €14.9 billion; both inflows and outflows fell back to levels comparable to those of 1995. The reduction in flows involved both equities and debt securities; for Italian shares there were net disposals of €7.1 billion, compared with a net flow of virtually nil in the first eight months of last year. Among debt securities, purchases of government securities fell sharply and were less than those of private bonds during the first six months overall (Table 7). In the second quarter, however, there was a resumption of net inflows for the purchase of government securities, after net disposals in the two preceding quarters.

**Table 7**  
**Portfolio investment in Italy (1)**  
(millions of euros)

	2001		2002
	January-August	Year	January-August
Government securities . . . .	35,703	12,790	6,706
BOTs . . . . .	5,829	-5,287	4,606
BTPs . . . . .	20,217	26,227	8,044
CTEs . . . . .	-220	-608	-
CCTs . . . . .	787	-13,652	-12,765
CTZs . . . . .	3,843	-3,172	4,123
Republic of Italy issues . .	5,235	9,404	1,981
Other government securities . . . . .	12	-122	718
Bonds . . . . .	7,540	21,602	9,906
Bank securities . . . . .	947	-950	-1,254
Equity securities . . . . .	-4,915	-1,306	-11,327
Other securities (2) . . . . .	410	294	-227
<b>Total . . . . .</b>	<b>39,686</b>	<b>32,430</b>	<b>3,804</b>

(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. - (2) Including units of mutual funds.

The item “other investment” of the balance of payments records external financial transactions principally in the form of deposits and loans by the banking system and other resident sectors. In the first eight months of 2002 the item recorded net inflows of €3.8 billion, against €18 billion in the same period of 2001. This modest net figure was the outcome of massive flows in both directions. Residents other than banks gave rise to a net inflow of €28.2 billion,

largely from the repatriation, under Legislative Decree 350 of 25 September 2001, of assets held abroad (prevalently bank deposits). Italian banks generated a net outflow of €24.5 billion (compared with a net inflow of €24.2 billion in the same period of 2001) as a result of reduced fund-raising abroad and increased lending to non-residents.

## The labour market

### Employment

Employment in the euro area grew modestly in the first half of 2002, reflecting the slowdown in economic activity. Preliminary national accounts data show a seasonally adjusted expansion of 0.3 per cent in the number of residents employed by comparison with the second half of 2001 and of 0.7 per cent on the year-earlier period.

Among the main countries, only Germany showed a contraction in employment in the first half of 2002 (0.3 per cent). Employment increased in France, Spain and most sharply in Italy, by 0.3, 0.7 and 0.9 per cent respectively (Figure 17).

Italy accounted for more than half the total employment increase in the euro area but only one-twentieth of GDP growth. Employment grew in spite of the economic slowdown, owing principally to the reduction of direct and indirect costs thanks to growing flexibility in labour utilization and substantial tax incentives.

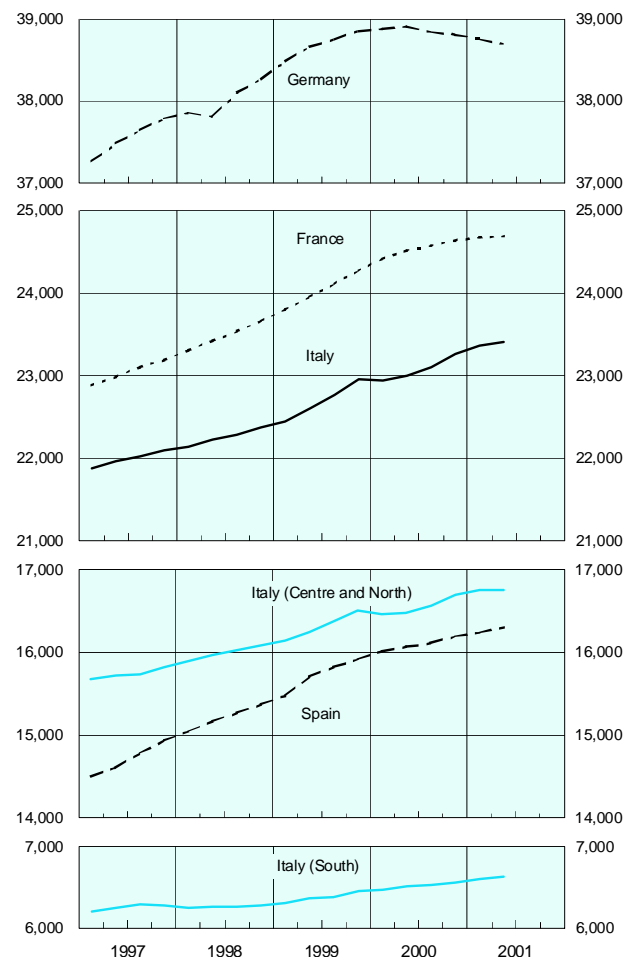
The cyclical slowdown had an adverse impact on Italian labour productivity, which after rising by 0.4 per cent in 2001 declined by 1.5 per cent in the first half of 2002 by comparison with the year-earlier period. This resulted in a sharp acceleration in unit labour costs, which rose by 4.5 per cent.

According to Istat's quarterly labour force surveys, Italian employment growth is less dynamic than the national accounts would suggest; the surveys indicate a seasonally adjusted increase of 0.5 per cent in the first half of the year. Much of the gain was concentrated in the latter part of 2001 and the beginning of 2002; growth practically halted between January and July, when total employment came to 21,985,000, an increase of 273,000 or 1.3 per cent on

a year earlier (Table 8). Estimates based on the surveys indicate that in the twelve months to July the number of dismissals increased, albeit only slightly, as a ratio to total payroll employment; the increase was the first since 1994, the first year for which data are available.

**Figure 17**

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



Sources: For Italy, Istat, national accounts and regional estimates; the quarterly data are partly estimated. For the other countries, Eurostat, national accounts.

Table 8

**Labour force status of the Italian population**  
(thousands of persons and percentages)

	1995 average (1)		2001 average (1)		July 2001		July 2002	
	Number	Percentage share (2)	Number	Percentage share (2)	Number	Percentage share (2)	Number	Percentage share (2)
<b>Employees</b> .....	<b>14,205</b>	<b>70.9</b>	<b>15,517</b>	<b>72.1</b>	<b>15,659</b>	<b>72.1</b>	<b>15,984</b>	<b>72.7</b>
open-ended contracts .....	13,163	65.7	14,002	65.1	14,020	64.6	14,300	65.0
full-time .....	12,609	63.0	13,083	60.8	13,122	60.4	13,318	60.6
part-time .....	554	2.8	920	4.3	898	4.1	982	4.5
fixed-term contracts .....	1,041	5.2	1,514	7.0	1,639	7.5	1,684	7.7
full-time .....	731	3.7	1,045	4.9	1,142	5.3	1,195	5.4
part-time .....	310	1.5	469	2.2	497	2.3	489	2.2
<b>Self-employed</b> ..	<b>5,821</b>	<b>29.1</b>	<b>5,997</b>	<b>27.9</b>	<b>6,053</b>	<b>27.9</b>	<b>6,001</b>	<b>27.3</b>
full-time .....	5,424	27.1	5,570	25.9	5,630	25.9	5,548	25.2
part-time .....	397	2.0	428	2.0	423	1.9	453	2.1
<b>Total persons in employment</b> .....	<b>20,026</b>	<b>100.0</b>	<b>21,514</b>	<b>100.0</b>	<b>21,712</b>	<b>100.0</b>	<b>21,985</b>	<b>100.0</b>
men .....	13,019		13,455		13,564		13,666	
women .....	7,007		8,060		8,149		8,318	
<b>Unemployed</b> .....	<b>2,638</b>		<b>2,267</b>		<b>2,193</b>		<b>2,095</b>	
<b>Labour force</b> .....	<b>22,664</b>		<b>23,781</b>		<b>23,906</b>		<b>24,080</b>	
men .....	14,299		14,521		14,592		14,654	
women .....	8,365		9,261		9,314		9,425	
<b>Non-labour-force</b> .....	<b>34,081</b>		<b>33,567</b>		<b>33,464</b>		<b>33,397</b>	
non-working age (under 15) .....	8,661		8,265		8,269		8,271	
working age (15-64) .....	16,582		15,336		15,217		15,055	
of which: <i>not actively seeking work but would be immediately available</i> .....	1,301		1,175		1,143		1,121	
non-working age (65 and over) .....	8,837		9,966		9,978		10,071	
<b>Population</b> .....	<b>56,745</b>		<b>57,348</b>		<b>57,371</b>		<b>57,477</b>	
men .....	27,565		27,884		27,896		27,950	
women .....	29,180		29,465		29,476		29,526	
<b>Unemployment rate</b> .....	<b>11.6</b>		<b>9.5</b>		<b>9.2</b>		<b>8.7</b>	
men .....	9.0		7.3		7.0		6.7	
women .....	16.2		13.0		12.5		11.7	
<b>Participation rate (ages 15-64)</b> .....	<b>57.4</b>		<b>60.4</b>		<b>60.7</b>		<b>61.2</b>	
men .....	72.5		73.6		73.9		74.2	
women .....	42.3		47.3		47.5		48.1	
<b>Employment rate (ages 15-64)</b> .....	<b>50.6</b>		<b>54.6</b>		<b>55.1</b>		<b>55.8</b>	
men .....	65.9		68.1		68.6		69.1	
women .....	35.4		41.1		41.6		42.4	

Source: Istat, labour force surveys.

(1) Average of the surveys taken in January, April, July and October. - (2) Of total employment.

The employment rate for the population aged 15 to 64 rose from 55.1 per cent in July 2001 to 55.8 per cent this July. As in the past, most of the increase (two thirds) was accounted for by women, whose share of total employment thus rose from 37.5 to 37.8 per cent and whose employment rate rose from 41.6

to 42.4 per cent. The employment growth during the twelve months was accounted for entirely by payroll jobs, which increased by 325,000 (2.1 per cent), while the number of self-employed workers fell by 52,000 (0.9 per cent), mostly in the distributive trades.

**Table 9**  
**Fixed-term and part-time employees' share**  
**of total payroll employment in Italy**  
*(percentages)*

	Fixed-term		Part-time	
	January-April-July 2001 average	January-April-July 2002 average	January-April-July 2001 average	January-April-July 2002 average
Men .....	8.4	8.4	3.6	3.4
Women .....	11.9	11.9	17.2	17.3
Aged 15-34 .....	15.3	15.6	10.3	10.0
35 and over .....	6.4	6.2	8.4	8.5
Agriculture .....	37.5	36.7	18.6	18.1
Industry .....	6.2	6.3	4.7	5.0
Construction .....	12.2	12.8	4.3	3.9
Services .....	9.9	9.8	11.1	11.0
<i>of which: wholesale and retail trade and hotels ..</i>	12.0	12.0	15.2	14.9
<b>Total economy ....</b>	<b>9.8</b>	<b>9.8</b>	<b>9.1</b>	<b>9.1</b>

Source: Istat, labour force surveys.

More than 85 per cent of the additional payroll jobs (280,000) consisted of permanent positions. As in the previous year, this growth was favoured by the tax credit for permanent hiring enacted with the Finance Law for 2001, under which employers were entitled to a credit of €413.17 a month (€619.75 in the South) from October 2000 to December 2003 for every new permanent employee meeting certain requirements. According to estimates by the Ministry of Labour and Social Policies, in the spring of this year the programme involved about 190,000 workers, 90,000 of them in the South, at a total cost to the Treasury of €1,026 million between January 2001 and May 2002. The tax credit was suspended in July, ahead of schedule. Decree Law 209 of 24 September reinstated eligibility for the credits accrued in the second half of 2002, and the reintroduction of a smaller subsidy for the period 2003-2006 is under study (see the box on corrective measures taken during the year, in the chapter "The public finances in the euro area and Italy").

The number of workers on fixed-term contracts rose by 45,000 in July from a year earlier (2.7 per cent). After declining in 2001, on average, owing to the impact of the tax credit, the fixed-term share of total payroll employment held steady for the January, April and July 2002 surveys at 9.8 per cent. The incidence of part-time employment was also unchanged at 9.1 per cent (Table 9).

### Labour demand: sectoral and regional developments in Italy

The labour force survey found employment increases in construction and industry between January and July, stagnation in services and a decline in agriculture. Total employment increased by 0.2 per cent (Table 10).

**Table 10**  
**Employment by sector**  
**and geographical area in Italy, 2002**  
*(January, April and July averages, unadjusted)*

	% share of national total	January-April-July 2002 average on the corresponding period of 2001			July 2002 on January 2002 (1)
		Absolute change	% change	Contribution, % points	% change
<b>Sector</b>					
Agriculture ..	5.0	-31,000	-2.8	-0.1	-1.3
Industry excl. construction	23.8	43,000	0.8	0.2	0.6
Construction .	8.0	38,000	2.2	0.2	0.6
Services ....	63.2	293,000	2.2	1.4	0.1
<b>Geographical area</b>					
North .....	51.2	140,000	1.3	0.7	-0.4
Centre .....	20.3	85,000	2.0	0.4	0.7
South .....	28.5	117,000	1.9	0.5	0.8
<b>Italy ..</b>	<b>100.0</b>	<b>343,000</b>	<b>1.6</b>	<b>1.6</b>	<b>0.2</b>

Source: Istat, labour force surveys.  
(1) Seasonally adjusted quarterly data.

### ***Labour market measures in the Pact for Italy***

*On 5 July of this year, the Government, employers and trade unions (with the exception of CGIL, the largest) signed the so-called Pact for Italy. The agreement contains a number of measures regarding the structure of taxation, the labour market and intervention in southern Italy.*

*The measures regarding employment incorporate and supplement those previously outlined in two enabling bills based on proposals set out in the White Paper on the labour market in Italy. The first of these bills (no. 3193), which was approved by the Chamber of Deputies on its second reading, charges the Government with implementing Directive 93/104/EC on the organization of working time, the reform of regulations governing public and private employment agencies, training-employment contracts, part-time work, labour-only subcontracting and various types of atypical work contract. The second bill (no. 848b) covers employment incentives, social shock absorbers, experimental suspension of Article 18 of the Labour Rights Law and arbitration in individual labour disputes.*

*The principal measures envisaged in the Pact are described below.*

*Public and private employment agencies. - To help match labour supply and demand, the public job placement system will undergo further reform, in addition to the changes introduced by legislative decrees 469 of 23 December 1997 and 181 of 21 April 2000. The reform will redefine unemployment status for the purpose of implementing social and employment policies,*

*assigning public employment agencies the additional task of verifying eligibility. Moreover, the agreement also abolishes the rule forbidding temporary employment agencies from engaging in job placement activities and calls for a complete review of the rules governing private provision of employment services. An integrated labour information system will be set up to link public and private agencies.*

*Education for employability. - The Pact sets out a number of objectives, including that of prolonging the period of compulsory education and training to at least 12 years. In addition, lifelong education projects will be developed, involving 700,000 adults a year from 2003.*

*Reform of ordinary unemployment benefits. - Unemployment benefit is currently equal to 40 per cent of the average monthly wage received in the three months prior to dismissal and lasts six months (nine months in the case of workers aged 50 and over). The Pact will raise the allowance to 60 per cent of wages for the first six months and prolong entitlement for a further six months, fixing the rate at 40 per cent from the seventh to the ninth month and at 30 per cent from the tenth to the twelfth. The additional expenditure is expected to be at least €700 million, which has been covered in the Finance Bill. Other provisions establish that (a) unemployment benefit may not be paid to any single worker for more than 24 months (30 months in the South) in any 5-year period; (b) periodic checks will be made to verify that workers are effectively unemployed; and (c) workers receiving unemployment benefit will be required to take part in*

*cont.* ➤

In construction, despite the decline in output in the first half, the protracted expansion of employment under way since 1997 continued, albeit at a slower pace than in 2001. In July the number of persons at work was 0.6 per cent higher on a seasonally adjusted basis than in January and 2.2 per cent higher than in July 2001 (38,000 jobs). ISAE's indicator of expected employment growth in the construction industry over the next three months remained high in September.

In services, employment in July was stable at its January level, registering twelve-month growth of 1.2 per cent. The cyclical indicators for the second half are mixed. ISAE's surveys from the summer onward have found that the proportion of small commercial retailers intending to take on additional staff over the following three months is declining, while that of mass retailers is rising. Istat's monthly survey of large service firms found a recovery in overtime in August



training programmes. There is no change in either the period of coverage for imputed social security contributions or existing eligibility requirements (loss of work through dismissal, membership of the compulsory insurance scheme during the last two years and at least 52 weeks of paid contributions, regardless of whether the worker is employed on a permanent or fixed-term contract). There is no plan to extend unemployment benefits to workers with quasi-employment contracts, as they are regarded as self-employed.

Introduction of a second level of supplementary social protection, voluntarily established by employers and trade unions. - This second level will be organized on a sectoral basis and, when fully operational, will provide for a standard contribution for each sector and a solidarity contribution to help finance sectors that experience unexpected deficits. The overall compulsory contribution rate for sectors in surplus may not be higher than at present in proportion to the benefits provided.

Minimum income support. - The intention is to introduce a system of income support for needy persons who are not covered by any other form of social assistance. The Pact, expressing dissatisfaction with the results of the social inclusion income support scheme still being experimented in 306 municipalities, calls for regional programmes to develop specific measures co-financed by the Social Policy Fund.

Reorganization of incentives. - The aims of the reorganization are (a) to encourage training-employment

contracts, with the training component to be certified by bilateral bodies; (b) to help the long-term unemployed return to work; (c) to foster labour mobility; (d) to encourage the inclusion of women; and (e) to increase employment in the South.

Derogation from Article 18 of the Labour Rights Law. - The Pact proposes only one derogation from Article 18 of Law 300 of 20 May 1970, as opposed to the three exceptions envisaged in the bill originally presented by the Government in November 2001. For an experimental three-year period, newly hired workers at firms with fewer than 16 employees in the twelve months prior to the enactment of the law will not be computed for the purpose of the regulations governing redundancies if the hirings raise the number of employees above the threshold. Implementation of the measure will be monitored closely, and the Government, employers and unions will jointly assess its effectiveness after two years.

Arbitration and conciliation. - The Pact calls for the elimination of Article 4 of Bill 848b on arbitration and conciliation until employers and trade unions reach an agreement on the matter.

Sale of business divisions. - Under the Pact, the rule that only functionally independent business divisions may be sold will be retained to prevent the system from being used to evade regulations on redundancies. Article 1 of Bill 3193 abolishing the requirement will be amended accordingly.

after the decline of the first half of the year and a slight increase in per capita hours worked. Respondents to the Bank of Italy's survey of service firms with more than 20 employees expected higher employment at the end of 2002 than a year earlier.

In industry excluding construction there was a slight contraction in activity, but employment was 0.6 per cent higher in July than in January on a

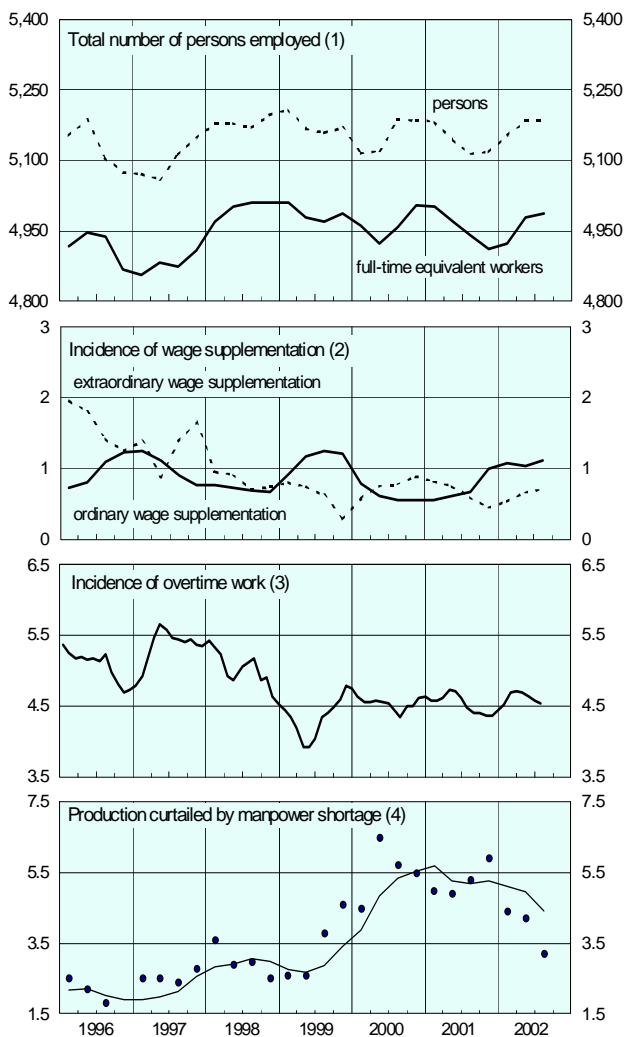
seasonally adjusted basis and 1.6 per cent higher than in July 2001 (Figure 18). For the first three surveys of 2002 the twelve-month increase averaged 0.8 per cent. The Bank of Italy's survey of firms with more than 20 employees in September nevertheless found a prevalence of expectations of staff reductions between the end of 2001 and the end of 2002. ISAE's summer surveys also signaled a worsening of the three-month outlook for employment growth and an

easing of difficulties in recruitment in all parts of the country. The number of hours of wage supplementation increased and the incidence of overtime declined slightly.

**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 and ISAE data.

(1) Data refer to the January, April, July and October surveys. 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. - (4) Companies so reporting as share of total; percentages and moving averages.

Employment increased between January and July only in the Centre (0.7 per cent) and the South (0.8 per cent). In the North it declined by 0.4 per cent. The average twelve-month increase for the first three surveys of the year was 1.3 per cent in the North, 2.0 per cent in the Centre and 1.9 per cent in the South.

**Unemployment and labour supply**

The unemployment rate in the euro area turned upwards in mid-2001 after coming down steadily since 1997. It stabilized at 8.3 per cent from July to September 2002, 0.3 points higher than in September 2001. While trends in France, Germany and Spain paralleled that for the area as a whole, the Italian unemployment rate continued to decline, although less rapidly beginning in January.

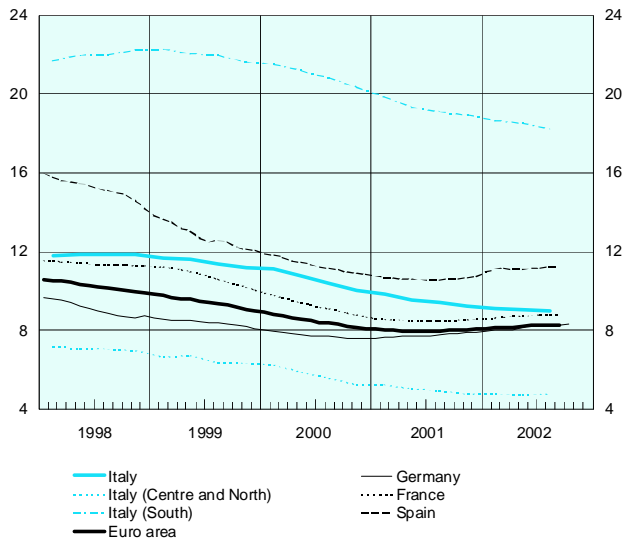
The unemployment rate was 8.3 per cent in Germany, 8.8 per cent in France and 11.2 per cent in Spain in September, representing an increase of 0.3 points since January in Spain and Germany and 0.2 points in France.

The seasonally adjusted unemployment rate in Italy fell to 9.0 per cent in July from 9.1 per cent in April and 9.4 per cent in July 2001. The differential vis-à-vis the area-wide rate thus narrowed to 0.7 points (Figure 19). The long-term jobless rate (more than a year) also declined during the twelve months, from 5.6 to 5.2 per cent. For the European Union, this rate averaged 3.2 per cent in 2001.

Geographical disparities remain severe. The seasonally adjusted unemployment rate was 18.2 per cent in the South in July, compared with 6.6 per cent in the Centre and 4.0 per cent in the North. In the North, where unemployment is more cyclically sensitive, the rate began to rise again starting in April and by July was 0.2 points higher than in January. Over the same period it diminished by 0.3 points in the Centre and 0.5 points in the South.

Labour market participation has continued to rise in 2002. The nationwide rate was 61.2 per cent in July, compared with 60.7 per cent a year earlier. The labour force thus exceeded 24 million, an increase of 0.1 per cent since April and 0.7 per cent since July 2001.

**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.

Over the first three surveys of 2002 the increase in labour supply, which was slightly greater in the Centre and North than in the South, was accounted for mainly by women, whose participation rate rose from 47.1 to 47.8 per cent (while that of men rose from 73.5 to 73.9 per cent). The participation of older persons (aged 55 to 64) has recovered from the minimum recorded in the first half of 2001, rising by more than a full percentage point to an average of 30 per cent for the three surveys. The rate for this age group in the European Union was 41 per cent in 2001. The rise involved both sexes and all parts of the country; its concentration among the less old (aged 55-58) could signal a tendency to retire later than in the past.

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

In the first half of 2002 per capita labour costs were 3.7 per cent higher than a year earlier in Spain, 2.9 per cent in France and Italy, and 1.6 per cent in Germany. In real terms, using national value added deflators, the divergence is narrower, with an increase of 0.5 per cent in Italy as against 1.0 per cent in France

and 0.2 per cent in Germany and a decrease of 0.3 per cent in Spain.

*Italy.* - According to the national accounts, in the first six months of the year earnings per full-time equivalent worker grew at a rate of 2.9 per cent, the same as in the first half of 2001 (Table 11). The increase reflected one-time payments and the increments called for by major labour contract renewals concluded in the second half of 2001 and early this year, which recouped the difference between target and actual inflation over the previous two years. Per capita labour costs, which include social contributions, also rose by 2.9 per cent. However, the rise in the cost of labour registered by the national accounts does not consider the savings from tax credits for employment, which reduce firms' tax liability but leave gross earnings and worker and employer social contributions unchanged. The credit accrued in respect of permanent hirings was equivalent to a decrease of 0.2 per cent in per capita labour costs in the first half of the year, reducing its rate of increase from 2.9 to 2.7 per cent.

The decline in labour productivity and the consequent acceleration in unit labour costs were reflected in a rise of 1.3 percentage points in labour's share of value added.

In manufacturing industry actual earnings per full-time equivalent worker rose 3.5 per cent between the first half of 2001 and the first half of 2002. This was 0.7 points more than the increments provided by the relevant national wage agreements, owing to company-level bargaining and one-time payments under national contracts (Table 11 and Figure 20). The Bank of Italy's survey of industrial firms with more than 20 employees found that company-level raises accounted for 0.6 per cent of total earnings in 2002. Per capita labour costs rose by 3.6 per cent during this period. After the slowdown of 2001, labour productivity actually declined by 3.1 per cent in the first half of 2002 by comparison with the year-earlier period. Unit labour costs thus rose by 6.9 per cent.

The first-half rise in per capita earnings in manufacturing outpaced those in construction and in the private service sector (1.9 and 2 per cent

respectively). Total compensation of employees rose by about the same amount, so that these sectors also showed a sharp fall in productivity and an increase in unit labour costs (4.5 per cent in both).

**Table 11**  
**Italy: labour costs and productivity**  
(seasonally adjusted; unless otherwise indicated, percentage changes)

	2001	2001 H1	2001 H2	2002 H1
<i>Manufacturing industry</i>				
Per capita earnings (1) . . . . .	2.9	2.6	3.3	3.5
Per capita labour costs (2) . . . . .	2.7	2.4	3.0	3.6
Productivity (3) . . . . .	0.5	1.5	-0.6	-3.1
Unit labour costs (4) . . . . .	2.2	0.8	3.6	6.9
Labour's share of value added (5) . . . . .	66.6	66.0	67.1	69.2
<i>Construction</i>				
Per capita earnings (1) . . . . .	2.4	2.5	2.3	1.9
Per capita labour costs (2) . . . . .	2.2	2.3	2.0	1.7
Productivity (3) . . . . .	0.1	0.3	-0.1	-2.6
Unit labour costs (4) . . . . .	2.1	2.1	2.1	4.5
Labour's share of value added (5) . . . . .	70.8	70.6	71.1	69.8
<i>Private services</i>				
Per capita earnings (1) . . . . .	2.2	2.2	2.2	2.0
Per capita labour costs (2) . . . . .	2.1	2.1	2.1	2.0
Productivity (3) . . . . .	0.5	1.6	-0.5	-2.4
Unit labour costs (4) . . . . .	1.6	0.5	2.7	4.5
Labour's share of value added (5) . . . . .	51.1	50.7	51.4	51.5
<i>Total economy</i>				
Per capita earnings (1) . . . . .	3.0	2.9	3.1	2.9
Per capita labour costs (2) . . . . .	2.8	2.6	3.0	2.9
Productivity (3) . . . . .	0.4	0.8	0.1	-1.5
Unit labour costs (4) . . . . .	2.3	1.8	2.9	4.5
Labour's share of value added (5) . . . . .	62.3	61.9	62.7	63.2

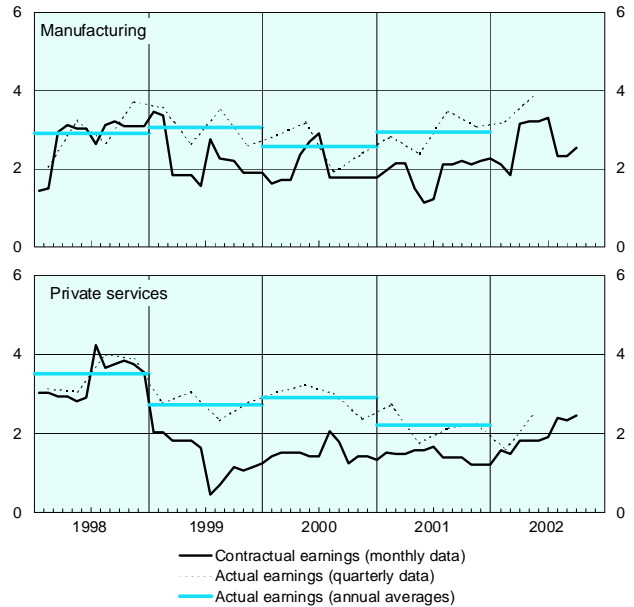
Source: Istat, national accounts.

(1) Actual earnings per standard employee labour unit. - (2) Labour income per standard employee labour unit. - (3) Value added at base prices and at 1995 prices per standard labour unit. - (4) Employee labour income per standard unit of output. - (5) Percentages. Labour income of self-employed workers is calculated imputing to them the average income of payroll employees.

For the first nine months of the year per capita contractual earnings in the private sector increased by 2.3 per cent over the year-earlier period, while consumer prices rose 2.4 per cent. Wage growth for the entire economy was slightly faster (2.6 per cent), thanks to the 3.3 per cent increase recorded in the public sector.

**Figure 20**

**Italy: per capita contractual and actual earnings**  
(seasonally adjusted data; percentage changes on year-earlier period)



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

On the basis of the wage agreements in force, contractual earnings in the private sector should increase by about 2.4 per cent for the year.

Agreements covering about 40 per cent of total payroll earnings in industry excluding construction and in private services expire at the end of 2002. They include those for metalworkers and wholesale and retail trade.

The contract renewals will take place in a transformed labour relations climate. In July the Government concluded the so-called Pact for Italy with employer organizations and trade union confederations. However, the largest union, the General Italian Labour Confederation (CGIL), did not adhere, complicating relations not only between employers and unions but also among the unions themselves. Still, the impact on the upcoming contract negotiations is hard to assess. On the one hand, the Bank of Italy survey of industrial and service firms in September found no worsening of labour relations. On the other hand, for the first time since the 1960s the three main metal and engineering

unions will present separate bargaining platforms (in July 2001 the CGIL did not sign the industry-wide contract agreed to by the other two unions). The information now available indicates the unions will submit wage claims for 2003-2004 ranging from 5.5 to 8.5 per cent when fully phased in. In addition to the recouping of past differentials between target and actual inflation, all the claims assume future inflation higher than the Government's target rates of 1.4 and 1.3 per cent for the two years and nearer to the *Consensus Forecasts* projections. The CGIL metalworker union's higher demands include a component linked to productivity increments, which the other two union platforms leave entirely to company- and local-level bargaining.

*Germany.* - The national accounts reported very modest per capita earnings growth in the first six months of 2002 (1.5 per cent over the year-earlier period), and about the same in per capita labour costs (1.6 per cent). Thanks to a productivity gain of 0.9 per cent, unit labour costs rose by just 0.7 per cent for the economy as a whole. In June, after a period of significant labour conflict, the wage agreement for the metal and engineering industry was signed, providing increments of 4 per cent in 2002 and 3.1 per cent in 2003. The raise was significantly lower than the original union demands but nevertheless represents an acceleration compared with recent contractual earnings trends. For the entire economy,

according to the Institute for Economic and Social Research, the contracts signed in 2002 provide average annual increments of 2.9 per cent, significantly more than the 2.1 per cent raises under last year's agreements.

*France.* - Per capita earnings for the entire economy rose by 2.8 per cent in the first half compared with the year-earlier period and per capita labour costs by 2.9 per cent. Unit labour costs rose 3.2 per cent. In June the minimum hourly wage rate, which applies to 14 per cent of the French work force, was raised to €6.83, an increase of 2.4 per cent over June 2001, against a 1.5 per cent rise in consumer prices. In September the Minister of Social Affairs, Labour and Solidarity presented a bill to reform the 35-hour law in order to permit more overtime work in the course of the year.

*Spain.* - Unit labour costs, though decelerating, continued to rise faster than in the other main euro-area economies during the first half of the year (3.7 per cent). The slower rise in labour costs may be due in part to the agreement between employers and trade unions that contract renewals in 2002 would take the Government's target of 2 per cent as the reference inflation rate. In October, negotiations for the renewal of that accord got under way in a more conflictual climate following a clash over the reform of unemployment benefits that led in June to the first general strike since 1994.

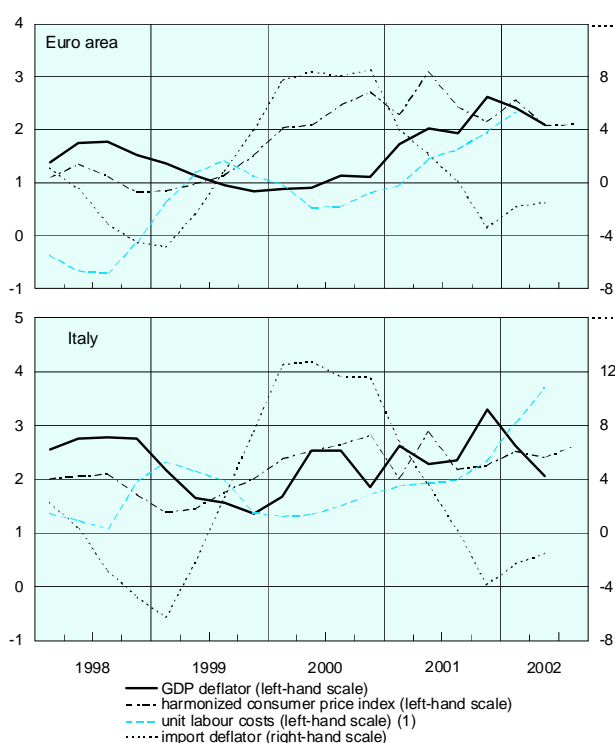
## Prices and costs

### Prices and costs

In the first nine months of 2002 the average increase in the harmonized consumer price index on the year-earlier period was 2.2 per cent in the euro area and 2.5 per cent in Italy, compared with 2.6 and 2.7 per cent respectively in 2001.

**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. For the euro area, the changes are calculated on the basis of the figures for France, Germany, Italy and Spain.

The large fluctuations in the volatile components were reflected in the rate of change in the general index (Figure 21). In the euro area, the twelve-month rate of inflation jumped to 2.6 per cent on average in the first quarter in conjunction with the sharp rise in the prices of unprocessed foods and, in a number of countries, certain regulated prices, and then fell to 1.8 per cent in June as pressures on fruit and vegetable prices eased. It then rose to 2.1 per cent in August and September and 2.2 per cent in October, reflecting the new increase in oil prices over the summer in reaction to events in the Middle East and, partly, the base effect of the comparison with the corresponding months of 2001, when energy prices had declined. Inflation rose in the first quarter in Italy as well, reaching 2.5 per cent before falling to 2.2 per cent in June. The less rapid decline compared with that in the euro area is attributable to slower, less complete dissipation of the pressures on the prices of unprocessed foods. In the summer, prices accelerated more sharply in Italy than in the rest of the area, with inflation rising to 2.8 per cent in September and October (Table 12).

Core inflation (the general index net of energy and unprocessed food products), which had been rising since 2000 as a result of the increase in the prices of imported non-energy inputs, peaked in the euro area at the start of 2002, holding at 2.5 per cent against a background of weak demand. However, the prices of services continued to accelerate during the year, driven by increases in a number of segments in connection with the euro cash changeover and the more rapid rise in domestic costs, which are the predominant component of the sector's cost structure.

In 2002 producer prices in Italy and the euro area have declined on average, primarily as a result of the steep fall in the prices of intermediate goods.

Table 12

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

	Italy					Euro area				
	2000	2001	2002			2000	2001	2002		
			Q1	Q2	Q3			Q1	Q2	Q3
<b>Consumer prices (1)</b>										
General index .....	2.6	2.7	2.5	2.4	2.6	2.3	2.6	2.6	2.1	2.0
Excluding unprocessed food and energy products .....	1.9	2.4	2.8	2.7	2.9	1.2	2.1	2.6	2.6	2.5
<i>of which: non-food and non-energy products</i> .....	1.7	1.8	2.3	2.4	2.4	0.8	1.4	1.8	1.7	1.4
<i>processed food products</i> .....	1.3	2.5	2.8	1.9	2.1	1.1	2.9	3.5	3.1	2.9
<i>services</i> .....	2.3	2.9	3.3	3.3	3.5	1.7	2.5	3.1	3.2	3.3
Unprocessed food products .....	1.8	5.8	6.2	5.4	3.8	1.7	7.2	7.0	2.4	1.3
Energy products .....	11.6	1.6	-5.0	-4.2	-1.8	13.3	2.8	-2.1	-2.4	-0.9
<b>Producer prices</b>										
General index .....	6.0	1.9	-1.3	-1.0	0.3	5.5	2.1	-0.8	-0.8	-0.2
<i>of which: final consumption goods excl. food and energy products</i> .....	1.8	2.5	2.7	1.7	1.7	1.4	2.0	1.9	1.6	1.7
<b>Unit labour costs (2)</b>										
Total economy .....	1.7	2.3	4.8	4.2		0.8	2.0	2.9	2.2	
<i>of which: industry excluding construction</i> .	0.0	1.8	5.8	6.7		-0.4	1.6	3.5	2.0	
<i>services</i> .....	2.4	2.4	4.6	3.8		1.2	2.0	2.9	2.4	

Source: Based on Eurostat data.

(1) Harmonized index. Percentage changes for 2000 and 2001 are calculated with reference to the old method of recording promotional offers, which was changed in Italy and Spain with the entry into force of the provisions of the Commission Regulation at the start of 2002, thereby affecting the euro-area average. - (2) For the euro area, the changes are calculated on the basis of the figures for France, Germany, Italy and Spain.

Given broadly constant growth of earnings in the first half of 2002, the overall decline in productivity in the first six months caused unit labour costs to accelerate in the four main euro-area countries; the rate of increase rose to 2.5 per cent on average in the first half of the year, compared with 1.9 per cent in all of 2001.

Although consumer price inflation as measured by official indices remained broadly unchanged or fell slightly, surveys conducted by the European Commission showed that in most euro-area countries

inflation as perceived by consumers rose considerably. Consumer perceptions were influenced by sharper hikes in the prices of a number of frequently purchased goods and services, probably partly associated with the changeover to the new currency. According to Eurostat and the European Central Bank, however, the overall impact of the changeover on the rise in the general index was small.

The October *Consensus Forecasts* survey shows that inflation is expected to fall below 2 per cent at the start of next year in the euro area and Italy.

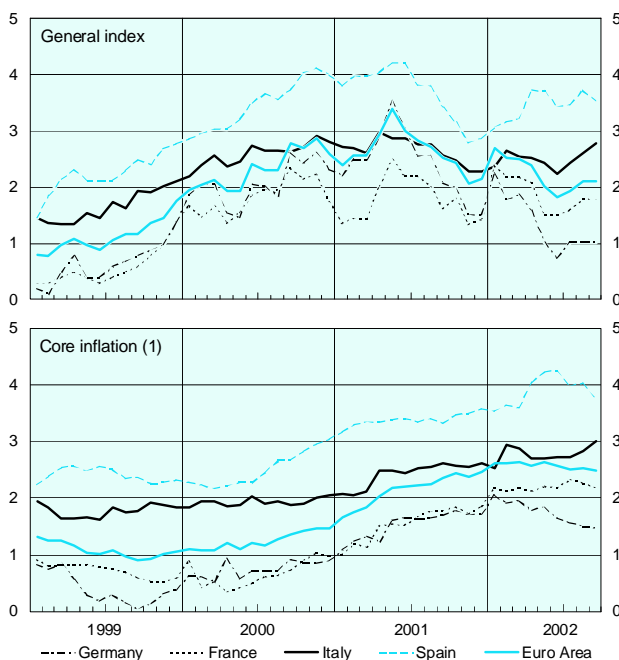
This was borne out by a slow fall in the prices of oil futures.

### Consumer prices

Consumer price inflation in the euro area reversed direction around mid-year. After falling from 2.7 per cent in January to 1.8 per cent in June, it rose to 2.1 per cent in September (Figure 22). In Italy, the decline began in February and was less pronounced than in the area as a whole, as was the upturn from June onwards. The trends in Germany and France were similar to the area-wide average, but inflation rates were lower, especially in Germany.

Figure 22

#### Harmonized index of consumer prices (monthly data; twelve-month percentage changes)



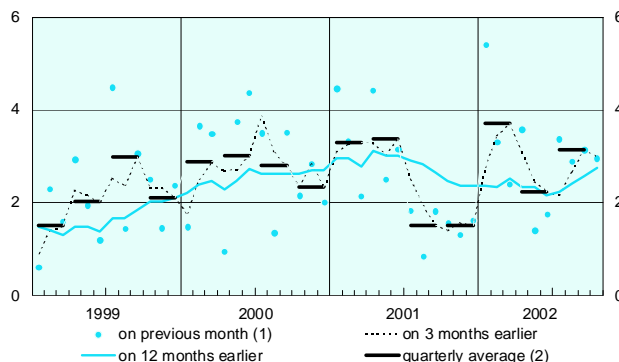
Source: Based on Eurostat data.  
(1) General index excluding unprocessed food and energy products.

In Italy, preliminary figures for October show a twelve-month increase of 2.7 per cent in the general consumer price index (Figure 23) and 2.8 per cent in the harmonized index

in Germany rose by 1.3 per cent, while Eurostat estimates put the average inflation rate for the euro area at 2.2 per cent.

Figure 23

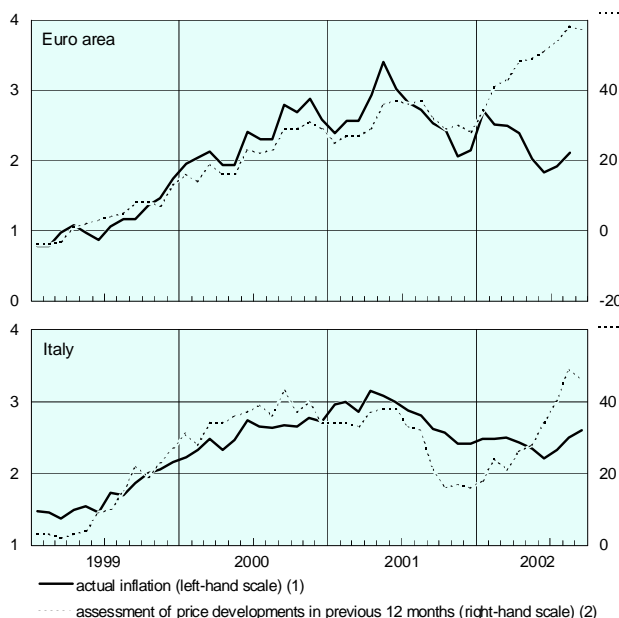
#### Italy: general consumer price index (percentage changes)



Source: Based on Istat data.  
(1) Seasonally adjusted and annualized. - (2) Average of seasonally adjusted and annualized monthly changes in the reference quarter.

Figure 24

#### Actual and "perceived" consumer price inflation (monthly data)



Source: Based on Istat, Eurostat and European Commission data.  
(1) Twelve-month percentage changes. For the euro area, harmonized index of consumer prices; for Italy, general consumer price index. - (2) Percentage balance between positive replies ("rising faster", "increasing at same rate") and negative replies ("stable", "decreasing") provided by consumers regarding the change in prices in the previous twelve months.



European Commission surveys of euro-area consumers indicate that perceived inflation has worsened significantly, with subjective assessments of inflation diverging sharply from actual price developments since the start of the year in the area and since May in Italy (Figure 24). According to the monthly ISAE survey of Italian consumers, the share of respondents who felt that prices had risen considerably in the previous twelve months increased until August and remained stable for the next two months. The discrepancy between perceived inflation and that measured in official statistics can plausibly be explained by the larger-than-average increases in the prices of certain goods and services to which consumers assign a greater psychological weight in the overall behaviour of prices. An examination of about 80 basic components of the harmonized consumer price index shows that the average rises in

the first nine months of the year that differed most from those in previous years involved fruit and vegetables, books, newspapers and periodicals, and restaurants (Table 13). In Italy, these increases also include games and lotteries, which are not measured in the harmonized index but do figure in the general consumer price index (they rose by 6.6 per cent in January). Consumers probably did not register the much smaller increases, or even reductions, in the prices of other items, such as some durable goods other than cars, that account for a much larger share of overall spending.

Core inflation in the euro area as a whole declined slightly over the period, falling from 2.6 to 2.5 per cent between the first and third quarters. In Italy it edged up from 2.7 to 2.9 per cent.

Table 13

**Harmonized consumer price indices for selected categories of goods and services**  
(percentage changes on year-earlier period)

	Euro area				Italy			
	Weights in 2002 (1)	2000	2001	2002 H1	Weights in 2002 (1)	2000	2001	2002 H1
Unprocessed food products .....	8.1	1.7	7.2	3.5	8.3	1.8	5.8	5.1
<i>of which: fruit and vegetables</i> .....	2.7	0.4	7.2	6.8	3.1	1.1	5.8	10.5
Non-food and non-energy products .....	32.0	0.8	1.4	1.6	35.2	1.7	1.8	2.4
<i>of which: clothing and footwear</i> .....	7.9	0.7	1.4	2.1	11.4	2.2	2.8	2.8
<i>books, newspapers and periodicals</i>	1.8	1.7	3.0	3.9	2.0	0.3	1.8	4.6
<i>electrical and electronic equipment (2)</i> .....	2.5	-2.7	-2.6	-3.3	2.3	-1.5	-1	-0.9
Services .....	38.9	1.7	2.5	3.2	37.9	2.3	2.9	3.4
<i>of which: catering services</i> .....	7.5	2.4	3.1	4.5	7.9	2.6	3.3	4.2
<i>insurance and financial</i> .....	2.7	4.3	4.4	4.1	1.8	5.8	11.1	9.2
<i>entertainment and culture</i> .....	2.5	0.3	3.7	3.0	2.0	1.9	3.5	3.8
<i>transport</i> .....	2.2	2.2	3.3	3.3	2.1	1.7	2.6	4.9
<i>telephony</i> .....	1.9	-4.5	-3.2	-1.5	2.1	-3.4	-1.3	-0.9
<b>General index</b> .....	100.0	2.3	2.6	2.2	100.0	2.6	2.7	2.5

Source: Based on Eurostat data.

(1) Percentage weights for the overall basket of goods and services on which the harmonized consumer price index is based. - (2) Electrical appliances, household electrical equipment, computers and other electronic devices.

Developments in the prices of non-food and non-energy products, which rose at a twelve-month rate of only 1.4 per cent in the third quarter, differed from country to country. In Germany, the rate of increase dropped to 0.5 per cent in the third quarter in conjunction with an especially small rise in domestic costs; in France it fell by 0.2 percentage points between the first and third quarters, to 0.9 per cent. By contrast, the rate rose slightly, from 2.3 to 2.4 per cent, over the same period in Italy, where the harmonized index for these products was affected by the sharp rise in January and February in the twelve-month rate (1.1 percentage points), presumably as a result of the new methodology used to take account of discounts. Considering the national general consumer price index, which does not adopt the new methodology, the rate of increase in the prices of these components fell by 0.2 percentage points over the period.

The prices of services accelerated slightly in the main euro-area countries in the first nine months of the year. In Italy, the twelve-month rate of growth rose from 3.3 per cent in the first quarter to 3.5 per cent in the third; in Germany, from 2.1 to 2.2 per cent and in France from 2.5 to 3.0 per cent.

In Italy, disaggregated data for the service sector show a number of especially sharp rises in the summer, notably in banking (5.9 per cent in the twelve months to September) and insurance (9.6 per cent).

In August the Government suspended increases in regulated prices until the end of November. The main impact of the measure was the revocation of the scheduled 1.7 per cent rise in electricity prices approved by the Energy Authority for September and October. However, the contribution to containing inflation was just a few hundredths of a percentage point. A similar measure was taken in April 2000 to curb increases in car insurance premiums but its impact was temporary; when the freeze was lifted in April 2001, premiums rose by about 10 per cent on the previous month.

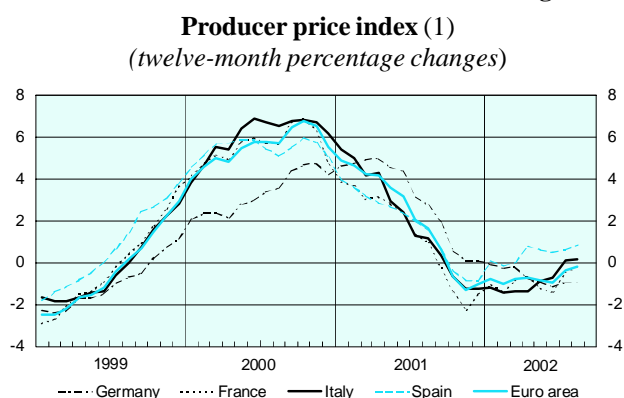
The differential between the twelve-month increase in the harmonized consumer price index in Italy and the euro-area average, which had

disappeared in 2001, has gradually re-emerged this year, reaching 0.6 percentage points on average in the third quarter. The gap vis-à-vis France and Germany was 0.9 and 1.6 points respectively (Table 12). The increase is almost entirely attributable to developments in the most volatile components of the index, especially unprocessed food products.

### Producer prices, costs and profit margins

Producer price inflation remained subdued in the first nine months of the year. In September, the twelve-month change in prices was negligible in the euro area as a whole (0.1 per cent) and in Italy (0.5 per cent; Figure 25). Excluding food and energy products, producer prices rose by about 1 per cent in the area and in Italy.

Figure 25



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

Among the components of the producer price index, the prices of non-energy intermediate goods, which exhibited a similar pattern in the main euro-area countries, accelerated over the course of the year. The average twelve-month rate of change rose from -1.6 per cent in January to +0.3 per cent in September; in Italy, it rose from -1.3 per cent to +0.7 per cent. Since the summer, the monthly rises in these prices were smaller than in the first half of the year, in conjunction with the deterioration in economic conditions. The twelve-month rate of change has continued to rise, reflecting the unfavourable base

effect of the comparison with the same period of 2001.

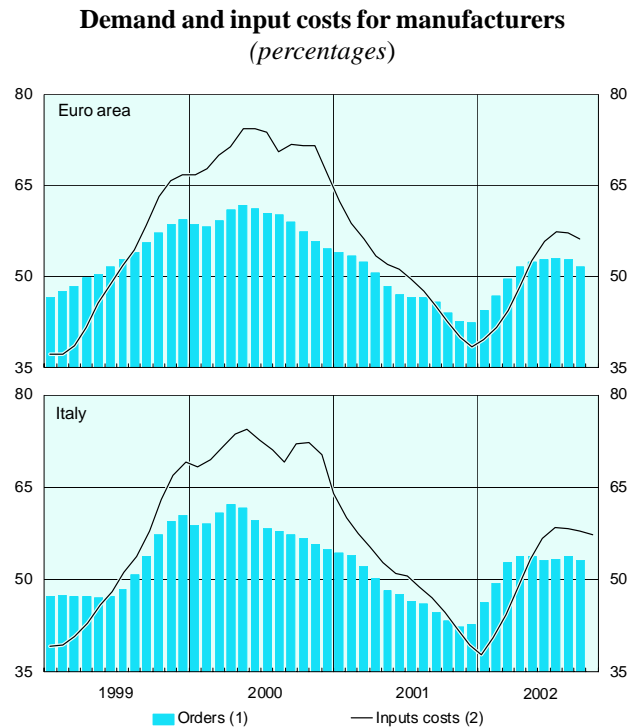
The producer prices of non-food and non-energy consumer products, which provide the best signal of developments in core inflation, slowed more markedly in the main euro-area countries than the corresponding consumer price index. In Italy, the twelve-month change fell from 2.6 per cent in January to 1.8 per cent in September, compared with virtually no change in consumer price inflation (1.9 per cent in September, compared with 1.8 per cent in January).

In an especially weak economic context, marked by the interruption of the recovery in sales in industry and services, the survey of firms' pricing policies conducted by the European Commission confirmed the absence of inflationary pressures on producer prices in the coming months.

Euro-area firms' costs accelerated in the second half of 2001. Although partially attenuated by the appreciation of the euro against the dollar, the upturn in oil prices in January halted the increasingly rapid decline in the implicit import deflator for goods and services, which had begun in the main euro-area countries in the second half of 2000. In Italy, however, the deflator continued to decline in the first half of the year, showing a decrease of 1.9 per cent with respect to the corresponding period of 2001, the same as that registered in the second half of last year. Since the summer the Reuters survey of purchasing managers in the manufacturing and service sectors has pointed to a slowdown in the growth of input costs in the euro area and Italy (Figure 26), in line with the stabilization of the prices of non-oil raw materials (especially metals) in international markets.

In the four main euro-area countries, unit labour costs of the year were 2.5 per cent higher on average in the first half than a year earlier (Table 14). Per capita earnings for the economy as a whole rose at the same rate as the previous year except in France, where they increased. Labour productivity performed poorly in the first half, however, falling by 1.5 per cent on a twelve-month basis in Italy and 0.3 per cent in France and rising by just 0.9 per cent in Germany.

Figure 26



Source: Monthly survey conducted by Reuters on 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 Italy, the pickup in unit labour costs was especially sharp in industry excluding construction (an increase of 6.2 per cent in the first half, compared with 1.8 per cent in 2001), where employment continued to rise even though value added growth turned negative. Labour costs also accelerated in this sector, rising by 4.1 per cent in the first half of the year, compared with 2.7 per cent in 2001.

Istat's indicators of input and output prices showed an increase of 1.7 per cent in unit variable costs in Italian industry, moderately higher than the 1.3 per cent rise in output prices. Unit profit margins narrowed slightly after widening by the same amount in 2001. In the service sector, margins apparently remained unchanged despite the greater share of labour in total costs, thanks to a larger increase in output prices; in 2001 profit margins had risen only slightly (Table 15).

Table 14

**Unit labour costs and their components in the main euro-area countries**  
(percentage changes on corresponding period)

	Cost of labour per employee (1)		Labour productivity						Unit labour costs	
			of which:							
	2001	2002 H1	2001	2002 H1	Value added (2)		Employment (1)		2001	2002 H1
<i>Industry excluding construction (3)</i>										
Germany .....	1.8	0.9	0.3	-0.1	0.8	-2.0	0.1	-1.8	1.5	1.1
France .....	2.4	2.9	0.7	0.3	1.6	-1.0	0.9	-1.4	1.7	2.5
Italy .....	2.7	4.1	0.9	-2.0	0.5	-1.3	-0.4	0.7	1.8	6.2
Spain .....	4.1	3.7	0.0	0.4	1.4	-0.7	1.4	-1.1	4.1	3.3
Euro 4 (4) .....	2.3	2.2	0.7	-0.5	1.0	-1.5	0.4	-1.0	1.6	2.7
<i>Services (5)</i>										
Germany .....	1.6	2.1	0.7	1.0	2.1	1.6	1.3	0.6	0.9	1.0
France .....	2.4	3.0	-0.5	-0.4	2.0	1.2	2.6	1.6	3.0	3.3
Italy .....	3.0	2.4	0.5	-1.7	2.5	0.7	2.0	2.4	2.4	4.2
<i>private</i> .....	2.1	2.0	0.5	-2.4	3.0	0.6	2.5	3.1	1.6	4.5
<i>public</i> .....	3.9	2.9	-0.2	-0.4	1.1	0.8	1.3	1.2	4.0	3.3
Spain .....	4.2	3.5	1.6	0.4	4.0	2.8	2.4	2.3	2.5	3.0
Euro 4 (4) .....	2.4	2.5	0.4	..	2.3	1.4	1.9	1.5	2.0	2.6
<i>Total economy</i>										
Germany .....	1.7	1.6	0.7	0.9	1.3	0.5	0.4	-0.4	1.0	0.7
France .....	2.5	2.9	-0.3	-0.3	1.8	0.6	2.1	0.9	2.8	3.2
Italy .....	2.8	2.9	0.4	-1.5	2.0	0.1	1.6	1.7	2.3	4.5
Spain .....	4.1	3.7	0.8	0.5	3.2	1.9	2.4	1.4	3.2	3.1
Euro 4 (4) .....	2.3	2.4	0.4	-0.1	1.8	0.6	1.4	0.7	1.9	2.5

Source: Based on Eurostat data.

(1) For Italy and Spain, standard labour units. - (2) At 1995 base prices. - (3) In addition to "manufacturing", also includes mining and electricity generation and distribution. - (4) Changes calculated on the basis of the sum of the figures for Italy, Germany, France and Spain. - (5) Includes the sectors "wholesale and retail trade, transport and telecommunications services", "financial intermediation and real estate services" and "other services".

Table 15

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

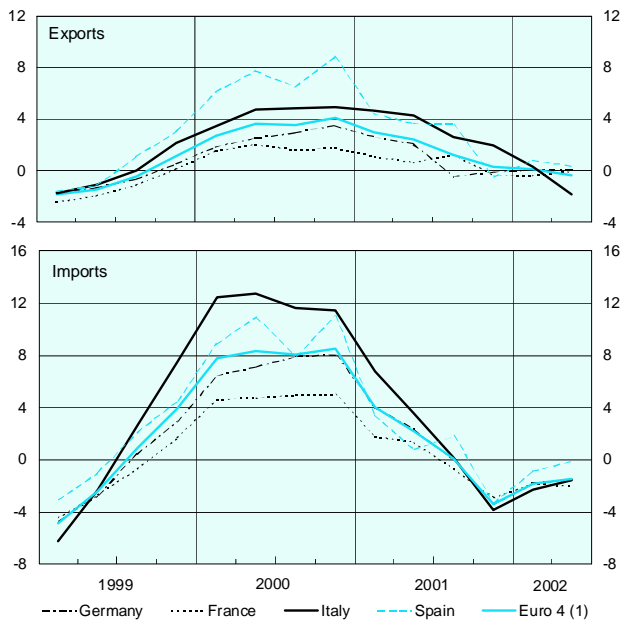
	Manufacturing			Services (excluding public services)		
	Weights in 1995	2001	2002 H1	Weights in 1995	2001	2002 H1
<b>Unit variable costs</b> .....	<b>100.0</b>	<b>1.8</b>	<b>1.7</b>	<b>100.0</b>	<b>2.5</b>	<b>2.8</b>
Labour inputs .....	35.9	3.1	10.0	73.6	2.1	7.7
Other inputs .....	64.1	1.1	-2.7	26.4	3.5	-8.5
Domestic .....	38.3	0.1	-1.2	19.9	3.6	-10.5
Imported .....	25.8	2.2	-4.2	6.5	3.3	-2.8
<b>Output prices</b> .....	<b>100.0</b>	<b>2.1</b>	<b>1.3</b>	<b>100.0</b>	<b>2.7</b>	<b>2.8</b>
Domestic .....	58.3	0.8	2.5	91.3	2.7	2.8
External .....	41.7	3.6	0.0	8.7	3.1	2.9

Source: Istat.

(1) Indicators excluding intrasectoral transactions.

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.

Italian exporters responded to a pronounced weakening of foreign demand and a rise in the nominal

effective exchange rate of the euro - equal to 0.5 per cent in the first half of the year on a twelve-month basis - by lowering the prices of their exports in order to defend market share. Average unit export values declined by 1.6 per cent overall (1.9 per cent in non-EU markets and 1.3 per cent in the EU), slightly more than the average fall in the producer prices of goods sold in EU domestic markets (0.8 per cent).

In Italy, the implicit export deflator for goods and services also declined by 0.8 per cent on average in the first half compared with a year earlier. By contrast, it was virtually unchanged in France, where it edged down by 0.2 per cent, and Germany, where it rose by 0.1 per cent (Figure 27).

### Inflation expectations

The professional forecasters surveyed monthly by *Consensus Forecasts* gradually raised their expectations for average inflation in 2002 in the euro area and Italy over the course of the first three quarters, reflecting the upturn in actual inflation. In October expected inflation for 2003 rose to 2.0 per cent for Italy and 1.9 per cent for the euro area as a whole (Table 16).

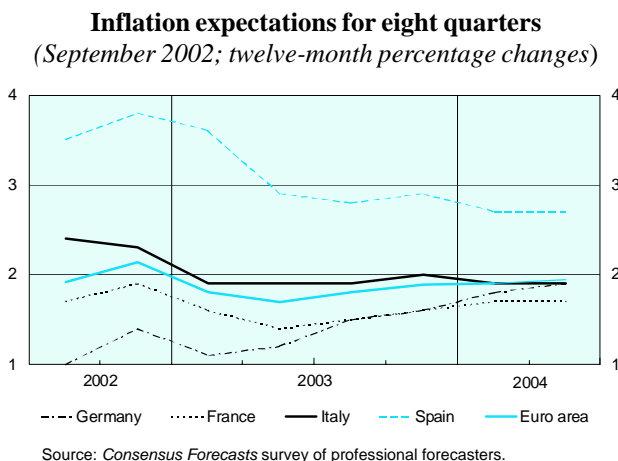
**Table 16**

**Inflation expectations for 2002 and 2003 in the euro area measured by *Consensus Forecasts***

	Forecasts for 2002		Forecasts for 2003	
	January 2002 survey	October 2002 survey	January 2002 survey	October 2002 survey
Germany . . . .	1.3	1.4	1.5	1.4
France . . . . .	1.3	1.8	1.4	1.6
Italy . . . . .	1.8	2.4	1.9	2.0
Spain . . . . .	2.5	3.5	2.6	3.0
Euro area . . . .	1.6	2.2	1.8	1.9

The quarterly *Consensus Forecasts* survey in September signaled expectations of a slowdown in prices in the coming months: inflation in Italy and the euro area is projected to fall below 2 per cent in the first quarter of next year (Figure 28).

**Figure 28**



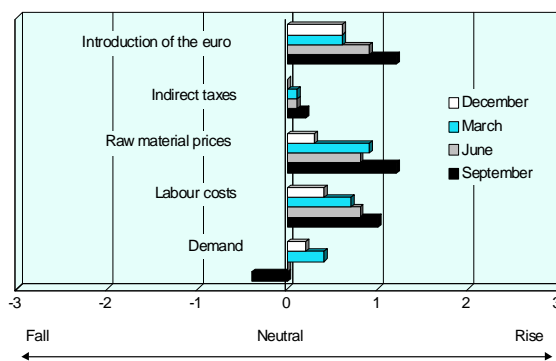
Consumer expectations for inflation in the subsequent twelve months in the main euro-area countries gradually declined over the course of the year, especially with respect to the end of 2001, when uncertainty about the impact of the changeover to the

euro loomed large. In Italy, the ISAE monthly survey of inflation expectations shows that the share of those who expect inflation to remain steady increased significantly in October with respect to December 2001, while the share of those expecting an increase fell sharply.

The quarterly survey of a sample of Italian firms conducted jointly by the Bank of Italy and *Il Sole 24 Ore* in September showed the increasing importance attributed to labour costs, raw material prices and the exchange rate among the factors that affect consumer price inflation in Italy. Unlike the June survey, the latest poll found that demand is expected to put downward pressure on prices (Figure 29). Firms' expectations for inflation in Italy remained broadly in line with those expressed in the previous survey (2.5 per cent for the subsequent twelve months and 2.4 per cent for longer horizons), higher than the expectations surveyed by *Consensus Forecasts*.

**Figure 29**

**Factors influencing the rate of consumer price inflation in Italy: 2001-2002 surveys**  
(average score) (1)



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

In the financial markets, the indicators of inflation expectations over the longer run confirm the outlook for a gradual decline in inflation to below 2 per cent. The difference between nominal and real yields on French Treasury bonds (derived from index-linked securities) decreased to 1.3 percentage points, down from 1.8 per cent in May.

## THE PUBLIC FINANCES IN THE EURO AREA AND ITALY

### The overall picture

In most of the euro-area countries it appears likely that the budget outcome for 2002 will be worse than in 2001 and will fall short of the targets set in the stability programme updates. For the area as a whole the ratio of net borrowing to GDP is likely to overshoot the target by more than a percentage point. The divergences reflect the slowdown in economic activity and, in some countries, the full effects of tax and social security contribution reliefs granted in earlier years.

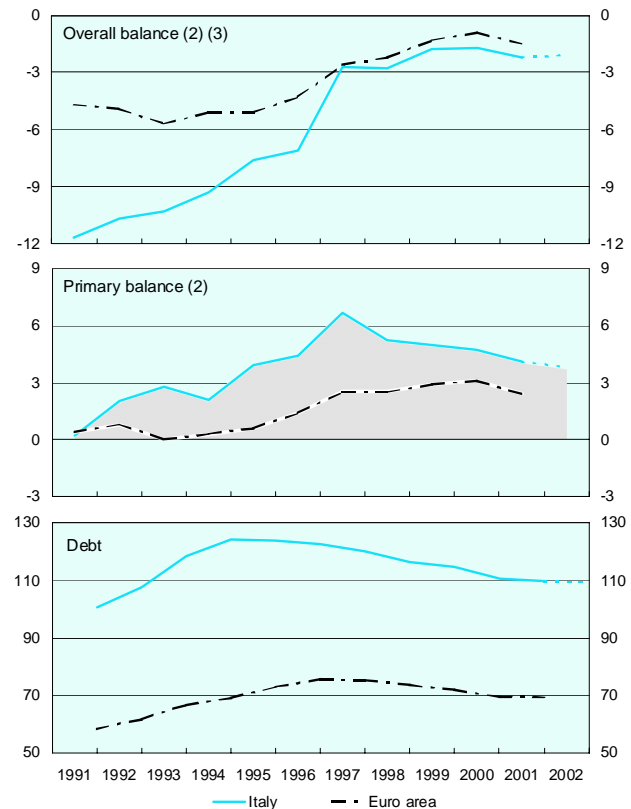
In Italy the stability programme update of November 2001 set a target of 0.5 per cent of GDP for general government net borrowing in 2002. In July of this year, taking into account the delay of the expected economic recovery and Istat's revision of the outturn for 2001, the Economic and Financial Planning Document for 2003-06 raised the figure to 1.1 per cent.

During the summer, faced with a decline in central government tax revenue and a large increase in the borrowing requirement compared with the previous year, the Government took steps to curb expenditure and boost revenue. Even though they took account of these measures, at the end of September the Forecasting and Planning Report and the Update of the Economic and Financial Planning Document raised the figure for net borrowing to 2.1 per cent of GDP (Figure 30).

In the first ten months of the year central government tax receipts fell by €7.3 billion compared with the corresponding period in 2001; net of settlements of past debts and privatization receipts, the state sector borrowing requirement rose by €10.9 billion to €49.6 billion. In the first nine months the general government net borrowing requirement was €11 billion larger than in the corresponding period in 2001.

Figure 30

Italy and the euro area: general government overall balance, primary balance and debt (1)  
(as a percentage of GDP)



Sources: Based on Istat and EU Commission data; for the debt, Bank of Italy. For 2002, forecasts from the Update of the Economic and Financial Planning Document for the years 2003-06 (*Nota di aggiornamento*).

(1) Following the switch to ESA95, there is a break in the euro-area series of the balances between 1994 and 1995 and in that of the debt between 1995 and 1996. - (2) Excludes the proceeds of sales of UMTS licences. - (3) Includes the effects of swaps and future rate agreements.

Achieving the objective set for net borrowing in the Forecasting and Planning Report will require effective action to curb disbursements in the last part of the year and the actual collection of the receipts expected from the securitization of property sales. The gap between the borrowing requirement and net borrowing will remain large.

## Objectives and forecasts for the euro area

The stability programme updates submitted between October 2001 and January 2002 indicated a gradual reduction in general government net borrowing for the euro area, with a position close to balance being reached in 2004. The ratio of the budget deficit to GDP was forecast to fall by 0.2 percentage points in 2002 and by 0.5 points in 2003 (Table 17). The targets were less ambitious than those set in earlier programmes and adversely affected by the results of the public finances in 2001.

When the final figures for 2001 for the budget balance and the debt were submitted to the EU Commission in September of this year, nearly all the euro-area countries revised the results they had

reported in March. The amendments led to an increase of 0.2 percentage points in the area's ratio of net borrowing to GDP, to 1.5 per cent. The deterioration in the ratio was especially large for Portugal (1.9 points) and Italy (0.8 points).

In Portugal the upward revision of the budget deficit from 2.2 to 4.1 per cent was due to a number of factors: new data on the accounts of local authorities; the inclusion in the budget accounts of some injections of capital into publicly-owned companies; changes to the methods used to account for expenditure carryovers and revenue connected with the EU structural funds; and the expiry of a derogation with regard to the methods of recording receipts accruing in the year. The result for 2001 triggered the excessive deficit procedure.

**Table 17**

**Euro area and the EU: general government net borrowing and debt (1)**  
(as a percentage of GDP)

	2001		2002		2003	
	Euro area	EU	Euro area	EU	Euro area	EU
<b>Net borrowing (2)</b>						
Stability and convergence programmes .....	1.1	0.7	0.9	0.8	0.4	0.5
EU Commission (April 2002) .....	1.3	0.7	1.5	1.1	1.2	0.9
OECD (June 2002) (3) .....	1.3	0.6	1.5	1.2	1.2	1.1
IMF (September 2002) (3) .....	1.5	0.9	2.0	1.6	1.6	1.3
Outturn according to Eurostat (September 2002) .....	1.5	0.8	-	-	-	-
EU Commission (November 2002) (4) .....	1.5	0.8	2.3	1.9	2.1	1.8
<b>Cyclically-adjusted net borrowing</b>						
OECD (June 2002) .....	1.1	0.6	0.7	0.6	0.7	0.7
IMF (September 2002) .....	1.4	1.0	1.1	0.9	0.6	0.5
<b>Debt</b>						
Stability and convergence programmes .....	68.7	62.2	67.2	60.9	65.5	59.3
EU Commission (April 2002) .....	69.2	62.9	68.6	61.9	67.2	60.5
Outturn according to Eurostat (September 2002) .....	69.2	63.1	-	-	-	-
EU Commission (November 2002) (4) .....	69.3	63.0	69.6	63.0	69.1	62.5

Sources: Stability and convergence programme updates submitted between October 2001 and January 2002; EU Commission, *Spring Forecasts*, April 2002; OECD, *Economic Outlook*, June 2002; IMF, *World Economic Outlook*, September 2002 and Eurostat, press communiqué, 30 September 2002.

(1) Weighted averages based on GDP. - (2) Excludes the proceeds of sales of UMTS licences. - (3) Recalculated excluding the proceeds of sales of UMTS licences, which have almost no effect on the averages. - (4) Based on preliminary figures. - (5) Excludes Luxembourg.



Considering the revisions of the balances for 2001 and the poor performance of the economy in the majority of euro-area countries, the results for 2002 are likely to fall short of the targets indicated in the stability programme updates.

Forecasts have become more and more pessimistic during the course of the year.

The estimates made by the EU Commission and the OECD before the summer indicated that the ratio of the area's net borrowing to GDP would rise by 0.2 percentage points in 2002 and then fall by 0.3 points in 2003.

In September, when the French Government put forward its budget for 2003, it estimated that net borrowing in 2002 would be equal to 2.6 per cent of GDP, an overshoot of 1.2 points with respect to the target set in the stability programme update presented in December 2001. The target for the ratio in 2003 was also raised by more than a percentage point to 2.6 per cent.

In October the German Government lowered its projections for 2002 and 2003 for revenue and raised those for unemployment benefits. In order to offset the worsening of the balances, it announced corrective measures that should reduce the ratio of net borrowing to GDP by 0.75 percentage points in 2003 and 1 point in 2004. Additional revenue is to come from measures concerning VAT, energy taxes, corporate taxes and social security contributions; expenditure savings are to come mainly from changes to unemployment benefits. The target for net borrowing will be announced by the Government when it presents its next stability programme update.

In November the EU Commission forecast euro-area net borrowing equal to 2.3 per cent of GDP in 2002 and 2.1 per cent in 2003, with an increase of 0.8 and 0.9 percentage points respectively compared with the figures it published in the spring. Considering the four countries that recorded significant budget imbalances in 2001, the Commission forecast net borrowing in 2002 equal to 2.7 per cent of GDP for France, 3.8 per cent for Germany, 2.4 per cent for Italy and 3.4 per cent for Portugal. In 2003 all these countries are expected to

show an improvement, except France, where the ratio is forecast to increase by 0.2 percentage points. The improvement is expected to amount to 0.7 percentage points in Germany, 0.5 points in Portugal, and 0.2 points in Italy.

As regards the area's ratio of debt to GDP, the Commission forecasts an increase of 0.3 percentage points in 2002 and a reduction of 0.5 points in 2003, to 69.1 per cent.

In view of the deterioration in the public finances of the four countries that have not yet achieved budgetary positions close to balance or in surplus (France, Germany, Italy and Portugal), in October 2002 the Eurogroup reached an agreement on the application of the budgetary rules established at European level. The agreement provides for the postponement of the achievement of balance in nominal terms and an undertaking to improve the ratio of the cyclically-adjusted balance to GDP by at least 0.5 percentage points every year. All the countries involved, except France, have pledged to begin achieving this correction in 2003. The agreement reaffirms the need to draw up credible adjustment programmes based on realistic macro-economic scenarios and clearly specified budgetary measures.

On 24 October the Governing Council of the ECB issued a press release on the Stability and Growth Pact. The Council reiterated its view that, by ensuring sound and sustainable fiscal policies and permitting automatic stabilizers to operate fully, the Pact helps to create stable conditions that foster non-inflationary growth and employment. The Council stressed that sound public finances are a necessary complement of a monetary policy geared to price stability.

### **Budgetary policy in Italy**

The Economic and Financial Planning Document presented in July 2001 set an objective for general government net borrowing of 0.5 per cent of GDP in 2002 (Table 18), a reduction of 0.3 percentage points compared with that for 2001. The ratio of debt to GDP was expected to fall by 3.8 percentage points. The

baseline projection for GDP growth in 2002 was 2.2 per cent and it was estimated that the Government's economic policy measures would raise this to 3.1 per cent.

In September 2001 the Forecasting and Planning Report increased the estimate of net borrowing in 2001 to 1.1 per cent of GDP. The estimate of economic growth in 2002 was reduced to 2.3 per cent, while the objective for the deficit was confirmed. The expected fall in the ratio of debt to GDP was reduced to 3.1 percentage points.

In order to achieve the objective for net borrowing set for 2002, the Government submitted a budget to Parliament intended to produce an adjustment equal to 0.7 per cent of GDP; it was approved with only minor amendments. The measures included a number of a one-off nature serving to raise additional revenue amounting to around 1 per cent of GDP, of which three-fifths was to come from the disposal of real estate by means of securitizations. The measures intended to increase expenditure and reduce revenue were mostly of a permanent nature.

Table 18

**Italy: public finance targets and estimates for 2002**  
(millions of euros and percentages)

	State sector net borrowing requirement (1)	General government				Memorandum items:	
		Net borrowing	Primary surplus	Interest payments		Real GDP growth rate	Nominal GDP
<b>Targets</b>							
Economic and Financial Planning Document (July 2001) .....	18.6	7.1	70.8	77.9	....	3.1	1,295.4
<i>as a percentage of GDP</i> .....	1.4	0.5	5.5	6.0	103.2		
Forecasting and Planning Report (September 2001) and Economic and Financial Planning Document Update (October 2001) .....	22.2	6.5	68.1	74.6	....	2.3	1,281.8
<i>as a percentage of GDP</i> .....	1.7	0.5	5.3	5.8	104.4		
Stability Programme Update (November 2001) .....	....	....	....	....	....	2.3	....
<i>as a percentage of GDP</i> .....	....	0.5	5.3	5.8	104.3		
<b>Estimates on a current programmes basis</b>							
Quarterly Report on the Borrowing Requirement (April 2002) .....	26.3 (2)	7.0	65.7	72.6	....	2.3	1,276.4
<i>as a percentage of GDP</i> .....	2.1	0.5	5.1	5.7	....		
Economic and Financial Planning Document (July 2002) .....	....	14.5	60.0	74.5	....	1.3	1,265.1
<i>as a percentage of GDP</i> .....	....	1.1	4.7	5.9	109.3 (3)		
Forecasting and Planning Report and Economic and Financial Planning Document Update (September 2002) .....	32.6	26.9	48.0	74.9	....	0.6	1,253.2
<i>as a percentage of GDP</i> .....	2.6	2.1	3.8	6.0	109.4		

(1) Net of settlements of past debts and privatization receipts. - (2) The Quarterly Report on the Borrowing Requirement indicated a net borrowing requirement of €30.1 billion (€40.6 billion if settlements of past debts are included). - (3) The Economic and Financial Planning Document published in July 2002 set a target of 108.5 per cent.

The figures of the Forecasting and Planning Report were confirmed in the stability programme update of November 2001.

In March 2002 Istat released statistics showing that net borrowing in 2001 had been equal to 1.4 per cent of GDP. In June the figure was raised to 1.6 per cent, primarily owing to the revision of the data on the health sector, and in July it was raised again, to 2.2 per cent. This time the increase reflected the decision taken by Eurostat with regard to the accounting treatment of securitizations, which excluded revenue deriving from the securitization of the proceeds of real-estate sales and future lottery receipts from the calculation of net borrowing. As a consequence of this decision, debt rose from 109.4 to 109.8 per cent of GDP.

The Quarterly Report on the Borrowing Requirement of April 2002 confirmed the forecast of 2.3 per cent economic growth for the year and the objective for net borrowing of 0.5 per cent of GDP. However, the forecast for the state sector borrowing requirement, net of settlements of past debts and privatization receipts, set at 1.7 per cent of GDP in the October 2001 Planning Document Update, was raised to 2.1 per cent.

The Economic and Financial Planning Document for 2003-06 submitted in July 2002 acknowledged the delay in the start of the recovery in economic activity, the partial success of the steps taken since the middle of 2001 to curb health expenditure, and Istat's revision of the outturn for 2001. The forecast of GDP growth in 2002 was reduced to 1.3 per cent. The objective for net borrowing was raised to 1.1 per cent of GDP. The ratio of debt to GDP was expected to fall by 1.3 percentage points (to 108.5 per cent), instead of 3.1 points.

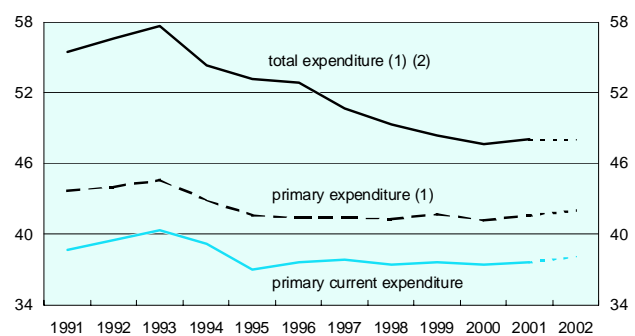
Faced with a large increase in the borrowing requirement compared with 2001, which widened further in July and August owing to the poor results of the payment of self-assessed taxes, from the summer onwards the Government adopted a series of corrective measures aimed at curbing expenditure and boosting revenue (see box).

The revenue measures should limit the decrease in the ratio of taxes and social security contributions to GDP resulting from the absence of some of the one-off receipts recorded in 2001 and the tax reliefs granted to households in the budget for 2002.

At the end of September the forecast growth in GDP in 2002 was further reduced, from 1.3 to 0.6 per cent, in the Forecasting and Planning Report for 2003 and the Planning Document Update. Even after taking into account the effects of the corrective measures adopted from the summer onwards, the estimate of general government net borrowing in 2002 was raised to 2.1 per cent of GDP; the primary surplus was expected to be 3.8 per cent of GDP, as against 4.1 per cent in 2001, with primary current expenditure rising from 37.6 to 38.1 per cent of GDP (Figure 31). The estimate of the state sector borrowing requirement rose to €32.6 billion, or 2.6 per cent of GDP. The fall in the ratio of the debt to GDP is now expected to be only 0.4 percentage points.

**Figure 31**

**Italy: general government expenditure**  
(as a percentage of GDP)



Sources: Based on Istat data. For 2002 and 2003, forecasts from the Update of the Economic and Financial Planning Document for the years 2003-06 (*Nota di aggiornamento*).

(1) Excludes the proceeds of the sale of UMTS licences in 2000 (1.2 per cent of GDP). - (2) Includes the effects of swaps and future rate agreements.

**The performance of the public finances during the year**

In the first ten months of 2002 the state sector borrowing requirement, net of settlements of past debts and privatization receipts, was €49.6 billion, an increase of €10.9 billion compared with the corresponding period in 2001 (Table 19).

### The corrective measures introduced during the year

*On 15 April, with the aim of curbing expenditure on pharmaceuticals, the Government issued Decree Law 63 reducing the price paid for most drugs by the National Health Service by 5 per cent.*

*On 8 July a decree law was issued to limit the cost of tax reliefs granted in the form of tax credits. Taxpayers may now use the tax credits provided for by the legislation in force only within the limit of the funds available. The amount of these funds and the fact that they have been exhausted are to be announced in specific decrees. In particular, tax credits for investments in disadvantaged areas, in force since January 2001, are no longer automatic but subject to approval by the Revenue Agency of the Ministry for the Economy and Finance. The tax credit for new employees hired on permanent contracts, also in force since 2001, was eliminated de facto for employees hired from 8 July onwards, except for those hired to replace workers for whom the tax credit had already been granted. The tax credits for employees hired before that date now depend on the availability of funds. A decree issued on 1 August by the Ministry for the Economy and Finance announced that the resources for 2002 (€652 million) had been exhausted. Decree Law 209 of 24 September provided that tax credits accrued but not used in the second half of 2002 for employees hired before 8 July will be repaid in 2003.*

*On 6 September the Government issued a decree to strengthen the controls on spending. Provisions involving new or additional expenditure are to have*

*effect only within the limits of the expenditure contemplated by the related legislative measures; for legislation already in force, the ceilings are equal to the appropriations in the State budget. The reaching of these limits is to be notified by the State Accounting Office. The decree also provides that if there are significant overshoots with respect to the public finance targets indicated in the Economic and Financial Planning Document and subsequent updates, limits may be set on the utilization of the budget appropriations for some non-mandatory categories of expenditure by order of the Minister for the Economy and Finance acting on a resolution of the Council of Ministers after consulting the competent committees of Parliament. The same decree also reduces the time before budget expenditure carryovers expire.*

*On 24 September a decree law on corporate taxation was issued. According to official estimates, the measure will increase tax receipts in the last two months of the year by around €3.2 billion. The decree reduces the benefits of the dual income tax substantially and makes the tax treatment of capital losses and insurance companies' allocations to technical reserves more restrictive. It also raises the year-end percentage payment on account due from tax collection officers for some taxes. The expected increases in receipts come largely from the changeover to the new rules and are thus destined to drop out in the coming years. The decree law is now in Parliament for ratification; important amendments have been proposed during the parliamentary discussion.*

Compared with the first ten months of 2001, tax receipts fell by 3 per cent, to €235.7 billion, above all owing to the reduction in self-assessed direct taxes and one-off receipts. In the first six months of this year state sector expenditure amounted to €190.8 billion, an increase of 1.4 per cent compared with the corresponding period in 2001 (see box).

In the first nine months of 2002 general government net borrowing was €41.9 billion, an

increase of €11 billion on the figure for the corresponding period in 2001.

An indication of the performance of the public finances on a cash basis is given by the rolling twelve-month borrowing requirement. After showing a downward trend until the middle of 2000, this aggregate rose almost continuously until the early months of 2001. It remained basically unchanged until the spring of this year, after which it began to rise

again. The pattern was the same for the borrowing requirement of both the state sector and general government (Figure 32).

**Table 19**

**Italy: main public finance indicators (1)**  
(millions of euros)

	1999	2000	2001	2002
<i>Net state sector borrowing requirement (2)</i>				
Jan.-Oct. . . . .	32,124	30,229	38,716	49,650
<i>Net general government borrowing requirement (2)</i>				
Jan.-Sept. . . . .	29,096	29,200	30,893	41,916
<i>Gross general government borrowing requirement</i>				
Jan.-Sept. . . . .	33,633	32,660	33,735	45,010
<i>General government debt</i>				
September . . . . .	1,291,170	1,305,825	1,331,364	1,386,836
December . . . . .	1,269,123	1,286,942	1,335,430	-

(1) Takes account of the decision adopted by Eurostat on 3 July 2002 with regard to the accounting treatment of the proceeds of securitizations. - (2) Net of settlements of past debts and privatization receipts.

In view of the results for the borrowing requirement this year, achieving the objective for net borrowing indicated in the Forecasting and Planning Report (2.1 per cent of GDP) would imply the maintenance of the earlier large gap between the two aggregates. Non-existent on average in the 1990s the gap widened to 1.4 per cent of GDP in 2000 and then narrowed to 1.1 per cent in 2001.

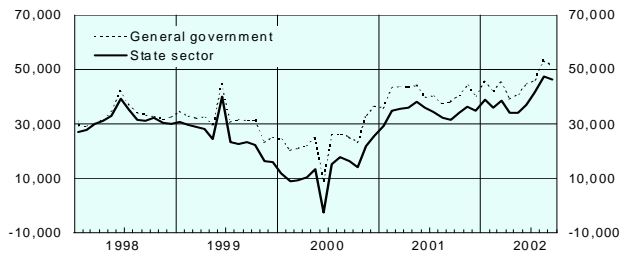
### The public debt

The Update of the Economic and Financial Planning Document for 2003-06 indicated a ratio of public debt to GDP of 109.4 per cent in 2002, a decrease of 0.4 percentage points compared with

2001. The estimate implied that the debt would rise to €1,371 billion, an increase of €36 billion, compared with that of €48.5 billion in 2001.

**Figure 32**

**Italy: rolling twelve-month borrowing requirement (1)**  
(millions of euros)



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

In the first nine months of 2002 general government debt rose to €1,387 billion, an increase of €51.4 billion, compared with that of €44.4 billion in the corresponding period in 2001. The gross general government borrowing requirement amounted to €45 billion, compared with €33.7 billion in 2001. The aggregate was increased by settlements of past debts €3.3 billion, compared with €7.2 billion in the corresponding period in 2001) and reduced by privatization receipts (€0.2 billion, compared with €4.3 billion). On the other hand, there was a reduction in the issue of liabilities to increase the balances on the Treasury's accounts with the Bank of Italy (€8.4 billion, compared with €11.3 billion). The movement in the exchange rate of the euro reduced the euro equivalent of the liabilities denominated in dollars, yen and Swiss francs by €2.2 billion in the first nine months after increasing it by €0.3 billion in the corresponding period in 2001. Issue premiums/discounts and residual items increased the debt by €0.2 billion in the first nine months after reducing it by €0.9 billion in the corresponding period in 2001.

The debt appears set to rise further in October in view of the deficit recorded for the state sector, but should decrease in the last two months of the year with the receipt of one-off revenue from securitizations. Last year the withdrawal of funds deposited with the Bank of Italy reduced the increase in the debt in the last quarter by €7.3 billion.

## State sector tax revenue and expenditure

### Tax revenue in the first ten months of the year

State sector tax receipts amounted to €235.7 billion in the first ten months of the year, 3 per cent less than in the corresponding period of 2001 (Table 1). Receipts of direct taxes fell to a greater extent, by 4.9 per cent (€6.5 billion), while receipts of indirect taxes declined by 0.8 per cent (€0.9 billion).

The performance of direct taxes was adversely affected by the reduction in receipts of self-assessed corporate and personal income tax (€3.8 billion), the decline in receipts of the tax on the disposal of businesses and equity investments (€1.3 billion) and the fall in the yield of the one-off tax on the revaluation of corporate fixed assets (€3.4 billion).

Receipts of personal income tax rose by 1 per cent. The self-assessed component fell by 11.2 per cent (€1.4 billion), partly owing to the residual effects of the non-payment of balances for workers with coordinated and continuous collaboration contracts, who have been put on the same footing as payroll employees since 2001. The tax withheld for the latter increased by 4.7 per cent (€3.4 billion). This result reflected the above-mentioned reclassification of quasi-employees and the inclusion in the accounts of amounts withheld by INPS in 2001 (€1.5 billion). Revenue was reduced by the effects of the increase in the allowances for dependent children introduced in the budget for 2002 (officially estimated at €1.1 billion for the full year).

The yield of corporate income tax fell by 13 per cent (€2.4 billion). Contributory factors included the impact of the business cycle on the tax base, the after-effects of the measures regarding the revaluation of corporate fixed assets in 2000 and 2001 (greater use of Dual Income Tax and increased depreciation), and investment incentives. Furthermore, the balances paid in 2001 had been temporarily boosted by legislation approved at the end of 2000.

Receipts of the tax on interest income and capital gains fell by 15 per cent (€2.1 billion). This was primarily attributable to the decrease of €1.3 billion in the yield of the tax on the disposal of businesses and equity investments, receipts of which had been affected in 2001 by legislative changes. After the spike of €7.8 billion recorded in the first ten months of 2000, the managed

assets component fell sharply in 2001; in the first ten months of 2002 it amounted to €0.2 billion, as a consequence of the utilization of tax credits accumulated the previous year and the fall in share prices. By contrast, the tax on interest income from bank deposits rose by 9.1 per cent.

Table 1

State sector tax revenue (1)  
(millions of euros)

	January-October			
	2001	2002 (2)	% com- posi- tion 2002	% change on 2001
<b>Direct taxes</b> .....	<b>133,312</b>	<b>126,838</b>	<b>53.8</b>	<b>-4.9</b>
Personal income tax .....	93,781	94,750	74.7	1.0
of which: payroll withholdings	71,878	75,258		4.7
balances .....	5,908	4,729		-20.0
payments on				
account .....	6,414	6,210		-3.2
Corporate income tax .....	18,586	16,169	12.7	-13.0
of which: balances .....	8,654	6,764		-21.8
payments on				
account .....	9,728	9,202		-5.4
Tax on interest income and				
capital gains .....	13,797	11,721	9.2	-15.0
of which: interest income on				
bank deposits .....	3,434	3,748		9.1
income from man-				
aged assets .....	425	192		-54.8
sales of businesses				
and equity				
investments .....	3,655	2,351		-35.7
Other (3) .....	7,148	4,198	3.3	-41.3
of which: tax on the				
revaluation				
of corporate fixed				
assets .....	4,989	1,563		-68.7
<b>Indirect taxes</b> .....	<b>109,702</b>	<b>108,830</b>	<b>46.2</b>	<b>-0.8</b>
VAT (4) .....	68,846	70,023	64.3	1.7
Other business taxes .....	10,688	10,099	9.3	-5.5
Excise duties on oil products ..	16,271	15,443	14.2	-5.1
Other excise duties and sale				
taxes .....	5,366	4,747	4.4	-11.5
Monopolies .....	5,926	6,364	5.8	7.4
Lotteries .....	2,605	2,154	2.0	-17.3
<b>TOTAL TAX REVENUE</b> .....	<b>243,014</b>	<b>235,668</b>	<b>100.0</b>	<b>-3.0</b>

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

(1) The tax receipts of the State budget shown in this table do not correspond to the amounts actually paid. In fact the monthly flows are observed at the time they are included in the budget accounts which does not coincide with the time they are paid. The data are net of accounting transactions with the regional governments of Sicily and Sardinia. - (2) Provisional. - (3) Includes receipts of inheritance tax, which are recorded under "Business taxes and duties" in the State budget. - (4) Includes the receipts accruing to the EU.

cont. ►

Turning to indirect taxes, receipts of VAT rose by 1.7 per cent and those from the State Monopolies by 7.4 per cent. The fall of 5.1 per cent in the yield of excise duties on oil products was due to the changes made at the beginning of the year in the way in which they are paid. The decrease of 11.5 per cent in the yield of other excise duties and sales tax reflected the granting of permanent reliefs for methane used in the home.

### Expenditure in the first half of the year

In the first six months of the year state sector expenditure amounted to €190.8 billion, an increase of 1.4 per cent compared with the corresponding period in 2001 (Table 2). Primary expenditure increased by 5.4 per cent (€8.2 billion), but this was partly offset by the reduction of €5.6 billion in interest payments.

Among the primary current expenditure items, spending on goods and services rose by 5.6 per cent (€0.3 billion). The growth in wages and salaries was curbed by the delays in renewing labour contracts for the years 2002-03 and amounted to 2.4 per cent (about €0.8 billion).

Current transfers increased by 4.5 per cent (€3.6 billion). Those to social security institutions grew by 14.4 per cent (€3.4 billion). This result reflected the increase in the number of long-service pensions and the drying up of receipts from the securitization of claims in respect of social security contributions and from the sale of buildings. These receipts had contributed respectively €1 billion and €0.4 billion to the financing of INPS in the first half of 2001. Transfers to the regions fell by 8.6 per cent, partly owing to the delay in the allocation of the additional resources for the health sector provided for in the agreement of August 2001. There was a significant increase of €1.7 billion in transfers to enterprises, primarily payments to Ferrovie dello Stato S.p.A. and another of the same size in transfers abroad.

Tax refunds rose by 10 per cent to €10.9 billion. This item includes only the offsetting amounts determined on the basis of the unified tax payment form.

Capital expenditure increased by 16.4 per cent (€1.8 billion). Central government direct investment rose by

33.1 per cent, partly owing to the inclusion of some defence costs which had previously been classified under current expenditure. Transfer payments on capital account increased by 9.4 per cent.

Financial expenditure declined by 1.2 per cent. A decrease of €1.4 billion in equity investments was accompanied by an increase of €1.1 billion in loans and advances, primarily as a result of an increase in lending by the Cassa Depositi e Prestiti to local authorities.

Table 2

### Main expenditure items of the state sector (millions of euros)

	H1			
	2001	2002	% composition 2002	% change on 2001
<b>Current payments (1)</b> .....	<b>169,682</b>	<b>170,550</b>	<b>89.4</b>	<b>0.5</b>
Wages and salaries .....	33,337	34,134	17.9	2.4
Goods and services .....	5,579	5,894	3.1	5.6
Current transfers to: .....	79,785	83,405	43.7	4.5
social security institutions	23,892	27,331		14.4
regions .....	34,157	31,231		-8.6
municipalities and provinces .....	6,901	6,798		-1.5
households .....	2,125	2,180		2.6
enterprises .....	5,482	7,205		31.4
recipients abroad .....	1,853	3,554		91.8
other .....	5,375	5,106		-5.0
Interest payments .....	36,372	30,772	16.1	-15.4
Tax refunds .....	9,953	10,949	5.7	10.0
Other .....	4,656	5,396	2.8	15.9
<b>Capital expenditure</b> .....	<b>11,264</b>	<b>13,109</b>	<b>6.9</b>	<b>16.4</b>
of which: fixed investments ...	1,685	2,242		33.1
transfer payments .....	9,288	10,163		9.4
<b>Financial expenditure</b> .....	<b>7,212</b>	<b>7,128</b>	<b>3.7</b>	<b>-1.2</b>
of which: equity investments ...	3,357	2,000		-40.4
loans and advances .....	3,265	4,332		32.7
<b>TOTAL EXPENDITURE</b> .....	<b>188,158</b>	<b>190,787</b>	<b>100.0</b>	<b>1.4</b>

Source: *Relazione trimestrale di cassa*, 30 June 2002.

(1) Net of accounting transactions with the regional governments of Sicily and Sardinia.

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

### Interest rates and the exchange rate of the euro

The ECB Governing Council has not modified the Eurosystem's official interest rates since November 2001. The minimum bid rate on main refinancing operations currently stands at 3.25 per cent (Figure 33).

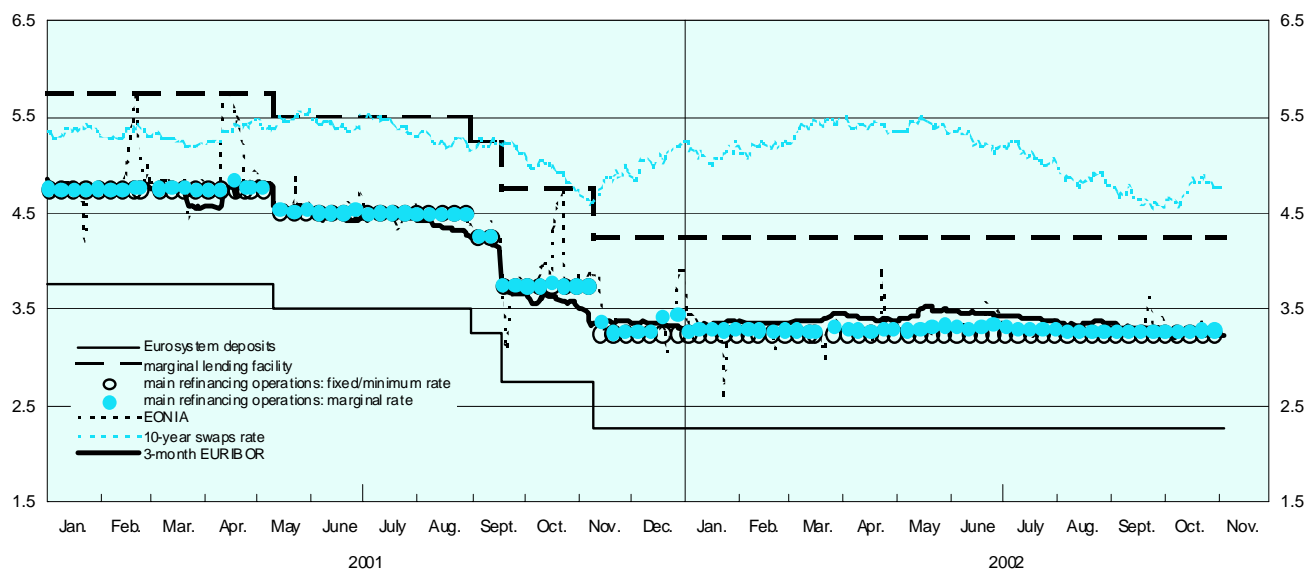
Economic conditions in the euro area have changed considerably in the meantime. In the first quarter of the year the outlook for growth improved and inflation diminished, though remaining above 2 per cent. The M3 money supply continued to expand rapidly. With a generally relaxed monetary policy stance, the yield curve gradually shifted upwards. At the end of March futures contracts implied that three-

month yields were expected to rise by around 1 percentage point by the end of the year (Figure 34).

The signs of recovery weakened in the spring and equity markets turned downwards again. World and euro-area economic conditions continued to worsen gradually during the summer; from the second half of August, rising international political tensions accentuated the climate of uncertainty. Reflecting these changes, the yield curve implied by futures contracts began to move downwards in April and became negatively sloped at the short end from August onwards. On 8 November it indicated that the three-month rate was expected to fall by nearly half a percentage point by the end of the first quarter of 2003.

**Figure 33**

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

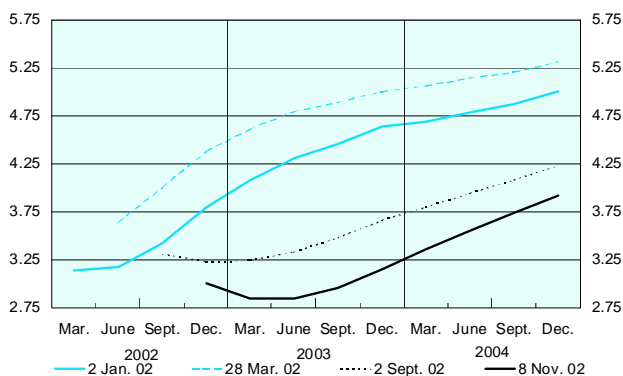


Sources: ECB, Reuters and Telerate.



Figure 34

**Rates of futures contracts on 3-month Euromarket deposits (1) (percentages)**



Source: Reuters.

(1) Each curve relates to the contract date indicated in the legend. The horizontal axis shows the settlement dates for the futures contracts to which the yields refer.

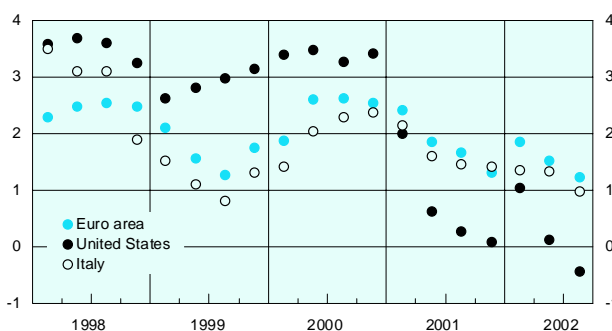
Long-term interest rates came down substantially, after recording limited rises in the first quarter. The yield on ten-year euro-denominated government securities, calculated as the average of those on the benchmark securities of the main countries of the area, declined from 5.4 per cent at the end of March to 4.7 per cent at the beginning of November. Over the same period ten-year swap rates fell from 5.5 to 4.8 per cent, a level similar to that registered during the cyclical downturn of 1998. These yield developments reflected not only the deterioration in economic conditions but also stock market turbulence, which caused a portfolio shift in favour of fixed-income financial assets. The fall in long-term yields was more pronounced in the United States: the differential between ten-year yields in euros and dollars, calculated on the basis of interest rate swaps, stood at 0.2 percentage points at the beginning of November, whereas it had been negative by 0.7 points at the beginning of January.

The real short-term rate in the euro area, calculated on the basis of survey findings of inflation expectations, fell to 1.2 per cent in the third quarter of 2002, more than half a point lower than in the first quarter (Figure 35). In the same period the real short-term rate in the United States declined by 1.5 points to -0.4 per cent, a level comparable to that reached in the two years following the 1990

recession. The markets expect real rates in euros to remain at their current level of just above 1 per cent throughout 2003; those in dollars, which now stand at -1 per cent, are expected to rise gradually over next year but to remain negative.

Figure 35

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



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

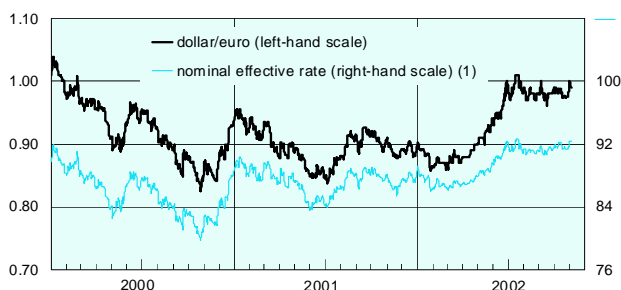
(1) Nominal 3-month rates on Euromarket deposits (averages of daily data in the last month of the quarter), deflated using inflation expectations measured by the quarterly Consensus Forecasts survey. For the euro area, for 1998, 3-month LIBOR rates for France, Germany, Italy and Spain weighted using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

The real long-term euro interest rate, calculated on the basis of ten-year swap rates and long-term inflation expectations reported by surveys, decreased by around 0.4 points between the first and third quarters of the year, to reach 3 per cent. Over the same period the corresponding dollar rate diminished by 0.9 points to 2.3 per cent. The yields on French and US inflation-indexed government securities, which are alternative indicators of the real long-term rate, show a similar pattern.

The euro appreciated sharply against a weakening dollar between April and June; subsequently, it fluctuated around parity with the dollar. Between the end of last year and early November the euro appreciated by 12.8 per cent against the dollar, 5.7 per cent against the yen, 5 per cent against sterling and 6 per cent in nominal effective terms (Figure 36). The strengthening of the euro was accompanied by substantial net direct and portfolio investment inflows into the area in the second quarter (€62.7 billion, compared with net outflows totaling €24 billion in the corresponding period of 2001).

Figure 36

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



Sources: ECB and Bank of Italy.  
(1) Index, first quarter 1999=100.

### The money supply and credit

Euro-area M3 continued to expand rapidly in the first nine months of 2002. Its rate of growth was 7.4 per cent in the twelve months to September, compared with 8 per cent in 2001 (Figure 37); it averaged 7.1 per cent in the last three months.

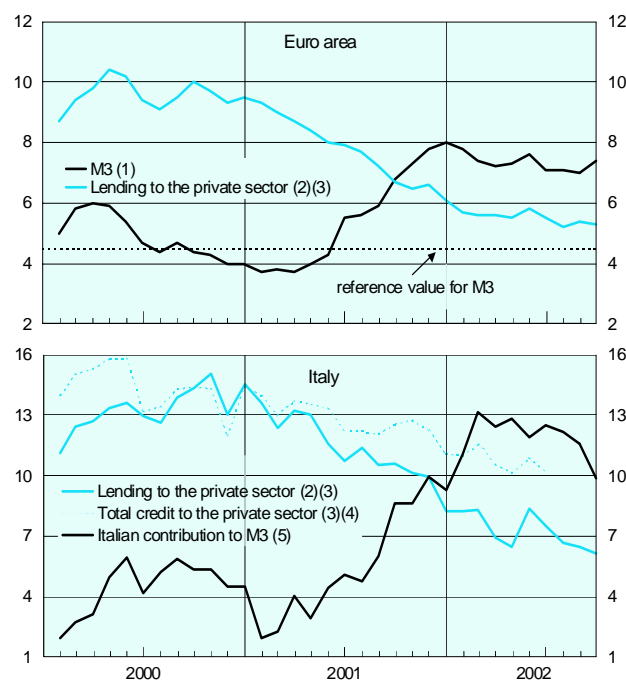
The large increase in M3 reflected the expansion in both overnight deposits and marketable instruments, which grew by 9.6 and 11.7 per cent respectively in the twelve months to September. Although currency in circulation diminished by 0.5 per cent in the twelve months to September, it surged by 44.1 per cent between January and September on a seasonally adjusted, annual basis. This indicates that the public is rebuilding its holdings of cash to the level preceding the shift to euro coins and banknotes, a process that is likely to run its course within the next few quarters.

Beside the rebound in currency in circulation, another factor contributing to the deceleration in M3 was portfolio reallocation in favour of more liquid instruments in response to falling prices and volatility on stock markets and the low opportunity cost of holding monetary assets (approximated by the differential between long and short-term yields). On balance, the inflationary risks connected with the large growth in M3 appear limited for now.

The Italian component of euro-area M3, calculated net of currency in circulation (which is not measurable at the national level since the introduction of the euro), continued to grow rapidly. It increased by 9.9 per cent in the twelve months to September, compared with 9.3 per cent in 2001 (Figure 37); the comparable aggregate for the euro-area rose by 7.7 per cent. The change in the Italian contribution to M3 reflected both a large increase in overnight deposits and deposits redeemable at up to three months' notice and the exceptional surge in money-market fund units, whose growth of 69.6 per cent in the twelve months to September contributed around 2 percentage points of the growth in the aggregate.

Figure 37

**Monetary and credit aggregates**  
(monthly data; twelve-month percentage changes)



Sources: ECB and Bank of Italy.

(1) Changes are calculated on the basis of seasonally adjusted data corrected for calendar effects; see ECB press release of 26 July 2001. - (2) Loans granted in euros and other currencies by monetary financial institutions (MFIs). - (3) The private sector includes households, non-financial corporations, insurance corporations, non-profit institutions; serving households, non-money-market funds, and other financial institutions; it corresponds to the "Other residents" sector in the harmonized statistics of the ESCB. - (4) Includes bonds and foreign loans in addition to lending by MFIs. - (5) Excludes currency in circulation.

Credit to the private sector in the euro area slowed down in the first nine months of 2002, mainly

as a consequence of the weakness of economic activity. Total lending by monetary financial institutions grew by 5.1 per cent in the twelve months to September, compared with 6.7 per cent in 2001. The sectoral breakdown, which is available up to the second quarter of 2002, indicates that the slowdown involved lending to non-financial corporations, whose twelve-month rate of increase declined to 4.8 per cent, compared with 6.1 per cent in 2001.

Total credit to the private sector in Italy continued to decelerate. The slowdown was particularly marked for bank lending, which contracted in the short-term component and showed overall twelve month growth of 6.1 per cent in September, compared with 8.2 per cent in 2001 (Figure 37 and Table 20). A contributory factor was the fall in firms' demand for credit, owing to the downturn in economic activity and investment.

Table 20

**Credit and financial assets in Italy (1)**  
(end-of-period data; percentages)

	Total credit						Financial assets (4)					
	General government debt (2)	Total finance to the private sector (3)					Domestic					Foreign
		Bank lending	Bonds	Finance from abroad	Monetary assets, other deposits and Treasury bills	Medium and long-term securities	Other financial assets (5)					
<i>12-month percentage changes</i>												
2000 - Dec. ..	6.8	1.3	14.5	14.5	17.3	13.8	5.2	3.1	2.8	4.1	-3.6	9.7
2001 - Dec. ..	7.2	3.9	11.1	8.2	116.2	15.0	6.3	7.3	6.7	9.2	-15.9	4.1
2002 - Jan. ..	7.2	4.2	11.0	8.2	113.0	14.4	6.7	8.1	7.2	10.3	-14.6	3.7
Feb. ..	7.4	4.0	11.6	8.3	148.4	15.2	6.6	9.5	8.0	12.4	-15.0	0.6
Mar. ..	7.2	4.5	10.6	6.9	119.7	17.3	6.5	9.9	8.4	12.8	-13.4	-0.6
Apr. ...	6.8	4.0	10.1	6.4	116.4	17.3	6.3	9.9	8.1	13.0	-13.1	-1.1
May ..	6.8	3.6	10.9	8.4	79.6	14.3	6.8	9.7	7.9	12.8	-11.9	0.3
June ..	6.5	3.5	10.2	7.5	55.7	16.6	6.8	10.6	8.8	13.7	-11.4	-1.4
July ...	....	4.1	....	6.7	....	....	....	....	....	....	....	....
Aug. ..	....	....	....	6.5	....	....	....	....	....	....	....	....
Sept. ..	....	....	....	6.1	....	....	....	....	....	....	....	....
<i>Percentage shares of stocks</i>												
2000 - Dec. ..	100.0	54.8	45.2	36.7	0.7	7.7	100.0	68.2	36.5	29.7	2.0	31.8
2001 - Dec. ..	100.0	53.4	46.6	36.9	1.5	8.3	100.0	69.2	37.2	30.9	1.1	30.8
2002 - June ..	100.0	53.4	46.6	36.4	1.5	8.7	100.0	72.1	38.2	32.8	1.0	27.9

(1) Rounding may cause discrepancies in totals. - (2) According to the EU definition. - (3) Italian residents other than central government 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. - (4) For the definition of the holding sector, see footnote 3. - (5) Includes companies' surety deposits and shares held by non-money-market funds.

## Households' financial saving and corporate financing in Italy

Against a background of weak growth in disposable income, the Italian financial accounts recorded financial saving by households amounting

to €39.8 billion in the first half of 2002, €22.5 billion less than in the first half of 2001 (Table 21).

In a period of rapidly falling share prices, households increased their net purchases of medium and long-term bonds to a total of €70.3 billion, compared with €52.6 billion in the first half of 2001,

**Table 21**

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

	Households (2)			Non-financial corporations		
	Flows		Stocks	Flows		Stocks
	Jan.-June 2001	Jan.-June 2002	June 2002	Jan.-June 2001	Jan.-June 2002	June 2002
<b>Assets</b>						
Cash and sight deposits .....	-11,455	-9,259	392,502	4,863	-1,221	104,060
Other deposits .....	2,410	-65	277,590	-207	1,173	10,285
Short-term securities .....	4,123	4,411	27,174	-4	-159	300
Medium and long-term securities .....	42,360	62,893	528,683	-3,076	4,186	36,254
<i>of which: government securities</i> .....	18,345	34,193	222,026	-1,455	3,727	19,963
Investment fund units .....	-7,451	-2,880	332,935	-104	-40	4,630
Shares and other equity .....	3,864	-8,142	335,014	9,096	16,626	812,551
External assets .....	19,687	-12,021	219,505	16,618	15,052	270,843
<i>of which: deposits</i> .....	497	-20,808	9,317	0	0	0
<i>short-term securities</i> .....	0	-273	588	38	-51	1,850
<i>medium and long-term securities</i> .....	10,202	7,453	94,878	801	286	19,304
<i>shares and other equity</i> .....	12,090	2,128	82,539	11,720	6,416	127,371
<i>investment fund units</i> .....	-3,103	-521	32,183	223	10	9,779
Other financial assets (3) .....	18,573	19,645	389,367	4,984	-14,986	236,283
<b>Total assets</b> .....	<b>72,111</b>	<b>54,582</b>	<b>2,502,770</b>	<b>32,170</b>	<b>20,631</b>	<b>1,475,206</b>
<b>Liabilities</b>						
Short-term debt (4) .....	-125	-1,673	53,634	5,126	-7,525	309,860
<i>of which: bank</i> .....	-114	-1,696	52,951	4,522	-8,476	281,943
Medium and long-term debt (5) .....	9,047	15,483	238,287	12,530	19,906	303,329
<i>of which: bank</i> .....	8,922	15,028	217,368	8,163	15,251	236,957
Securities .....	-	-	-	-588	4,173	17,024
<i>of which: medium and long-term securities</i> .....	-	-	-	-761	4,172	14,132
Shares and other equity .....	-	-	-	3,841	6,153	1,059,068
External liabilities .....	-	-	-	4,090	986	265,087
<i>of which: short-term debt</i> .....	-	-	-	-478	-2,327	78,528
<i>medium and long-term debt</i> .....	-	-	-	-2,156	-1,873	3,608
<i>medium and long-term securities</i> .....	-	-	-	3,818	1,805	20,679
<i>shares and other equity</i> .....	-	-	-	2,591	592	122,856
Other financial liabilities (6) .....	857	932	24,849	7,422	-13,084	300,998
<b>Total liabilities</b> .....	<b>9,779</b>	<b>14,742</b>	<b>316,770</b>	<b>32,421</b>	<b>10,609</b>	<b>2,255,366</b>
<b>Balance</b> .....	<b>62,332</b>	<b>39,840</b>	<b>2,186,000</b>	<b>-251</b>	<b>10,022</b>	<b>-780,160</b>

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. - (4) Includes finance provided by factoring companies and repos. - (5) Includes finance provided by leasing companies; for households, the item also includes consumer credit from finance companies. - (6) Includes severance pay and pension funds; for corporations, the item also includes domestic trade credit and domestic derivatives.

while making net disposals of shares and other equity worth €6 billion.

Foreign bank deposits contracted by €20.8 billion, presumably owing to the legislation aimed at facilitating the repatriation of capital.

The proportion of shares in households' total financial assets, which had risen rapidly in the second half of the 1990s, fell from 23.7 to 16.7 per cent between June 2001 and June 2002. This reflected both net disposals of shares and, above all, the drop in share prices.

There was a further rise in households' medium and long-term borrowing (€15.5 billion, compared with €9 billion in the first half of 2001), in connection with the growth in spending for the purchase and renovation of buildings. On the other hand, households reduced their short-term debt.

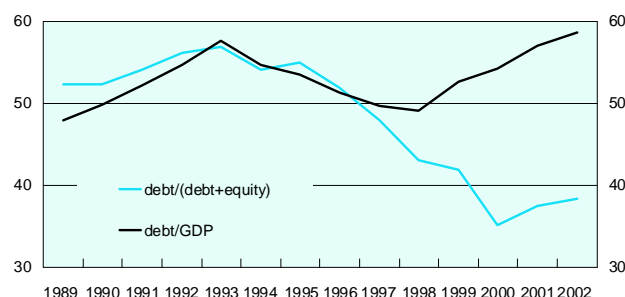
The corporate sector's financial account showed a surplus of €10 billion, whereas it had basically been in balance in the first half of 2001. The improvement, achieved despite the worsening in self-financing, reflected the fall in gross fixed investment as a consequence of the weakness of production.

Corporate debt in the form of loans and securities grew by €14.2 billion, compared with €18.3 billion in the first half of 2001. A contraction of €9.8 billion in the short-term component was more than offset by the increase of €24 billion in medium and long-term liabilities. Among the latter, bonds rose by €6 billion. Net issues of shares and other equity were virtually unchanged compared with the same period in 2001.

Leverage, calculated as the ratio of debt to the sum of debt and equity, was 38.3 per cent in June 2002, nearly 1 percentage point higher than a year earlier but still low by historical standards (Figure 38). The stock of corporate debt was equal to 58.6 per cent of GDP, up from 57 per cent in June 2001 and more than 5 percentage points above the average for the period from 1989 to 2002.

Figure 38

**Italian corporate sector debt (1)**  
(percentages)



Sources: Bank of Italy financial accounts and Istat.

(1) The stocks of debt and equity refer to June of every year. GDP is annual (for 2002, estimated).

### Bank lending in Italy

The weakness of economic activity caused bank lending to slow down in the euro area as a whole and in Italy.

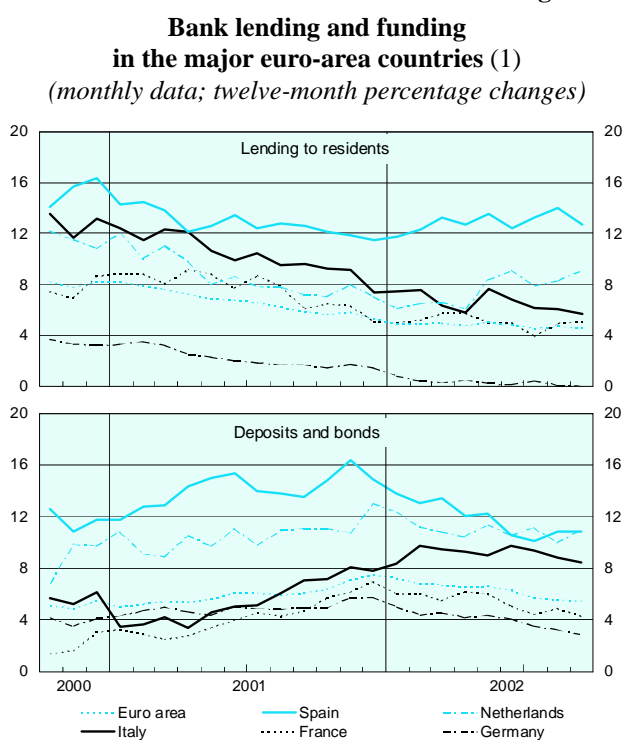
Lending by Italian banks to Italian residents grew by 5.7 per cent in the twelve months to September, compared with 7.4 per cent in 2001 (Figure 39 and Table 22). The slowdown was concentrated in short-term loans, the stock of which contracted in the twelve months to September (Table 23). This was partly attributable to the cutback in the financial transactions carried out by large firms, which had fueled the growth in short-term lending in 2000 and the first half of 2001. Given low interest rates, medium and long-term loans continued to grow at a brisk pace (10.6 per cent in the twelve months to September, compared with 9 per cent in 2001).

The deceleration in bank lending in Italy concerned both non-financial corporations and financial and insurance companies. The twelve-month growth in loans to non-financial corporations was equal to 4.3 per cent in September, compared with 8.5 per cent in 2001 (Table 24). In particular, there was a contraction of 0.5 per cent in lending to manufacturing firms, against an increase of 3.9 per cent in 2001; a decline in the growth in loans to service companies (from 10.5 to 7 per cent), concentrated in the telecommunications sector; and

a pickup in lending to the construction industry (from 6.9 to 9.4 per cent). Credit to financial and insurance companies decreased by 1.7 per cent, against an increase of 12.8 per cent in 2001.

Lending to consumer households continued to expand at a high rate (9.9 per cent in the twelve months to September, compared with 9.5 per cent in 2001). In the first nine months of the year, during a phase of intense activity in the property market, new mortgage loan disbursements for the purchase of housing totaled €25.3 billion, nearly 25 per cent more than in the same period of 2001.

Figure 39



(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.

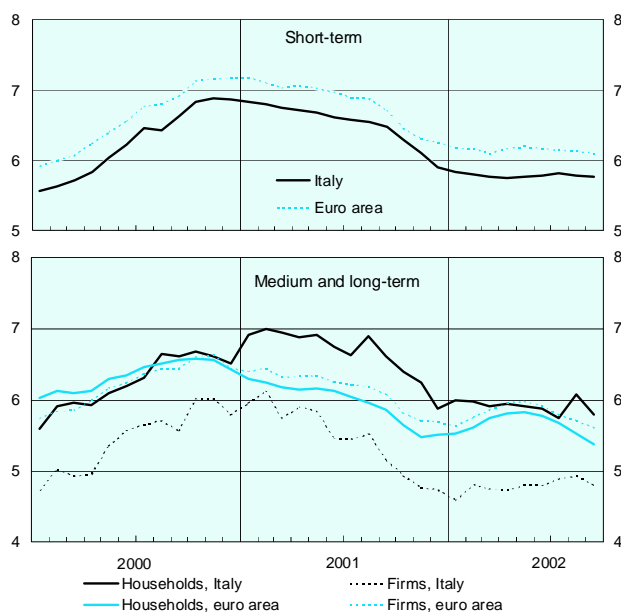
In the first half of 2002 the ratio of new bad debts to total loans remained at last year's low level (0.9 per cent).

The stock of bad debts, which had fallen in the last three years, grew by 2.1 per cent in the twelve months to September. A contributory factor was the

decrease in bad debt securitizations from €7.3 billion in the first nine months of 2001 to €2.3 billion in the same period in 2002. The ratio of bad debts to total loans remained low at 4.7 per cent, as in 2001.

Figure 40

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



(1) Weighted averages of national interest rates reported by central banks. As the data are non-harmonized, 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.

Credit conditions remained generally easy, as is shown by the behaviour of interest rates and the take-up of overdraft facilities (see box).

In the first nine months of the year bank lending rates remained virtually unchanged in Italy, in line with the pattern in the euro area. Short-term lending rates decreased in Italy by 0.1 percentage points to 5.8 per cent (Figure 40). The rate on new medium and long-term bank loans rose by 0.1 points for firms (to 4.8 per cent) and fell by 0.1 points for households (to 5.8 per cent). In the euro area, medium and long-term lending rates came down by 0.1 points for firms and households alike.

Table 22

**Bank funding and lending in the euro area and 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	Stocks	% change	Stocks	% change	Stocks	% change
<b>Euro area (5)</b>														
2001 - June	5,618.5	4.8	1,715.9	6.2	2,236.6	5.4	1,330.8	-0.9	221.5	20.7	2,725.7	8.7	7,196.1	6.7
July	5,602.7	4.8	1,699.1	5.4	2,238.0	5.4	1,333.6	-0.2	223.4	18.4	2,739.7	8.8	7,199.4	6.6
Aug.	5,591.3	4.8	1,667.0	5.5	2,250.4	4.6	1,337.3	0.5	230.8	24.4	2,735.7	8.2	7,170.6	6.2
Sept.	5,645.8	5.2	1,733.7	9.1	2,233.5	3.8	1,342.6	1.5	225.7	20.2	2,745.9	8.0	7,223.9	5.9
Oct.	5,669.9	5.5	1,732.5	9.2	2,237.3	3.5	1,351.9	2.9	235.1	25.9	2,764.6	8.1	7,250.6	5.6
Nov.	5,725.6	6.1	1,780.8	10.8	2,238.8	3.0	1,365.0	4.5	225.9	18.9	2,767.0	9.1	7,317.5	5.8
Dec.	5,867.1	6.7	1,882.2	13.0	2,257.5	2.9	1,405.0	5.8	218.5	14.0	2,775.5	9.2	7,340.7	5.3
2002 - Jan.	5,825.7	6.6	1,833.0	13.4	2,253.8	2.0	1,418.8	6.6	216.2	2.3	2,790.2	8.4	7,352.9	4.9
Feb.	5,825.7	6.3	1,829.0	13.1	2,251.1	1.4	1,420.9	7.2	221.1	3.8	2,807.8	7.6	7,369.9	4.9
Mar.	5,843.4	6.1	1,823.3	12.3	2,266.3	1.4	1,423.0	7.5	229.6	3.2	2,840.2	8.0	7,432.4	5.0
Apr.	5,870.9	5.9	1,852.3	12.1	2,269.0	1.6	1,414.7	6.8	228.1	3.1	2,844.9	7.9	7,447.3	4.8
May	5,890.4	5.9	1,853.0	10.9	2,278.8	2.4	1,415.5	7.0	234.8	0.5	2,857.5	8.2	7,462.6	5.1
June	5,910.1	5.7	1,899.1	11.2	2,256.3	1.7	1,421.7	6.8	229.6	3.3	2,846.3	7.4	7,495.0	4.8
July	5,886.4	5.4	1,870.4	10.4	2,263.8	1.7	1,424.3	6.7	228.8	2.1	2,849.3	6.4	7,494.9	4.6
Aug.	5,861.6	5.3	1,836.2	10.4	2,265.4	1.7	1,429.8	6.8	236.5	2.1	2,859.9	6.0	7,484.4	4.7
Sept.	5,917.1	5.3	1,891.8	9.4	2,242.8	1.5	1,433.5	6.7	242.4	7.0	2,857.8	5.7	7,529.6	4.6
<b>Italy (6)</b>														
2001 - 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.	626.9	7.0	428.6	11.4	54.6	-11.1	58.7	3.1	77.5	3.1	336.5	11.1	980.1	7.5
Feb.	636.5	9.2	433.5	13.8	54.9	-10.1	59.0	5.0	82.2	6.2	340.2	10.8	979.8	7.5
Mar.	644.0	9.0	435.2	12.6	54.7	-8.0	58.6	5.0	88.4	8.3	344.8	10.3	983.4	6.4
Apr.	646.4	8.7	441.8	12.4	53.8	-8.2	58.7	5.2	85.2	6.7	347.3	10.3	984.0	5.8
May	653.7	7.8	445.1	11.7	53.2	-8.3	58.7	6.2	89.7	2.8	352.3	11.3	992.2	7.7
June	654.5	8.3	449.2	11.9	52.0	-9.3	59.0	6.7	86.9	5.4	358.7	12.3	1,001.3	6.8
July	653.4	8.6	443.7	11.3	52.8	-5.7	59.3	6.8	90.7	7.0	357.8	11.0	1,003.3	6.1
Aug.	644.4	7.8	433.6	11.6	52.7	-5.4	59.7	7.4	91.3	0.7	359.8	10.7	994.7	6.0
Sept.	651.0	7.1	445.1	9.0	51.8	-5.2	59.9	6.8	86.8	5.9	363.0	10.9	998.4	5.7

(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 definitions are consistent with those of the reporting country. - (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.

### Italian banks' funding, securities holdings and profitability

Banks' domestic funding increased by 8.4 per cent in the twelve months to September, compared with a yearly rise of 7.8 per cent in 2001 (Table 23). Given the small yield differential vis-à-vis Treasury

securities and the heightened liquidity preference induced by financial market turbulence, current account deposits continued to expand strongly (9 per cent, compared with 9.4 per cent in 2001). Fund-raising via bond issues also continued to grow rapidly (10.9 per cent, up from 10.6 per cent in 2001). Subordinated bonds slowed sharply from growth of 30 to 14.5 per cent.

**Table 23**

**Assets and liabilities of Italian banks (1)**  
(end-of-period data; percentage changes in period; millions of euros)

	2000	2001	2002 (2)			September 2002	
			Q1	Q2	Q3	Stocks	12-month % change
<b>Assets</b>							
Securities .....	-16.0	-11.7	-2.1	-20.0	-22.4	174,623	-14.3
of which: government securities .....	-20.3	-16.4	-1.0	-26.9	-25.7	115,651	-18.9
Loans .....	13.1	7.4	4.1	7.7	4.6	998,427	5.7
of which: (3) short-term (a) .....	18.5	6.4	-6.7	3.9	-2.4	446,405	-0.5
medium and long-term (b) .....	10.1	9.0	14.1	10.6	12.1	495,671	10.6
(a)+(b) .....	14.2	7.7	3.3	7.3	4.9	942,076	5.0
repos .....	-18.3	-18.3	83.5	13.7	-40.8	7,164	9.7
bad debts (4) .....	-13.8	-12.7	-9.1	14.1	6.9	46,150	2.1
Memorandum item: bad debts at estimated realizable value .....	-20.1	-13.6	-17.1	-3.8	14.5	20,927	-4.5
External assets .....	1.6	-8.2	29.1	20.2	4.2	202,765	0.4
<b>Liabilities</b>							
Domestic funding (5) .....	6.1	7.8	11.4	8.5	5.2	1,014,023	8.4
Deposits .....	4.0	6.4	10.8	3.8	5.4	651,038	7.1
of which: (6) overnight .....	6.0	9.4	13.0	5.8	6.6	445,140	9.0
with agreed maturity .....	-16.1	-11.7	-7.8	-15.4	-1.0	51,835	-5.2
redeemable at notice .....	-6.6	0.1	11.3	5.5	5.3	59,919	6.8
repos .....	35.7	11.6	14.5	5.4	2.7	86,822	5.9
Bonds (5) .....	10.7	10.6	12.6	17.7	4.9	362,986	10.9
External liabilities .....	11.6	4.1	-1.6	-2.3	-18.2	264,698	-10.6

(1) The figures for September 2002 are provisional. The percentage changes are adjusted to take account of reclassifications, exchange rate variations and any other changes not arising from transactions. - (2) Annualized; 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) Excludes those of central government.



Table 24

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

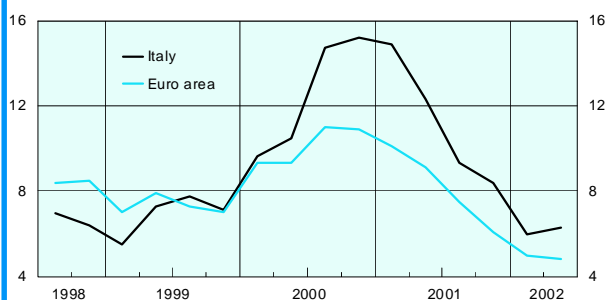
	General government	Finance and insurance companies	Enterprises						Households		Total
			Holding companies	Non-financial corporations			Consumer households	Sole proprietorships			
				Manufacturing industry	Construction	Services					
<i>12-month percentage changes in lending (2)</i>											
2001 - September	-3.1	20.0	10.7	19.0	10.1	7.8	7.1	11.0	10.6	4.9	10.4
December	-4.1	12.8	8.0	1.3	8.5	3.9	6.9	10.5	9.5	3.6	7.7
2002 - March ...	-1.1	13.2	5.1	9.4	4.8	3.4	8.2	6.0	9.2	4.6	6.2
June . . . . .	-2.8	8.5	6.3	13.1	5.8	1.2	9.5	8.9	9.8	6.4	6.4
September	-1.4	-1.7	5.6	23.2	4.3	-0.5	9.4	7.0	9.9	6.1	5.0
<i>12-month percentage changes in bad debts (3)</i>											
2001 - 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	-29.8	-13.5	-2.3	-13.7	-14.2	-14.4	-13.3	-10.5	-10.0	-12.7
2002 - March ...	11.1	-28.5	-13.9	-14.2	-13.9	-13.5	-16.6	-12.9	-13.5	-12.5	-13.9
June . . . . .	16.2	-13.3	0.0	-12.3	0.2	4.0	-9.0	4.6	5.2	-4.2	0.1
September	13.5	-12.3	2.7	-13.7	3.0	7.0	-6.5	7.5	5.9	-2.9	2.1
<i>Bad debts as a percentage of total lending (4)</i>											
2001 - September	0.1	0.6	5.0	1.3	5.2	4.1	12.3	4.5	5.4	13.2	4.8
December	0.1	0.5	4.8	1.4	5.0	4.0	11.9	4.4	5.4	13.2	4.7
2002 - March ...	0.1	0.5	4.8	1.3	5.1	4.1	11.4	4.5	5.3	12.7	4.7
June . . . . .	0.1	0.5	4.7	1.0	5.0	4.2	10.7	4.4	5.2	12.2	4.6
September	0.1	0.5	4.8	0.9	5.2	4.4	10.7	4.5	5.2	12.2	4.7
<i>Percentage composition of lending</i>											
2001 - September	6.1	11.7	55.8	3.9	51.9	19.2	5.7	22.3	20.4	5.9	100.0
2002 - September	5.8	11.0	56.0	4.6	51.4	18.1	5.9	22.6	21.4	5.9	100.0

(1) The data on loans exclude repos, bad debts and other minor items included in the aggregate reported in Table 22. - (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.

## The slowdown in bank lending to firms in Italy

In 2002 bank lending to firms continued to slow in Italy. In September, lending was 5.6 per cent higher than a year earlier, when the twelve-month rate was more than 10 per cent. The deceleration was sharper than in the euro area as a whole, just as the expansion between the end of 1999 and mid-2001 had been faster (Figure 1). Econometric analyses indicate that in the first three quarters of this year the decline in the rate of growth in corporate lending, equal to more than 2 percentage points, is attributable mainly to the contraction in gross fixed investment.

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



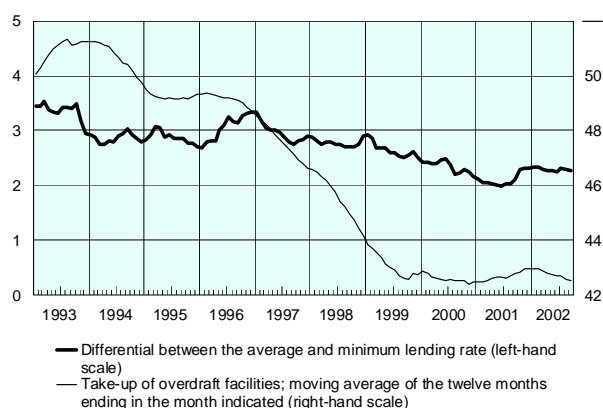
Source: Based on ECB data and national statistics.

Between the end of 2001 and the early months of this year, there was a sharp fall-off in demand for bank loans associated with corporate events involving large companies, which had fueled credit growth in the last two years (see box: "The recent trend in bank lending and corporate debt", in Economic Bulletin No. 33, 2001). In the twelve months to June, loans to firms with total bank debt of more than €25 million increased by 4.3 per cent, compared with a rise of more than 25 per cent in June 2001. A significant part of the slowdown in lending to large firms is accounted for by the branches of foreign banks.

Lending policies do not appear to have been tightened. The differential between the average and minimum short-term rate, which tends to widen in the

presence of credit restrictions, remained broadly unchanged by comparison with that at the end of last year (Figure 2). Even sectors where the deceleration in lending has been most pronounced, such as manufacturing and a number of services, have not been affected by supply-side tensions. In industry, the ratio of credit drawn to credit granted on overdraft facilities was 2.4 percentage points lower in July 2002 than a year earlier; it was broadly unchanged in other productive sectors. Signs of increased prudence on the part of banks can be found in small rises in the share of secured loans in sectors where credit demand is relatively strong, such as construction and services.

**Indicators of credit market conditions**  
(monthly data; values and percentage points)



Credit conditions have remained easy overall, even for smaller firms and for those operating in the South. In the twelve months to June, loans to firms with total bank debt of less than €2.5 million increased at the same rate as that for other firms (5.4 per cent). At about 53 per cent, the take-up of overdraft facilities by smaller firms has not changed significantly. By contrast, in June the differential between the rate paid by small firms and that charged to companies with total bank debt of more than €25 million had increased by 0.5 points on June 2001. The adjustment of the cost of credit in response to the easing of monetary

cont. ➤

conditions was slower for small corporate borrowers, as in past phases of declining interest rates.

In the South, lending to firms increased by 5.4 per cent in the twelve months to September (see table); credit to sole proprietorships rose by 5.3 per cent. In the Centre and the North, the corresponding growth rates were 5.7 and 6.3 per cent. In June, the differential between lending rates on medium and long-term loans to firms in the South

and those in the Centre and North was unchanged with respect to the end of 2001 at 0.6 points. The differential for short-term lending narrowed slightly to 1.6 points. It was only 0.9 points if account is taken of the different sectoral and size composition of borrowers in the two areas. Much of the remaining disparity is explained by differences in the recovery rates for bad debts and the risk of default, which remain higher in the South even adjusting for sectoral and size differences.

#### Lending of Italian banks by geographical area and sector of economic activity (1)

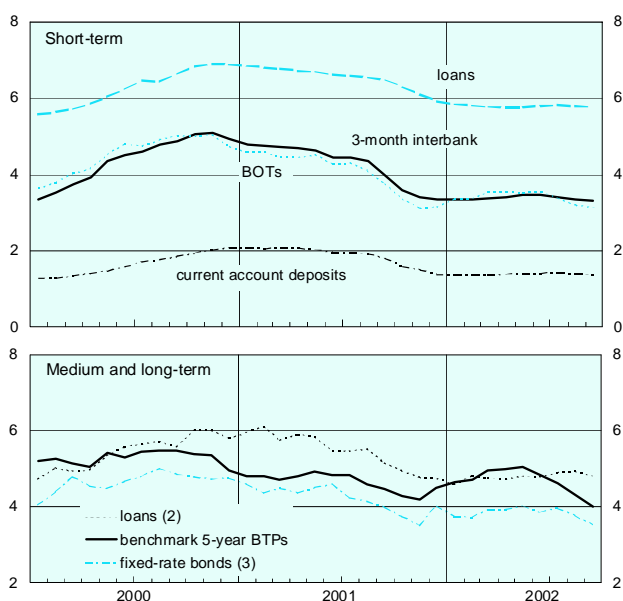
	General government	Finance and insurance companies	Enterprises						Households		Total
			Holding companies	Non-financial corporations			Consumer households	Sole proprietorships			
				Manufacturing industry	Construction	Services					
<i>Centre and North</i>											
2000 - December	-5.8	25.0	17.2	43.0	15.4	10.7	10.8	21.8	13.9	8.9	15.0
2001 - December	-4.5	14.0	8.3	1.1	8.9	3.8	8.2	10.8	9.6	3.8	8.1
2002 - March . . . .	-2.2	14.6	5.2	9.3	4.9	3.8	9.4	5.9	9.5	4.6	6.6
June . . . . .	-5.0	9.2	6.4	13.3	5.8	0.5	10.9	8.5	10.2	6.4	6.7
September	-4.6	-1.1	5.8	23.7	4.3	-0.6	10.2	7.3	10.3	6.3	5.1
<i>South</i>											
2000 - December	9.8	-16.4	9.7	-21.8	9.9	12.6	1.5	11.8	11.3	5.6	8.4
2001 - December	-0.5	-11.4	5.3	27.2	5.2	4.1	1.2	7.3	8.9	2.9	5.2
2002 - March . . . .	8.7	-15.8	4.1	28.6	4.0	2.6	2.6	8.2	8.3	4.6	5.0
June . . . . .	16.2	-8.9	5.4	-5.8	5.4	0.8	5.4	7.7	8.1	6.3	6.4
September	12.8	-11.2	5.4	-31.4	5.7	0.4	5.6	8.7	8.4	5.3	6.2

(1) The data on loans exclude repos, bad debts and other minor items included in the aggregate reported in Table 22. Net of changes due to reclassifications and exchange rate variations.

The average rate on deposits remained virtually unchanged (1.5 per cent in December 2001, 1.4 per cent in September 2002), while that on fixed-interest bonds came down 0.5 points to 3.5 per cent (Figure 41). In the euro area, deposit rates diminished by 0.2 points.

**Figure 41**

**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 disbursed during the month to resident firms. - (3) Average rate on bonds issued by banks during the month.

Italian banks' securities holdings were €7.1 billion lower in September than a year earlier. Over the first three quarters the share of liquid assets (cash and securities) in the aggregate that groups them together with loans declined from 16.9 to 16.3 per cent.

Given the rapid expansion of domestic funding and the contraction of securities portfolios, in the first three quarters banks reduced their net liabilities vis-à-vis non-residents by €39.5 billion (37.3 per cent), of which €25.1 billion of this in respect of non-euro-area countries. At the end of September they had net external liabilities of €61.9 billion, equal to 3.2 per cent of total liabilities (compared

with €106 billion and 5.6 per cent at the end of 2001).

Banks' earnings declined in the first half of 2002. On an annual basis, return on equity was 7.2 per cent, down from 12.4 per cent in the first half of 2001 and 8.9 per cent for the entire year. Net interest income increased by 5 per cent, compared with a gain of 8.4 per cent in the first six months of 2001. The deceleration was due in part to slower growth in lending, which was only partly offset by the substitution of less costly domestic for foreign funding. Non-interest income declined by 7.1 per cent, mainly because of reduced commissions from asset management services and income from securities and foreign exchange trading. Gross income edged downward by 0.1 per cent compared with the same period in 2001.

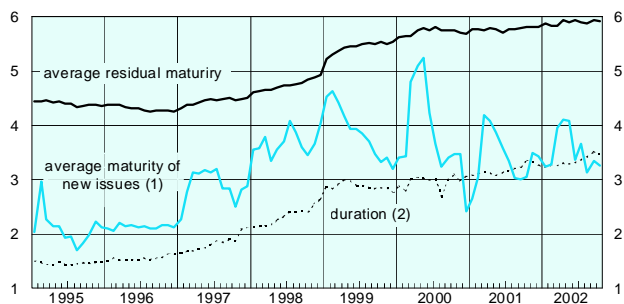
Operating expenses rose by 4.2 per cent, with staff costs increasing by 0.9 per cent. The sharp rise in non-staff expenses was due in part to the outsourcing of some operational phases.

Gross operating profit decreased by 6.3 per cent. Profit before tax fell by 23.8 per cent, reflecting large allocations to loan-loss provisions and writedowns. The rise in provisions was due to coverage of the exposures of several major banks to countries of Latin America and large multinational groups and the strengthening of prudential safeguards in view of the uncertain economic situation. The writedowns mostly involved securities portfolios and equity investments.

### The government securities market

Net issues of government securities in the euro area increased sharply in the first half of 2002 to €154.1 billion, from €99.9 billion a year earlier, in connection with the deterioration of the public finances in several countries. The increase was especially large in Germany, which had made large-scale redemptions at the start of 2001 when the revenues from the sale of UMTS licences were received.

**Figure 42**  
**Average maturity of outstanding Italian government securities and 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.

In Italy, net issues increased to €52.9 billion in the first three quarters of the year, compared with €40.2 billion in the same period of 2001 (Table 25). The Treasury made net issues of CTZs worth €14.7 billion, compared with net redemptions of €7.4

billion in the first nine months of 2001, while net issues of BTPs fell from €22.2 billion to €11.8 billion. The average residual maturity of Italian government securities lengthened slightly to five years and eleven months at the end of October (Figure 42). Because of the decline in interest rates, there was a more significant increase in duration, which rose to three years and six months.

Net purchases of government securities in the first half of the year were accounted for mainly by private non-financial residents, which took up €44.7 billion worth (Table 26). Banks made modest further net sales, reflecting substantial disposals of BTPs and CCTs. Investment funds, though selling substantial amounts of BTPs, made modest overall net purchases of government securities. Non-resident investors sharply curtailed their net purchases of Italian government securities (€6 billion, compared with €35.9 billion in the first half of 2001).

**Table 25**

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

TITOLI	2001	2001 Jan.-Sept.	2002 Jan.-Sept.	2001	2001 Jan.-Sept.	2002 Jan.-Sept.
	<b>Gross issues</b>			<b>Net issues (2)</b>		
BOTs .....	188,677	149,790	169,606	11,717	21,180	18,325
CTZs .....	35,528	30,594	29,956	-16,476	-7,426	14,746
CCTs .....	28,330	20,904	34,965	-9,812	223	2,055
BTPs .....	119,929	94,365	100,415	38,256	22,210	11,782
Other .....	54	..	..	-1,446	-1,500	..
<b>Total .....</b>	<b>372,517</b>	<b>295,652</b>	<b>334,942</b>	<b>22,239</b>	<b>34,686</b>	<b>46,909</b>
Republic of Italy issues .....	22,529	17,853	15,639	9,049	5,481	6,002
<b>Total government securities .....</b>	<b>395,046</b>	<b>313,505</b>	<b>350,581</b>	<b>31,288</b>	<b>40,167</b>	<b>52,911</b>

(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.

Table 26

**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			
<b>Net purchases January-June 2002</b>									
Central bank .....	..	..	970	-1,225	..	-255	-24	-279	155
Banks .....	7,584	3,019	-4,804	-6,943	-213	-1,357	2,347	990	5,387
Investment funds (3) ...	3,688	3,626	6,189	-13,529	522	497	185	682	472
Other investors (4) .....	10,568	10,556	-2,258	28,524	3,322	50,713	33,556	84,268	-4,270
<i>of which: non-residents</i>	4,606	4,123	-12,765	8,045	1,981	5,989	9,906	15,895	-12,472
<b>Total ...</b>	<b>21,840</b>	<b>17,201</b>	<b>97</b>	<b>6,828</b>	<b>3,631</b>	<b>49,598</b>	<b>36,064</b>	<b>85,661</b>	<b>1,744</b>
<b>Stocks at end-June 2002</b>									
Central bank .....	..	..	8,677	14,804	40,476	63,957	160	64,117	5,124
Banks .....	19,808	6,829	55,837	31,390	4,938	118,802	50,949	169,751	25,876
Investment funds (3) ...	18,236	8,062	32,102	60,638	2,598	121,636	9,736	131,372	23,099
Other investors (4) .....	97,606	52,795	129,219	531,537	86,125	897,282	445,020	1,342,302	464,674
<i>of which: non-residents</i>	57,161	25,360	56,223	297,713	77,627	514,084	....	945,647	63,942
<b>Total ...</b>	<b>135,650</b>	<b>67,686</b>	<b>225,835</b>	<b>638,369</b>	<b>134,137</b>	<b>1,201,677</b>	<b>505,865</b>	<b>1,707,542</b>	<b>518,773</b>
<b>Percentage share of total government securities .....</b>	<b>11.3</b>	<b>5.6</b>	<b>18.8</b>	<b>53.1</b>	<b>11.2</b>	<b>100.0</b>			

(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) Figures for Italian funds only. - (4) Households, enterprises, non-residents, central and local government, social security institutions, *Cassa Depositi e Prestiti*, securities investment firms and insurance companies; the figures for shares are estimated.

The yield differentials between Italy's benchmark 10-year Treasury bonds and the equivalent German and French bonds narrowed slightly in the course of the year. At the end of October they stood at 27 and 20 basis points respectively.

Average daily turnover of government securities on the MTS market during the first nine months of the year remained at the relatively high levels of 2001 (€9 billion). While there was a sharp expansion of trading in securities with shorter duration (a rise

of more than 150 per cent compared with the same period of 2001 for BOTs and of 23 per cent for CCTs), trading in BTPs diminished by 13 per cent. Turnover in repos increased by 46 per cent over the year-earlier period, to €39 billion.

Partly owing to the growth in trading on national MTS markets, average daily turnover in euro-area government securities on EuroMTS in London decreased by 22 per cent compared with the first three quarters of 2001. The share of total volume

accounted for by Italian securities fell especially sharply to 19 per cent in September compared with 37 per cent a year earlier. The share of German and French securities also diminished slightly, while that of Spanish and Greek instruments increased.

Higher yield variability favoured the growth of trading in interest rate derivatives. In the first three quarters average daily turnover in three-month euro deposit futures grew by 15.7 per cent over the year-earlier period to €383.8 billion; that in 10-year Bund futures rose by 9.3 per cent to €82.4 billion.

### Bank and corporate bonds

Net issues of bank and other corporate bonds in the euro area eased to €190.6 billion over the first six months of 2002 from €194.2 billion in the year-earlier period. The composition of issuers changed considerably. Financial sector issues increased while those of non-financial corporations were more than halved, from €49.7 billion to €23.1 billion.

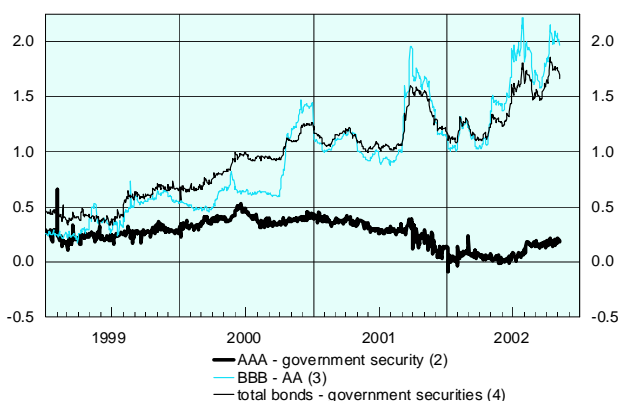
In the first nine months net issues by Italian banks and firms declined by 9 per cent on the year-earlier period, to €45.6 billion. Italian banks' net funding via bond issues rose from €26.4 billion to €28.4 billion. Overall, firms' net issues were reduced considerably in the second quarter. Net issues connected with securitizations also decreased significantly, with a slight contraction in gross issues (which amounted to €15.6 billion, including €3 billion issued by the public sector against INPS contribution claims) and a sizable increase in redemptions.

In the first nine months, gross Eurobond issues by euro-area banks and firms decreased by 6.4 per cent compared with the corresponding period of 2001, to €287.4 billion (Table 27). Issues by financial companies diminished by 2 per cent, those of non-financial firms by 15.4 per cent. The contraction was especially pronounced for telecommunications and automobile firms, whose share of total non-financial issues fell to 31 per cent from 47 per cent in 2001.

Eurobond issues of firms belonging to Italian groups declined from €49 billion to €32.8 billion. The decrease involved both financial companies (32.1 per cent) and non-financial enterprises (34.9 per cent).

Figure 43

### Yield differentials for the euro-denominated bonds of differently-rated issuers (1) (daily data; percentage points)



Source: 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 corporations resident in countries whose long-term foreign currency debt bears a rating not lower than BB3 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).

In part, the contraction in bond issues reflects a fall in demand owing to the slowdown in major corporate financial operations. The reduction in issues was greatest in June and July, in conjunction with the rise in the cost of funds caused by worries over the credibility of corporate financial statements. The yield differential between Eurobonds issued by non-financial enterprises and government securities widened by about 0.6 percentage points to nearly 1.8 points (Figure 43). The increase in yields was sharpest for the bonds of telecommunications companies, which were affected by the fears provoked by the bankruptcy of a large US corporation and by the high average debt carried by European companies in the industry.

There was also an appreciable rise in the yield on the issues of financial companies. Between the start of June and mid-August the differential with respect to government securities widened from 0.5 to 0.8

percentage points. Later, after a series of fluctuations, it widened further to 0.9 points (Figure 44). The largest increases involved insurance companies, whose profitability was declining sharply, and investment banks, owing to reduced earnings on securities trading.

### The stock markets

Since the end of May stock markets in Europe and the United States have been on a new downswing. At the end of October the Dow Jones Euro Stoxx index was down 32 per cent since the start of the year

**Table 27**  
**Gross Eurobond issues by private sector companies resident in the major euro-area countries and the euro area (1)**  
(number of operations; millions of euros)

	1995	1996	1997	1998	1999	2000	2001	2001 Jan.- Sept.	2002 Jan.- Sept.	2002		
										Q1	Q2	Q3
<b>Italy</b>												
Gross issues (number of operations) .....	22	27	32	41	105	188	262	187	134	44	56	34
(millions of euros) .....	2,662	4,281	5,337	8,861	45,860	46,613	73,575	49,035	32,833	11,042	14,038	7,754
of which: non-financial corporations (millions of euros) .....	213	446	1,695	4,041	24,102	11,032	24,835	16,827	10,957	4,510	3,532	2,915
<b>France</b>												
Gross issues (number of operations) .....	83	90	91	65	178	245	261	209	268	96	108	64
(millions of euros) .....	7,988	10,598	15,131	11,737	45,594	49,990	59,348	44,819	51,380	22,437	21,574	7,369
of which: non-financial corporations (millions of euros) .....	829	1,507	3,793	3,816	28,753	25,398	32,493	25,731	24,673	11,731	10,890	2,052
<b>Germany</b>												
Gross issues (number of operations) .....	123	238	250	291	588	663	459	364	313	123	103	87
(millions of euros) .....	14,303	36,358	37,508	48,072	111,035	126,012	119,490	96,681	86,289	42,908	29,442	13,938
of which: non-financial corporations (millions of euros) .....	895	3,482	4,047	4,980	15,444	27,041	42,961	35,947	36,427	15,707	17,329	3,390
<b>Euro area</b>												
Gross issues (number of operations) .....	536	689	723	702	1,406	1,795	1,783	1,358	1,382	505	517	360
(millions of euros) .....	51,850	89,298	96,916	116,596	312,561	375,139	421,845	307,076	287,414	118,288	107,275	61,851
of which: non-financial corporations (millions of euros) .....	3,188	8,181	12,879	20,959	91,459	104,623	135,786	100,414	84,912	34,561	38,380	11,972

Source: Based on data from Dealogic.

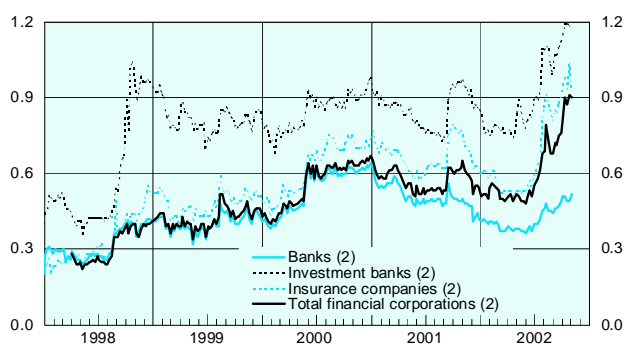
(1) Medium and long-term bonds issued by private sector borrowers belonging to groups resident in the country or area indicated, at face value; includes private placements and issues placed simultaneously in the Eurobond market and in the US domestic market. Non-financial corporations are classified 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.



(Figure 45). The general stock market indexes were down 24 per cent in Italy, 32 per cent in France and 38 per cent in Germany.

**Figure 44**

**Yield differentials between euro-denominated bonds issued by financial corporations and government securities (1)**  
(weekly data; percentage points)



Source: Based on Merrill Lynch data.

(1) Yields on fixed-rate euro-denominated Eurobonds with a residual term to maturity of not less than one year issued by financial corporations resident in countries whose long-term foreign currency debt bears a rating not lower than BB3 or BBB-. - (2) Yield differential between bonds of the sector indicated and government securities (French and German).

In the markets restricted to technology companies, prices were halved with respect to the end of 2001, with reductions ranging from 49 per cent on the Nuovo Mercato to 57 per cent on the Neuer Markt. At the end of September Deutsche Börse announced a restructuring of the Frankfurt stock exchange that will entail the closure of the Neuer Markt in 2003. The new arrangement calls for two lists, one reserved to firms that meet stricter transparency requirements, such as quarterly financial statements and the adoption of international accounting standards.

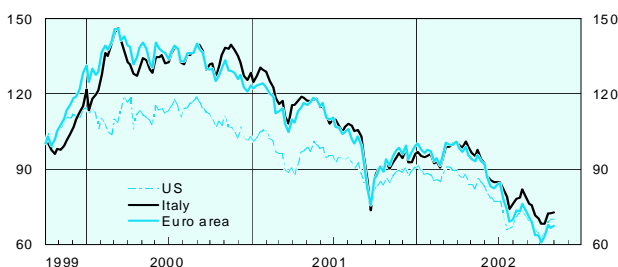
The fall in stock market prices under way since late 2000 represents a correction of their previous overvaluation. The decline in the indexes this year is also connected with the substantial reduction in the expectations for profit growth, which deteriorated even further with the signs of a worsening of the international economy and the risk of military conflict in the Middle East. Another factor in the price decline was a series of cases of irregular accounting practices on the part of large corporations.

In the euro area as a whole, insurance company shares fell especially steeply over the first ten months (43 per cent), owing to the fall in the value of their own equity portfolios and massive liabilities in the wake of the floods that swept parts of Central Europe. Oil industry shares fell less (15 per cent) thanks to the rise in oil prices.

In Italy energy shares held their ground, with a decline of just 0.7 per cent. By comparison with euro-area averages, the fall in prices was less pronounced for telecommunications, media and insurance companies, sharper for automobile manufacturers and electricity firms.

**Figure 45**

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



Source: Bloomberg.

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

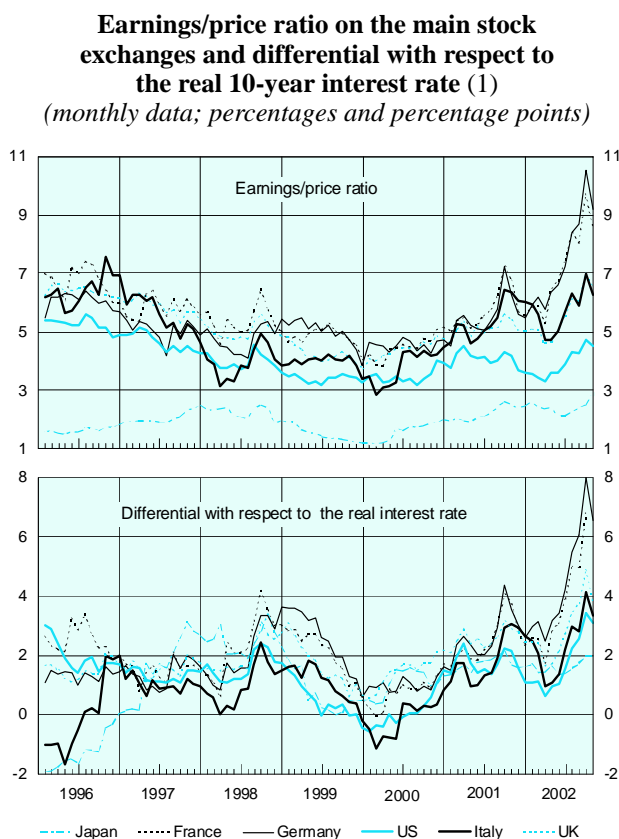
In the major European countries differentials between earnings/price ratios and real long-term interest rates widened again in the spring after beginning to narrow around the turn of the year. By the end of October they ranged between 3 and 7 percentage points, compared with 2-3 points in April (Figure 46).

Over the first nine months there was a sharp reduction in the number of new listings. Thomson Financial reports that 42 firms with initial capitalization of €5.1 billion were newly listed on the stock exchanges of the euro-area countries, compared with 131 firms and €25.5 billion in 2001 and 419 and €70.3 billion in 2000.

Four new companies with initial capitalization of €1 billion were listed in Italy (compared with 17 and €3.8 billion in 2001). Including capital increases,

new share issues by listed Italian firms amounted to €3.1 billion, including €100 million on the Nuovo Mercato (€6.2 billion and €200 million in 2001).

**Figure 46**



## Investment funds

Investment funds controlled by Italian intermediaries continued to record net redemptions in the first ten months of 2002, for a total of €9.7 billion, compared with €5.7 billion in the

corresponding period of 2001 (Table 28). Disinvestment intensified from May on as share prices fell. In recent months only money market and short-term bond funds have achieved significant net fund-raising.

At the end of October the net worth of investment funds instituted by Italian intermediaries was €459.2 billion, 9.8 per cent less than at the start of the year. The share of this accounted for by foreign funds remained at 21 per cent.

**Table 28**

**Net assets and fund-raising by investment funds controlled by Italian intermediaries (1)**  
(millions of euros)

	2000	2001	2001 Jan.-Oct.	2002 Jan.-Oct.
<b>Net assets</b> (end-of-period data)				
Italian funds . . . . .	449,931	403,689	396,166	362,106
Foreign funds (2) . . . . .	94,794	105,079	98,789	97,053
<b>Total . . . . .</b>	<b>544,725</b>	<b>508,768</b>	<b>494,955</b>	<b>459,158</b>
<b>Net fund-raising</b> (flows)				
Italian funds . . . . .	-6,895	-20,365	-20,621	-12,865
Foreign funds . . . . .	36,056	18,117	14,884	3,162
<b>Total . . . . .</b>	<b>29,161</b>	<b>-2,248</b>	<b>-5,737</b>	<b>-9,703</b>
<b>Gross fund-raising</b> (flows)				
Italian funds . . . . .	335,768	218,576	183,875	162,354
Foreign funds . . . . .	100,201	97,174	82,472	73,099
<b>Total . . . . .</b>	<b>435,969</b>	<b>315,750</b>	<b>266,347</b>	<b>235,452</b>

Sources: Bank of Italy and Assogestioni.

(1) The figures refer to harmonized investment funds. The data for 2002 are provisional. - (2) Value of units subscribed by Italian investors.

## SHORT-TERM ECONOMIC PROSPECTS

### The world economy

After picking up in the first few months of 2002 from the low point recorded late in 2001, the growth of the world economy has slowed down again since the summer in conjunction with the fall in prices on stock markets and the revival of international tensions.

In the United States, the recovery that began in the closing months of 2001 strengthened in the first quarter of this year, when GDP grew at an annual rate of 5 per cent. Growth then slowed to 1.3 per cent in the second quarter before rebounding to 3.1 per cent in the third thanks to the sharp acceleration in purchases of consumer durables. Household consumption increased by an average of 3 per cent in the first three quarters, stimulated by the major tax relief measures approved in May 2001, an increase in government transfers and lower interest rates. Consumption was also buoyed by the rise in property values, which partly offset the sharp fall in share prices and enabled households to borrow cheaply. Investment stagnated.

Leading indicators have been declining since the summer. The ISM Purchasing Managers' Index has fallen since July; in October it reached a level that pointed to a contraction in manufacturing activity. Consumer confidence also fell sharply in October, but there are signs that it may rise in November. In the fourth quarter, GDP growth is expected to slow and not to exceed 1.5 per cent. On 6 November the Federal Reserve lowered its target for the federal funds rate to 1.25 per cent, the lowest level since 1948.

Against a background marked by a deteriorating external current account, the amount of debt carried by households is causing concern. The near-term outlook is affected by the risk of a deceleration

in consumption as a result of the disappointing performance of the labour market and the continuing uncertainty engendered by the international political situation.

The longer-term prospects for the US economy continue to be favourable. Labour productivity growth, which remained strong even during the recession in 2001, rose sharply in the first three quarters of 2002, while the current level of equity prices is broadly in line with economic fundamentals.

Growth could surge in the United States if international tensions abate. Under this scenario, the leading private forecasters expect the recovery to strengthen in the first quarter of 2003, with growth rising to 4 per cent in the fourth quarter. On average for 2003, growth is projected to be on the order of 3 per cent (Table 29).

The strengthening of the business cycle in the United States would also sustain the recovery in the other main economies. In Japan, growth is expected to be between 0.8 and 1.6 per cent next year. The outlook is clouded by the continuing difficulties of banks, whose capital base has been weakened by the decline in equity prices since the middle of the year. At the end of October, the Japanese government announced a plan to accelerate the reduction of bad debts held by banks. The measures will be accompanied by a further easing of monetary conditions and expansionary budgetary measures in the form of tax cuts and credit support for small and medium-sized enterprises.

In the emerging economies of Asia (including India and China), growth is forecast to remain at about 6 per cent. After contracting by 0.6 per cent in 2002, economic activity in Latin America is expected to expand again next year.

Table 29

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

	2002 (1)		2003 (1)				
	IMF Sept.-Oct. 2002	IMF Sept.-Oct. 2002	European Commission Nov. 2002	Professional forecasters			
				Consensus Economics 7-10-2002	Merrill Lynch 1-11-2002	JP Morgan 8-11-2002	Deutsche Bank 8-11-2002
<b>GDP (2)</b>							
United States .....	2.2	2.6	2.3	3.0	3.0	2.7	2.8
Japan .....	-0.5	1.1	1.2	0.9	1.6	0.8	1.6
Euro area .....	0.7	2.0	1.8	1.9	1.8	1.9	1.2
Emerging economies ...	4.2	5.1	-	-	-	3.4	-
of which: Asia .....	5.9	6.1	6.5 (3)	-	5.6	5.5	6.5
Latin America	-0.6	3.0	2.3	2.7	2.5	0.1	2.9
<b>Consumer prices</b>	-0.6	3.0	2.3	2.7	2.5	0.1	2.9
United States .....	1.5	2.3	2.3	2.3	1.8	-	1.7
Japan .....	-1.0	-0.6	-1.0	-0.6	-0.8	-	-0.3
Euro area .....	2.1	1.6	2.0	1.9	1.9	-	1.9
Emerging economies ...	6.0	6.1	-	-	-	-	-
of which: Asia .....	2.0	3.1	-	-	2.5	-	2.2
Latin America	8.6	9.3	-	12.2	4.9 (4)	-	10.7
<b>World trade (2) (5) .....</b>	<b>2.1</b>	<b>6.1</b>	<b>6.1 (6)</b>	-	-	-	-
<b>Oil prices</b>							
Average of the three main grades (\$ per barrel) .....	24.4	24.2	24.1 (7)	25.2 (8) (9)	-	-	-

Sources: IMF, *World Economic Outlook*, September 2002 and *Article IV Report on the Euro Area*, October 2002; European Commission, autumn 2002; Consensus Economics, *Consensus Forecasts*, 7 October 2002; JP Morgan, *Global Data Watch*, 8 November 2002; Merrill Lynch, *The Global Economy*, 1 November 2002; Deutsche Bank, 8 November 2002.

(1) Forecasts. - (2) At constant prices. - (3) Excluding Indonesia. - (4) End-year inflation - (5) Goods and services. - (6) Goods. - (7) Brent. - (8) WTI. - (9) Forecasts for end-October 2003.

### The euro area

Economic growth in the euro area was slower than expected in the first half of the year. Output increased by only 0.8 per cent on an annual basis. The European economy appears less dynamic than its US counterpart, as there is little scope for counter-cyclical policies and the structural rigidities that still characterize product and factor markets continue to hamper growth.

Stagnant household consumption added to the impact of the contraction in gross fixed investment,

which has fallen for six consecutive quarters. Slack domestic demand caused imports to decline, while exports remained virtually unchanged despite the recovery in international trade.

Unemployment began to rise again, reaching 8.3 per cent in September, 0.3 points higher than in 2001. Above all in Germany the employment situation reflected the sluggishness of economic activity.

More than elsewhere in the area, the slow growth of the economy in Germany is attributable to the performance of final domestic demand. Consumption began to decline again in the second half of 2001, and

the impact of the crisis in the construction sector has been compounded by the pronounced deceleration in the other components of capital formation.

The EuroCOIN coincident indicator, which fell repeatedly during the spring and summer, registered a small rise in September. In October, household confidence in the euro area deteriorated significantly.

According to Eurostat, the entry into circulation of the euro had a modest impact on the general consumer price index. The rise in the rate of inflation perceived by households reflected the increase in the prices of a number of frequently purchased goods and services.

After rising over the last two years, core inflation (excluding the prices of unprocessed food and energy products) peaked in February at 2.5 per cent. The main factor behind the rise was the increase in the prices of some services.

At the end of October, the slope of the euro yield curve signaled that short-term interest rates were expected to decline by between 25 and 50 basis points by the end of 2002. These expectations have shown themselves to be highly volatile.

Monetary conditions in the area are relaxed. The twelve-month increase in M3, calculated as a three-month moving average, was 7.1 per cent in September. The growth in the money supply continues to reflect the pronounced shift in the composition of portfolios to more liquid assets. The increase in liquidity preference is a reflection of the uncertain economic outlook.

Growth in financing to the private sector in the euro area decreased to 5.1 per cent in September, in connection with a slowdown in demand for credit induced by the weakness of investment.

An easing of the inflation rate to under 2 per cent in 2003 will require oil prices not to rise and a halt to the upward trend in unit labour costs. At its last meeting the ECB Governing Council decided not to change official interest rates. The Council is nevertheless closely monitoring the risks of a deterioration in the area's prospects for growth.

Budget balances in the euro area are expected to worsen sharply in 2002 by comparison with 2001.

Many countries will fail to achieve their objectives. Causal factors include the cyclical downturn and, in some cases, the full effects of tax cuts enacted in the past - in more favourable economic conditions - without decisive action to reduce spending. Portugal, Germany, France and to a lesser extent Italy all continue to have substantial budget deficits.

At its October meeting the ECB Governing Council reaffirmed that in the long term the budget rules laid down in the Maastricht Treaty and the Stability and Growth Pact ensure conditions conducive to economic growth and higher employment.

Resumption of the process of budget adjustment under the procedures laid down by the Eurogroup in October will provide the countries still running large deficits with enough flexibility to cope with the poor economic situation and continue to reduce public debt in relation to GDP.

In June the leading forecasting organizations were still expecting the euro-area economies to return in 2003 to growth rates above their estimated potential, faster than 2.5 per cent. Since then, forecasts have become more pessimistic. The latest *Consensus Forecasts* and IMF projections put growth in the area at between 0.5 and 1 per cent this year, about half a point lower than in June, and around 2 per cent next year.

The downward revision for the euro area is explained only in part by world economic developments. *Consensus Forecasts* still projects basically the same world output growth for 2002 as it did in June and has shaved only a few tenths of a point off the outlook for 2003, now set at 2.6 per cent. The international organizations expect world trade growth to rebound next year to near its average for the last thirty years, at least 5 percentage points higher than in 2001-02.

### **The Italian economy**

Italian economic activity, affected by the difficulties of the world economy, is experiencing a sharp slowdown. With the dissipation of international

tensions and the consequent expansion of trade, a recovery in output growth is possible next year.

In the first half of 2002 GDP growth was sustained only by the rebuilding of stocks, which was due in part to an initial improvement in firms' expectations for the economy. Final domestic demand diminished at an annual rate of more than 1 per cent; exports also contracted. In the third quarter output expanded at an annual rate of 1.1 per cent.

Italian exports contracted at an annual rate of 2.4 per cent in the first half, and there was a further reduction in Italy's market shares, which have been declining since the mid-1990s. There was a particularly large decrease in exports to EU countries, owing to falling demand in Germany and stronger competition from the emerging and transition economies.

Uncertainty over the economic outlook and the prolonged stagnation of disposable income caused household consumption to remain flat.

Gross fixed investment also declined in the first half, except in construction. The initial optimism reflected in firms' expectations during the first five months of the year was dampened by the persistent weakness of demand. This affected investment in capacity expansion, which was slightly less than had been planned at the start of the year according to the September survey conducted by branches of the Bank of Italy. The downward adjustment involves investment plans for next year as well.

After the modest decline registered in the second quarter, the index of industrial production returned in the third to the level registered at the start of the year. Preliminary estimates for October and November indicate continuing slackness in productive activity. Business confidence, after improving in September, turned down again in October, partly in response to the worsening crisis in the auto industry. The decline in household confidence under way since March steepened in recent months, taking the index to historically low levels in October.

The positive trend of employment in recent years was interrupted. The unemployment rate came down only marginally to reach 9 per cent in July 2002.

Preliminary data for October put the increase in the general consumer price index at 2.7 per cent (2.8 per cent for the harmonized index).

Bank lending has slowed down in recent months, especially at short term, partly as a consequence of reduced corporate borrowing for financial operations.

No indications of generalized credit rationing have emerged. Signs of greater caution on the part of banks can be seen in the sectors where credit demand is strongest, such as construction and services. New bad loans remain low in proportion to total lending (0.9 per cent).

Italian bank profits were reduced in the first half of 2002 by allocations to risk provisions in connection with exposures to Latin America and some multinational groups. Writedowns of securities and equity investments increased, while income from services decreased. The capital strength of Italian banks guarantees the stability of the system and its capacity to finance a recovery in investment. In the future banks' profitability should benefit from the improvement in economic activity.

The Forecasting and Planning Report presented in September estimated general government net borrowing in 2002 at 2.1 per cent of GDP, against a forecast of 0.5 per cent in the stability programme update of November 2001 and 1.1 per cent in the Economic and Financial Planning Document of July 2002.

The revision takes into account the increase in the borrowing requirement from the previous year, which among other things reflected the reduction in tax revenue as a consequence of the reliefs granted to households in the budget for 2002, the non-recurrence of some of the extraordinary receipts of 2001 and a worse-than-forecast evolution of economic conditions. The new estimates reflect assumptions concerning the effects of the corrective measures taken since the summer, sizable receipts from the securitized disposal of property and the persistence of a large gap between the borrowing requirement and net borrowing. Achieving the figure indicated for net borrowing requires a strong curb on expenditure in the final part of the year.

The fall in tax revenue will be limited by the corrective measures introduced in September, whose impact is estimated at 0.25 per cent of GDP.

For 2003 the Economic and Financial Planning Document presented in July set an objective for net borrowing equal to 0.8 per cent of GDP, 0.3 percentage points less than the figure estimated for 2002 at that time. The Document projected that the deficit would rise to 1.6 per cent if no new measures were taken.

At the end of September the Forecasting and Planning Report and the Planning Document Update raised the projected deficit on a current-legislation basis to around 2.5 per cent.

The objective for net borrowing in 2003 was set at 1.5 per cent of GDP. To achieve it, a correction amounting to €13.6 billion (around 1 per cent of GDP) is planned. Of this amount, €9.6 billion refers to provisions included in the Finance Bill and €4 billion is expected to come from measures now being prepared, which, according to preliminary indications, will probably involve the assets of the companies Infrastrutture S.p.A and Patrimonio dello Stato S.p.A.

The Finance Bill, which includes the measures agreed under the so-called Pact for Italy, provides for permanent tax reliefs and expenditure increases having an overall impact of €6.4 billion and deficit-curbing measures totaling €16 billion, equally divided between the revenue and spending sides.

The composition of the budget reflects the difficult economic situation. The measures to increase revenue are transitory and their features, as in the case of the tax conciliation scheme, do not permit a precise evaluation of their effects on receipts, since these largely depend on taxpayers' behaviour.

Taking into account securitizations, which are included in the projections on a current-legislation basis, and the residual effects of the measures decided for 2002, the revenues of a temporary nature can be estimated to amount to 1.3 per cent of GDP in 2003. For the curbs on expenditure to have permanent

effects, changes are necessary in the decision-making mechanisms and organizational structure of general government.

During the debate on the Finance Bill in the Chamber of Deputies a number of amendments were approved. In particular, the measures for the South were expanded and those regarding firms improved, without altering the objective for the overall balance.

For the subsequent years the Planning Document Update indicates a gradual decline in net borrowing to 0.6 per cent of GDP in 2004 and 0.2 per cent in 2005, followed by a surplus of 0.1 per cent in 2006. The improvement is expected to come from the reduction in interest payments and the effects of the upturn in economic activity. Action will be necessary to compensate for the lapsing of the temporary measures.

The Planning Document Update forecasts that the ratio of general government debt to GDP will fall below 100 per cent in 2005.

In the 1990s the Italian economy grew slowly and was outpaced by the other leading European economies. If growth is to revive, the structural problems of the economy must be addressed after the passage of the Finance Bill. In line with the Government's plans, the burden of taxation and social contributions must be reduced on a lasting basis and the country's infrastructure endowment strengthened. In order to reconcile these actions with the goal of achieving and maintaining budgetary balance, reforms will be needed to rein in the growth in primary current expenditure.

The final results for GDP growth in 2002 will reflect the weakness of economic activity in the first three quarters, which the available indicators also project onto the fourth. In the positive international scenario described earlier, the upturn is likely to arrive in the first half of 2003. Exports would benefit from the expansion of international trade, which leading forecasters continue to predict will be robust. The acceleration in national demand would be sustained by household consumption, which is expected to grow in line with the traditional determinants.

## The budget for 2003

The budget proposals for 2003 are officially expected to reduce general government net borrowing by €13.6 billion, or around 1 percentage point in relation to GDP. The reduction is the net result of increases in revenue and decreases in expenditure amounting to €20 billion and decreases in revenue and increases in expenditure amounting to €6.4 billion. In addition to the measures in the Finance Bill, the adjustment includes the effects of other deficit-curbing measures amounting to €4 billion and consisting in part, according to preliminary indications, of transactions by Infrastrutture S.p.A. and Patrimonio dello Stato S.p.A.

**Increase in revenue.** - The forecast additional revenue amounts to €8 billion and is mostly of a one-off nature.

In particular, additional revenue amounting to €5.8 billion is expected from a tax conciliation scheme reserved to the self-employed and firms with revenues of up to €10 million. The scheme involves the recalculation of tax bases for the years 1997-2000 for direct taxes, VAT and Irap. The larger amounts due under the scheme are to be determined by the tax authorities and proposed to taxpayers. For persons whose payments were in conformity with sector studies or the parameters referred to in Law 549/1995, the scheme envisages the payment of a fixed amount of €300 per year. In general payments will have to be made by 30 June 2003, but in some cases it will be possible to divide them into three annual instalments.

The other conciliation schemes included in the Finance Bill provide for: an extension of the time limit for regularizing and repatriating capital held abroad in violation of exchange controls and tax obligations by natural persons resident in Italy (€2 billion); adjustment of the initial value of inventories for the 2002 financial year for persons who adhere to the tax conciliation scheme (€0.1 billion); and the closure of tax disputes for amounts of less than €20,000 pending before tax commissions on 29 September 2002 (€0.1 billion).

Lastly, the budget provides for a three-year scheme for the advance determination of income for the purposes of direct taxes and Irap. This determination of income

does not entail early payment of the tax due but means that any amounts earned in excess are not taxable. The details of this scheme will be established in a regulation to be issued after the Finance Law has entered into force; it is not expected to affect revenue in 2003.

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

REVENUE	
<b>Increase in revenue</b> .....	<b>7,980</b>
Tax conciliation scheme .....	5,760
Repatriation of capital from abroad .....	2,000
Inventory conciliation scheme .....	130
Closure of tax disputes .....	90
<b>Decrease in revenue</b> .....	<b>-4,320</b>
Change in structure of Irpef .....	-3,490
Effects on Irpef surtaxes .....	-210
Reduction of Irpeg rates .....	-190
Irap relief for agriculture .....	-330
Other measures .....	-100
<b>Net change in revenue</b> .....	<b>3,660</b>
EXPENDITURE	
<b>Decrease in expenditure</b> .....	<b>-12,040</b>
Domestic stability pact .....	-2,250
Health care .....	-1,960
Intermediate consumption, goods and services .....	-720
Staff costs .....	-360
Lower cost of increase in minimum pensions ..	-520
Conversion of grants into supported loans .....	-1,400
Other capital expenditure .....	-830
Other (2) .....	-4,000
<b>Increase in expenditure</b> .....	<b>2,100</b>
Staff costs .....	820
Local finances .....	560
Social assistance and pensions .....	390
Capital expenditure and other .....	330
<b>Net change in expenditure</b> .....	<b>-9,940</b>
<b>TOTAL REDUCTION IN PRIMARY NET BORROWING</b> .....	<b>13,600</b>

(1) Based on official estimates. - (2) Measures not included in the Finance Bill.

cont. ➤



**Decrease in revenue.** - This is expected to amount to €4.3 billion, primarily owing to the changes in the structures of personal and corporate income tax.

A start is made on the reform of personal income tax, along the lines laid down in the proposed enabling law on the reform of central government taxation. In 2003 there will continue to be five rates; the first three income brackets will be changed, as will the corresponding rates. The transformation of tax credits into allowances will get under way. The new allowance, introduced to ensure the progressiveness of the tax, establishes an income threshold (€3,000) below which no tax is due regardless of the nature of the income (the no-tax area); this threshold is raised to €4,500, €7,000 and €7,500 respectively for self-employment incomes, pensions and payroll earnings. Beyond these thresholds, the allowance is inversely related to income and becomes zero for incomes of more than about €30,000, including tax credits and net of deductible items. Exclusively for 2003, there is a safeguard clause whereby payments are not to exceed those calculated on the basis of the Irpef structure in force at 31 January 2002. The changes are expected to lead to a reduction in revenue on the order of €3.7 billion in 2003, of which more than €0.2 billion in respect of central government personal income surtax. Most of the reduction concerns lower incomes.

For firms, the Finance Bill provides for a reduction in the ordinary corporate income tax rate from 35 to 34 per cent, with a consequent adjustment of the tax credits for distributed profits. These measures are expected to lead to a reduction in revenue of about €0.2 billion in 2003.

A further reduction of about €0.4 billion is expected to come from the extension to 2002 of some reliefs applicable to agriculture, including the reduction of the Irap rate from 3.1 to 1.9 per cent (€0.3 billion).

Lastly, the Finance Bill provides for other forms of Irap relief that are officially estimated to start producing their effects in 2004. The measures consist in an increase in the flat-rate deduction and the introduction of some deductions with regard to labour costs.

**Decrease in expenditure.** - The proposals included in the Finance Bill are expected to reduce expenditure by €8 billion, of which €5.8 billion on current account and €2.2 billion on capital account.

Application of the Domestic Stability Pact rules is expected to produce savings of about €2.3 billion.

The reductions in outlays for health care are estimated to amount to nearly €2 billion, of which €0.7 billion in respect of pharmaceuticals and €1.1 billion to come from the maintenance of the charges for diagnostic and specialist services and the increase in those for spa treatment.

A reduction of €0.7 billion is expected to come from the introduction of ceilings on outlays for intermediate consumption and the rationalization of government departments' purchasing procedures.

The indefinite freeze on hiring by government departments and recourse to internal mobility are expected to produce savings of about €0.4 billion.

In order to reduce capital expenditure, some grants will be turned into supported loans, a measure that is expected to produce savings of about €1.4 billion.

More than half of the other reductions in capital expenditure (€0.8 billion) is to come from the decrease in the fund for local authority investment.

**Increase in expenditure.** - The increases in expenditure amount to €2.1 billion, of which €1.8 billion on current account and €0.3 billion on capital account.

The contribution of staff costs is €0.8 billion, almost entirely in connection with contractual increases. Local government accounts for another €0.6 billion, while €0.4 billion has been allocated for the early retirement of workers employed in firms that extract or use asbestos.

Lastly, the increase of €0.3 billion in capital expenditure includes €0.2 billion for investment, to be used mainly for projects in the South.

Public investment appears to be picking up. The construction firms interviewed in a recent Bank of Italy survey expect the recovery under way since the summer to be followed by further expansion in the first half of 2003; a start must be made immediately on the programme of public works. The recovery in economic activity could be fueled by a resurgence of private investment, which is currently held back by firms' uncertainty about the outlook for demand. In

order to impart a strong impetus to economic activity, the loss of market share by Italian products in recent years must be brought to a halt. In the context described above, the growth in GDP in 2003 might rise above 2 per cent. The return to better conditions of competitiveness and profitability for firms and the increase in investment will make it possible to bring income and employment back to a path of sustained growth.

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*Based on information available at 14 November 2002. The Appendix is updated to 6 November.*

## Documents

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### The Interbank Database on Irregular Cheques and Payment Cards (\*)

Legislative Decree 507 of 30 December 1999, implementing Law 205 of 25 June 1999, modified the sanctions for writing bad or unauthorized cheques on bank or postal accounts.<sup>1</sup> The reform improves safeguards for the circulation of cheques, in accordance with the guidelines laid down by the Bank of Italy jointly with the Italian Bankers' Association in the 1995 White Paper on Cheques.

The aim of the reform was to create an alternative to penal sanctions whose effectiveness would be based on availability of information and interdictions against those who infringe the rules. The new sanctions centre on "system-wide ban" rather than the old "single bank ban" on cheque writing. The sanction for violators is suspension for six months of all authorizations to issue cheques and a prohibition on the concession of new bank or postal cheque facilities.

The Decree also acts in more traditional fashion, transforming the old criminal offence of issuing bad or unauthorized cheques into an administrative infraction, sanctioned by fines and accessory penalties.<sup>2</sup> The administrative sanctions are applied by the prefect of the jurisdiction where the cheque is payable. Criminal sanctions are retained solely for violations of the prohibitions laid down by the accessory administrative sanctions.

Essential to the enforcement of the system-wide ban is the creation of the Interbank Database on Irregular Cheques and Payment Cards, a computerized register of unpayable cheques and payment cards at the Bank of Italy. As owner of the Database and payment system oversight authority, the Bank monitors the regular operation of the Database and issues instructions for its managing

body, SIA-Ced Borsa, which holds the concession for the Database.<sup>3</sup>

Entry in the Database results in system-wide revocation of a person's authorization to write cheques. The law assigns private reporting institutions an essential role for the correct functioning of the Database service. Application and enforcement of the sanctions depend on their diligence both in submitting reports and in consulting the register. This is evident, among other things, in the provision for liability of the bank drawn on and criminal responsibility for a bank that issues a cheque-book to a person subject to system-wide ban.

*Function and structure of the Database.* – In addition to the list of persons whose cheque-writing authorization has been revoked, the Database contains other information that can help verify the proper use of the payment instruments covered. Special segments contain registers of: (i) the names of persons whose authorization to use payment cards has been revoked; (ii) the serial numbers of lost, stolen, revoked and unreturned cheques and payment cards; (iii) the names of persons subjected to fines and accessory sanctions, the prohibitions for violation of the latter, and any penal sanctions. The names of the persons whose authorization has been revoked may be disclosed to the persons themselves or their agents and to reporting institutions (but only during the period of entry in the register). However, the serial numbers of lost, stolen or revoked cheques and cards and of unreturned cheques can be divulged.<sup>4</sup>

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(\*) Prepared by the Payment System Department and the Payment System Oversight Office. The text of the Bank of Italy regulation of 29 January 2002 (*Gazzetta Ufficiale* No. 27, 1 February 2002) is available on the Bank's website [www.bancaditalia.it](http://www.bancaditalia.it).

The technical structure of the Database has been decided together with the Interbank Convention for Automation. It consists of a central register section at the Bank of Italy, operated by SIA-Ced Borsa, and remote sections at the private reporting institutions (banks, post office branches, supervised payment card issuers) and at prefectures.<sup>5</sup> Data on system-wide bans are considered to have been entered in the register only when they are simultaneously accessible at all the sections. This condition guarantees the uniform application of the ban.

This logical architecture entails off-line consultation. The data that a reporting institution transmits to the Database are returned to all the reporting institutions in such a way that the same information is held both at the central section and at remote sections. Verification of data entry by the reporting institutions is effected at the remote sections.

The data are transmitted to the Database using electronic procedures compatible with the characteristics of the register, and no paper communication is used. Data exchange (transmission of reports and dissemination of data) between the local and central sections is by means of pre-determined electronic messages, observing the procedure's cut-offs, sent via the National Interbank Network.<sup>6</sup> The Database releases its information to reporting institutions that are direct members of the National Interbank Network, who in turn transmit the reports to indirect members. The return data flow consists in daily updates and, upon request in special cases, a copy of the entire register.

*Security and controls.* - The proper functioning of the Database depends on effective interaction among the sections. The Bank of Italy's regulation accordingly increases the responsibilities at various levels within the Database. The body that operates the central register section must prepare, in addition to the technical, organizational and logistical measures called for by existing laws and regulations on the treatment of data, a series of measures to guarantee security in data treatment and ensure the dependability, efficiency and continuity of the service, in compliance with Database level and security standards set by the Bank of Italy. The reporting

institutions in turn must have IT security management procedures permitting adaptation of central information system security policy and updates.

Considering the serious consequences of entry in the register, there are automated procedures for data checking. All the messages and data flows to the register are checked. There are formal controls on the completeness of the reports (e.g., making sure that all fields are filled in) as well as checks for congruency of the data submitted (e.g., mismatches between tax code and personal identifying particulars). The Database service does not verify the validity or legitimacy of the reports, which are the sole responsibility of the reporting institutions. Any error detected by the control procedures during acquisition of the report results in rejection of the message.

Checks of the Database's management are performed by the Bank of Italy as proprietor of and oversight authority for the payment system. The Database operator must draw up a specific "quality plan" for the Database, in compliance with international standards and with the indications of the Bank.

Finally, as banking and financial supervisory authority and payment system oversight authority, the Bank of Italy verifies compliance with laws and regulations on the part of the reporting institutions.

*Initial results.* - The Database went live on 4 June 2002 for the reporting and consultation of data on bank and postal cheques. The launch of the payment card segments is scheduled for December. For the other segments, work is still under way to define the functional specifications. At the end of October the Register contained reports of 106,000 bans for the issue of bad or unauthorized cheques and of more than 4 million irregular cheques.<sup>7</sup>

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<sup>1</sup> Decree 507/1999 envisaged two further implementing measures: a regulation by the Minister of Justice (Decree 458 of 7 November 2001, *Gazzetta Ufficiale* No. 3, of 4.1.2002) and the Bank of Italy regulation cited above.

<sup>2</sup> The accessory sanctions include a prohibition on issuing bank or postal account cheques for from two to five years, a ban on engaging in professional or entrepreneurial activity, a ban on holding management positions with legal entities or enterprises, and incapacity to conclude contracts with government bodies.

<sup>3</sup> The Bank of Italy, by an order of the Governor of 15 March 2002 (*Gazzetta Ufficiale* No. 68, 21.3.2002), assigned the management of the Database exclusively, for three years, to SIA-Ced Borsa S.p.A. There is a special convention between the Bank of Italy and the concessionaire company.

<sup>4</sup> Access to the Database register data can be obtained at reporting institutions and branches of the Bank of Italy.

<sup>5</sup> The judicial authorities have direct access to the central register.

<sup>6</sup> For the segments holding names of persons denied authorization to write cheques (CAPRI) and to use payment cards (CARTER), reports are sent by message switching (one by one). For those detailing lost, stolen or revoked cheques and cards (PASS and PROCAR, respectively), reports are via file transfer (*en bloc*).

<sup>7</sup> The data identifying cheques that have been lost, stolen, revoked or unreturned or on which payment has been stopped for some other reason are posted by the Bank of Italy on the website of SIA ([www.sia.it](http://www.sia.it)).

## Memorandum of the Bank of Italy on the Consolidated Law on Financial Intermediation (\*)

On 5 June 2002, Pierluigi Ciocca, Deputy Director General of the Bank of Italy, was heard by the Finance Committee of the Chamber of Deputies as part of its fact-finding with regard to the Consolidated Law on Financial Intermediation (Legislative Decree 58 of 24 February 1998).

The Consolidated Law forms part of the broader reform of banking and finance enacted in the 1990s. The remodeled legislative framework contributed to the development of the Italian financial industry, fostering its growth and, above all, increasing the operational and informational efficiency of the financial markets. The changes were gradual but far-reaching. The configuration of the financial system is now closer to that in the most advanced countries. The Consolidated Law, which establishes a framework based on the principles of entrepreneurship, competition, transparency, stability and international openness, helped achieve these results in conjunction with the action of the supervisory authorities. The overall approach embodied in the legislation can therefore be judged a success.

The reform should now be extended to other areas of law that need to be modernized, namely commercial, bankruptcy and labour law, and the civil justice system. Renewed vigour in fostering and safeguarding competition is necessary to remove a number of weaknesses in Italian capitalism, which cannot fairly be attributed to alleged shortcomings of banking and financial legislation. Action has begun in some areas; the reform of company law is close to completion. The efficiency of the legal framework has a significant impact on the performance of the economic system.

The memorandum identifies three fundamental features of the Consolidated Law that should be

confirmed: the emphasis on secondary legislation; the basic framework of supervision of financial intermediation; and the overall balance between ensuring contestability and stability in the governance of listed companies. Italy has joined other countries in refocusing the content of primary legislation and expanding the role of secondary regulation, an approach that is especially effective in modern economies, which require rapid, well-calibrated responses. The Italian model of supervision divides responsibility among a number of bodies. The allocation of supervisory duties by purpose rests on a key distinction between two areas of action: the first is the technical discretion – typical of central banks – needed to distinguish between illiquidity and insolvency or between a crisis at an individual intermediary and a potential source of systemic risk; the second is that of ensuring compliance with the norms of transparency and proper conduct set down in detail in primary and secondary legislation. The current system has the merit of avoiding excessive concentration, insufficient technical specialization and the formation of exclusive relationships between the supervisor and the supervised. As regards the governance of listed companies, the Consolidated Law brought Italian regulations into line with the highest international standards. The rules governing public tender offers, shareholder agreements, proxy votes, internal controls and minority rights seek to achieve a balance between contestability and stability.

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(\*) Prepared by the Economic Law Office. The Italian text of the memorandum is available on the Bank's website: [www.bancaditalia.it](http://www.bancaditalia.it)

The memorandum also addresses specific matters concerning the regulation of issuers. The analysis seeks to ascertain the impact of a number of provisions of the Consolidated Law and to identify areas where improvements can be made. In particular, it examines voluntary and mandatory public tender offers, shareholder agreements, the protection of minority interests and the solicitation of proxies. For each of these issues, the document analyses its economic function, examines the regulatory framework in Italy and compares it with approaches taken in other countries, and assesses the potential costs and benefits of rationalizing certain technical aspects of the rules. These proposed

changes are to be evaluated with care, since the stability of the legal framework is also a value to be safeguarded.

In concluding, the memorandum discusses some of the issues raised by the recent corporate crises in the United States, which can also serve to evaluate the adequacy of regulations in Italy. The belief remains that the proper operation of the markets rests not only on the adequacy of primary and secondary legislation and the concurrent action of supervisory authorities, but also on the correctness of conduct and the professional integrity of all market participants.

**Bank of Italy Regulation of 17 June 2002  
concerning the possibility for Italian investment firms (SIMs)  
to use internal models for calculating capital requirements (\*)**

On 17 June 2002 the Bank of Italy issued a regulation implementing the principles contained in Directive 98/31/EC that allows Italian investment firms to calculate their capital requirements for market risks using their own internal models instead of, or in combination with, the standardized method. The option is subject to approval of the model by the Bank of Italy.

The regulation specifies a risk measurement model's requisites, the method of calculating the capital requirement and the conditions and procedures for Bank of Italy approval.

Internal models must satisfy a number of quantitative and qualitative standards.

With regard to the former, a model must:

- comply with a number of constraints on the choice of the risk measurement parameters for the holding time of positions, the chosen confidence interval and the historical data observation period, among others;
- be appropriate to the characteristics of the intermediary's portfolio.

The qualitative criteria concern organizational features that help to define an effective risk management system. Three main aspects are considered:

- the model's integration into the risk management process, with reference to its effective utilization for determining the investment firm's operating limits and risk position;
- the adequacy of the human and technological resources for the preparation and utilization of the risk management system;

- the adequacy of internal controls to ensure the effectiveness of the risk management system.

The approval procedure may provide for a period of testing at the intermediary in order to verify the internal model's ability to capture the investment firm's effective exposure to risks and to check, by means of appropriate simulations, the model's robustness in the event of severe market turbulence.

Following approval, an investment firm must constantly check the accuracy of its model with a programme of back-testing to compare the value at risk calculated by the model with actual results. It must also prepare a programme of periodic stress testing to check the adequacy of the internal model in the case of extreme variations in the volatility and correlations of the assets in the intermediary's portfolio.

Where the Bank of Italy finds technical or organizational aspects that need to be improved, it may impose measures to ensure prompt adjustment of the model and require an increase in the capital requirement calculated using the model.

The Bank of Italy may also revoke approval if the investment firm does not comply with the qualitative and quantitative standards set when the model was first authorized.

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(\*) Prepared by the Financial Supervision Department. The text of the measure is available in Italian on the Bank's website: [www.bancaditalia.it](http://www.bancaditalia.it)



# Speeches

## The restructuring of the banking system in the last ten years Problems and prospects

*Testimony of Antonio Fazio, Governor of the Bank of Italy,  
to the Joint Session of the Sixth Committees of the Italian Senate and Chamber of Deputies*

*Rome, 2 October 2002*

### 1. The reorganization of the Italian banking system

During the 1990s the Italian banking system underwent a far-reaching transformation. The international integration of markets, the liberalization of banking, and technological and financial innovation contributed to increased competition among intermediaries.

Public ownership of banks shrank rapidly. Since 1992, the proportion of the banking system's assets held by intermediaries more than half-owned by public entities and foundations has fallen from 68 to 10 per cent.

Privatization has strengthened the monitoring of banks' operations by the financial markets. At the end of last year listed banks accounted for some 80 per cent of banks total assets on a consolidated basis.

The 1993 Banking Law eliminated the segmentation of intermediaries' operations, further increasing the scope for competition in the different market sectors.

The 1998 Consolidated Law on Financial Intermediation allowed intermediaries to offer a wider range of asset management products, while leaving them ample discretion in their organizational choices.

Competition intensified as more banks entered the same markets and the presence of foreign intermediaries increased; since the beginning of the 1990s the spread between bank lending and deposit rates has narrowed from 6 to 4 percentage points.

The average rate on short-term bank loans has come down by 7 percentage points since the mid-1990s; it is now below 6 per cent, in line with the euro-area average.

The search for adequate structures to face the increase in competition has produced extensive consolidation. Since 1990 there have been 566 mergers and acquisitions, involving banks with assets equal to nearly half those at the beginning of the period.

Although more than 200 new banks were established between 1990 and August of this year, the number of banks has fallen by a quarter, from 1,100 to 829. The system has been recast mainly in the form of banking groups; more than four fifths of all bank branches belong to the 75 banking groups operating today.

Compared with ten years ago, the number of Italian banks' subsidiaries abroad has increased from 47 to 82. The proportion of assets consisting of claims on non-residents has risen from 17.6 to 20 per cent on a consolidated basis.

Non-bank intermediation has grown more diversified. It consists of 165 securities firms, 144

asset management companies and 286 financial companies, including those operating in leasing, factoring and consumer credit.

The growth in the relative importance of large banking groups has not meant that less credit is available for smaller firms. Credit to households has expanded at a particularly rapid pace since the second half of the 1990s but is still less developed than in the other leading countries.

In the second half of the 1990s bank lending rose more rapidly than nominal GDP; at the end last year it was equal to 81 per cent of GDP, compared with 68 per cent in 1996.

Mergers and acquisitions have permitted and spurred organizational changes aimed at more efficient utilization of information in evaluating creditworthiness and setting the rates on loans; they have fostered the development of innovative techniques for the measurement and management of risk. These advances, together with the improvement in firms' finances, have been reflected in the decrease in the annual flow of new bad debts, which fell from values on the order of 3 per cent of loans in the four years between 1993 and 1996 to 0.9 per cent in 2001.

Profitability has recovered markedly with the supply of a wider range of services and action to reduce operating costs.

In the mid-1990s staff costs were equal to 45 per cent of gross income, significantly higher than the figure for banks in the other main countries; the measures to curb costs taken by banks, at the prompting of the Bank of Italy, brought the ratio down to 36 per cent in 2000.

Banks' return on equity, which had fluctuated around 2 per cent in the mid-1990s, rose to an average of 13 per cent in 2000, approaching the levels recorded in the banking systems of the other main countries.

In 2001 the economic results of intermediaries were affected by the negative performance of the financial markets, which also hurt savers. Banks' profits declined owing to the contraction in asset management fees and the substantial provisioning that was made necessary by the financial difficulties

of some countries and large foreign corporations. The average return on equity fell to 9 per cent.

In the first half of this year the uncertainties of the financial markets contributed to a further fall in banks' profitability. Based on the half-yearly reports of the six largest banking groups, gross income was 3 per cent less than in the first half of 2001; with operating costs broadly unchanged, the operating result was down by 8 per cent.

Between 1998 and 2000 banks' overall capital and reserves rose by an average of 5 per cent per year; however, the rapid growth in assets caused the solvency ratio to fall from 11.4 to 10.2 per cent. The Bank of Italy took steps aimed at strengthening the capital bases of the leading banking groups, in line with the decision adopted at the international level to require banks to maintain own funds significantly in excess of the required 8 per cent minimum.

In 2001 banks' own funds grew by 8.9 per cent; the solvency ratio rose to 10.6 per cent.

Italian banks' international activity supports the initiatives of Italian enterprises in foreign markets. The increasing tendency of banks to operate in the international financial markets, organizing syndicated loans and bond issues, has improved Italian firms' access to a host of potential providers of finance.

In June of this year the Italian banking system had about €38.5 billion worth of outstanding loans and guarantee commitments to non-OECD developing and transition countries.

Italian banks account for a small proportion of total lending to those countries. Given the modest market share, in the current difficult economic situation the losses have been limited compared with those of banks of other countries.

According to the data published by the Bank for International Settlements, which refer only to loans outstanding as of March 2002, the Italian exposure was equal to 3.9 per cent of total bank lending to the non-OECD developing and transition countries. This compares with 17.2 per cent for the United States, 13.9 per cent for Germany, 12.3 per cent for the United Kingdom, 8.8 per cent for Spain, 8.4 per cent

for France, 7.4 per cent for Japan and 6.2 per cent for the Netherlands.

The exposure towards the non-OECD Central and Eastern Europe countries amounts to €10.5 billion, of which the bulk is to Croatia and Russia. Italy accounts for 9.1 per cent of outstanding bank loans to the area; it comes after Germany, whose share is four times larger.

Loans and guarantee commitments to Poland, Slovakia, Hungary, Turkey and the Czech Republic - Central and Eastern European countries belonging to the OECD - amount to €25.3 billion.

In recent years, in view of the prospective enlargement of the European Union, Italian banks have acquired control of intermediaries operating in Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia. In four of these countries their market share exceeds 10 per cent.

The Italian banking system's claims on the non-OECD countries of Latin America amount to €21.6 billion and consist almost entirely of claims on Brazil, Argentina and Peru. Its outstanding loans represent 6.9 per cent of international lending to the region. Spain accounts for 24.8 per cent of the total exposure, the United States for 23 per cent, Germany for 9.3 per cent and the United Kingdom for 8.1 per cent.

The quality of claims on Argentina has deteriorated rapidly in the wake of the crisis that erupted in the last few months of 2001. That economy's troubles stem principally from the loss of competitiveness caused by the national currency having been anchored to the dollar and the prolonged appreciation of the latter. Introduced in 1991, the currency board initially helped to restore conditions of monetary stability conducive to growth; it was abandoned last January, when the financial crisis had become exceptionally severe.

The Argentine government placed a considerable burden on the banks. To restore utilization of the national currency and reduce the risks of corporate bankruptcies, it ordered bank loans denominated in dollars to be reconverted into pesos at the previous ratio of one to one, while deposits in US dollars were converted at the rate of 1.4 pesos to the dollar.

The issue by the Argentine government of dollar-denominated securities to be assigned to the banks for the losses they incurred has yet to be finalized.

The repercussions on the other countries of South America were initially limited, but at the end of last March the financial markets began to demand increasing risk premiums. The phase of turbulence that ensued mainly involved Uruguay and, subsequently, Brazil, because of the risks of a deterioration in that country's debt situation and political uncertainty.

The spread between Brazilian government securities and US Treasury securities widened from 7 percentage points in March to nearly 25 points at the end of July. At the beginning of September the International Monetary Fund approved loans to Brazil totaling \$30 billion. By mid-September the risk premium had narrowed to around 16 percentage points; recently it has widened again to approach its July level.

The value in euros of Italian banks' exposure to the countries of Latin America fell by a third in the first half of 2002, reflecting the depreciation of the local currencies. Claims on Argentina fell from €8.2 billion to €3.2 billion as the Argentine peso lost around three quarters of its value against the euro. The exposure to Brazil fell by 33 per cent to €9.8 billion and that to Uruguay by a similar amount. By contrast, there was only a limited decline in the exposure to Peru, which amounted to €5.4 billion in June.

Argentina's financial difficulties also affected Italian savers, who, attracted by the high yields, had purchased securities issued by the federal government and local authorities. At the initiative of the Italian Bankers' Association, a good number of banks have agreed to represent their customers and protect their interests in the negotiations with the Argentine authorities on debt restructuring.

The International Monetary Fund is examining the ways to resolve the crisis and the treatment of creditors with the Argentine government.

Under the prudential rules on country risk, in calculating their supervisory capital, banks are required to make standard value adjustments to unsecured assets commensurate with the riskiness of

each non-OECD country. This is assessed on the basis of indicators of the country's economic situation, its regularity in debt-servicing and the assessments of the international financial markets.

The Italian banks most heavily exposed to Argentina, Intesa-BCI and Banca Nazionale del Lavoro, have prudently written off their controlling interests in subsidiaries and made further writedowns and provisions against their credit positions. These charges amount to around €1,350 million for Banca Nazionale del Lavoro and €450 million for Intesa-BCI. The latter has also taken an additional charge of €570 million for its Peruvian subsidiaries.

The necessity of having shareholdings in banks in Latin America in order to provide financial assistance to Italian firms engaged in the region needs to be carefully evaluated.

## 2. The equity markets and asset management

In the second half of the 1990s abundant liquidity in the international markets, the decline in real and nominal interest rates and the rapid growth of the American economy contributed substantially to the exceptional rise in equity prices.

Share prices began to rise in the United States in 1995 and then accelerated in the European markets as well from 1997 onwards. Between 1997 and 1999 they rose by an annual average of 26 per cent in the United States and 35 per cent in the euro area. The increase was greatest for technology, media and telecommunication companies, whose market values rose by an annual average of 52 per cent in the United States and 53 per cent in Europe.

At the beginning of 2000 the price-earnings ratio in both the United States and Europe had risen from values not out of line with the long-term average to historically very high levels. These would have been justifiable only on the basis of improbably high corporate profitability and extremely small risk premiums compared with the levels of the preceding years.

In Italy, the stock market index rose by an annual average of 40 per cent between 1997 and 1999; a

contributory factor was the shift in the composition of households' financial wealth.

In the spring of 2000, the slowdown of the world economy and the downward revision of the forecasts of corporate earnings made it quite clear that share prices had reached excessive heights in all the main markets. The correction involved technology, media and telecommunication stocks first and foremost; the sectoral index of such stocks fell by 74 per cent in the United States and 76 per cent in Europe between March 2000 and August of this year. The slide continued in September, with the indexes falling by 15 and 18 per cent, respectively.

The decline in equities since the spring of 2000 has also involved the shares of companies in the traditional sectors, which up to last August had fallen by 39 per cent in the United States and 47 per cent in the euro area. In September they lost an additional 11 and 18 per cent, respectively.

Uncertainty about the strength of the economic recovery and the ability of many large companies to cope with the large debt burdens they had accumulated has weighed on the performance of the stock markets. Severe cases of corporate distress and irregularities in the preparation of annual accounts have fueled an increase in the equity risk premium. The irregularities initially emerged in a large US energy group, then in other international conglomerates. Conflicts of interest arising from the performance of both asset management advisory services and research on issuers have involved leading institutions operating in the global market.

In the past few weeks the financial markets have been adversely affected by fears of international armed conflict. Yesterday, signs of a possible easing of tensions led to a rebound in the US market.

Up to 1999 the performance of bank shares did not diverge significantly from that of the general indexes.

In Italy, bank shares benefited from positive expectations about the effects of internal reorganizations, the improvement in loan quality and the recovery in profitability connected with the

supply of a wider range of services. Italian bank shares rose by 49 per cent per year between 1997 and 1999, which was more than the sector's annual gain of 15 per cent in the United States and 31 per cent in Europe as a whole.

The upward trend continued in 2000, in contrast with that abroad, thanks to the marked improvement in the banking sector's profitability.

Between the beginning of 2001 and September 2002, bank shares fell by 51 per cent in Italy. In the United States they declined by 18 per cent, in Europe as a whole by 40 per cent.

The fluctuations in share prices were particularly large in the case of intermediaries specializing in asset management services. In Italy it is possible to identify a group of five banks, including Bipop-Carire, that accounted for only 2 per cent of the banking system's total assets but for fully 19 per cent of the sector's market capitalization in mid-2000.

The rapid rise in their shares beginning in 1999 brought the price-earnings ratio of these banks to around 70 in mid-2000, compared with 19 for major banks and 17 for the banking sector as a whole.

The market value of these specialized intermediaries contracted very substantially after June 2000. In September 2002 their price-earnings ratio had fallen to 13, while the ratio for the entire sector was 10.

Asset management business has grown more rapidly in Italy than in the other European countries, starting from a lower base. Between the end of 1995 and 2000 the assets managed by investment funds increased sevenfold; according to consolidated data, earnings from asset management services rose from 3 to 30 per cent as a proportion of banks' gross income.

In 2001 the negative performance of the financial markets caused earnings from asset management services to fall to 26 per cent of gross income. The tendency has continued in 2002; in the first eight months of the year, investment funds established by Italian intermediaries recorded net redemptions amounting to €4.4 billion.

The protection of depositors has been constantly ensured in our country by the supervisory action of the Bank of Italy. As in other countries, the value of savings entrusted to the banks is guaranteed by compulsory insurance systems.

In the asset management sector the defence of savers is pursued by means of disclosure requirements, laid down by the supervisory authorities, that aim to make customers fully aware of the risks associated with financial assets exposed to the economic fortunes of issuers and the fluctuations of the market. Intermediaries are required to perform the mandate they receive from customers "to the best of their ability"; the initial value of the sums entrusted to them is not guaranteed.

The supply of investment products that guarantee to protect the capital invested or even to provide a minimum yield is not only subject to specific transparency requirements vis-à-vis customers but also requires adequate systems for managing the risks connected with such transactions and suitable capital cover against adverse market movements. The related risk items must be stated in the accounts and thereby disclosed to the market and investors.

With regard to these forms of investment, investor protection demands that the commitment undertaken by the intermediary appear explicitly in formal contracts. In addition, both the expenses incurred by the investor for the protection of the capital invested or the guarantee of a minimum yield and the criteria by which they are determined must be clearly indicated.

In recent years the regulatory framework of the financial sector has been strengthened so as to promote and guarantee transparency and proper conduct towards savers on the part of intermediaries.

In the case of the issue and placement of bank securities, the Bank of Italy has regulated the content of the detailed information documents that banks are required to draw up under the provisions governing transparency of the terms and conditions of issue. The content is equivalent in scope to those of the prospectuses that non-banks submit to Consob for listed securities and for the solicitation of investors.

The regulations call for complete information to be provided for issues of so-called structured

securities, which combine a derivative contract with a traditional type of debt instrument. In particular, the net yield of the bond component and the value of the derivative component must be indicated.

### 3. The Bipop-Carire case

#### a. Growth and specialization

The stock markets' performance and its consequences on the activity of intermediaries specializing in asset management were of decisive importance in the unfolding of the Bipop-Carire affair, which was aggravated by the financial difficulties of several important shareholders and by irregularities in the management of the bank.

The original Banca Popolare di Brescia had launched a policy of rapid growth and diversification of its channels of distribution at the end of 1996, when it purchased 50 branches from Banco di Napoli and acquired the Azimut asset management group. By establishing its first network of financial salesmen and concluding shareholding and marketing agreements with foreign institutional investors, Banca Popolare di Brescia expanded rapidly in asset management services. At the end of 1998 the assets under its management totaled €15.5 billion, three times the value of its deposits and other borrowed funds.

In 1999 the merger of Banca Popolare di Brescia with Cassa di Risparmio di Reggio Emilia S.p.A. and its transformation from a cooperative into a company limited by shares as a preliminary to listing on the main stock exchange constituted the second stage of growth for the Brescia-based group, which was renamed Bipop-Carire. The further expansion of the branch network from 150 to 250 branches was also accompanied by a leap in the scale of traditional operations: deposits and other borrowed funds rose from €5.7 billion to €8.3 billion and customer loans from €6.2 billion to €8.8 billion. The activity of the subsidiary Banca Fineco, which had been focused on personal loans, was strengthened in the field of online trading and other innovative financial services.

The growth of Bipop-Carire was accompanied by a plan for strengthening the bank's capital base.

Banca Popolare di Brescia's own funds of €258 million had risen to €1,084 million following the merger with Cassa di Risparmio di Reggio Emilia.

In the two subsequent years the bank's strongly competitive position in the fast-growing markets for asset management, internet banking and online trading services was reflected in a sharp increase in its earnings and share price.

Net profit rose from €147.7 million in 1998 to €257.7 million in 1999 and €336.2 million in 2000.

During 1999 and the first few months of 2000 Bipop-Carire's shares outperformed not only the shares of banks geared to traditional activity but also those of other banks specializing in asset management. During that period the ratio of Bipop-Carire's price to book value rose from 3 to 16, while the average ratio of the other specialized banks rose from 3 to 12; for traditional banks, this indicator remained slightly below 2.

The rise in Bipop-Carire's share price was also encouraged by the particular configuration of the bank's ownership structure: the absence of a core of controlling shareholders made control fully contestable, attracting investors interested in making speculative gains on the stock market.

The principal shareholders held less than one third of the capital. In addition to a foundation and an insurance company, they included some private investors, primarily businessmen. Some of these had used the Bipop-Carire shares they owned as collateral for loans they received from the banking system.

Bipop-Carire also sought to implement strategies to expand its asset management, online trading and consumer banking activities abroad by acquiring banks and financial intermediaries. In June 2001 the group had assets under management amounting to €31 billion, deposits and bond issues totaling €17 billion and loans of €15.5 billion.

The expansion abroad focused primarily on countries in the euro area: France, with the acquisition of control of Harwanne, a small private bank; Germany, with the acquisition of Entrium Direct Bankers AG by means of an exchange of shares; and Spain, with the takeover of the Safei financial group, acquired by reinvesting part of the profits made by Bipop-Carire in 2000.

Given Bipop-Carire's marked operational specialization, its earnings were in fact correlated with the performance of the financial markets. The large fall in equity prices and the concomitant crisis in the asset management and online trading sectors led to a sharp contraction from the first quarter of 2001 onwards in both trading volumes and the contribution of fees to income for the year.

The deterioration in earnings was accentuated by the writing down of the loans made in 2001 to several leading shareholders, who were already indebted to other banks, and by the extraordinary expense arising from yield guarantees on portfolio management accounts that the managing director, acting on his own initiative, had offered to a small group of customers. The losses in the 2001 financial year amounted to around €500 million; about half of the effects of this loss on the balance sheet were offset by the capital gain on the sale of the Azimut group to a foreign financial company.

The decline in equities, and particularly in technology stocks, also affected the price of Bipop-Carire shares, which fell from a peak of €12.5 in March 2000 to €4.5 in mid-2001. The losses for the year, the emergence of management irregularities and the resulting damage to the bank's reputation then helped to push the share price down further, to around €2 at the start of 2002.

*b. The supervisory action of the Bank of Italy*

From the very first phase of the Brescia group's growth the Bank of Italy requested an upgrading of its organizational system and internal controls, calling on the parent company's board of directors and board of auditors to make a greater effort in these respects.

We did not authorize territorial expansion plans and the acquisition of shareholdings in markets outside the euro area, particularly in the countries of Eastern Europe, in view of the need to strengthen internal controls and the greater operating risks that the plans entailed.

Bipop-Carire's governing bodies were requested to eliminate the deficiencies that had been found in several operating sectors and to prepare suitable

measures to deal effectively with the risks arising from the expansion of the finance area. In the last five years numerous formal steps were taken and meetings held with directors and managers. There were 7 such interventions in 2000 and 15 in 2001. They regarded both the parent company Bipop-Carire and the other banking and financial components of the group.

The company made commitments and initiated projects aimed at organizational improvement. Its actions subsequently turned out to be unsystematic, tardy and often not in accordance with the rules and with the directives it had received.

It was necessary to begin on-site inspections, giving priority to Banca Fineco in view of the operational and legal risks arising from the radical conversion of its organizational model towards innovative activities. At the start of 2001 Banca Fineco had overtaken the leading domestic and foreign banks in terms of the volume and number of transactions carried out over the Internet. The on-site inspections began in May and terminated in August 2001.

In the second quarter of 2001, the further slide in Bipop-Carire's share price, in the context of the general crisis of the equity market, caused the financial position of some of its leading shareholders to deteriorate. The Bank of Italy requested the governing bodies and institutional shareholders to identify solutions likely to give stability to the bank's ownership and corporate governance structures. The directors launched a search for interested investors, in order to facilitate the exit of those intending to sell their shares.

In September 2001 another bank declared that it was willing to join a core group of shareholders, together with the foundation and the insurance company, upon acquiring a share of the capital and entering into a stringent agreement that would give stability and a strategic vision to the governance of the bank. The offer was not accepted by Bipop-Carire's shareholders.

The disagreements among the shareholders, the fruitless protraction of the search for new investors and the decline in the share price, which accelerated in October 2001 when irregularities were found in portfolio management activity, made it necessary to

begin an inspection that same month at the parent company Bipop-Carire. In October the directors, the members of the board of auditors and the top managers of the Brescia bank came under judicial investigation.

The inspection was concluded in April 2002 with a sharply negative assessment of the bank's operations motivated by the unsatisfactory situation with regard to: shortcomings in organization and controls; anomalies in the functioning of the governing bodies, which led to conduct inconsistent with criteria of sound and prudent management; and irregularities in the asset management sector such as to provoke losses and to harm the reputation of the Brescia group. On the basis of these findings, sanction procedures were instituted against the members of the governing bodies and top management. The inspection documentation was acquired by the judicial authorities for the matters within their competence.

Despite the losses it suffered in 2001, the bank's capital and reserves were above the regulatory minimum. The difficulties had not had consequences for depositors and the financing of economic activity. It was not necessary for the Interbank Deposit Protection Fund to intervene or for public money to be used in favour of the banks that stepped in.

The inadequacy of the ownership and governance structure and the technical and operational problems that the inspection found were of a severity that ruled out plans to relaunch the bank based on acquisitions of minority stakes. The situation called for the takeover of the Brescia group by a bank that offered guarantees of its ability to devise and realize a corporate reorganization and rationalization plan.

Three banking groups submitted plans for consolidation with Bipop-Carire and financial restructuring aimed at resolving the problems posed by the debt of some leading shareholders.

The governing bodies of Bipop-Carire selected Banca di Roma, which obtained the votes attaching to the shares that the leading private shareholders had deposited as collateral with the banks that had granted credit. The operation received the blessing of the

board of directors and the shareholders' meeting, which approved the takeover plan.

The two other groups that had submitted competing offers were of roughly the same size as Bipop-Carire. This would have made the operation more complex and lengthened the time frame for the bank's reorganization. Moreover, they had recently carried out mergers, for which the necessary rationalization of operational structures and internal controls was still under way.

The manner in which the concentration plan is to be executed can increase the synergies between the different organizational units and raise efficiency. The plan has the potential to enhance the value of the function of support for small and medium-sized firms in combination with the propensity for innovative business of the group acquired, as a result of the latter's integration into a major banking group active in all market segments and with a geographical coverage complementary to that of Bipop-Carire.

As regards the antitrust aspect, the investigations conducted by the Bank of Italy and the Antitrust Authority have found that the effects of the concentration are not restrictive of competition.

#### **4. Banking structures in the South**

On previous occasions I have dwelt on the reorganization of the southern banking system. The changes that have taken place over the last ten years are very far-reaching, in view of the initially public nature of the ownership of most of the intermediaries, their notable operating inefficiency and the serious cyclical difficulties that have affected the South.

In the recession of 1992-93, the reduction in domestic demand and the interest rate hike that was needed in order to face the currency crisis seriously eroded the profitability of firms. In the South the difficulties were compounded by the sudden cessation of extraordinary southern development support. They proved overwhelming for an economic fabric made up of small, highly indebted companies operating mainly in construction and catering to domestic markets, which did not benefit from the effects of the devaluation.



The impact of the cyclical difficulties on southern banks was accentuated by inadequacies in their loan selection criteria and by their limited capital bases. We had already formally reprimanded banks' governing bodies for these matters and brought them to the attention of the shareholders.

The widespread difficulties of the southern banking system required an unusually wide-ranging initiative on the part of the Bank of Italy. Supervisory action was aimed at the fundamental requirements of protecting depositors and maintaining financial support for businesses in the South.

In the first half of the 1990s almost the entire southern banking system was subjected to on-site controls. Around 60 per cent of the banks inspected received a very negative evaluation, compared with 15 per cent of the banks inspected in the Centre and North.

Compulsory administrative liquidation involved southern banks to a much greater extent than in the past: 80 per cent of the liquidation procedures begun between 1991 and 1997 were for southern banks, compared with 60 per cent in the period between 1970 and 1990. The ratio of procedures to the number of banks existing at the beginning of the period was six times higher in the South than in the rest of Italy.

The need to maintain the functionality of the banking structures serving customers and to prevent the spread of financial instability made it necessary to utilize public funds.

Since 1990 the measures in support of individual banks decided by the authorities in the form of recapitalization, transfers of shareholdings or advances under the Ministerial Decree of 27 September 1974 have involved public outlays amounting to 0.6 per cent of one year's GDP at current value. This is much less than in the other industrial countries that experienced severe banking crises.

The rehabilitation of the southern banks was also achieved with the contribution of the banking system through the Interbank Deposit Protection Fund and with the intervention of banking groups based in other parts of Italy.

In seeking to remedy situations where stability was precarious, banks were urged to identify potential investors capable of contributing capital and to replace the directors responsible for inefficient operations. The interventions were conditional on the achievement of specific results in reducing labour costs and relating to staff redundancies.

The preventive action and the interventions carried out contained the repercussions of the crisis of southern banks on the national financial system, safeguarding its credibility in the foreign markets.

The control structures of banks accounting for two thirds of the assets of those based in the South were modified. The entry of operators from other parts of Italy helped to reorganize banking networks in the South and to make specialized financing and services available to households and firms. Management criteria and financial techniques adequate to the growing competitiveness of the banking markets were introduced.

The functionality of the structure of banking in the South was preserved and financial support for the region's economy restored. In the period from 1999 to 2001 lending grew at an average annual rate of 7 per cent, double that of the preceding three years; the rate was higher than average for the banks belonging to groups based in the Centre and North.

More careful evaluation of customers' economic characteristics and of the profitability of investment projects led to a better allocation of the flows of credit. The amount of loans granted each year to customers who subsequently became insolvent decreased steadily in relation to the total stock of loans, from values on the order of 6 per cent in the mid-1990s to 1.8 per cent in 2001.

The gap between short-term lending rates in the South and those in the Centre and North has narrowed from 2 percentage points at the end of 1998 to 1.6 points. It is correlated with the greater financial weakness of borrowers and the inefficiency of credit recovery procedures.

#### *a. Banca Carime*

Even before the recession of 1992-93 a start had been made on the rehabilitation of Cassa di Risparmio

di Calabria e Lucania, which was suffering from poor loan quality, high operating costs and inadequate internal controls. In the early 1990s similar technical and organizational problems caused difficulties at Cassa di Risparmio di Puglia and later at Cassa di Risparmio Salernitana.

Cassa di Risparmio delle Provincie Lombarde had already taken part in a plan to recapitalize Cassa di Risparmio di Calabria e Lucania; subsequently, it acquired control of the three savings banks in difficulty. Once they had entered the Cassa di Risparmio delle Provincie Lombarde group, it became possible to carry out a thorough cleansing of their loan portfolios, with special reference to loan classification and valuation, and reduce their staff costs considerably.

In order to facilitate the rehabilitation project, the three banks were brought together in Banca Carime following the transfer of their bad debts to a group company specialized in the management of substandard loans. The new southern bank was thus born with 325 branches and 8.8 per cent of the total assets of the banks based in the South.

Steps were then taken to reorganize the company's managerial, technical and marketing structures with the aim of achieving profitability and strengthening the bank's ties with its traditional area of operations.

The improvement in Banca Carime's technical situation allowed the Intesa group, of which Cassa di Risparmio delle Provincie Lombarde had become part in the meantime, to put it up for sale; in the first half of 2001 it was acquired by Banca Popolare Commercio e Industria.

#### *b. Banco di Sicilia and Sicilcassa*

The serious difficulties that emerged at Banco di Sicilia in 1993 were tackled by replacing the governing bodies, adopting rigorous criteria for operations and drawing up balanced strategies for the reorganization and development of the bank with a view to increasing its efficiency.

The crisis at Sicilcassa, which in 1996 had led to its being placed under special administration,

required, instead, compulsory administrative liquidation and the intervention of the Interbank Deposit Guarantee Fund, supplemented, on the basis of a resolution adopted by the Credit Committee on 5 September 1997, by the measures provided for in the Ministerial Decree of 27 September 1974.

In 1997 Banco di Sicilia, whose rehabilitation was under way, acquired most of the assets and liabilities of Sicilcassa; the liquidation of the remaining items is pending. This operation was made possible by an increase in Banco di Sicilia's capital that was taken up entirely by Mediocredito Centrale. At the same time a plan was prepared for the continuation of the work aimed at building the business and raising the efficiency of the new entity.

At the end of 1999, as a consequence of Banca di Roma's acquisition of the entire share capital of Mediocredito Centrale, Banco di Sicilia became part of the group headed by the Roman bank, which began to integrate the subsidiary's organizational and marketing structures with those of the group. The action to restore the bank's profitability by significantly reducing staff costs and curbing other operating costs was continued. Banco di Sicilia's credit business was also reorganized, especially as regards loan classification and valuation and the effectiveness of loan recovery activities.

Recently, the holding company absorbed Banco di Sicilia and then spun it off to act as a commercial bank, as part of an overall reorganization of the group. Renewed in this way, Banco di Sicilia enjoys full operational autonomy and maintains its original name. It is well placed to exploit its local knowledge and consolidate the results achieved, to the advantage of the regional economy.

#### *c. Banco di Napoli and Isveimer*

The integration of Banco di Napoli into the Sanpaolo IMI group was judged by the supervisory authority as potentially capable of bringing efficiency gains and promote objectives for the rationalization of the entire banking system, especially in view of the complementarity of the two banks' branch networks.

In June 2000 Sanpaolo IMI obtained control of Banco di Napoli by acquiring its entire ordinary share

capital. The Turin-based bank's purchase came at the end of the rehabilitation of the Neapolitan bank.

Banco di Napoli had taken part in the financing of major Italian industrial groups, which were severely affected by the recession. In addition, as the leading bank in the South of Italy, it had naturally acted to provide support for the southern economy, which was hit especially hard by the economic downturn.

The bank, which had acquired the legal form of a company limited by shares at the end of 1991 under the law on the reform of public-sector banks, had been slow in adapting its operational procedures to the demands of an increasingly competitive market.

The need to prevent a serious impact on the South's economy, avoid systemic risks, preserve the economic value consisting of the large volume of deposits and the extensive branch network required special legislation to be approved for the rescue of Banco di Napoli. This was carried out under Law 588 of 19 November 1996, which provided for the Treasury to supply the funds for its recapitalization.

For the first time public intervention was made subject to the bank's governing bodies adopting a restructuring plan that was to be approved by the Bank of Italy and had to provide for a reduction in staff costs. The law stated that recourse was to be made to the measures envisaged in the Ministerial Decree of 27 September 1974 for the losses deriving from the disposal of the bank's substandard loans to a newly-constituted collection company called Società per la gestione di attività (SGA) and for the steps taken in favour of group companies placed in liquidation.

Banco di Napoli's structures have been renewed, the directors have been replaced, ownership has been transferred, the decision-makers involved in the crisis have been punished. The factors that gave rise to the crisis - the poor quality of the bank's loan portfolio, its high costs and the low efficiency of its operations - can be considered as having been corrected. Banco di Napoli's unit labour costs are now in line with the national average for the banking sector.

The rescue plan for Banco di Napoli included the liquidation of Isveimer, which was approved by the

bank's shareholders in April 1996 in view of the company's structural crisis and the fact that it did not have any economic or market prospects.

The liquidation can be considered as basically completed. The company's assets have been realized, its liabilities have been settled, and the many legal disputes are on their way to being settled.

Within the group it now belongs to, Banco di Napoli is still committed to supporting the southern economy. The wealth of information it built up over the years will need to be put to good use. In parallel with the necessary restructuring of the group's organization, the range of products and services available to customers will have to be broadened to meet the needs of households and firms.

The banks local roots and longstanding relationships with a vast array of customers are resources that can have positive effects on its profitability.

The contribution of Sanpaolo IMI is decisive, especially in view of its considerable experience in fields of asset management and innovative financial services, which are less developed in the South than in the rest of the country.

The holding company is responsible for defining the organizational models and rationalization measures serving to improve Banco di Napoli's efficiency and make good use of its corporate resources.

Recent experience has shown that organizational solutions exist that can combine the advantages of operational integration within banking groups with policies for developing, in part by maintaining subsidiaries' original names, a propulsive role in local economies.

In view of the size and importance of the Neapolitan bank in Italy's southern regions, the organizational choices made will have an influence on the whole economy of the South.

## 5. Conclusions

Over the last ten years the Italian banking system has achieved a major transformation, on a scale comparable with that of the 1930s. Our banks have

become larger and more profitable, and built up strong capital bases. Competition has intensified; the contestability of control has increased.

Concentrations have created banks that can compete with their main European counterparts; six Italian banks are among the top thirty in the euro area in terms of market value. Medium-sized groups have emerged that broaden the supply of financial products in the domestic market; smaller banks with strong local roots have increased the support given to productive activities.

International opening, the development of asset management services, and new channels of customer communications provide banks with opportunities for growth. At the same time they make their management more complicated, especially when financial markets are affected by instability. Banks must develop techniques and procedures that will permit the effective management of the new types of risks, devote more care to the quality of customer relations, and increase their ability to analyze the performance of productive sectors and securities markets.

The systematic supervision of individual banks has made it possible to identify critical situations and make an early start on overcoming them. In the management of the crises of the southern banks, the spread of instability to other parts of the banking system was prevented, the rights of depositors were protected and the orderly functioning of markets and the payment system was preserved. The conditions were created for the revival of financial support for the South's economy.

In the Bipop-Carire case, at a time of financial market turbulence, separating the destiny of the bank from that of its owners avoided the dispersion of the bank's resources. The solution chosen by the shareholders helped to make for stable governance of the company and to lay the foundations for the recovery of its operations. Depositors did not suffer any losses.

Supervisory authorities must be close to the banks they control, so as to acquire detailed knowledge not only of the latter's operating methods and organizational arrangements but also of the economic features of the areas in which they do business.

Technological and financial innovation and the globalization of markets can hinder the identification of crises, accelerate the spread of their effects to other intermediaries and make their management more difficult.

The direct, timely and detailed information that is obtained by operating on securities and foreign exchange markets and exercising surveillance over the payment system increase the effectiveness of supervisory controls.

In the present context the supervision of individual intermediaries and of the financial system as a whole plays a more important role than in the past. It is increasingly based on the complementarity between the evaluation of individual banks' soundness and the analysis of the factors of vulnerability inherent in developments at the macroeconomic level and in financial markets.

The confidence of investors in the financial system must be safeguarded, especially in periods of market turbulence. It is essential that the behaviour of banks, whose role in the financial system depends above all on their reputations, be based on correct and transparent dealings with their clients.

The effects of the fall in share prices on Italian banks' balance sheets are alleviated by prudential rules that limit their acquisitions of shareholdings and the concentration of risks. Banks' combined holdings of property and equity interests may not exceed their own funds; the equity interest owned in a single non-financial company may not exceed 15 per cent of the investee company's share capital. Other restrictions apply to banks' total shareholdings in relation to their own funds.

These supervisory rules, together with the prohibition on industrial and commercial firms from holding large interests in banks' capital, complete the regulatory framework serving to ensure the separation between banking and industry.

A sound and efficient banking system is essential in order to attenuate the repercussions of the instability of financial markets on economic activity, encourage saving and the financing of investment, and foster the growth of the economy in line with its potential.

## Enterprise, democracy and economic growth

*Address by Antonio Fazio, Governor of the Bank of Italy,  
to the Conference: Economic democracy*

*Open markets, the ethics of transparency, the participatory society*

*Capri, 5 October 2002*

The 2002 edition of the World Bank Atlas shows that in the three years 1999-2001 Italy ranked 28th among the 207 countries classified according to gross per capita income on a purchasing power parity basis, with \$23,470 per person.

For the United States the figure was \$34,100, for Japan it was \$27,080 and for Germany it was \$24,920.

In absolute terms, excluding China and India, Italy is the sixth world economic power; in terms of per capita GDP it ranks last among the G-7 countries.

I. For Italy 1995 was a particularly difficult year. The financial crisis that exploded in Mexico in the very last days of 1994 hit the dollar, which fell by between 10 and 15 per cent against the other leading currencies between the beginning of February and the end of March 1995. The lira depreciated by as much as 17 per cent. The external value of the Italian currency suffered from the marked uncertainty regarding the domestic political situation; this did not prevent the Government from adopting extraordinary measures to reduce the budget deficit by more than 1 per cent of GDP.

The yen appreciated by more than 20 per cent in just a few weeks; the German mark and the French franc also strengthened; the pound sterling, the Spanish peseta and the Swedish krona followed the dollar and the lira down, but not to the same extent.

Despite the fiscal package, the exchange rate of the lira against the German mark, which for some time had fluctuated around 1,000, fell in March to 1,274; the forward rate reached 1,500.

In expectation of an upturn in inflation and a deterioration in the public finances in a rapidly

worsening international environment, we had already begun to tighten monetary policy in August 1994.

The half-point increase in the official rates, after more than a year of successive reductions, had the immediate effect of drawing the market's attention to the difficulties looming for the public finances and inflation, and subsequently for the currency. The lira weakened but stabilized again in the autumn thanks to the progressive tightening of liquidity conditions.

The tensions that developed on international markets in the early months of 1995 found the Italian economy in a delicate situation marked by the need to regain credibility. When the fiscal package was introduced, we did not hesitate in February to raise the rate on advances by 1.25 percentage points and the discount rate by 0.75 points.

In a dramatic meeting of the G-7 Governors and Finance Ministers in Washington on 25 April 1995 it was decided to confront the crisis in order to curb the rise of the yen and strengthen the dollar by means of interventions on the foreign exchange market amounting to some tens of billions of dollars.

The fear was that the dollar would go into a free fall, which would have involved the international monetary and financial system and hence the leading industrial economies. Japan embarked on the policy of lowering interest rates that has led in recent years to their being reduced to zero. Interest rates were lowered in France and Germany as well; they were raised in the weak-currency countries.

In Italy inflation was running at close to 10 per cent, partly as a consequence of the depreciation of the lira; the yields on government securities were rising in response to the difficulty of financing the Treasury. In this situation we tightened monetary

policy further by mopping up liquidity and, in May, by raising the official rates by another 0.75 percentage points.

The monetary squeeze and the announcement at the Bank's annual meeting that, if necessary, we would have continued resolutely to raise interest rates and tighten liquidity conditions convinced markets of the Bank of Italy's firm intention to check inflation no matter at what cost. Inflation expectations, measured using appropriate statistical methods, stabilized in the summer and began to come down in the autumn.

The growth in the money supply was reduced drastically in both 1995 and 1996; over the two years it was almost nil.

Relatively small interventions on the foreign exchange market enabled the lira to stay in the dollar's slipstream and, over a year and a half, to rise with the US currency until it was back at the pre-crisis level.

Expectations of high inflation, which would have overwhelmed the Italian financial system and the economy, were dampened.

**II.** The appreciation of the lira from the second half of 1995 onwards, after the serious crisis of February and March, has only one precedent, that of the autumn of 1947, when the steps taken by Menichella in the context of the policy pursued by De Gasperi and Einaudi, led to the lira, which had fallen from around 200 against the dollar to more than 900, recovering to less than 600.

For fifty years depreciations of the lira had always been followed by stabilization at close to the lowest value reached during the crisis. In the 1950s the German mark was worth around 150 lire, in the 1990s it reached 1,000. From a value of 625 lire between 1948 and 1971 the dollar rose to more than 1,500 and then close to 2,000.

The result was that the lira came to be labeled by domestic and foreign economic agents as a weak currency.

The events of 1995-96 confirmed the validity of the theory put forward by Keynes in the 1930s and revived by Friedman in the 1960s. Faced with inflationary expectations, a reduction in long-term

interest rates, which are the most important for investment and economic growth, can be obtained only by sharply raising short-term rates. Such action curbs the inflationary expectations incorporated in nominal long-term interest rates and ultimately causes them to fall.

Towards the end of 1996 and even more clearly in 1997, thanks in part to the political resolve to participate in the single currency, the interest rates on 10-year government securities (which had risen to around 15 per cent in the most acute phase of the crisis and were still 5-6 percentage points higher than those in the other industrial countries in 1994 and 1995) fell nearly into line with the rates prevailing on international markets.

The exceptional size of the public debt meant that the fall in its cost reduced the budget deficit by more than 5 per cent of GDP every year.

The further reduction in the budget deficit in the second half of the 1990s was mainly achieved by increasing taxes and social security contributions in relation to GDP; compared with the second half of the 1980s, the ratio rose by 6 percentage points.

**III.** The monetary stabilization after the Second World War was followed by a long period of strong economic growth, accompanied, for more than ten years, by completely stable wholesale prices. The expansion was led by Italian exports' growing penetration of international markets; the annual increase in consumer prices of between 2 and 3 per cent was in line with developments abroad and reflected an improvement in the quality of the goods and services produced.

Up until 1960 GDP grew at an average annual rate of 5.6 per cent; employment expanded continuously. The equilibrium of the public finances was accompanied by a high level of investment. An important contribution to the very rapid growth in industrial output in this period came from the substantial increase in productivity.

The strong growth in economic activity and industrial output continued in the 1960s. By the time that decade came to an end, the Italian economy had been transformed. Unemployment had fallen to a historically low level. The bulk of value added

was generated by industry and construction. The expansion of services was accelerating.

The last part of the decade was marked by serious trade union protests that had a major impact on production and led to a structural shift in the distribution of income to the benefit of payroll workers.

The increase in international raw material prices in the years that followed and the first oil crisis between the end of 1973 and the beginning of 1974 drove inflation up to an annual rate of 20 per cent in 1974. The external deficit was equal to nearly 1 per cent of GDP on a monthly basis. The lira weakened, the *scala mobile* wage indexation system amplified the inflationary pressures by passing the increases in prices through to labour costs.

The drastic monetary tightening imposed in 1974, through the introduction of ceilings on bank lending, halved the inflation rate but put a brake on growth; it prevented the collapse of the bond market, which was able to go on financing firms' capital spending.

In a context marked by greater uncertainty, industrial and political strife led to increases in nominal earnings in industry of 25 per cent in both 1974 and 1975; the lira weakened further; drastic exchange controls were imposed; inflation surged, requiring a parallel increase in interest rates. Although calls for a "belt-tightening policy" were not lacking, the theory that wages were independent of the economic context came to hold sway. A growing gap opened between government expenditure and revenue; the public debt took off.

The average annual rate of GDP growth was 2 percentage points lower in the 1970s than in the two preceding decades.

The 1980s opened with another oil crisis, to which the Bank of Italy responded with another monetary squeeze.

The widespread problems of industrial firms, especially those most exposed to increases in energy costs, led to extensive restructuring in the sector with the shedding of large numbers of workers, who ended up by increasing employment in services. The concept of wages as an independent variable came to be seriously questioned.

Italy's participation in the European Monetary System required a rigorous monetary policy to be maintained throughout the 1980s. Interest rates were regularly raised to keep the exchange rate steady and sell government securities; this caused a further increase in the public debt and limited firms' capital spending.

The restrictive monetary policy and the fall in oil prices in 1986 curbed inflation.

The fall in the cost of energy, industrial restructuring and the reduction in the rate of increase of wages made it possible towards the end of the decade for profits to return to a level closer to that prevailing in the other industrial countries.

The GDP growth rate declined by another percentage point compared with the 1970s, to around 2.3 per cent.

In the early 1990s the Italian economy suffered badly from the crisis of the European Monetary System in 1992, which involved the lira and the pound sterling, and from that in 1993, which led to the generalized widening of the fluctuation band to 15 per cent.

In 1993 the international economy performed poorly, but the Italian economy even worse because it was necessary to undertake a major fiscal adjustment in order to counter the continuous deterioration in the external accounts, the weakness of the exchange rate and the increase in prices. The fall in domestic demand and investment was very sharp. There was a substantial reduction in employment and unemployment increased.

The lira depreciated and at the end of the year the exchange rate against the German mark was more than 900.

Inflation was held in check by yet another monetary squeeze and the agreement on an incomes policy that was reached between employers, trade unions and the Government.

The depreciation of the lira led to a strong recovery in Italian exports in 1993 and 1994.

**IV.** In 1995 Italy's GDP, boosted by the expansion in exports generated by the further fall in the exchange rate, grew by 2.9 per cent.

In the years that followed the stabilization of prices, the strengthening of the lira, the fall in interest rates and the reduction in the budget deficit were not accompanied, in contrast with what happened after the Second World War, by an upturn in growth. Exports slowed; the increase in output was inadequate.

Between 1995 and 2001 Italian exports of goods and services expanded by 25 per cent in real terms; Germany achieved an increase of 58 per cent, France one of 48 per cent. Italy's share of world trade in manufactures contracted by 20 per cent.

In the same period Italian GDP grew at an average annual rate of 1.9 per cent, Germany recorded a rate of 1.6 per cent, France one of 2.5 per cent. Italy's result was well below the average annual rate of the European Union, 2.4 per cent. The growth of the seven leading industrial countries averaged 2.6 per cent.

Italy has lost ground in terms of per capita GDP, in Europe and among the other industrial countries. The performance of the economy in 2002 will not improve the situation.

The analysis of per capita GDP shows a variegated picture for the regions of the Centre and North and those of the South. Some of the former can be classified among the most advanced in Europe; some of the latter are economically backward.

Three quarters of Italian manufacturing capacity is located in the regions of the Centre and North.

Compared with the average level in 1995, the index of industrial production in the 15 euro-area countries had risen by 14 per cent in the middle of 2002; in France it had risen by 17 per cent, in Germany by 16 per cent.

In the United States the index rose over the same period by 23 per cent; in Japan, embroiled in serious structural difficulties, it fell by 3 per cent.

In Italy comparison of the average value of the index in 1995 with its level in the middle of this year shows a rise of 4 per cent, one third the European average.

V. In my Concluding Remarks to the Bank of Italy's annual meeting on 31 May I examined at length the Italian economy's loss of competitiveness in the second half of the last decade.

That period saw the correction, at least in part, of imbalances in the public finances accumulated in earlier decades, but, in the absence of growth, a high price was paid in terms of private-sector disposable income. Profits, although down compared with the late 1980s, remained satisfactory. Thanks to the flexibility introduced into the labour market, the reduction in the number of persons in work in the first half of the decade was more than offset, but at the margin the quality of employment deteriorated.

The banking system has been privatized; extensively restructured. It has improved its ability to compete abroad and the support it provides to economic activity within Italy.

The stabilization of the exchange rate, the curbing of inflation, the decrease in interest rates and the large reductions in the budget deficit, which enabled Italy to adopt the single European currency, have not been matched by the ability of the private sector to reap the benefits of monetary and financial stabilization, with growth rates in line with the European averages.

We have not kept up with the other industrial economies.

Labour productivity, although high on the basis of hours worked, and total factor productivity have increased less than in the other leading countries. The average size of firms has undergone a significant contraction; measured by the number of employees, it is about half the European average.

There are only a few large firms and only a limited number of medium-sized firms. A birth rate for firms comparable with that of the other industrial countries is coupled with an inability to grow.

In industry firms with more than 500 employees account for less than 15 per cent of the sector's total employment. The corresponding indicators are on the order of 40 per cent in France, 50 per cent in the United Kingdom and more than 60 per cent in the United States.

The presence of Italian firms in high-tech sectors is scant. In terms of value added such firms account



for 6 per cent of the total, compared with 10 per cent in France, 26 per cent in the United States and 14 per cent in Japan.

World demand for high-tech products is growing twice as fast as that for other goods. The reduction in Italy's share of world trade is largely due to the composition of our output.

There has also been a steady loss of share for medium-technology goods, both in international markets and in the domestic market.

The weakness of Italian industrial production, underscored by the stunted growth of recent years, is an indicator of the Italian economy's loss of competitiveness. This is reflected, in the new context of European and global economic relations, in a low level of investment and slower growth.

The labour force participation rate is significantly lower in Italy, much lower in the South, than in the other industrial countries.

The proportion of self-employed workers is especially high. The underground economy is abnormally large. These are both indicators and causes not only of a low level of competitiveness but also of widespread social malaise.

**VI.** At the Bank's annual meeting, in addition to the causes of Italy's loss of competitiveness, I also discussed the possible correctives needed to prevent our economic and social system from losing further ground among the advanced countries and being pushed in some respects to the sidelines of the more highly developed economies.

In the 1990s important measures to curb spending on public employees, social security and health care slowed the surge in these items of expenditure, which was partly due to the aging of the population. Italy did not succeed, however, in bringing the rate of growth in public expenditure below that in GDP.

The consolidation of the public finances was entrusted, as I mentioned earlier, not only to the fall in interest rates but also to an increase in revenue.

A contribution to curbing the deficit came from the reduction in investment in infrastructure. The

endowment of public capital is insufficient in the most highly developed regions of the Centre and the North; it is even more inadequate in the South.

The increase in the ratio of taxes and social security contributions to GDP, until it came into line with the European average, occurred in a context of insufficient efficiency and shortcomings in public services. Business investment in the second half of the 1990s grew at a satisfactory pace, reflecting the favourable tax treatment, the lower cost of funds and the reinforcement of the banking system.

Investment is currently depressed primarily by the difficulties affecting financial markets, the uncertain state of the world economy and the lack of a clear growth scenario in Europe and Italy.

The growth prospects of the Italian economy depend on the wisdom and farsightedness of political action and the creation of a macroeconomic environment conducive to growth.

In order to make the desirable reduction in the tax burden credible and lasting, it is necessary to reduce current expenditure excluding interest payments in relation to GDP. It is necessary to boost spending on public works and public investment, implement the Pact for Italy, increase the flexibility of the labour market and raise the productivity of the public administration.

The public sector now accounts, in terms of value added and transfer payments, for more than 40 per cent of GDP. In addition to the immediate positive impact deriving from a reduction of costs in relation to the value of what is produced, an increase in the effectiveness of the activity of the public administration can give a major impulse to the productivity and efficiency of the economy.

We must invest in education and culture, *inter alia* through a new relationship between universities and firms, support the educational role of the family, capitalize on Italy's enormous cultural and environmental wealth, and increase spending on research, which is particularly low by international standards.

The conditions must be created that will reverse the shrinking of the average size of firms and increase the opportunities for them to expand, *inter alia*

by pursuing a policy aimed at increasing Italy's diplomatic, cultural and economic presence in foreign markets, as planned by the Executive. Greater use must be made of new technologies in order to enhance productivity and increase the competitiveness of Italian goods in international and domestic markets. The legal framework for the working of the economy needs to be brought up to date.

**VII.** A fundamental factor in every economic advance is Man, with his ability to foresee, plan, work and realize.

This is the vision of the great classical economists, Adam Smith and David Ricardo, kept alive through to our own times by Keynes, Samuelson, Solow and Modigliani.

Recent research on the structure of the economy of the leading industrial country, the United States, concludes that nearly all the wealth, and therefore productive potential, consists of what is technically known as human capital. The proportion is in excess of 90 per cent. Productive capital in the form of factories, plants, organizational and IT systems, together with roads, bridges, airports and other public infrastructure, wealth made up of houses and land, and, lastly, gold and net financial assets account for less than 10 per cent of total wealth.

It is an economy in which more than 70 per cent of value added is generated by traditional and advanced services, whose production is based largely on labour. But in comparison with physical capital, human capital also plays an important role in industry, where plant and machinery account for a major share of the total.

This is confirmation, at the end of the twentieth century, of the intuition of Adam Smith, considered the founder of modern economics, who in 1776, in *The Wealth of Nations*, affirmed that this consisted basically in the ability of men to work and produce.

In the great political and economic controversies work has often been identified with payroll employment.

The ability to contribute to the wellbeing of the community exists in jobs of every kind, from those of

a spiritual, intellectual or moral nature to those consisting prevalently in a material activity. Every form of work is noble, considering the effort it requires and the contribution it can make to the common good.

In a well-organized society, all the different forms of work, of effort, that contribute to a nation's economic and social welfare must cooperate and complement each other harmoniously.

The Italian Constitution makes work the cornerstone of the Republic.

**VIII.** In every economy, the level of activity, current output, and economic progress depend on firms.

The entrepreneur organizes labour, with the help of the financial resources he possesses or borrows from the market he endows it with physical means of production. He creates value, not in the banal sense of the financial markets, but in the fundamental sense of growth; he produces goods and services whose market value remunerates the factors of production, his work and the risk he runs.

The market encourages the division of production and specialization by each firm; it rewards those that supply goods of use to the community; it expels those that are unable to direct their efforts towards a useful end; it optimizes the combination of productive factors; and it maximizes the quantity and quality of goods produced.

Using existing techniques and inventions and introducing new methods of production and new products, the entrepreneur gives an impulse to economic growth, to the benefit of the community; he determines the direction of this growth, in terms of goods and services produced and supplied to the market.

The action of the State, the public authorities, the institutions is essential for the profitable performance of economic activity.

The State must provide the economy with public goods and infrastructure that competition and the firm are unable to produce; the collective use to which they are put means they cannot be remunerated in relation to the amount they are used. Public goods and

infrastructure do not have to be produced by the State. Private enterprise can provide goods of public utility, but in accordance with the policy and at the initiative of the authorities. The economic operation of such goods requires the possibility of applying charges based on their utilization.

The market must be regulated. For the purposes of competition, there must be complete information and correct conduct. *Laissez-faire*, especially in the financial domain, can lead to results that are detrimental to the wellbeing of the community.

The State pursues ends that go beyond the economy by means of activities that are essential to social life, the good life of the people, the *eudaemonia* of the ancient philosophers, the common good.

The State is entrusted with justice, defence, public order and foreign policy.

The economy is part of social life. A good organization of the latter and its orderly functioning constitute the environment in which the economy operates and grows.

Fairness in exchange relationships, commutative justice, is essential to the proper functioning of the market. If the relationships between firms and between firms and the other parts of the economy – consumers and workers – are not correct, the market does not bring progress but involution.

The law punishes deviant conduct, but observance of the rules is ordinarily entrusted to ethics, professional deontology, the honest behaviour of each agent. The violation of ethical norms also has repercussions in the economic field.

The political sphere makes the fundamental choices concerning the community and to some extent indicates the direction for economic activity. The State is not an absolute sovereign, it is a means of pursuing the good of the community, to which it is accountable for its actions.

**IX.** The essential relationship between the market economy and democracy is immediately apparent.

The absolute sovereign State, whose activities and decisions are not subject to questioning by the people it rules over, was seen in the early modern age

in the form of monarchies endowed with a power that claimed to come directly from God.

In reality, these theories sought to justify and legitimate forms of government that almost always derived from military domination and conquest.

A form of absolute dominion, experienced with tragic results in the course of the twentieth century, was that of the dictatorships: Fascism, Nazism, Communism.

The terrible experience of the socialist regimes, in some respects the final outcome of the industrial revolution and of the development of standardized, mass production beginning in the nineteenth century, came to an end only in 1989.

The economy, it has been said, is part of society. It can condition it and in extreme cases subvert it. A severe crisis of the world economy, that of the 1930s, now remembered as the Great Depression, had created imbalances in the relations between nations and within the most highly industrialized countries. The result was another tragic political experiment, Nazism, in a great nation that was the leading industrial power of central Europe.

After the Second World War, democracy resumed its progress.

Free enterprise, the foundation of economic progress, is part of a broader set of civil and political liberties. These in turn are the expression of Man's spiritual dignity. Democratic institutions and their stability lend strength and support to the great economies.

The advanced and historically stable economies are politically organized as democracies. The economy can prosper for a time in systems where the fundamental freedoms and human rights are restricted, but in the end the conflict explodes to the ruin of all.

Democracy must be complete. The enjoyment of social and political rights must go together with the participation of every individual in economic wellbeing, the fruit of organized social life.

In modern democracies it is a social community, a population bound by ties and historical traditions, by shared language and culture, that by means of a constitutional pact chooses its representatives who

preside over the establishment of the laws, the election of the organs of government.

The State guarantees the organization of social life in which economic activity is carried out and the market operates.

The legislative branch, made up of members elected by the community, and the executive branch, which presides over the functioning of the State, are ultimately subject, through free elections, to the control of the community and each of its members.

**X.** Democracies, in a classic definition “government of the people, by the people, for the people”, are the most advanced form of political organization, capable of realizing the moral, intellectual and economic potential of individuals and their free associations.

However, democracies are not immune from pathologies that can undermine their proper functioning, with deleterious effects on social and economic life.

The representatives elected by the people to foster general interests, even if they interpret them in different and sometimes opposite ways, must not direct their action to represent interests conflicting with those of the community.

The line dividing group interests from general interests can sometimes be tenuous.

In federal states, the representatives elected in one of the legislative bodies are explicitly designed to represent the interests of a region. But their action can never go so far as to prefer partisan interests to the point of harming higher general interests; every legislative assembly must ever-more explicitly aim to serve the latter. The analysis, intellectual honesty and moral rectitude of the freely elected representatives must always have as their objective the good of the nation.

Existing within the State, and compatible with it, are associations and organizations that care for particular interests of individuals and organized groups, interests that the State recognizes as elements of society that are worthy of protection. The relationship between social representation and general political representation has become more complex.

These intermediate organizations, bearers of legitimate interests of important segments of the population and the economy may acquire *de facto* an ability to shape decisions and policies that influences the will legitimately expressed, in the interest of the whole community, only by Parliament.

It is not a question of the principle of subsidiarity, whose value, on the contrary, must be resolutely enhanced. Neo-corporatism can certainly play an important role in interpreting and defining interests of significant elements of society. But these forms of political and social organization can develop in a way that risks overstepping the bounds explicitly or implicitly established by the Constitution.

The instability of governments backed by uncertain majorities has at times resulted in important decisions and policies being delegated to these forms of representation, which have contributed on more than one occasion, in recent years, to the orderly and fruitful development of economic life.

The ultimate power over every decision affecting the community as a whole must rest with Parliament, which must not simply ratify agreements reached at lower levels but reconcile them with the general interest.

Decisions can embody the interests of several elements of society, but never to the detriment of the common good of the nation.

**XI.** In the current phase of history characterized, thanks to the development of communications and especially information technology, by an unprecedented opening up to trade with every other part of the globe, the ability of the entrepreneur to read and analyze situations, to foresee changes, to adjust plans and the organization of factors in a mutable and increasingly competitive environment, is of crucial importance for the firm, for its viability and consequently for the progress of the economy.

The technical and professional culture of the entrepreneur remains fundamental, but it is no longer sufficient.

It is necessary to interpret the times and the changes that are taking place in the context in which the firm operates, a context that used to be local and predictable and has now expanded greatly to include

other parts of the world that may be geographically and culturally distant.

One must never, it must be repeated, lose the profound understanding of the context in which one acts. The situation requires, especially of you young entrepreneurs, a cultural openness — not only aesthetic and even less merely superficial, but also of an economic, social and human nature. Along with intuition and creativity, it is necessary systematically, by strengthening your structures and drawing on outside resources, to promote the study of the global economic environment and the profound tensions affecting and shaping it.

The ability of the entrepreneur must be accompanied by a corporate organization and labour relations in keeping with the new times.

It would be a mistake to harm the security of workers and their dedication to the goals of the firm.

Although class struggle and the consequent attitudes in industrial relations have been left behind, not least because they were overwhelmed by history, there certainly remains a dialectical contraposition between employers and employees, between labour and capital.

But in a long-term perspective the two sides must necessarily agree on the objectives.

The viability and growth of the company are of primary interest both to the employees and to the firm and those who finance it.

In an increasingly competitive world, the development of output, its quantity, cannot be taken for granted.

The entrepreneur does not aim only at his personal profit, as a shallow popularization would sometimes have us believe; the entrepreneur seeks, must seek the good of the firm for which he is responsible and of the people who work in it. He must contribute, with the goods and services he supplies, to the growth of the economy and the welfare of the community.

There is a social function of the firm, not decreed by law but innate.

I shall just touch on the theoretical elaboration of the share economy, proposed in fuller form and with

utopian aspects by the great British economist James Meade and in a more technical form by Weitzman.

On the practical plane that theory suggests forms of variation in the wage bill during the life of the firm and the economic cycle, by means of which to provide a reward for the possibly greater-than-expected success of the firm's activity. It is also necessary to create a wage structure that will ensure the viability of the firm in downturns as well, preventing these from affecting employment.

By allowing the wage bill to fluctuate, within well-defined limits, variations in employment and, ultimately, a lower level of employment are avoided.

Initial timid applications of these historical visions have been productivity-linked pay, variable working hours and, finally, fixed-term hiring.

This approach, whose ultimate aim is to ensure the viability and development of the firm and the stability and growth of employment and output, can and must be translated into more advanced forms of industrial relations, into a new diversification of income from salaried employment.

It is up to the representatives of the social partners to define the scope and structure of these new relations. The consequences are to be drawn in terms of bargaining levels, the aim being for negotiations to be close to the life and activity of the firm.

The social doctrine of the Church, as expressed in *Pacem in terris*, itself considers a wage to be composed of a part that allows him and his family a standard of living consistent with human dignity and another part which remunerates the employee's ability and effort and his contribution to production. The second component can vary with the quantity and quality of production, but also with the business cycle and the circumstances in which the firm has to operate.

Flexible forms of employment have had the great merit of increasing employment substantially after the crisis of the 1990s.

A system of industrial relations established at the end of the 1970s, basically geared to a productive structure consisting typically of large enterprises producing standardized, mass goods and operating in an economy implicitly assumed to be in continuous

expansion, was replaced, with the reforms of the 1990s, by a more flexible system of labour relations, one more consonant with the new economic environment.

However, on the one hand flexibility becomes precariousness in the absence of growth; on the other, in the case of unskilled jobs, it can impair productivity and the employee's identification with his company's goals.

Training remains essential.

The approaches to work and industrial relations need to be further developed, starting out from the ideas developed by Ezio Tarantelli and Massimo D'Antona. It is necessary to move along the lines of the so-called Labour Charter to which Marco Biagi devoted so much of his social and intellectual commitment. These approaches are largely incorporated into the Pact for Italy.

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On several occasions I have recalled that Italy does not fully utilize its endowment of labour, savings and hence capital, entrepreneurship and cultural and environmental resources.

In the first part of my speech I described the origin, incongruences, imbalances and structural problems of our economy.

Understanding them indicates the paths for solving them. Structural reforms are necessary in order to remove the incrustations of a period going back to the difficulties that began in the 1970s.

The appearance of new difficulties in the course of time has often prevented us from grappling with the problem at the roots. Reforms are the way to prepare a better future and we cannot shirk them.

In the field of the public finances, it is necessary to aim at a configuration that raises the quality and quantity of services, while simultaneously reducing costs and increasing the efficiency of the sector and the effectiveness of interventions.

The redesigning of the welfare state, acknowledging what is unsustainable, must aim at preserving and strengthening this great conquest of all the advanced countries in the last century.

The evolution of the world around us and globalization pose new problems but also open up new horizons for the growth of production.

The "novelties" must be confronted by business, by the social partners, by the public authorities, abandoning old approaches and operating according to criteria adequate to the times, with decisiveness and clear thinking.

On momentous objectives, points of convergence can be found in the common interest. The South must constitute a resource able to contribute significantly to the growth of our economy; it is necessary to close the gap that still exists between the two Italies. The efforts of government must be flanked by those of business in these regions. This is necessary in view of the still severe imbalances between the South and the rest of the country, the high level of unemployment, the sometimes difficult social conditions. The modernization of the public administration is a task for government. It is also up to government, with the cooperation of private enterprise, to endow our economy with a modern system of infrastructure.

It is firms that identify the lines along which production is developing; they follow them by organizing and activating the factors of production.

An environment conducive to such growth must be created on the one hand by public services and the tax system, on the other by a concordance of strategic objectives and industrial relations and by an income structure consistent with the goals agreed between the social partners.

Research and education must provide the foundation for technological advance and for innovation in production.

The engine of growth is the development of human capital, consisting of professional ability and culture.

It is the desire to work well, to improve, that drives growth and leads to development. You young people must venture, innovate, risk. A new page of economic democracy must be written.

The ultimate factor of all progress is Man, with his cultural openness, his ability, his social and moral spirit.

## **Fact-finding preliminary to the examination of the budget documents for the period 2003-05**

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

*Rome, 11 October 2002*

### **1. The international setting and the Italian economy**

The world economy, which had been slowing down since the second half of 2000, was affected by the climate of uncertainty in the wake of the terrorist attacks of 11 September.

In the United States monetary policy and fiscal policy provided prompt, substantial support to economic activity. By the fourth quarter of 2001 GDP had returned to annualized growth of 2.7 per cent as public spending expanded rapidly.

Thanks to the great flexibility of the economy, US monetary policy could be deployed decisively following 11 September. The lowering of official interest rates, which had begun at the start of the year, continued throughout 2001 with ten successive measures. In December the policy rate was lowered to 1.75 per cent.

In view of the substantial budget surpluses and the moderate level of debt, spending increases and tax cuts totaling 1.5 per cent of GDP were enacted in 2002. With the additional effect of built-in stabilizers, the overall impact came to almost 3 per cent of GDP; the federal budget accordingly swung from a surplus of 1.3 per cent in the 2001 fiscal year to a deficit of 1.5 per cent in 2002.

Growth accelerated to 5 per cent in the first quarter of this year. Consumption expanded at a rate of more than 3 per cent, thanks partly to the substantial tax cuts and increased government transfers. A decisive contribution to growth came from the significant reduction in the running down of inventories.

Growth slowed abruptly in the second quarter, however, to a rate of 1.3 per cent. The expansion in consumption slackened substantially, to 1.8 per cent. The broad stabilization of private investment expenditure was confirmed; there was an appreciable expansion of demand for information technology products.

Thanks to a partially unexpected new step-up in private consumption, the rate of growth in the third quarter may have exceeded 3 per cent. However, in these summer months economic activity started to feel the effects of the fall in stock prices that had begun in the spring and, more recently, of the heightened uncertainty over international political developments. Industrial production decreased slightly in August, and non-farm employment contracted in September.

The months-long decline in the leading indicators points to a slowdown in the fourth quarter to a growth rate of about 2 per cent. And an even worse performance cannot be ruled out, especially if the present uncertainties persist, with repercussions on the confidence of households and firms. For the year as a whole GDP growth should nevertheless be slightly better than 2 per cent. The deceleration of economic activity in the fourth quarter will have an adverse impact on average growth in 2003, which the IMF now estimates at 2.6 per cent.

The other major economies have also shown signs of weakening. In Japan economic activity may contract by 0.5 per cent this year. Among the emerging countries, the strong performance of those in Asia, and of China in particular, has been accompanied by difficulties in a number of Latin American countries

and Turkey. Access to world financial markets has become very costly for these countries.

In the euro area there was a sharp slowdown in production in the second half of 2001, reflecting the US slowdown and the impact of the terrorist attacks of 11 September on the climate of confidence.

In this setting, the Governing Council of the European Central Bank lowered its reference rates in several successive steps.

Persistent large budget deficits and the need to proceed with the consolidation of the public finances in the main euro-area countries prevented expansionary measures from being taken this year. Support for economic activity came only from built-in stabilizers. Tax reductions enacted in previous years but not offset by adequate curbs on public expenditure have resulted in a widening of deficits.

Economic activity accelerated at the start of the year, fueled by the expansion of world trade. However, the upturn was modest, decreasing in strength as the year proceeded, and significantly less than had been forecast. GDP increased by 0.4 per cent in the euro area as a whole in the first half of the year. In Italy it remained practically stationary.

The Italian index of industrial production rose month-on-month by 0.6 per cent in July. Preliminary estimates indicate that it remained virtually unchanged in August and September.

Economic expansion in the first half of the year was sustained by the rebuilding of inventories, owing in part to an improvement in firms' assessments of the economic outlook. Turning to the other components of final demand, the continued weakness of consumer spending, especially on durables, was joined by a decline in investment, especially in machinery and equipment.

A positive signal, albeit one that is still hard to read, is to be found in the index of business confidence, which first stabilized in August and then rose in September. In July, retail sales had expanded for the second consecutive month.

Unlike the other leading European economies, the Italian economy has been held back by a decline

in exports of goods and services, which contracted by more than 1 per cent in the first half of 2002. Export performance continues to be affected by the relatively limited presence of Italian industry in high-tech sectors and the unsatisfactory growth in productivity. French and German exports both increased by about 1 per cent during the period.

The twelve-month rate of Italian consumer price inflation was just under 2.5 per cent in the first half of the year, about the same as at the end of 2001. In the summer, according to provisional figures for September, it rose to 2.6 per cent, owing in part to the increases in prices recorded by the most volatile components, i.e. fresh food and energy.

During the summer there was a widening of the gap between inflation as perceived by consumers and as measured by the official statistics. The changeover to the euro may have played a role, in that its impact on prices, though limited overall, may have been greater for everyday goods and services.

The latest cyclical data suggest that economic growth in the third quarter was about the same as in the second.

If the international political crisis does not worsen, the economic recovery should gather momentum next year, sustained mainly by an acceleration in world trade, with substantial effects on consumption and investment demand.

## **2. The public finances in 2001 and 2002**

### *2.a The results for 2001*

General government net borrowing - i.e. the budget deficit on an accrual basis net of financial items - came to €26.8 billion (2.2 per cent of GDP) in 2001, compared with €20.2 billion (1.7 per cent of GDP) in 2000. The increase in the deficit was due above all to a rise in non-interest expenditure and in particular to spending on health care, boosted by the abolition of prescription charges. The ratio of tax revenue and social security contributions to GDP was reduced by just 0.1 percentage points. The tax cuts enacted in the Finance Law for 2001 were largely offset by the larger-than-expected proceeds



of temporary measures, such as the tax on the revaluation of corporate assets.

In 2001 the general government net borrowing requirement - i.e. the budget deficit on a cash basis net of settlements of past debts and privatization proceeds - amounted to €40.2 billion (3.3 per cent of GDP), €2.5 billion over the projection for the year made in the Economic and Financial Planning Document published in July 2001.

Despite the spending curbs introduced in the second half of the year, net borrowing in 2001 was well above the most optimistic projection on a current-legislation basis in the Planning Document, namely 1.9 per cent of GDP. It was lower than the Planning Document's pessimistic estimate of 2.7 per cent, owing not only to the restrictive measures adopted but also to the persistently wide gap between the budget figures on a cash and those on an accrual basis. The difference between the net borrowing requirement and net borrowing narrowed from 1.4 per cent of GDP in 2000 to 1.1 per cent in 2001. In the 1990s, on average, it had been nil. The highest estimate of net borrowing in the Planning Document was based on the assumption that the gap would have virtually disappeared.

### *2.b The objectives for 2002*

The Planning Document released in July 2001, based on a scenario of economic growth of 3.1 per cent, set a net borrowing target for 2002 of 0.5 per cent of GDP, less than the deficit of 0.8 per cent for 2001 projected at that time. The Planning Document indicated a reduction of 3.8 percentage points in the ratio of the public debt to GDP in 2002.

In September 2001, the Government's Forecasting and Planning Report for 2002 reaffirmed the objective for the deficit; it lowered the growth forecast to 2.3 per cent; it raised the projection for net borrowing in 2001 to 1.1 per cent. It forecast a reduction of 3.1 percentage points in the debt ratio.

The September projections were confirmed in the update of Italy's Stability Programme prepared in November 2001.

To attain the net borrowing target for 2002, the Government submitted to Parliament a budget providing for a correction estimated at around 0.7 per cent of GDP, which passed with marginal amendments. It included temporary revenue-raising measures valued at about 1 per cent of GDP, including 0.6 per cent from real estate disposals, and spending increases and tax reductions that were largely permanent.

The April 2002 Quarterly Report on the Borrowing Requirement confirmed the GDP growth forecast and the 0.5 per cent general government net borrowing target for the year.

In March 2002 Istat had estimated general government net borrowing in 2001 at 1.4 per cent of GDP, or 0.3 points above the Forecasting and Planning Report projection. In June this estimate was raised to 1.6 per cent, mostly because of revised figures for health care spending. In July the estimate was raised again, to 2.2 per cent, as a consequence of Eurostat's ruling on the accounting treatment of securitizations.

The forecast for the state sector borrowing requirement in 2002, net of privatization receipts and settlements of past debts, was put at €26.3 billion in the spring Report on the Borrowing Requirement. The public sector borrowing requirement was estimated at €30.1 billion, or 2.4 per cent of GDP.

The Planning Document for 2003-06, presented by the Government in July 2002, recognized the delay in the economic upturn and the worse-than-forecast trends in revenue and expenditure. The net borrowing target for the year was revised to 1.1 per cent of GDP, and the economic growth projection was lowered from 2.3 to 1.3 per cent. The expected reduction in the ratio of debt to GDP was lowered from 3.1 to 1.3 percentage points.

At the beginning of July the Government and employer and labour organizations, with the exception of the CGIL trade union confederation, signed a "Pact for Italy" with measures affecting the tax system, the labour market and the South.

*2.c The first nine months of 2002 and the estimates for the full year*

By comparison with the estimate of €26.3 billion for the entire year issued in the spring, the state sector borrowing requirement net of debt settlements and privatization receipts for the first nine months amounted to €41.3 billion, €11.3 billion more than in the same period of 2001. According to the latest estimates of the Ministry for the Economy, the net borrowing requirement for the first ten months is expected to be €49 billion and the difference compared with 2001 broadly unchanged.

In the first eight months of 2002 the general government net borrowing requirement was about €34 billion, €13 billion more than in the year-earlier period.

Even assuming the completion of the real-estate securitizations scheduled and the persistence of an ample difference between the deficits on a cash and an accrual basis, the results registered indicate that if corrective action had not been taken, general government net borrowing could have gone well above 2.5 per cent of GDP.

Faced with substantial borrowing requirement overshoots, the Government acted in the summer months to curb outlays and to increase taxes, especially on companies. The worsening of the borrowing requirement was the result of a decline in central government tax revenue, reflecting the absence of the extraordinary revenue received in 2001 and the unfavourable economic situation.

With a decree law issued on 8 July the Government blocked the tax credits for new hiring and investment in disadvantaged areas for the second half of the year.

With a decree law approved on 6 September the Government accelerated the cancellation of appropriation carryovers and established that if there was a significant budget overrun the Minister for the Economy, after consulting the Council of Ministers, could impose ceilings on the use of budget allocations for some types of expenditure. These provisions may

help to underpin the efforts to ensure full application of the constitutional budget constraint.

With a decree issued on 20 September the Government enacted measures to increase tax revenue in the last few months of the year by some €3.2 billion; €2.7 billion will be raised from firms through a reduction in relief provided by the dual income tax and changes in the treatment of capital losses on equity holdings and insurance company reserves. Another €500 million, temporary in nature, will come from an increase in the year-end advance that tax collection offices must pay against receipts of some taxes. The revenue from these measures is estimated at €3.6 billion in 2003 and €2.7 billion in 2004, to come entirely from firms.

At the end of September the Forecasting and Planning Report for 2003 and the Planning Document Update revised the economic growth projection for 2002 downwards again, to 0.6 per cent. The estimate of the state sector borrowing requirement for the year was raised to €32.6 billion, or 2.6 per cent of GDP, and that of net borrowing to 2.1 per cent. The reduction of the debt ratio was now projected at no more than 0.4 percentage points.

Achievement of the net borrowing objective requires the revenue-raising measures and expenditure curbs enacted during the summer to be fully effective. In order to bring net borrowing down to 2.1 per cent of GDP, the recent revenue and expenditure measures must produce an overall improvement of more than 0.5 per cent of GDP between now and the end of the year.

The effects of one-off measures, including securitizations still to be realized, can be estimated at 1.3 per cent of GDP, roughly twice the figure for 2001.

The tax measures enacted in September are likely to limit the reduction in the ratio of tax revenue and social security contributions to GDP to about half a percentage point.

The very substantial difference between economic growth as estimated in the Planning Document in July 2001 and current projections justifies a widening of the deficit of about one percentage point over the initial target of 0.5 per cent of GDP.

### 3. The public finance objectives for 2003

With the Forecasting and Planning Report and the Planning Document Update, the Government raised its baseline projection of net borrowing in 2003 to 2.5 per cent of GDP, assuming realization of the Planning Document's real-estate securitizations, worth about half a percentage point. In the absence of the revenue correctives enacted in September, it is officially estimated that the figure would have been 2.8 per cent of GDP.

The net borrowing target for 2003 was set at 1.5 per cent. The corrections envisaged should thus reduce net borrowing by 1 per cent of GDP, from 2.5 per cent on a current programmes basis to 1.5 per cent.

According to the budget forecasts in the Planning Document Update, total revenue should remain at 45.9 per cent of GDP, its level with virtually no change since 2000. Interest payments should also be the same as in 2002 at 6 per cent of GDP. In this scenario the improvement in the balance in 2003 is to come essentially from the decline in non-interest current expenditure from 38.1 to 37.6 per cent of GDP, bringing it back to its level in 2001.

The draft budget includes the measures agreed as part of the "Pact for Italy," which called for tax relief and spending increases for a total of €6.4 billion (0.5 per cent of GDP); it also introduces corrective measures amounting to around €20 billion (1.5 per cent of GDP).

The Government's official estimates put the net reduction in expenditure at €9.9 billion, net revenue increases at €3.7 billion.

The reduction in expenditure is the result of increases of €2.1 billion and decreases of €12 billion, including €4 billion to come from operations still being finalized. The revenue increases reflect tax increases of €8 billion and decreases of €4.3 billion.

#### 3.a Revenue

On the revenue side, the budget provides for structural reductions in both personal income tax and

corporate income tax, as well as for some extraordinary measures, mostly involving firms, that are intended to produce an increase in revenue that will be concentrated in 2003.

The law initiates the reform of personal income tax, the guidelines for which are laid down in the fiscal reform enabling bill. The changes introduced will reduce taxation by about €3.7 billion, or 0.5 per cent of total household consumption.

Most of the reduction goes to low-income taxpayers. In 2003 the bottom part of the tax curve is modified, and a start is made on the transformation of tax credits into income deductions. Specifically, the law introduces a deduction, for all taxpayers, that varies according to type of income and that gradually decreases as income rises, being eliminated entirely above levels ranging between €29,000 and €33,500. For higher incomes, the absence of reductions means stiffer taxation in real terms, in the absence of a norm for the automatic offsetting of fiscal drag.

The corporate income tax rate is lowered from 36 to 34 per cent, 1 point below the rate that would have gone into effect in 2003. There is a limited initial reduction in the tax base of the regional tax on productive activities.

The bill introduces a tax indulgence for the years from 1997 to 2000, reserved to self-employed workers and small businesses. Official estimates put the revenue from this measure at €5.8 billion. The scheme for the repatriation and regularization of capital held abroad in violation of the tax monitoring rules is renewed; the rate payable on these amounts is raised from 2.5 to 4 per cent; estimated revenue from the measure is put at €2 billion.

Finally, indulgences relating to pending tax disputes and value adjustments to stocks should bring in €200 million. A three-year "pre-emptive indulgence" is envisaged, reserved to the self-employed and small businesses.

*Under this scheme taxpayers may determine the taxable income from their economic activities for three years in advance on the basis of sector studies. Adherence to the indulgence does not entail advance payment of the tax due and makes any excess income exempt. For some categories of taxpayer, the new method reinforces the principle of taxation based on presumed or normal income rather than actual income.*

### 3.b Expenditure

Capital expenditure savings of €1.4 billion are expected from the partial replacement of investment grants by subsidized loans, of €500 million from the reduction in local government investment, and of €200 million from the transformation of ANAS into a company limited by shares in August 2002.

Turning to current expenditure, measures affecting the health care system should curb outlays by €2 billion. The transfers to the regions called for under the agreement of 8 August 2001 have been made conditional upon the adoption of a series of measures to ensure the economically efficient provision of services. The patient fees for diagnosis and specialist services are retained, those for thermal treatment increased. To curb spending on drugs, the 5 per cent reduction in the price of medicines is extended to 2003.

Savings of €700 million should come from the 10 per cent reduction in the non-compulsory intermediate consumption of ministries and social security agencies.

The ban on new permanent hiring by government departments, use of mobility and other measures affecting public employment are expected to reduce outlays by €400 million.

Measures concerning local government finance should reduce general government expenditure by €2.3 billion.

Local authorities' expenditure on goods and services next year cannot exceed the level recorded in 2001. In substance, the provisions issued at the end of 2001 for the Domestic Stability Pact are reconfirmed.

*Increases in personal income tax surcharges by municipalities and regions enacted after 29 September 2002 are suspended until an agreement on funding mechanisms is reached between central, regional and local governments. Revenue sharing of 1 per cent of the personal income tax is instituted for provinces, while the municipalities' share of that tax is raised from 4.5 to 6.5 per cent; transfers to these bodies are reduced by a corresponding amount.*

Additional savings of about €4 billion are expected from measures still to be defined, which

according to preliminary reports will bear on the activities of Infrastrutture S.p.A. and Patrimonio S.p.A.

There will be increases in expenditure of €800 million for public employment, €600 million for local government finance, €400 million for social security and welfare and €300 million on capital account.

## 4. Evaluation of the budget

In what remains an unfavourable economic setting, the budget necessarily had to reconcile deficit containment with support for economic activity.

Together with potentially structural cuts in expenditure tax relief is to be granted, concentrated on low-to-middle-income taxpayers to sustain their income and capacity for consumption.

The measures to increase revenue should make it possible to reduce the deficit without adverse effects on economic activity. The tax indulgence can increase revenue without leading taxpayers to reduce their estimate of their net wealth and hence their consumption. The disposal of public buildings may provide a stimulus to the construction industry, as a consequence of restructuring or conversion to new uses.

The benefits of consumption support are temporary. Lasting growth has to be based on gains in productivity and an increase in the competitiveness of the entire economy, which can be attained only through greater investment and structural measures.

The periodic resort to indulgences may help to bring out concealed taxable income but threatens to undermine the credibility of the tax administration.

The expansion of investment requires a progressive, lasting reduction in taxation. According to the official estimates, the combined effect of the September measures and the budget will be an increase in corporate taxation compared with the baseline projection of €3.4 billion in 2003, although a diminution is projected for subsequent years.

The recent change, effective this year, in the rules on the treatment of capital losses on equity holdings

and the tax credits for new jobs and investment in disadvantaged areas, on the basis of which firms had made choices that can no longer be reversed, may discourage entrepreneurial risk-taking. The revision of the dual income tax mechanism significantly lowers the return on investments financed out of own funds that were made prior to the freezing of the tax benefit, effective from July 2001 onwards.

Some of the revenue-raising measures, by their nature, are difficult to evaluate precisely; they depend on the situation and the behaviour of taxpayers.

*The tax indulgence for past years closely resembles that of 1994, which raised 8.7 trillion lire in 1994 and 1995, against an initial forecast of 11.5 trillion. The amount forecast for the new measure is equal, at constant prices, to that of 1994. However, the scope has been narrowed in terms of potential beneficiaries and the number of fiscal years covered.*

The planned expenditure reductions are aimed at improving the efficiency of public services. To attain this objective, innovations in decision-making procedures and organization are required. Stimulus by the Government will be indispensable. Deterioration of services must be avoided, and it is necessary to ensure that the savings are structural.

In the framework of the relaunching of major public works already begun this year, the activity of Infrastrutture S.p.A. can produce savings for general government if it is directed towards investments that can guarantee a reasonable rate of return. The input of private capital must not turn into financing of the public sector; it must correspond to an actual assumption of risk by private investors.

The achievement of the potential benefits of decentralization requires legislation to be framed for the prompt implementation of the amendment passed in 2001 to Title V of the second part of the Constitution.

*The drafting of the rules governing autonomous tax-levying powers, revenue redistribution, budget constraints and the accounting framework must be completed. The responsibilities of each level of government must be spelled out. Spending power must be matched by adequate responsibility for taxation. The role of taxes fully under the power of local government, of surtaxes, of revenue-sharing in central government taxes and of central*

*government transfers must be consistently defined. Transfers must be specified in advance.*

*The Domestic Stability Pact, designed to involve local government in the effort to achieve the public finance targets set at European level, needs further refinement. Its implementation should comply with the principle of budgetary balance net of investment expenditure for every entity.*

In the years after 2003, action to compensate for the termination of temporary measures will be required. Overall, taking into account the securitizations included in the baseline projections and the residual effects of the measures for 2002, the impact of one-off measures can be put at about 1.3 per cent of GDP in 2003, about the same as in 2002.

Structural reforms affecting the future trends in primary expenditure are lacking. The ratio of primary current expenditure to GDP in 2003, despite the reduction forecast by official planning estimates, is at the level prevailing since the mid-1990s.

## 5. The public finance objectives for 2004-06

In September the Planning Document Update deferred achievement of budgetary balance by a year. Net borrowing is to be reduced from 1.5 per cent of GDP in 2003 to 0.6 per cent in 2004 and 0.2 per cent in 2005; a surplus of 0.1 per cent is projected for 2006.

In this scenario, in the three years from 2004 to 2006 the primary surplus rises from 5 to 5.5 per cent of GDP. These are slightly less ambitious objectives than had been set in the Planning Document in July.

The new public finance objectives are based on an economic scenario that assumes the recovery will gather strength. Italian GDP growth rates are assumed to be near 3 per cent from 2004 onwards.

Once corrective measures have been adopted to compensate for the termination of the effects of temporary measures, equal to about 1.3 per cent of GDP, the reduction of the deficit in the years from 2004 to 2006 would reflect the favourable development of the economy and the trend in interest expenditure.

The Planning Document Update forecasts that the public debt will fall below 100 per cent of GDP in

2005. The planned reduction is especially pronounced in 2003 and 2004, on the order of 5 percentage points each year. For 2003, the update forecasts a slight decline in the nominal public debt and a state sector borrowing requirement of €36 billion.

\* \* \*

The budget for 2003 aims to resume the adjustment of Italy's public finances. Its composition reflects the difficult economic situation. The share of temporary revenue-raising measures is large. To provide income support to less well-off households, tax relief initiating the planned tax reform has been instituted. This could lend impetus to consumer spending.

Improving the prospects for growth will require gains in Italian firms' productivity and competitiveness.

It is necessary to create conditions that will encourage private investment, to speed up the realization of public infrastructure by promptly implementing the Government's plan.

The essential instrument to stimulate economic activity is the progressive, lasting reduction of taxation. Certainty concerning the legal and regulatory framework of the tax system must be ensured. It is essential to begin reform of the principal areas of the public sector, along the lines set out in the Planning Document, to guarantee the permanent adjustment of expenditure.

Territorial and institutional decentralization, in a framework of unity, represents an opportunity to enhance the efficiency of government and to respond better to the needs of citizens. Necessary conditions for attaining these benefits are the accountability of administrators for tax and spending decisions and adequate monitoring of their actions by the community.

In the 1990s the Italian economy grew at modest rates, lower than the other leading European countries. Relaunching the growth process requires an economic policy that tackles the structural problems, by removing the factors that prevent the full utilization of human resources and slow down the accumulation of capital.

The Fiat affair is part and parcel of Italy's economic difficulties. The point of departure for possible solutions must be a business plan which, taking account of the auto industry's competitiveness and position within the economy, embraces a wide-ranging strategy. The public authorities and the social partners, the institutions, private initiative and finance must work together, with a focus on employment, to offer certainty and prospects for the future. The interests of the company, of the industry, of local communities and of the economy must be reconciled with the general interest of the nation.

The South remains a central question. It can become an opportunity for growth.

The draft finance bill, modifications of which have been announced, can only be considered as a first step towards faster, sustained growth of the Italian economy.

The budget pursues the aim of avoiding the deterioration of the public finances, which is inherent in existing legislation and in the composition of expenditure, owing among other things to unalterable demographic patterns and the uncertain trend of the economy.

An economic policy that can achieve the definitive adjustment of the public finances and make room for an easing of the tax burden and substantially higher investment, with the aim of raising the pace of GDP growth permanently towards an annual rate of 3 per cent, requires structural measures to supplement the finance bill.

Table 1

**State sector borrowing requirement (1)**  
(millions of euros)

	Year			First 9 months		
	1999	2000	2001	2000	2001	2002 (2)
<b>Net borrowing requirement</b> (net of debt settlements and privatization receipts) (3) .....	<b>16,011</b>	<b>25,472</b>	<b>34,857</b>	<b>23,788</b>	<b>30,028</b>	<b>41,350</b>
Debt settlements .....	6,259	4,599	10,290	3,576	7,163	3,360
<i>in securities</i> .....	3,187	2,662	563	2,588	357	0
<i>in cash</i> .....	3,072	1,937	9,727	988	6,806	3,360
Privatization receipts (4) .....	-22,641	-15,450	-4,329	-115	-4,321	-178
<b>Total borrowing requirement</b> (3) .....	<b>-371</b>	<b>14,621</b>	<b>40,818</b>	<b>27,249</b>	<b>32,870</b>	<b>44,532</b>
<b>Financing</b>						
Medium and long-term securities .....	24,780	18,638	12,339	27,993	16,138	29,330
Treasury bills .....	-18,131	-17,550	11,717	-6,500	21,180	18,204
Treasury current accounts with BI (5) .....	-7,255	9,708	-2,119	1,716	-11,423	-10,473
Other Bank of Italy net financing .....	27	-1,515	-1,929	-1,414	107	2,061
Post Office funds .....	8,996	4,660	10,919	2,656	5,519	3,330
Bank lending (6) .....	-4,166	-11,312	-5,286	-10,134	-4,215	-2,292
Other domestic financing .....	578	1,942	7,426	835	728	-246
Foreign loans (7) .....	-5,200	10,050	7,751	12,097	4,836	4,618
<i>Memorandum item:</i>						
Net borrowing requirement including tax refunds paid via the postal system (3) .....	16,012	25,472	37,960	23,788	32,179	42,488

(1) Account is taken of the decision adopted by Eurostat on 3 July 2002 with regard to the accounting treatment of the proceeds of securitizations. - (2) Provisional data. - (3) A plus sign indicates a deficit, a minus sign a surplus. - (4) Includes the part of the proceeds of the sale of UMTS licences received in 2000 and used to reduce the public debt (10,709 million euros). The remaining part (1,190 million euros) was recorded under revenue. - (5) Treasury payments account and the sinking fund for the redemption of government securities. - (6) Includes redemptions of loans granted to local authorities. - (7) Includes commercial paper.

Table 2

**General government borrowing requirement (1)**  
(millions of euros)

	Year			First 8 months		
	1999	2000	2001	2000	2001	2002 (2)
<b>Net borrowing requirement (net of debt settlements and privatization receipts) (3)</b> .....	<b>25,116</b>	<b>36,505</b>	<b>40,245</b>	<b>19,837</b>	<b>20,823</b>	<b>33,936</b>
Debt settlements .....	6,259	4,599	10,290	3,530	6,662	1,919
<i>in securities</i> .....	3,187	2,662	563	2,588	357	0
<i>in cash</i> .....	3,072	1,937	9,727	942	6,305	1,919
Privatization receipts (4) .....	-22,641	-15,450	-4,329	-77	-4,321	-178
<b>Total borrowing requirement (3)</b> .....	<b>8,734</b>	<b>25,654</b>	<b>46,206</b>	<b>23,290</b>	<b>23,164</b>	<b>35,677</b>
<b>Financing</b>						
Medium and long-term securities .....	25,736	18,847	13,900	30,406	16,206	30,277
Treasury bills .....	-18,049	-17,467	11,293	-9,425	18,930	16,901
Treasury current accounts with BI (5) .....	-7,255	9,708	-2,119	-5,375	-19,622	-16,348
Other Bank of Italy net financing .....	27	-1,515	-1,929	-1,407	125	2,057
Post Office funds .....	8,996	4,660	10,919	3,125	4,660	3,308
Bank lending (6) .....	1,977	-2,799	-2,441	-6,323	-5,604	-3,917
Other domestic financing .....	578	1,942	7,426	716	586	-139
Foreign loans (7) .....	-3,276	12,278	9,157	11,573	7,883	3,538
<i>Memorandum item:</i>						
Net borrowing requirement including tax refunds paid via the postal system (3) .....	-8,728	-25,654	-43,103	-23,290	-21,022	-35,010

(1) Account is taken of the decision adopted by Eurostat on 3 July 2002 with regard to the accounting treatment of the proceeds of securitizations.- (2) Provisional data. - (3) A plus sign indicates a deficit, a minus sign a surplus. - (4) Includes the part of the proceeds of the sale of UMTS licences received in 2000 and used to reduce the public debt (10,709 million euros). The remaining part (1,190 million euros) was recorded under revenue. - (5) Treasury payments account and the sinking fund for the redemption of government securities.- (6) Includes redemptions of loans granted to local authorities. - (7) Includes commercial paper.



**Table 3**

**Estimated effects of the budget for 2003 on the general government consolidated accounts (1)**  
(millions of euros)

<b>REVENUE</b>	
<b>Increase in revenue</b> .....	<b>7,980</b>
Repatriation of capital .....	2,000
Tax indulgence scheme .....	5,760
Inventory indemnity scheme .....	130
Closure of tax disputes .....	90
<b>Decrease in revenue</b> .....	<b>-4,320</b>
Changes to personal income tax .....	-3,490
Effects on personal income surtax .....	-210
Reduction of corporate income tax rate .....	-190
Irap relief for agriculture .....	-330
Other measures .....	-100
<b>NET CHANGE IN REVENUE</b> .....	<b>3,660</b>
<b>EXPENDITURE</b>	
<b>Reduction in expenditure</b> .....	<b>-12,040</b>
Conversion of grants into subsidized loans .....	-1,400
Other capital expenditure .....	-830
Health care .....	-1,960
Smaller increase in minimum pensions .....	-520
Intermediate consumption and purchases of goods and services .....	-720
Public employment .....	-360
Domestic Stability Pact .....	-2,250
Other (2) .....	-4,000
<b>Increase in expenditure</b> .....	<b>2,100</b>
Public employment .....	820
Local finance .....	560
Social assistance and security .....	390
Capital expenditure and other .....	330
<b>NET CHANGE IN EXPENDITURE</b> .....	<b>-9,940</b>
<b>TOTAL REDUCTION IN PRIMARY NET BORROWING</b> ..	<b>13,600</b>

(1) Based on official estimates. - (2) Measures not included in the Finance Bill.

Table 4

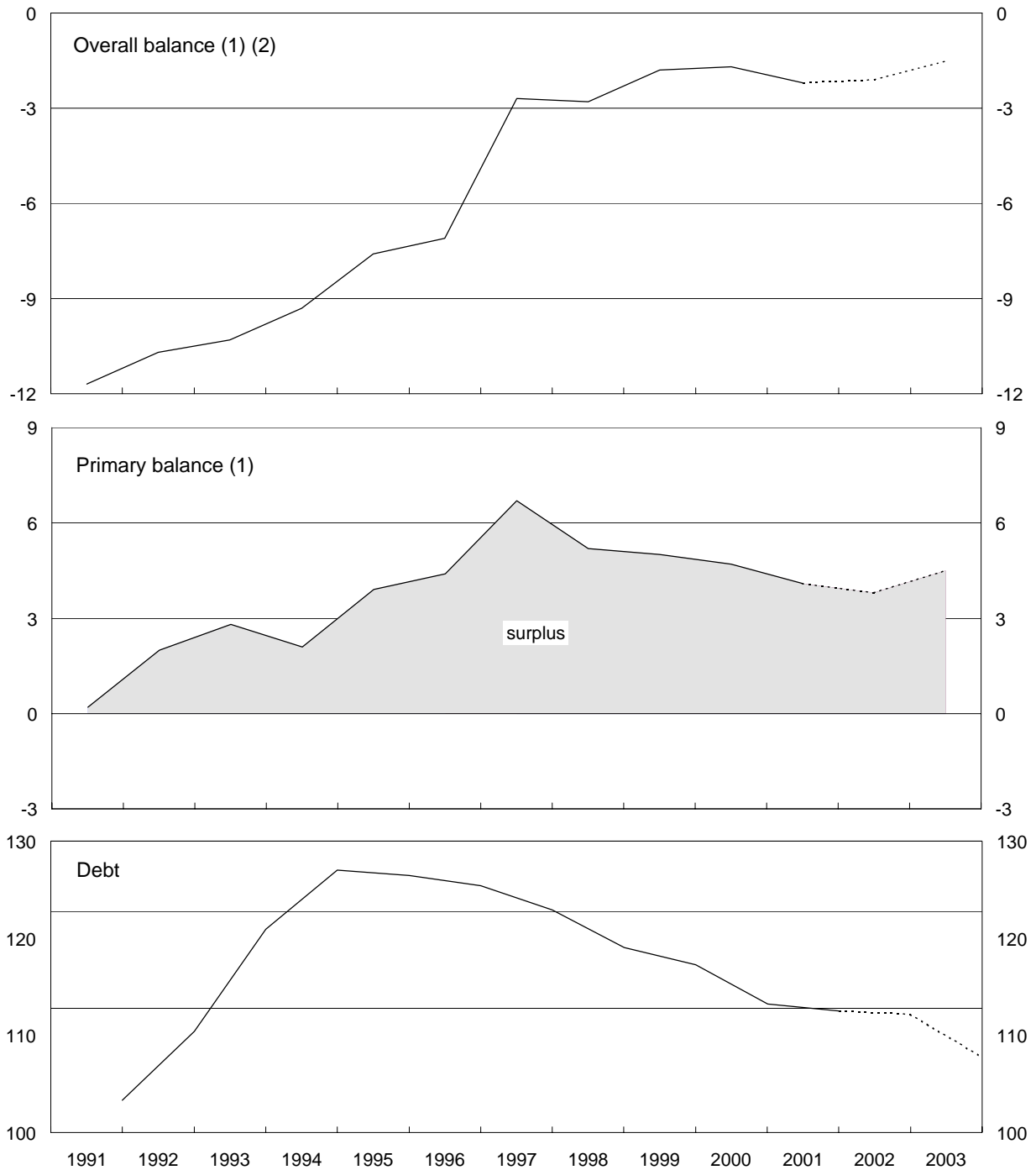
**Current legislation projections in the Economic and Financial Planning Documents  
for 2002-06 and 2003-06 and the September 2002 Planning Document Update**  
(as a percentage of GDP)

	2001	2002				2003			2004			2005			2006		
	(1)	EFPD 2002-2006		EFPD 2003-06		EFPD 2002-2006		EFPD 2003-06		EFPD 2002-2006		EFPD 2003-06		EFPD 2002-2006		EFPD 2003-06	
	Outturn	July	Sept. (2)	July	Sept. (2)	July	Sept. (2)	July	Sept. (2)	July	Sept. (2)	July	Sept. (2)	July	Sept. (2)	July	Sept. (2)
Net borrowing . . . . .	2.2	0.5	1.1	2.1	0.0	0.8	1.5	0.0	0.3	0.6	0.0	-0.1	0.2	0.0	-0.2	-0.1	
<i>of which: current</i> . .	-1.6	-2.6	-1.7	-1.5	-3.5	-2.2	-1.4	-3.3	-2.7	<i>n.d.</i>	-3.3	-2.7	<i>n.d.</i>	-3.1	-3.1	<i>n.d.</i>	
<i>capital</i> . .	3.8	3.1	2.8	3.6	3.5	3.0	2.9	3.3	3.0	<i>n.d.</i>	3.3	2.6	<i>n.d.</i>	3.1	2.9	<i>n.d.</i>	
Primary surplus . . . .	4.1	5.5	4.7	3.8	5.8	5.1	4.5	5.8	5.5	5.0	5.6	5.8	5.3	5.4	5.7	5.5	
Total revenue . . . . .	45.8	<i>n.d.</i>	46.2	45.9	<i>n.d.</i>	<i>n.d.</i>	45.9	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	
<i>of which: taxes and social</i> . .	42.4	42.0	42.3	<i>n.d.</i>	41.5	41.9	<i>n.d.</i>	40.4	41.4	<i>n.d.</i>	39.3	40.4	<i>n.d.</i>	38.2	39.8	<i>n.d.</i>	
Primary expenditure	41.6	<i>n.d.</i>	41.4	42.0	<i>n.d.</i>	<i>n.d.</i>	41.4	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	
<i>of which: current</i> . .	37.6	<i>n.d.</i>	38.0	38.1	<i>n.d.</i>	<i>n.d.</i>	37.6	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	<i>n.d.</i>	
<i>capital</i> . .	4.1	3.8	3.4	4.0	3.9	<i>n.d.</i>	3.9	3.9	<i>n.d.</i>	<i>n.d.</i>	3.9	<i>n.d.</i>	<i>n.d.</i>	3.7	<i>n.d.</i>	<i>n.d.</i>	
Interest payments . .	6.3	6.0	5.9	6.0	5.8	5.9	6.0	5.8	5.8	5.6	5.6	5.7	5.5	5.4	5.5	5.4	
Debt . . . . .	109.8	103.2	108.5	109.4	100.6	104.5	105.0	97.9	99.8	100.4	95.5	97.1	98.4	92.8	94.4	96.4	

(1) The figures take account of the revision carried out by Istat in June and of the decision taken by Eurostat at the beginning of July with regard to the accounting treatment of the proceeds of securitizations. - (2) *Nota di aggiornamento* of the Economic and Forecasting Planning Document for 2003-06, presented by the Prime Minister and the Minister for the Economy and Finance on 30 September 2002.

Figure 1

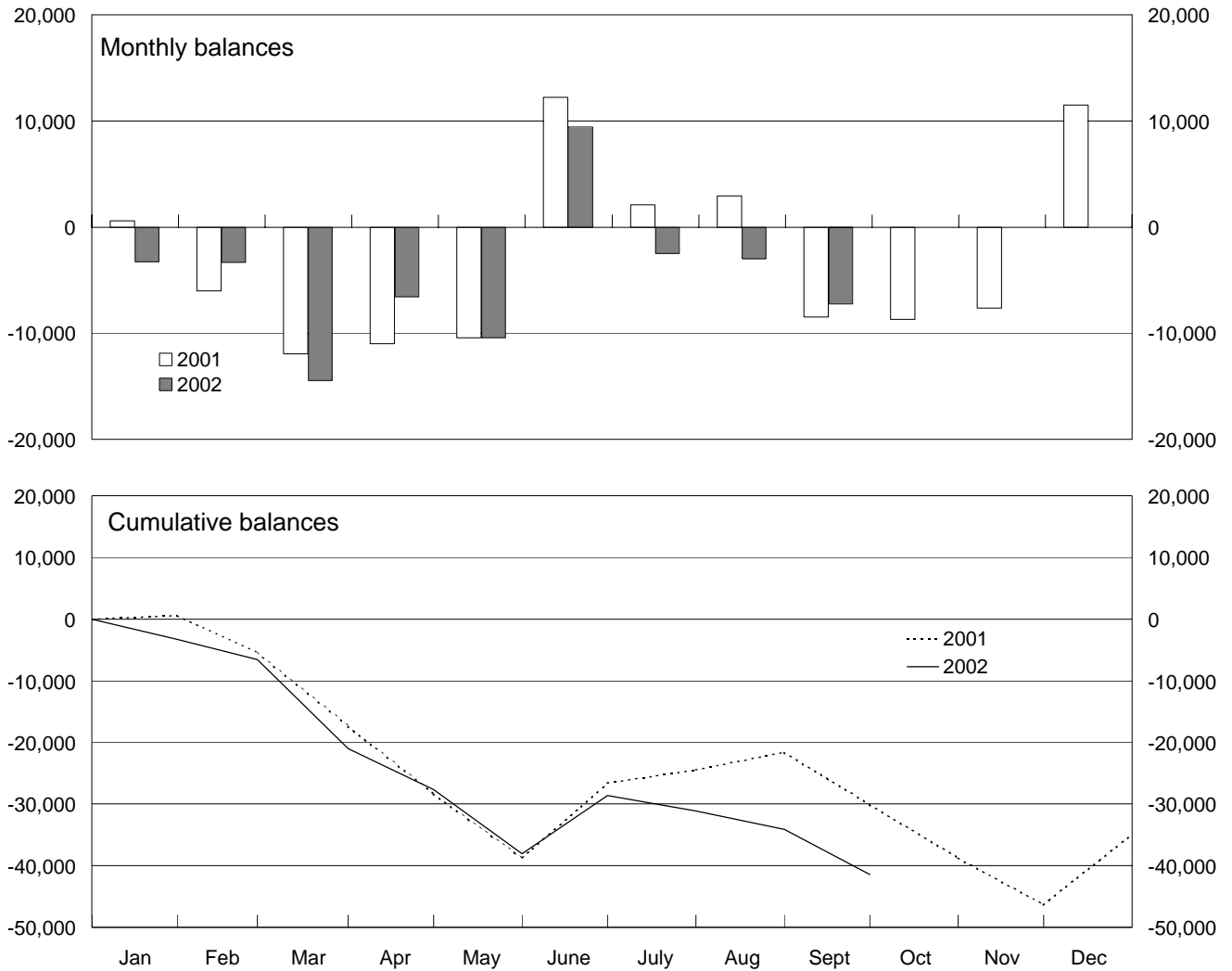
**General government overall balance, primary balance and debt**  
(as a percentage of GDP)



Sources: Based on Istat data and Bank of Italy data for the debt. For the years 2002 and 2003, *Nota di aggiornamento* of the Economic and Financial Planning Document for 2003-06.  
 (1) Excludes the proceeds of the sale of UMTS licences; the figures take account of the revision carried out by Istat in June and of the decision taken by Eurostat at the beginning of July with regard to the accounting treatment of the proceeds of securitizations. - (2) The figures include the effects of swaps.

Figure 2

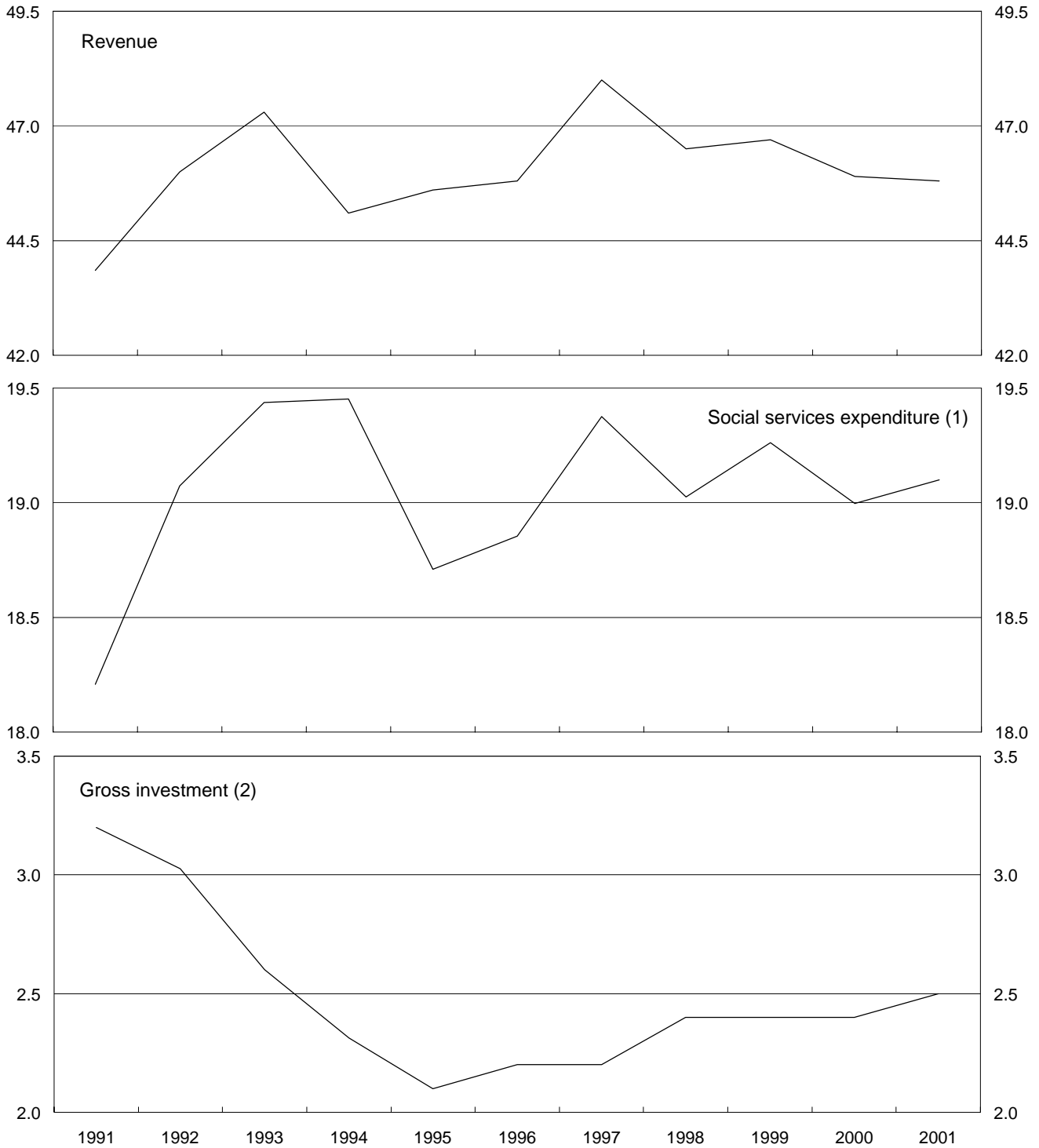
**State sector borrowing requirement in 2001 and 2002 (1)**  
(millions of euros)



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

Figure 3

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



Source: Based on Istat data.

(1) Includes social services in money and in kind. - (2) Following the decision taken by Eurostat on 3 July 2002, the figure for 2001 does not include the proceeds of the securitization of real estate.

## 2002 World Savings Day

*Address by Antonio Fazio, Governor of the Bank of Italy  
ACRI – Association of Italian Savings Banks*

*Rome, 31 October 2002*

Putting the value of stock market indexes at the beginning of 1995 equal to 100, by August 2000 the Standard and Poor's 500 index had risen to 330. The European indexes had reached 316 in Germany, 323 in Italy, and 352 in France. Yesterday, the same indexes were down to 194 in the United States, 164 in France, 169 in Italy, and 143 in Germany.

Share prices began to fall in March 2000, starting with technology stocks, and then precipitated. The Nasdaq index is now a quarter of the value attained in the spring of 2000. Technology stocks rose faster and fell further in Europe.

Since September 2000 share prices have fallen overall by 46 per cent in Italy and 41 per cent in the United States.

The emergence of international political tensions, mounting apprehension about the veracity of listed companies' financial statements, and the weakness of the economic cycle have considerably increased the risk premium that is demanded by investors, thereby reducing share prices.

The price-earnings ratio currently stands at around 22 in the US, 16 in Italy, 12 in France, and 11 in Germany. These levels are below the long-term averages for the European countries, while in the United States the ratio is slightly above average because of lower real interest rates and stronger expectations of long-term economic growth.

In the spring of 2000 I pointed out that the price-earnings ratio had risen to historically high levels in the leading countries, well beyond the normal margins of fluctuation.

We warned that in many sectors share prices were based on rates of growth in corporate profits that did not accord with the underlying economic conditions.

Macroeconomic data suggest that the overvaluation has now been absorbed. In many sectors, both in Europe and the United States, share prices appear basically in line with firms' growth potential and their ability to generate sufficient profits to provide a return on equity capital.

### 1. The international economy and finance

The steep rise in share prices began in the United States in the mid-1990s, at a time of robust growth in corporate investment, moderate inflation and ample liquidity. The opportunities for portfolio diversification afforded by more sophisticated risk-management techniques and greater recourse by savers to international institutional investors brought down the premiums levied on equity investments.

As the new technologies spread through the economy they gave a powerful boost to the growth in firms' productivity. Profits rose faster than gross domestic product and employment increased steadily. The low cost of capital encouraged mergers and acquisitions.

The prolonged economic expansion in the United States slackened in the second half of 2000, reflecting the slowdown in investment; the rise in oil prices was a further contributory factor. The cyclical weakness of the US economy became more pronounced in 2001 and spread rapidly throughout the world.

The monetary easing initiated by the Federal Reserve at the very beginning of 2001, together with the programme of tax cuts, had already stabilized output during the summer.

The terrorist attacks of 11 September created a climate of great uncertainty.

The prompt adoption of monetary and fiscal policy measures, coupled with the flexibility in the use of the factors of production in America, gave the economy a strong boost and helped restore confidence.

Since the end of 2000 the Federal Reserve has cut the federal funds rate by 4.75 percentage points, from 6.50 to 1.75 per cent. The large budget surpluses and the modest size of the debt allowed the federal government to adopt a decidedly expansionary fiscal policy.

In the fourth quarter of 2001 output began to grow again, at an annual rate of 2.7 per cent. The recovery gained strength in the first quarter of this year: the rate of growth in output rose to 5 per cent; the fall in investment almost came to a halt.

In the second quarter, output grew by only 1.3 per cent, reflecting the loss of confidence caused by fears of further terrorist attacks. While investment stagnated, spending on high-tech goods gained momentum.

The value of property owned by households increased by some \$1,650 billion between the beginning of 2001 and the middle of this year, offsetting part of the \$2,950 billion reduction in their financial wealth.

Most of the wealth invested in equities is concentrated among upper-income households and there is a delay before a fall in prices affects their spending decisions. An increase in real-estate wealth transmits a powerful stimulus to consumption as property ownership is more widespread and house prices less subject to variations.

The fall in interest rates and the increase in the value of real-estate guarantees have allowed households to raise new loans. By the middle of this

year, their debt had risen to a very high level, corresponding to 95 per cent of disposable income.

The flexibility typical of the US economy made it possible for labour productivity to increase steadily throughout the recession in 2001 and then to rise sharply during the recovery. In the first half of this year, productivity in the non-farm business sector gained 6.5 per cent on an annual basis compared with the previous six months. This led to a substantial 3.3 per cent fall in unit labour costs.

Payroll employment in the non-farm sector fell continuously between October 2001 and April 2002; in recent months there has been no clear trend. Core inflation has decreased. In the first half of 2002, profits rose by 25.5 per cent compared with the previous six months.

In recent months, the impact of the fall in share prices on economic activity has been compounded by the effects of heightened uncertainty in a context of new world-wide political tensions. Consumption has nonetheless picked up quite strongly, leading to an upturn in output in the third quarter. A fall in the growth rate of output is projected for the fourth quarter.

The international financial system and banks, first and foremost those of the United States, have had to cope with the repercussions of the fall in the value of equities, the crises in Latin American countries and the slowdown in economic activity.

The problems of the Japanese banking system persist. In mid-September the Bank of Japan announced its intention of purchasing shares held by banks in order to avert the danger of still further price declines. The Government has devised a plan for dealing with banks' bad debts.

Some major German banks have been hit by the economic slowdown in that country.

As a whole, the banking systems of the leading countries have absorbed the adverse impact of recent events on their balance sheets, thanks to the reorganization of operational structures and the capital strengthening effected during the second half of the 1990s. The Italian banking system has drawn

vigour from the far-reaching transformation under way since middle of the last decade.

The development of the market in derivatives has increased the opportunities for hedging risk, thereby reducing its cost. Between 1990 and 2001 the notional value of derivative instruments traded in the global market rose from 18 to 111 per cent of the GDP of the seven largest economies.

The expansion of the market for hedging credit risk has been particularly significant. This risk is now distributed among a wide variety of national and international operators, partly as a consequence of the growing importance of institutional investors with long-term liabilities that are marked to market.

However, the degree of leverage made possible by derivative instruments has also favoured the emergence of highly speculative positions, which may have contributed to the overvaluation of share prices during the years of rapid growth. In the same way, they have certainly been a factor in their rapid decline.

The distribution of risk may foster the excessive growth of credit to certain industries or countries. Every bank, and not just the largest or most internationalized, must always carefully assess the profitability of each loan.

Both nationally and internationally, we are strengthening action to improve information on the magnitude of the risks assumed by banks via derivative instruments. Fuller disclosure and more detailed information on market risk will be required in financial statements. International discussion is under way of initiatives to track bank loans to intermediaries that do speculative business, such as hedge funds.

The expansion of world trade induced by the acceleration of US imports during the first half of 2002 benefited mainly Canada, Mexico and the newly industrialized countries of Asia. In the latter group, the impetus from exports was transmitted quickly to domestic demand.

In the last few months the Japanese economy has weakened further. In Argentina the economic and

financial situation remains precarious. Since this summer, some emerging countries have been severely affected by political uncertainty. Access to the financial markets has become very costly, and currencies have depreciated significantly.

In China and India economic activity has continued to expand at a rapid pace. This year, growth rates of 7.5 and 5 per cent respectively are forecast.

In Europe, following the events of 11 September the Governing Council of the European Central Bank lowered its reference rates. The size of the reduction was limited by the re-emergence of inflationary pressures.

In the major countries of the area, given the state of the public finances, support to the economy continued to come solely from built-in stabilizers. Tax cuts enacted in earlier years, but not matched by adequate spending curbs, have produced a worsening of budget balances.

The economic upturn forecast by the main international organizations at the end of 2001 in connection with the quickening pace of economic activity in the United States did not take place. The stagnation that set in during the second half of 2001 is being overcome only slowly. The European economies are weighed down by structural rigidities, slowness in the introduction of new technologies and innovative activities and unpropitious conditions for an expansion in investment.

Gross fixed investment contracted at an annualized rate of 2.6 per cent in the first half of 2002 compared with the second half of 2001. Household spending in the area as a whole remained stationary. Consumption continued to increase in France and Spain, but in Germany it diminished further by 1.6 per cent.

Exports did not increase, pointing to problems of competitiveness for the area as a whole.

The twelve-month rise in consumer prices, which had accelerated to 2.7 per cent in January, slowed to 1.8 per cent in June but then rose to 2.1 per cent in September. Core inflation, which had increased in the previous two years owing to the higher prices of



imported inputs, has remained at about 2.5 per cent since the start of 2002.

In the last part of the year economic activity should continue to expand at about the same rate as in the first half. The latest forecasts by international organizations are that GDP growth for the year will not reach 1 per cent.

## 2. The Italian economy

In Italy, output growth in the first half of the year was sustained solely by the rebuilding of inventories. Employment continued to grow owing to the impetus stemming from tax and social contribution incentives and the elements of flexibility introduced in recent years.

In the first six months of 2002, while world trade expanded at an annual rate of 4.2 per cent, Italian exports of goods and services contracted by 2.4 per cent. At the same time, French and German exports increased by about 2 per cent.

Italy's continuing loss of world market share reflects structural factors: scant presence in high-technology sectors, a lower rate of labour productivity growth compared with earlier decades and the other advanced economies, and the intensifying competition of the emerging economies in low- and medium-technology products.

Italian exports declined by nearly 10 per cent in the first quarter by comparison with the fourth quarter of 2001. They picked up again in the second quarter, in conjunction with the upturn in economic activity in other European countries.

Household consumption contracted for the second consecutive half-year, reflecting the modest growth in disposable income and the prolonged deterioration in confidence. In a period of uncertainty, the reduction in purchases bore on consumer durables.

The impact of the stock market decline on the Italian economy has been moderate, given the small proportion of equities in total household wealth, more

than four fifths of which consists of real estate. House prices rose by 12.8 per cent in real terms between the first half of 2000 and the first half of 2002.

The impact on prices of the cash changeover to the euro was modest, all things considered. It was more pronounced for the most frequently consumed goods and services, such as those provided by bars and restaurants, and especially food products. In a period of modest growth, the effect on consumption was not negligible.

The annualized decline in Italian capital formation in the first half of the year compared with the second half of 2001 was 5.8 per cent. All branches except residential building contributed to the decline. Non-construction investment fell by 8.7 per cent on an annual basis, non-residential construction by 4.5 per cent.

The Bank of Italy's sample survey of investment by firms in industry and services, carried out in September, shows a reduction in expenditure on capital goods compared with firms' spending plans at the beginning of the year.

A study conducted by the Bank's branches on a sample of construction firms shows that the value of public works built fell in the first half of the year; it began to expand again in the second half and has risen back to the level recorded in the last part of 2001. Thanks in part to the impulse imparted by governmental bodies and the start of work on some major infrastructure projects, activity is expected to intensify in 2003 and thus contribute to supporting aggregate demand and the revival of economic activity.

Italian products' loss of market share in recent years is attributable not least to the troubles of the automobile industry, which has also seen its share of the domestic market shrink.

A large industrial group is a common asset. It is in the interest of all that it be safeguarded, that it regain competitiveness through renewed investment in research and innovation.

In compliance with banking regulations derived from Community legislation and aimed at limiting the concentration of risks, banks decided at their

discretion to make loans to the Fiat group on the basis of evaluations of its industrial and financial plans.

The emergence of operating difficulties has been carefully examined by the same banks. Last May a plan was drawn up for the group's financial reorganization, to be achieved through the sale of assets and the consolidation of short-term debts. The volume of loans to the group is commensurate with the value of its assets. A strategic turnaround in production will need to be underpinned by new providers of finance, by fresh capital.

### 3. The banking system

In today's difficult cyclical situation banks have supported the Italian economy by increasing their lending to households and firms more rapidly than the growth in GDP. Lending to residents expanded by 5.7 per cent in the twelve months to September.

Lending to firms grew by 5 per cent, reflecting the weakness of investment and the drying up of demand connected with major corporate actions. Lending to households continues to grow at a very fast pace; in the first half of 2002 mortgage loan disbursements for the purchase of housing totaled €17 billion, almost 25 per cent more than in the same period of 2001. The rate of growth in consumer loans by banks was also very high, exceeding 15 per cent.

Interest rates on short-term loans diminished further by a small margin in the first nine months of the year, declining to 5.8 per cent; those on longer-term credit remained basically stable and now stand at 4.8 per cent for firms and 5.8 per cent for households.

Credit conditions have remained favourable even for smaller firms and companies based in the South. There is no sign of supply-side tensions.

The spread between the average lending rate and the minimum rate, which usually widens during periods of tightening of credit supply, has remained stable.

Banks' annual accounts will reflect the provisioning and value adjustments connected with their exposure to Latin America and major international corporations. The decline in profits should be limited to the current year. The return on equity was 7.2 per cent in the first half of 2002, compared with 12.4 per cent in the first half of 2001.

Operating costs, which have increased appreciably in the last two years, must be kept under control.

Compared with ten years ago, the banking system's indicators of efficiency and soundness have improved significantly. At the start of the 1990s the system included a large number of banks that were too small to achieve economies of scale and make the massive investments necessary for the development of innovative services.

Privatizations and the growing competition bred by anti-trust action, the integration of financial markets and the legislative and regulatory reforms have focused attention on the return on banks' equity and encouraged the pursuit of larger bank size.

Italian banking groups can now operate in all segments of intermediation and offer high-value-added services. The five largest group's share of total bank assets has risen to 54 per cent, compared with around 33 per cent in the mid-1990s. Some groups are also acquiring important positions in the Central and Eastern European countries.

The country's banking groups are engaged in a far-reaching organizational overhaul.

The system's capital base has grown at an average annual rate of 5.9 per cent in the last five years. The rapid expansion in lending has been reflected in a slight decline in the solvency ratio, to 10.2 per cent at the end of 2000.

In line with the approach agreed at international level, we requested major banks to formulate plans for strengthening their capital bases. By the end of 2001 this action had already led to a slight rise in the banking system's solvency ratio, to 10.6 per cent.

The growth in lending to the holding companies of major industrial groups and to the largest

companies has slowed down in the course of this year; banks' exposure to the telecommunications sector is diminishing but nonetheless remains high.

The former banking foundations have played a leading role in the reorganization of the banking system. Once the rule-making phase has been concluded promptly and with adequate consideration given to both local and general interests, it will be necessary to seek a new dialogue and positive convergence among all the interested parties, in order to give impulse to the foundations' activity.

#### 4. Southern Italy

The restructuring of the banking system in the past decade was especially intense in the South.

In the early 1990s the economic slowdown culminating in the recession of 1993, the ending of extraordinary development support and the decline in public investment had brought activity to a standstill in important sectors of production and led to the collapse of numerous firms. Employment fell by more than 8 per cent between 1991 and 1996; the gap in per capita output with respect to the rest of Italy widened.

The difficulties of businesses were reflected in banks' balance sheets: the proportion of credits that proved to be non-performing rose to high levels. The losses had a destabilizing impact on intermediaries, first and foremost the large public-sector banks, which were also burdened by low operating efficiency and relatively modest capital endowments.

We were called on to make an exceptional effort. The evaluation of banks' situations on the basis of an examination of their annual accounts, meetings with corporate officers and on-site controls at almost all the southern banks made it possible to identify the roots of the impaired situations, circumscribe their effects and indicate appropriate methods for the necessary reorganization.

The rehabilitation of the southern banking system was achieved first of all by promoting the transfer of the principal banks to private shareholders.

The use of public money, in limited amounts by international standards and subject to rigorous corporate restructuring, helped to prevent the spread of financial instability and to preserve the markets' confidence in the Italian banking system.

The interests of depositors were protected and the conditions created for maintaining adequate flows of credit to the local economy.

In the last ten years more than 200 mergers and acquisitions have taken place, involving institutions accounting for two thirds of the total assets of banks based in the South. The transactions have been carried out at the initiative of banks coming from other areas of Italy and endowed with the capital and professional resources that are indispensable for the rehabilitation and revival of southern banking structures.

The reorganization of loan disbursement procedures has raised the capacity to select borrowers on the basis of their correctness and competence in business as well as the validity of their investment plans.

The rehabilitation of the credit system in the South is shown by banks' improved profitability and stronger capital bases.

The productive economy and the households of the South have seen an increase in the availability of corporate finance and professional asset management services, which could not have been supplied on a small scale.

In the three years ended in June 2002 customer loans in the South grew at an average annual rate of 6.3 per cent, twice as fast as in the preceding three years and faster than the growth in nominal income. The largest contribution to the financing of the southern economy came from the banks of the Centre and North, which used all the funds they raised in the South for local lending.

Thanks in part to the steady decline in the ratio of bad debts to total loans, the interest rates charged to customers in the South have approached those prevailing in the rest of Italy. Between 1998 and the second quarter of 2002, the gap narrowed from 2 to 1.6 percentage points for short-term loans to firms. It is much smaller for medium and long-term loans. The differential reflects the risk premium associated

with southern firms' lower profitability, modest capitalization and high short-term indebtedness, and also the scant effectiveness of judicial procedures for the recovery of claims.

In the second half of the 1990s a revival got under way in the southern economy. But the improvement has been modest in relation to the size of the gap between the South and the rest of the country. Between 1995 and 2001 average annual growth in output in the South exceeded that in the Centre and North by only 3 tenths of a percentage point.

Per capita output in the South is currently 58 per cent of that of the rest of Italy; it has still to regain the level at which it stood in the early 1990s.

The exclusion of human resources from the labour market is on an abnormal scale in the South: the employment rate for persons aged between 15 and 64 is just above 44 per cent, some 17 percentage points less than in the Centre and North.

Partly as a result of the restructuring of many large firms, especially those that had previously been in the public sector, the average size of local industrial units has decreased to a greater extent than in the other parts of the country. The underground economy has grown larger: irregular employment is 38 per cent of the total in agriculture and 29 per cent in the construction industry. The area has only a very limited ability to attract investment from abroad and the rest of the country.

The weaknesses of the southern economy are reflected in a 15 per cent difference in productivity compared with the Centre and North. This gap stems partly from a lack of infrastructure that is much more pronounced than in the rest of the country, especially as regards airports, power plants, energy grids, water supply, waste water treatment, telephony and information technology.

The difference in labour costs is smaller than that in productivity. There are major external diseconomies. These factors are an obstacle to the use of the available labour.

Exports from the South contracted by 6.3 per cent in value in the first half of this year compared with the first half of 2001, those from the Centre and North by 5.1 per cent. In industry excluding construction more than a quarter of southern firms have reduced their planned capital spending for this year, a larger proportion, albeit only a little, than in the Centre and North. The value of public works built has fallen more in the South than in the North.

The South has a potential for growth that has not yet been turned to account. Policies aimed at fostering employment have contributed, according to the first three Istat surveys in 2002, to increasing the number of persons in work by nearly 2 per cent compared with the corresponding period in 2001; this was similar to the increase in the Centre and higher than that in the North. In July the unemployment rate fell to 17.9 per cent, down from 19 per cent twelve months earlier; employment rose above the levels of 1991-92.

There is considerable scope for measures to exploit the opportunities inherent in the availability of human, environmental and cultural resources, in the accumulation of savings, in the scale of the needs still to be satisfied, in the presence of unutilized professional abilities and in the existence of economic and physical openings for the development of new productive activities.

It is up to economic policy to create the conditions permitting these opportunities to be grasped. The measures to upgrade the supply of water for residential and industrial uses are a step in this direction.

The strengthened structure of the southern banking system means that it can provide financial support for the development of the South.

\* \* \*

The uncertainty caused by international political tensions is having an adverse effect on the behaviour of consumers and investors.

Countering terrorism in all its forms and safeguarding collective security cannot be separated from efforts to create conditions that will avoid conflicts. With a view to the dignity of man and a better distribution of world output, it is necessary to

strive for a period of détente and development of international relations.

There is still considerable uncertainty regarding the American economy. The underlying conditions nonetheless remain favourable; the estimated annual rate of increase in productivity in the medium term remains high, between 2 and 2.5 per cent. Moreover, with share prices at their present level, conditions for profitable investment have been restored.

Reabsorbing the present international tensions will allow the US economy to return to a path of rapid growth.

The latest forecasts indicate a slight acceleration in world economic activity from the first quarter of 2003 onwards. The recovery in the United States is seen as gathering strength over the year, with the other industrial economies benefiting. In the emerging countries of Asia, including China and India, GDP is expected to grow by more than 6 per cent; in Latin America it is also expected to rise, after falling in 2002.

The weakening of the economic indicators in the euro area has increased the uncertainty about the prospects of an upturn in the last part of the year.

Italy will achieve only limited growth in 2002.

The recovery in economic activity is likely to gather strength next year; international trade should grow faster. Consumption will be stimulated by the changes made to personal income tax. Fiscal policy in the present difficult cyclical conditions is designed to reconcile curbing the budget deficit with providing support for economic activity.

There continue to be obstacles and delays in the improvement of administrative efficiency and the process of liberalization. The organizational innovations within companies and in dealings between companies are held back, even more than in the rest of Europe, by shortcomings in infrastructure, deficiencies in public services and the law. Rigidities in the markets for productive factors still have adverse effects.

The lack of infrastructure is serious in the South but there are also shortcomings in the North. The creation of infrastructure is a prerequisite for increasing Italian firms productivity.

An upturn in economic activity is within our reach. The possibility of lifting the GDP growth rate above 2 per cent in 2003 depends on the planned construction of public works actually getting under way on a major scale.

Looking further ahead, the Italian economy can achieve a rate of growth above the European average.

The Finance Bill is being examined by Parliament; amendments have been announced, especially in favour of the South. When it is approved, further, decisive steps will need to be taken to solve the structural problems of the Italian economy.

Measures regarding the labour market and the protection of saving are important aspects of the planned reforms.

The economic and fiscal factors that diminish competitiveness and stunt the growth of firms must be removed; principles of economic democracy must be applied; wages must become more closely linked to productivity. Progress on these fronts is likely to increase employment and improve its quality.

Compared with ten years ago, the banking system is in a better position to assist the economic recovery. As research and surveys reported in institutional fora also show, the enormous changes that have taken place, starting with the legal framework, which is now one of the most advanced in Europe, have strengthened the system. Competition has increased. Unfounded doubts should not be sown. It is necessary to make further progress in the development of entrepreneurial skills and the ability to innovate.

Savings are an indispensable resource, protected by the Constitution. Their profitable investment is essential for growth. It is necessary to arrive at a better balance between the public and private sectors in the management of retirement savings; channeling a growing part of such savings to the market will provide financing for investment and by this means fosters growth.

Italy has underutilized resources. Firms' will to invest and innovate, cooperation between the social partners, a coherent economic policy are the keys to making full and good use of the resources available, to the revival of growth.

# Appendix

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## SYMBOLS AND CONVENTIONS

In the following tables:

- the phenomenon in question does not occur;
- .... the phenomenon occurs but its value is not known;
- .. the value is known but is nil or less than half the final digit shown;
- ( ) provisional;
- ( ) estimated.

Notes to the statistical tables are on pp. 47a-52a.

Table a1

## GDP at constant prices

	Percentage of world GNP in 2000 (1)	1997	1998	1999	2000	2001	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3
<i>(percentage changes on previous period on an annual basis; seasonally adjusted quarterly data)</i>											
<b>Industrial countries</b>											
United States .....	21.6	4.4	4.3	4.1	3.8	0.3	-0.3	2.7	5.0	1.3	3.1
Japan .....	7.7	1.8	-1.1	0.7	2.4	-0.1	-2.6	-2.8	..	2.6	....
Euro area .....	15.9	2.3	2.9	2.8	3.5	1.4	0.8	-1.1	1.6	1.6	....
Germany .....	4.6	1.4	2.0	2.0	2.9	0.6	-0.8	-1.2	1.1	1.1	....
France .....	3.2	1.9	3.4	3.2	3.8	1.8	2.0	-2.0	2.4	1.6	....
Italy .....	3.0	2.0	1.8	1.6	2.9	1.8	0.3	-0.9	0.5	0.9	....
United Kingdom .....	3.2	3.4	2.9	2.4	3.1	2.0	1.4	0.9	0.5	2.5	(2.8)
Canada .....	1.9	4.2	4.1	5.4	4.5	1.5	-0.5	2.9	6.2	4.3	....
<i>(percentage changes on year-earlier period)</i>											
<b>Emerging countries</b>											
<b>Latin America</b>											
Argentina .....	1.0	8.1	3.9	-3.4	-0.8	-4.4	-4.9	-10.5	-16.3	-13.6	....
Brazil .....	2.8	3.3	0.1	0.8	4.4	1.5	0.5	-0.7	-0.7	1.0	....
Mexico .....	1.9	6.8	4.9	3.7	6.6	-0.3	-1.5	-1.6	-2.0	2.1	....
<b>Asia</b>											
China .....	11.1	8.8	7.8	7.1	8.0	7.3	7.0	6.6	7.6	8.0	8.1
India .....	5.3	4.8	6.5	6.1	4.0	5.4	6.2	6.4	6.0	....	....
Indonesia .....	1.3	4.7	-13.0	0.3	5.3	3.3	3.1	1.6	2.5	3.5	....
Malaysia .....	0.4	7.3	-7.4	6.1	8.3	0.4	-0.9	-0.5	1.1	3.8	....
South Korea .....	1.8	5.0	-6.7	10.9	9.3	3.0	1.9	3.7	5.8	6.3	....
Taiwan .....	....	6.7	4.6	5.4	5.9	-2.2	-4.4	-1.6	1.2	4.0	....
Thailand .....	0.9	-1.4	-10.5	4.4	4.6	1.8	1.6	2.1	3.9	5.1	....
<b>Europe</b>											
Poland .....	0.8	6.8	4.8	4.1	4.0	1.0	0.8	0.3	0.5	0.8	....
Russia .....	2.6	0.9	-4.9	5.4	9.0	5.0	4.9	4.9	3.7	4.1	....
Turkey .....	1.0	7.6	3.2	-4.7	7.3	-7.3	-7.4	-10.4	1.9	8.2	....

(1) On the basis of purchasing power parities.



Table a2

## Industrial production

	1998	1999	2000	2001	April 2002	May 2002	June 2002	July 2002	August 2002	September 2002
<i>(percentage changes on previous period; seasonally adjusted data)</i>										
<b>Industrial countries</b>										
United States .....	5.1	3.7	4.5	-3.7	0.1	0.4	0.6	0.6	-0.4	-0.1
Japan .....	-7.2	0.9	5.4	-7.5	0.2	4.1	-0.2	0.1	1.4	-0.3
Euro area .....	4.4	2.0	5.5	0.3	0.2	..	0.3	-0.2	0.2	....
<i>Germany</i> .....	4.2	1.5	6.2	0.6	0.5	-1.2	2.0	-0.9	1.5	....
<i>France</i> .....	5.1	2.0	3.5	0.8	0.2	-0.2	0.2	-0.7	0.3	....
<i>Italy</i> .....	1.9	0.1	3.1	-0.7	-0.9	1.6	-1.0	0.6	0.4	....
United Kingdom .....	1.0	0.8	1.7	-2.1	1.0	1.1	-4.3	3.2	-0.3	....
Canada .....	3.5	5.1	5.7	-3.4	1.4	-0.8	..	1.4	-0.4	....
<i>(percentage changes on year-earlier period)</i>										
<b>Emerging countries</b>										
<b>Latin America</b>										
Argentina .....	1.2	-5.8	-1.9	-5.2	-11.4	-13.4	-11.4	-10.0	-10.3	-3.8
Brazil .....	-2.0	-0.7	6.6	1.5	6.1	-1.0	0.7	3.3	0.9	....
Mexico .....	6.3	4.2	6.1	-3.5	7.8	0.8	-0.8	1.8	0.7	....
<b>Asia</b>										
China .....	9.6	9.9	11.2	9.7	12.1	12.9	12.4	12.8	12.7	13.8
India .....	3.4	7.6	7.4	2.3	2.9	1.5	1.4	3.9	4.0	....
Indonesia .....	-13.3	18.9	-8.1	-1.1	-	-	-	-	-	-
Malaysia .....	-7.2	9.1	19.1	-4.3	4.1	4.5	5.2	7.6	5.9	....
South Korea .....	-7.4	24.2	16.8	1.7	7.4	7.7	5.3	8.7	8.5	3.4
Taiwan .....	2.6	7.7	7.4	-7.3	9.3	10.3	8.2	11.5	6.5	12.5
Thailand .....	-11.1	13.1	3.3	2.0	8.7	8.3	1.0	4.6	11.4	9.8
<b>Europe</b>										
Poland .....	4.7	4.8	7.5	0.2	0.3	-4.2	2.1	5.7	-1.1	6.7
Russia .....	-5.2	11.0	11.9	4.9	4.3	2.7	4.4	7.8	3.4	5.5
Turkey .....	0.9	-5.2	5.8	-7.1	14.5	11.0	7.1	12.4	7.2	....

Table a3

## Consumer prices

	1997	1998	1999	2000	2001	May 2002	June 2002	July 2002	August 2002	September 2002
<i>(percentage changes on year-earlier period)</i>										
<b>Industrial countries</b>										
United States .....	2.3	1.6	2.2	3.4	2.8	1.2	1.1	1.5	1.8	1.5
Japan .....	1.7	0.7	-0.3	-0.7	-0.7	-0.9	-0.7	-0.8	-0.9	-0.7
Euro area (1) .....	1.6	1.2	1.1	2.4	2.7	2.0	1.8	1.9	2.1	2.1
<i>Germany</i> .....	1.5	0.6	0.6	2.1	2.4	1.0	0.7	1.0	1.0	1.0
<i>France</i> .....	1.3	0.7	0.6	1.8	1.8	1.5	1.5	1.6	1.8	1.8
<i>Italy</i> .....	1.9	2.0	1.7	2.6	2.7	2.4	2.2	2.4	2.6	2.8
United Kingdom .....	2.8	2.7	2.3	2.1	2.1	1.8	1.5	2.0	1.9	2.1
Canada .....	1.6	1.0	1.7	2.7	2.5	1.0	1.3	2.1	2.6	2.3
<b>Emerging countries</b>										
<b>Latin America</b>										
Argentina .....	0.5	0.9	-1.2	-0.9	-1.1	23.0	28.4	32.9	36.5	38.5
Brazil .....	6.9	3.2	4.9	7.0	6.8	7.8	7.7	7.5	7.5	....
Mexico .....	20.6	15.9	16.6	9.5	6.4	4.7	4.9	5.5	5.3	5.0
<b>Asia</b>										
China .....	2.8	-0.8	-1.4	0.3	0.7	-1.1	-0.8	-0.9	-0.7	-0.7
India .....	7.2	13.2	4.7	4.0	3.9	4.7	4.2	3.9	3.9	....
Indonesia .....	6.2	58.4	20.5	3.7	11.5	12.9	11.5	10.1	10.6	10.5
Malaysia .....	2.7	5.3	2.7	1.5	1.4	1.9	2.1	2.1	2.1	2.1
South Korea .....	4.4	7.5	0.8	2.3	4.3	3.0	2.6	2.1	2.4	3.1
Taiwan .....	0.9	1.7	0.2	1.3	..	-0.3	0.1	0.4	-0.3	-0.7
Thailand .....	5.6	8.1	0.3	1.5	1.7	0.1	0.3	0.1	0.3	0.4
<b>Europe</b>										
Poland .....	15.1	11.8	7.3	10.1	5.5	1.9	1.6	1.3	1.2	1.3
Russia .....	14.8	27.6	85.7	20.8	21.6	16.2	14.9	15.1	15.2	15.0
Turkey .....	85.7	84.6	64.9	54.9	54.4	46.1	42.6	41.3	40.2	37.1

(1) Since January 2001, includes Greece.

Table a4

## External current account

	1997	1998	1999	2000	2001	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2
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(billions of dollars; seasonally adjusted quarterly data)

## Industrial countries

United States .....	-128.4	-203.8	-292.9	-410.3	-393.4	-99.2	-91.3	-95.1	-112.5	-130.0
Japan .....	96.6	119.2	114.7	119.6	87.8	18.5	22.4	24.7	29.4	29.7
Euro area .....	61.7	27.2	-29.1	-65.3	-12.5	-9.1	2.0	3.7	12.2	10.5
Germany .....	-3.0	-6.2	-19.4	-20.6	2.6	-5.4	6.3	5.9	9.7	8.9
France .....	38.0	38.7	42.3	16.7	21.3	3.3	7.4	6.9	3.9	9.3
Italy .....	33.3	22.6	8.1	-5.7	-0.3	0.3	-0.8	2.6	-0.2	-1.8
United Kingdom .....	-2.8	-8.0	-31.9	-28.8	-30.3	-8.9	-6.3	-9.9	-5.4	-5.8
Canada .....	-8.2	-7.8	1.4	18.6	19.5	5.3	2.8	2.8	3.3	3.2

(billions of dollars; quarterly data, not seasonally adjusted)

## Emerging countries

## Latin America

Argentina .....	-12.3	-14.6	-12.0	-8.9	-4.5	-1.1	-0.8	0.4	1.5	2.7
Brazil .....	-30.8	-33.4	-25.4	-24.6	-23.2	-6.7	-4.1	-5.8	-3.2	-5.1
Mexico .....	-7.4	-16.1	-14.0	-17.7	-17.9	-3.7	-3.4	-6.1	-3.8	-3.0

## Asia

China .....	29.7	29.3	15.7	20.5	17.4	-	-	-	-	-
India .....	-3.0	-6.9	-3.2	-4.3	..	-0.3	-1.1	0.8	2.0	0.3
Indonesia .....	-5.0	4.1	5.8	8.0	6.9	1.3	2.4	1.1	1.3	...
Malaysia .....	-5.9	9.5	12.6	8.4	7.2	1.8	1.9	1.8	1.8	1.6
South Korea .....	-8.2	40.4	24.5	11.4	8.2	3.7	1.0	0.5	1.5	2.2
Taiwan .....	7.2	3.5	8.4	8.9	19.0	3.4	4.5	7.0	7.3	6.1
Thailand .....	-3.1	14.3	12.5	9.3	6.2	1.0	1.7	2.2	1.8	1.0

## Europe

Poland .....	-4.3	-6.9	-11.6	-9.9	-7.2	-2.2	-1.0	-1.8	-2.3	-1.6
Russia .....	2.1	0.7	24.7	46.3	35.0	9.4	7.3	6.5	7.1	7.8
Turkey .....	-2.6	2.0	-1.4	-9.8	3.5	1.2	2.0	0.8	-0.5	-1.0

Table a5

## Short-term interest rates

(percentages)

	US	Japan	Euro area	UK	Canada
<b>Official reference rates</b> (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 – Oct. ....	2.50	0.10	3.75	4.50	3.00
Nov. ....	2.00	"	3.25	4.00	2.50
Dec. ....	1.75	"	"	"	"
2002 – Jan. ....	"	"	"	"	2.25
Feb. ....	"	"	"	"	"
Mar. ....	"	"	"	"	"
Apr. ....	"	"	"	"	2.50
May ....	"	"	"	"	"
June ....	"	"	"	"	2.75
July ....	"	"	"	"	3.00
Aug. ....	"	"	"	"	"
Sept. ....	"	"	"	"	"
Oct. ....	"	"	"	"	"
<b>Money market rates</b> (period averages)					
1998 .....	5.47	0.81	3.94	7.34	5.07
1999 .....	5.33	0.31	2.96	5.45	4.92
2000 .....	6.46	0.32	4.39	6.11	5.70
2001 .....	3.69	0.16	4.26	4.97	4.00
2001 – Oct. ....	2.31	0.11	3.60	4.36	2.90
Nov. ....	2.03	0.07	3.39	3.93	2.28
Dec. ....	1.83	0.08	3.35	3.99	2.12
2002 – Jan. ....	1.74	0.15	3.34	3.98	2.01
Feb. ....	1.82	0.14	3.36	3.98	2.12
Mar. ....	1.92	0.16	3.39	4.06	2.24
Apr. ....	1.87	0.07	3.41	4.11	2.40
May ....	1.81	0.06	3.47	4.08	2.61
June ....	1.81	0.08	3.46	4.11	2.79
July ....	1.79	0.10	3.41	3.99	2.88
Aug. ....	1.73	0.04	3.35	3.92	2.95
Sept. ....	1.76	0.07	3.31	3.93	2.92
Oct. ....	1.73	0.09	3.26	3.90	2.88

Table a6

**Long-term interest rates and share price indices**  
(period averages)

	US	Japan	Germany	France	Italy	UK	Canada
<b>Bond yields</b> (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 – 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
Mar. ....	5.28	1.45	5.16	5.24	5.41	5.34	5.67
Apr. ....	5.21	1.39	5.15	5.24	5.40	5.33	5.66
May ....	5.16	1.38	5.17	5.26	5.41	5.35	5.60
June ....	4.93	1.36	5.02	5.11	5.26	5.17	5.42
July ....	4.65	1.30	4.87	4.96	5.11	5.02	5.29
Aug. ....	4.26	1.26	4.59	4.67	4.83	4.67	5.12
Sept. ....	3.87	1.16	4.38	4.46	4.62	4.45	4.89
Oct. ....	3.94	1.09	4.46	4.55	4.76	4.53	5.13
<b>Share price indices</b> (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 – 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	70.20	193.74	231.91	223.00	150.33	172.25
Mar. ....	212.96	78.57	209.02	245.74	238.32	154.47	177.07
Apr. ....	205.31	78.49	204.90	242.10	239.69	153.72	172.83
May ....	199.30	80.00	194.89	233.72	229.38	152.68	172.66
June ....	187.22	76.54	173.81	210.51	209.05	141.21	161.15
July ....	167.23	72.67	158.34	185.52	192.77	125.13	148.97
Aug. ....	168.48	69.29	145.94	180.79	190.11	124.90	149.12
Sept. ....	160.64	66.37	128.60	163.70	177.68	116.40	139.38
Oct. ....	157.79	63.06	118.44	158.54	169.29	115.52	....

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 krone	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
2000 – Q3 .....	0.905	97.43	1.341	0.6125	7.460	8.099	8.404	1.544	273.65
Q4 .....	0.868	95.30	1.325	0.6005	7.454	8.040	8.602	1.516	274.45
2001 – Q1 .....	0.923	109.06	1.410	0.6326	7.464	8.202	9.004	1.533	257.70
Q2 .....	0.873	106.93	1.345	0.6144	7.459	8.011	9.126	1.528	270.60
Q3 .....	0.890	108.27	1.374	0.6194	7.444	8.009	9.407	1.507	293.10
Q4 .....	0.896	110.45	1.416	0.6209	7.441	7.969	9.481	1.473	276.50
2002 – Q1 .....	0.877	116.07	1.398	0.6147	7.432	7.812	9.159	1.473	301.40
Q2 .....	0.919	116.46	1.428	0.6285	7.434	7.518	9.158	1.465	318.50
Q3 .....	0.984	117.25	1.536	0.6353	7.428	7.399	9.230	1.464	323.70
2001 – 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
Mar. ....	0.876	114.75	1.390	0.6157	7.432	7.718	9.059	1.468	301.40
Apr. ....	0.886	115.81	1.401	0.6141	7.434	7.622	9.136	1.466	308.20
May ....	0.917	115.86	1.421	0.6282	7.436	7.521	9.221	1.457	326.60
June ....	0.955	117.80	1.463	0.6441	7.433	7.404	9.114	1.472	318.50
July ....	0.992	117.11	1.532	0.6387	7.430	7.405	9.269	1.462	304.65
Aug. ....	0.978	116.31	1.533	0.6363	7.427	7.428	9.249	1.464	312.80
Sept. ....	0.981	118.38	1.543	0.6306	7.427	7.362	9.168	1.465	323.70
Oct. ....	0.981	121.57	1.548	0.6299	7.430	7.341	9.105	1.465	316.90

Table a8

**Indicators of competitiveness (1)***(period averages; indices, 1993=100)*

	US	Japan	Germany	France	Italy	UK	Canada	Switzerland
1996 .....	100.2	87.8	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	93.9	102.5	124.2	97.8	95.4
2000 .....	113.2	95.3	84.6	90.3	99.0	123.8	97.4	90.0
2001 .....	118.8	85.5	87.1	90.8	100.4	120.9	94.8	92.6
2000 – Q2 .....	112.0	96.4	84.5	90.5	99.1	125.1	98.0	90.4
Q3 .....	114.3	95.3	84.1	89.9	98.6	121.8	96.9	89.8
Q4 .....	117.9	94.3	83.3	89.3	98.1	122.0	95.0	89.8
2001 – Q1 .....	120.6	86.2	87.1	91.1	101.2	118.8	93.8	91.1
Q2 .....	120.9	84.9	86.3	90.3	99.4	120.7	95.2	90.4
Q3 .....	117.6	85.7	87.3	90.8	100.0	121.5	95.7	92.9
Q4 .....	116.0	85.3	87.7	91.1	101.0	122.6	94.6	96.1
2002 – Q1 .....	117.6	80.2	87.9	90.8	100.6	123.7	95.4	95.5
Q2 .....	116.0	80.9	88.1	91.5	101.0	122.1	95.7	96.5
2001 – Aug. ....	116.9	85.3	87.6	91.1	100.3	120.4	95.7	92.7
Sept. ....	116.6	87.0	87.9	91.2	100.6	121.7	94.6	94.4
Oct. ....	115.4	86.3	87.8	91.5	101.0	122.4	94.9	95.7
Nov. ....	116.6	86.2	87.3	90.7	100.6	122.2	93.8	96.2
Dec. ....	116.0	83.4	87.9	91.2	101.3	123.2	95.1	96.5
2002 – Jan. ....	117.6	80.1	88.2	91.0	101.1	123.7	94.8	96.1
Feb. ....	117.7	80.0	87.8	90.5	100.5	124.2	95.7	95.1
Mar. ....	117.4	80.7	87.7	90.8	100.1	123.1	95.7	95.4
Apr. ....	118.1	79.8	87.3	91.0	100.1	123.6	95.1	95.5
May ....	115.9	81.1	88.0	91.4	100.9	122.1	95.8	97.0
June ....	114.0	81.7	89.0	92.1	102.1	120.5	96.2	97.1
July ....	111.5	83.7	89.3	92.9	103.0	122.8	95.0	98.5
Aug. ....	112.7	83.6	88.9	92.8	102.8	122.6	94.1	97.9

(1) Based on the producer prices of manufactures. A rise in the index corresponds to a decrease in competitiveness.

Table a9

## Sources and uses of income

(percentage changes on previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Consumption of resident households	Other domestic uses	Exports
				Building	Machinery and equipment, sundry products and vehicles	Total			
<b>At 1995 prices</b>									
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	2.8	7.7	5.7	2.4	2.0	0.3
2000 .....	2.9	9.4	4.3	5.6	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	2.5	0.8
2000-Q2 .....	0.3	-0.4	0.2	0.9	1.8	1.4	0.6	1.1	-2.0
Q3 .....	0.6	0.7	0.6	0.9	1.7	1.3	0.5	-6.5	4.5
Q4 .....	1.0	2.1	1.2	-0.4	-0.9	-0.7	0.6	7.8	0.3
2001-Q1 .....	0.6	-0.9	0.3	2.5	0.6	1.4	0.3	-1.1	0.3
Q2 .....	0.1	1.1	0.3	1.2	0.4	0.7	0.2	1.4	-0.4
Q3 .....	0.1	-2.4	-0.5	-0.3	0.4	0.1	-0.4	1.6	-2.2
Q4 .....	-0.2	-1.4	-0.5	0.2	-0.8	-0.4	0.1	-3.1	-0.2
2002-Q1 .....	0.1	-0.3	..	-0.9	-3.5	-2.4	-0.4	8.8	-2.5
Q2 .....	0.2	2.4	0.7	0.3	-1.2	-0.6	0.2	0.3	2.9
<b>Implicit prices</b>									
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	0.1	3.3
2000-Q2 .....	1.0	3.1	1.4	0.6	0.6	0.6	0.8	4.0	1.5
Q3 .....	0.5	3.1	1.0	0.7	0.6	0.6	0.8	2.7	1.6
Q4 .....	-0.2	2.0	0.2	0.7	0.7	0.7	0.8	-3.7	0.8
2001-Q1 .....	1.4	-1.4	0.8	0.8	0.3	0.5	0.5	1.8	0.8
Q2 .....	0.7	-0.1	0.5	0.4	..	0.2	0.9	-1.3	1.1
Q3 .....	0.5	-0.3	0.4	0.5	0.2	0.4	0.6	0.2	-0.1
Q4 .....	0.7	-2.1	0.1	0.3	..	0.1	0.6	-1.1	0.2
2002-Q1 .....	0.7	0.2	0.6	2.6	0.9	1.6	0.6	0.8	-0.9
Q2 .....	0.1	0.7	0.2	0.3	0.1	0.2	0.9	0.3	-1.1



Table a10

## Industrial production and ISAE business opinion indicators

(seasonally adjusted data)

	Industrial production				ISAE business opinion indicators				
	General index	Consumer goods	Investment goods	Intermediate goods	Level of orders			Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal
					domestic	foreign	total		
	<i>(indices, 1995=100)</i>				<i>(average balance of monthly responses; percentage points)</i>				
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-Q1 .....	91.4	93.7	81.9	92.1	-32.4	-1.7	-19.3	18.0	-2.3
Q2 .....	94.7	97.1	87.2	95.8	-19.1	9.3	-7.6	25.8	-1.0
Q3 .....	96.0	97.8	90.4	96.8	-15.2	10.6	-5.7	28.1	-4.7
Q4 .....	97.5	97.7	91.7	99.6	-4.8	17.1	4.9	28.7	-9.3
1995-Q1 .....	98.9	98.9	94.6	99.0	-2.7	24.6	6.0	23.5	-4.7
Q2 .....	99.2	99.5	97.8	99.2	-1.4	21.9	5.1	21.7	0.3
Q3 .....	100.3	100.6	100.1	100.8	-4.6	13.0	1.7	24.1	-1.7
Q4 .....	101.6	101.0	107.5	101.1	-14.0	6.8	-7.4	18.4	1.3
1996-Q1 .....	101.1	99.5	103.8	100.6	-24.8	-8.4	-18.0	9.8	5.0
Q2 .....	98.7	99.6	103.6	97.4	-31.4	-19.7	-24.3	5.5	6.3
Q3 .....	98.7	99.3	100.8	97.7	-31.3	-19.7	-22.7	6.4	5.7
Q4 .....	98.0	100.0	100.5	96.6	-31.0	-19.8	-26.1	8.7	-2.0
1997-Q1 .....	99.0	102.4	101.1	98.6	-20.9	-14.7	-16.3	15.7	-5.0
Q2 .....	102.2	103.2	103.4	101.6	-14.7	-7.4	-12.3	16.2	..
Q3 .....	103.5	103.1	102.5	102.4	-12.4	-2.3	-3.3	23.9	-4.3
Q4 .....	104.9	104.1	105.1	105.2	-10.7	0.5	-2.1	26.6	-3.0
1998-Q1 .....	104.3	103.7	103.7	105.9	-7.9	-0.4	-2.3	25.4	-1.7
Q2 .....	105.2	104.2	104.7	105.7	-14.7	-3.4	-8.3	16.9	1.7
Q3 .....	104.5	104.4	103.2	104.1	-17.7	-10.0	-14.0	10.4	..
Q4 .....	103.3	103.5	99.5	104.0	-22.4	-18.8	-20.8	9.9	1.3
1999-Q1 .....	103.5	105.2	102.8	104.0	-28.8	-28.1	-27.3	10.2	1.7
Q2 .....	103.1	103.3	101.3	102.9	-23.7	-21.7	-21.3	14.9	-1.0
Q3 .....	105.0	106.4	102.2	105.4	-11.8	-11.0	-10.3	25.0	-0.7
Q4 .....	106.1	105.8	103.5	106.6	-4.8	-3.5	-0.4	29.3	-5.3
2000-Q1 .....	106.2	103.1	103.6	106.8	4.2	6.9	7.4	29.9	-9.3
Q2 .....	107.8	106.1	106.4	108.6	6.9	7.0	10.4	29.5	-7.3
Q3 .....	107.6	105.8	107.7	108.5	7.4	7.0	10.7	30.2	-7.3
Q4 .....	109.2	109.5	111.5	109.9	2.0	5.1	5.9	23.7	-6.3
2001-Q1 .....	108.8	107.7	109.9	108.3	-7.5	-2.1	-5.3	20.1	0.3
Q2 .....	107.4	107.6	108.1	107.0	-12.4	-10.0	-10.3	22.5	4.7
Q3 .....	106.8	108.0	106.6	107.2	-16.4	-17.3	-15.7	14.5	0.3
Q4 .....	105.0	106.2	104.3	104.5	-23.8	-23.9	-24.4	6.9	2.0
2002-Q1 .....	105.2	104.6	103.0	104.8	-17.7	-21.5	-16.0	-20.3	1.3
Q2 .....	104.5	104.1	100.1	105.3	-13.7	-14.7	-11.9	24.1	-1.3
Q3 .....	.....	.....	.....	.....	-16.3	-17.7	-16.3	19.3	-4.3

Table a11

## Labour force, employment and unemployment

(thousands of persons and percentages)

	Employment					Unemploy- ment	Labour force	Unemploy- ment rate	Participation rate 15-64 years
	Agriculture	Industry excluding construction	Construction	Other	Total				
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
1997 – Q1 .....	1,203	5,038	1,511	12,187	19,939	2,716	22,655	12.0	57.4
Q2 .....	1,187	5,036	1,549	12,412	20,184	2,752	22,936	12.0	58.1
Q3 .....	1,282	5,133	1,615	12,396	20,425	2,564	22,989	11.2	58.1
Q4 .....	1,308	5,178	1,582	12,214	20,282	2,720	23,001	11.8	58.1
1998 – Q1 .....	1,198	5,148	1,529	12,276	20,151	2,717	22,868	11.9	57.8
Q2 .....	1,175	5,140	1,522	12,521	20,357	2,807	23,165	12.1	58.8
Q3 .....	1,219	5,210	1,556	12,654	20,638	2,666	23,304	11.4	59.1
Q4 .....	1,213	5,247	1,569	12,566	20,595	2,787	23,382	11.9	59.3
1999 – Q1 .....	1,095	5,173	1,516	12,611	20,395	2,752	23,147	11.9	58.8
Q2 .....	1,118	5,109	1,566	12,825	20,618	2,729	23,347	11.7	59.3
Q3 .....	1,165	5,197	1,608	12,923	20,893	2,597	23,490	11.1	59.6
Q4 .....	1,160	5,221	1,611	12,869	20,861	2,600	23,460	11.1	59.6
2000 – Q1 .....	1,084	5,088	1,573	12,872	20,617	2,647	23,264	11.4	59.1
Q2 .....	1,095	5,057	1,596	13,182	20,930	2,545	23,475	10.8	59.7
Q3 .....	1,137	5,215	1,642	13,328	21,322	2,404	23,726	10.1	60.3
Q4 .....	1,164	5,235	1,662	13,390	21,450	2,383	23,833	10.0	60.5
2001 – Q1 .....	1,098	5,164	1,659	13,351	21,273	2,379	23,652	10.1	60.1
Q2 .....	1,113	5,093	1,690	13,477	21,373	2,271	23,644	9.6	60.1
Q3 .....	1,144	5,131	1,740	13,697	21,713	2,193	23,906	9.2	60.7
Q4 .....	1,149	5,145	1,740	13,664	21,698	2,225	23,923	9.3	60.8
2002 – Q1 .....	1,062	5,144	1,709	13,729	21,644	2,198	23,842	9.2	60.5
Q2 .....	1,072	5,160	1,714	13,811	21,757	2,209	23,966	9.2	60.9
Q3 .....	1,128	5,214	1,779	13,863	21,984	2,095	24,080	8.7	61.2

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	29.8	9.9	7.2	17.1	3.1	81.95	3.1	11.9	15.0	3.0	100.0	61.8	100.0	
1997 . . . . .	1.5	1.8	2.7	0.8	-0.8	0.0	1.5	1.6	2.3	4.5	3.9	6.6	2.0	2.1	1.7	
1998 . . . . .	1.9	1.8	2.6	0.8	1.6	1.2	-2.7	1.8	..	3.1	2.3	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	1.9	0.8	3.3	1.7	1.9	1.6	
2000 . . . . .	1.5	1.4	2.8	1.2	2.0	1.6	13.2	2.5	9.8	1.2	3.0	2.5	2.5	2.1	2.6	
2001 . . . . .	2.0	2.0	3.2	2.4	6.4	4.0	-2.0	2.7	5.8	3.1	3.7	2.3	2.8	2.6	2.7	
2000 – Jan.	1.4	1.2	2.8	1.0	-0.3	0.5	12.8	2.2	6.0	1.3	2.3	2.8	2.2	2.1	2.1	
Feb.	1.3	1.2	3.0	1.1	0.1	0.6	13.7	2.3	5.9	1.4	2.4	2.8	2.4	2.2	2.4	
Mar.	1.3	1.2	3.1	1.1	0.3	0.8	16.6	2.5	8.1	1.2	2.6	2.8	2.5	2.1	2.5	
Apr.	1.3	1.2	3.0	1.1	0.9	1.0	11.2	2.3	8.0	1.3	2.7	2.2	2.3	2.1	2.2	
May	1.4	1.3	2.9	1.2	1.3	1.2	11.4	2.3	10.9	1.5	3.4	2.2	2.5	2.1	2.3	
June	1.6	1.4	3.0	1.2	1.8	1.5	14.9	2.6	11.0	1.6	3.5	2.2	2.7	2.3	2.7	
July	1.5	1.4	2.8	1.3	2.5	1.8	13.9	2.6	12.2	0.9	3.2	2.5	2.6	2.1	2.7	
Aug.	1.6	1.4	2.8	1.3	2.8	1.9	12.1	2.5	12.1	1.1	3.3	2.5	2.6	2.1	2.7	
Sept.	1.5	1.4	2.7	1.3	3.2	2.1	14.0	2.6	11.1	1.0	3.1	2.5	2.6	2.1	2.6	
Oct.	1.5	1.5	2.7	1.4	3.4	2.2	13.3	2.6	10.3	1.1	3.0	2.4	2.6	2.1	2.6	
Nov.	1.7	1.7	2.5	1.4	3.6	2.3	14.6	2.7	11.0	1.3	3.4	2.4	2.7	2.1	2.7	
Dec.	1.8	1.8	2.6	1.5	4.5	2.7	9.9	2.6	11.0	1.3	3.3	2.4	2.7	2.2	2.7	
2001 – Jan.	1.9	1.8	2.8	1.7	4.9	3.0	5.6	2.6	13.1	3.1	5.2	2.4	3.0	2.3	3.1	
Feb.	2.0	2.0	2.8	1.8	5.8	3.5	3.4	2.6	13.3	3.1	5.3	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	5.0	2.4	2.8	2.4	2.8	
Apr.	2.1	2.1	3.2	2.2	5.5	3.6	2.2	2.8	11.8	3.6	5.4	2.2	3.1	2.6	3.1	
May	2.1	2.0	3.2	2.3	6.1	3.9	3.6	2.9	6.1	3.5	4.0	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	3.4	4.0	2.2	3.0	2.5	2.9	
July	2.0	2.0	3.4	2.5	7.6	4.6	-1.7	2.9	3.0	3.1	3.1	2.2	2.9	2.6	2.7	
Aug.	2.0	2.0	3.4	2.6	7.4	4.6	-3.2	2.8	2.9	2.9	2.9	2.2	2.8	2.7	2.7	
Sept.	2.1	2.2	3.4	2.7	6.9	4.4	-6.4	2.7	1.0	2.9	2.5	2.2	2.6	2.8	2.6	
Oct.	2.1	2.2	3.5	2.7	6.9	4.4	-7.9	2.6	1.5	2.9	2.6	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	2.9	2.3	2.2	2.4	2.7	2.3	
Dec.	1.9	2.1	3.7	2.8	6.3	4.2	-9.8	2.5	0.5	2.5	2.0	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	-4.0	1.8	0.6	2.1	2.4	2.8	2.3	
Feb.	2.2	2.0	3.8	2.6	6.5	4.2	-5.4	2.9	-4.3	1.6	0.4	2.1	2.3	3.0	2.3	
Mar.	2.2	2.1	3.8	2.6	6.2	4.1	-4.5	2.9	-5.4	1.8	0.3	2.1	2.5	3.0	2.4	
Apr.	2.1	2.0	3.7	2.4	6.8	4.2	-1.6	2.9	-6.4	1.3	-0.4	2.4	2.3	2.8	2.4	
May	2.1	2.0	3.8	2.4	6.1	3.9	-3.5	2.8	-4.3	0.5	-0.5	2.4	2.3	2.9	2.3	
June	2.1	2.0	3.9	2.4	4.5	3.3	-5.1	2.6	-4.3	0.8	-0.2	2.4	2.2	2.9	2.3	
July	2.2	2.1	4.0	2.3	3.7	2.9	-3.4	2.7	-1.9	0.9	0.4	2.1	2.2	3.0	2.3	
Aug.	2.2	2.1	4.2	2.3	3.8	2.9	-1.4	2.9	-1.8	1.2	0.6	2.1	2.4	3.1	2.5	
Sept.	2.3	2.2	4.1	2.3	4.4	3.2	-0.5	3.0	-1.5	1.3	0.8	2.1	2.6	3.1	2.6	

Source: Based on Istat data.

(1) Indices, 1995=100. – (2) Consumer price index for worker and employee households, excluding tobacco products; 1995=100. – (3) As of January 1999 Istat changes the weights every year on the basis of estimates of households' final consumption in the previous year. The weights shown in the table are those for January 2002. – (4) The calculation of the sub-indices is based on the disaggregation into 208 elementary items. – (5) Includes medicines, for which the reference is to the aggregate calculated by Istat; around one third of this aggregate consists of products in the so-called "C" band, the prices of which are not regulated. – (6) Percentage changes published by Istat and calculated on indices rounded to the first decimal place.

Table a13

## Harmonized index of consumer prices: Italy (1)

(percentage changes on year-earlier period) (2)

	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
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
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
2002 – Jan. ....	1.6	3.3	2.5	2.9	7.1	4.6	-5.3	2.5	2.4
Feb. ....	2.7	3.3	3.0	2.8	5.9	4.1	-4.8	2.9	2.7
Mar. ....	2.5	3.3	2.9	2.8	5.6	4.0	-4.9	2.9	2.5
Apr. ....	2.5	3.1	2.8	1.8	6.2	3.7	-4.0	2.7	2.5
May ....	2.3	3.3	2.8	1.8	5.7	3.4	-3.9	2.7	2.4
June ....	2.3	3.4	2.8	2.0	4.3	3.0	-4.7	2.7	2.2
July ....	2.3	3.4	2.8	2.0	3.6	2.7	-2.7	2.7	2.4
Aug. ....	2.3	3.6	2.9	2.2	3.6	2.8	-1.6	2.8	2.6
Sept. ....	2.7	3.6	3.1	2.2	4.1	3.0	-1.0	3.0	2.8

Fonte: Eurostat.

(1) Indices, 1996=100 until December 2001; 2001=100 since January 2002. See the notes to the statistical tables. 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 2002. – (2) As of January 2002 they are calculated with reference to the indices compiled using the new method for taking price reductions into account introduced by Istat in that month in compliance with Commission Regulation (EC) No. 2602/2000. See the notes to the statistical tables.

Table a14

## Harmonized indices of consumer prices in the euro area (1)

(percentage changes on year-earlier period) (2)

	Non-food and non-energy products	Services	Total net of food and energy products	Food products		Energy products	Total net of fresh food and energy products	Total	
				Processed	Fresh				
Weights	32.0	38.9	70.8	12.3	8.1	20.4	8.7	83.2	100.0
1997 .....	0.6	2.5	1.6	1.5	1.5	1.5	2.6	1.6	1.7
1998 .....	1.0	2.0	1.5	1.5	2.0	1.7	-2.6	1.5	1.2
1999 .....	0.7	1.6	1.1	1.0	0.1	0.6	2.3	1.1	1.1
2000 .....	0.8	1.7	1.3	1.2	1.7	1.4	13.4	1.3	2.4
2001 .....	1.5	2.5	2.0	2.9	7.2	4.6	2.8	2.2	2.7
2000 – Jan. ....	0.7	1.7	1.1	1.1	-0.6	0.4	12.1	1.1	1.9
Feb. ....	0.6	1.6	1.1	1.1	0.0	0.6	13.6	1.1	2.1
Mar. ....	0.7	1.6	1.1	1.0	-0.5	0.4	15.4	1.1	2.2
Apr. ....	0.7	1.8	1.2	1.0	0.2	0.7	10.3	1.2	1.9
May ....	0.7	1.6	1.1	1.1	0.5	0.8	12.1	1.1	1.9
June ...	0.8	1.7	1.2	1.1	1.4	1.2	14.6	1.2	2.4
July ....	0.6	1.7	1.2	1.0	2.6	1.6	13.5	1.2	2.4
Aug. ....	0.8	1.8	1.3	1.2	3.4	2.0	11.9	1.3	2.4
Sept. ...	1.0	1.8	1.4	1.3	3.3	2.1	15.6	1.4	2.8
Oct. ....	1.0	1.9	1.5	1.3	3.2	2.0	14.8	1.4	2.7
Nov. ....	1.1	1.9	1.5	1.5	3.4	2.2	15.4	1.5	2.9
dic. ....	1.2	1.8	1.5	1.4	3.7	2.3	11.4	1.5	2.6
2001 – Jan. ....	1.1	2.2	1.7	1.6	4.4	2.7	7.9	1.7	2.5
Feb. ....	1.2	2.3	1.8	2.1	4.6	3.0	8.3	1.8	2.6
Mar. ....	1.3	2.3	1.8	2.2	6.5	3.9	5.6	1.9	2.6
Apr. ....	1.4	2.4	2.0	2.6	7.1	4.3	7.9	2.0	3.0
May ....	1.6	2.5	2.1	2.8	9.0	5.2	8.5	2.2	3.4
June ...	1.5	2.6	2.1	3.1	9.1	5.4	5.4	2.2	3.1
July ....	1.5	2.6	2.1	3.3	8.8	5.5	2.9	2.3	2.8
Aug. ....	1.6	2.6	2.1	3.4	7.8	5.2	2.1	2.3	2.8
Sept. ...	1.6	2.7	2.2	3.5	7.8	5.2	-1.3	2.4	2.5
Oct. ....	1.6	2.8	2.3	3.6	7.8	5.2	-2.7	2.5	2.4
Nov. ....	1.5	2.8	2.2	3.5	6.5	4.7	-5.0	2.4	2.0
Dec. ...	1.6	2.8	2.3	3.6	6.6	4.7	-4.6	2.5	2.1
2002 – Jan. ....	1.7	3.0	2.4	3.8	8.4	5.6	-1.9	2.6	2.7
Feb. ....	1.9	3.0	2.5	3.3	7.1	4.8	-2.9	2.6	2.5
Mar. ....	1.8	3.2	2.5	3.3	5.5	4.2	-1.6	2.6	2.5
Apr. ....	1.8	3.0	2.4	3.2	4.1	3.6	-0.5	2.6	2.4
May ....	1.7	3.3	2.6	3.1	2.1	2.7	-2.9	2.6	2.0
June ...	1.6	3.2	2.5	3.1	1.1	2.3	-3.6	2.6	1.8
July ....	1.5	3.2	2.4	2.9	0.9	2.1	-1.7	2.5	1.9
Aug. ....	1.4	3.3	2.5	2.9	1.3	2.3	-0.5	2.5	2.1
Sept. ...	1.4	3.3	2.4	2.8	1.7	2.3	-0.4	2.5	2.1

Source: Eurostat.

(1) Weighted average of the harmonized indices of the euro-area countries (including Greece for the period preceding 1 January 2001 as well). The weights shown in the table are those for January 2002. – (2) As of January 2002 they are calculated with reference to the indices compiled using the new method for taking price reductions into account introduced by Istat in that month in compliance with Commission Regulation (EC) No. 2602/2000. See the notes to the statistical tables.

Table a15

### Harmonized index of consumer prices: main euro-area countries

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

	ITALY		GERMANY		FRANCE		SPAIN		EURO AREA (2)	
	Total	Total net of fresh food and energy products	Total	Total net of fresh food and energy products	Total	Total net of fresh food and energy products	Total	Total net of fresh food and energy products	Total	Total net of fresh food and energy products
1997 .....	1.9	2.3	1.5	1.3	1.3	1.1	1.9	1.9	1.7	1.6
1998 .....	2.0	2.3	0.6	1.1	0.7	0.9	1.8	2.2	1.2	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	2.4	1.3
2001 .....	2.7	2.4	2.4	1.5	1.8	1.5	3.7	3.4	2.7	2.2
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	2.1	1.1
Mar. ...	2.6	1.9	2.1	0.5	1.7	0.5	3.0	2.2	2.2	1.1
Apr. ...	2.4	1.9	1.6	0.9	1.4	0.3	3.0	2.2	1.9	1.2
May ...	2.5	1.9	1.5	0.6	1.6	0.4	3.2	2.3	1.9	1.1
June ..	2.7	2.0	2.0	0.7	1.9	0.5	3.5	2.3	2.4	1.2
July ...	2.6	1.9	2.0	0.7	2.0	0.6	3.7	2.5	2.4	1.2
Aug. ...	2.6	1.9	1.8	0.7	2.0	0.6	3.6	2.7	2.4	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	2.5	1.7
Feb. ...	2.7	2.0	2.5	1.2	1.4	1.2	4.0	3.3	2.6	1.8
Mar. ...	2.6	2.1	2.5	1.3	1.4	1.1	4.0	3.3	2.6	1.9
Apr. ...	3.0	2.5	2.9	1.2	2.0	1.5	4.0	3.3	3.0	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	3.1	2.2
July ...	2.8	2.5	2.6	1.6	2.2	1.7	3.8	3.3	2.8	2.3
Aug. ...	2.8	2.5	2.6	1.6	2.0	1.8	3.8	3.4	2.8	2.3
Sept. ..	2.6	2.6	2.1	1.7	1.6	1.8	3.4	3.3	2.5	2.4
Oct. ...	2.5	2.6	2.0	1.8	1.8	1.8	3.2	3.5	2.4	2.5
Nov. ...	2.3	2.5	1.5	1.7	1.3	1.7	2.8	3.5	2.0	2.4
Dec. ...	2.3	2.6	1.5	1.7	1.4	1.9	2.9	3.6	2.1	2.5
2002 – Jan. ...	2.4	2.5	2.3	2.1	2.4	2.2	3.1	3.5	2.7	2.6
Feb. ...	2.7	2.9	1.8	1.9	2.2	2.1	3.2	3.6	2.5	2.6
Mar. ...	2.5	2.9	1.9	2.0	2.2	2.2	3.2	3.6	2.5	2.6
Apr. ...	2.5	2.7	1.6	1.8	2.1	2.1	3.7	4.0	2.4	2.6
May ...	2.4	2.7	1.0	1.9	1.5	2.2	3.7	4.2	2.0	2.6
June ..	2.2	2.7	0.7	1.6	1.5	2.2	3.4	4.2	1.8	2.6
July ...	2.4	2.7	1.0	1.6	1.6	2.3	3.5	4.0	1.9	2.5
Aug. ...	2.6	2.8	1.0	1.5	1.8	2.3	3.7	4.0	2.1	2.5
Sept. ..	2.8	3.0	1.0	1.5	1.8	2.2	3.5	3.7	2.1	2.5

Source: Eurostat.

(1) As of January 2002 they are calculated with reference to the indices compiled using the new method for taking price reductions into account introduced by Istat in that month in compliance with Commission Regulation (EC) No. 2602/2000. See the notes to the statistical tables. – (2) Weighted average of the harmonized indices of the euro-area countries (including Greece for the period preceding 1 January 2001 as well).

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. ....	1.3	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
2000 – 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
2001 – Jan. ....	2.4	2.3	2.1	1.1	-0.8	-9.6	0.4	-1.2
Feb. ....	2.1	2.2	1.1	0.9	-0.9	-9.8	0.3	-1.4
Mar. ....	2.3	2.3	1.4	1.1	-0.8	-9.6	0.4	-1.3
Apr. ....	1.9	2.0	0.3	0.9	-0.5	-9.4	0.4	-1.3
May ....	2.0	2.0	0.6	1.0	-0.2	-8.3	0.6	-0.9
June ....	1.8	1.8	0.7	0.9	0.2	-7.8	0.8	-0.7
July ....	1.8	1.8	1.2	0.9	0.3	-4.4	0.8	0.1
Aug. ....	1.8	1.8	1.2	0.9	0.6	-3.6	1.0	0.3
Sept. ....	1.7	1.7	1.3	1.0	0.5	-2.4	0.9	0.5

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. See the notes to the statistical tables. – (2) Excluding energy products.





Table a18

## Average unit values in lire of imported and exported manufactures: Italy (1)

(percentage changes on year-earlier period)

	Imports			Exports		
	EU countries	Non-EU countries	Total	EU countries	Non-EU countries	Total
1997 .....	-0.2	3.7	1.4	-0.8	2.1	0.5
1998 .....	0.3	-7.2	-2.7	0.0	2.0	1.0
1999 .....	-2.0	0.8	-1.0	-0.4	-0.2	-0.3
2000 .....	6.3	26.3	14.1	3.7	7.9	5.5
2001 .....	3.0	1.6	2.1	5.0	3.4	4.3
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
Nov. ....	1.1	-8.5	-3.4	4.1	0.9	2.6
Dec. ....	1.4	-12.3	-4.8	4.6	0.4	2.6
2002 – Jan. ....	1.3	-11.5	-4.4	4.3	-0.2	2.2
Feb. ....	-0.8	-8.6	-4.3	2.2	-0.7	0.8
Mar. ....	-2.1	-6.5	-4.1	0.7	-0.5	0.1
Apr. ....	-3.1	-4.3	-3.6	-1.1	-1.1	-1.1
May ....	-2.9	-2.6	-2.8	-1.6	-1.6	-1.6
June ....	-3.9	-3.8	-3.9	-3.3	-3.2	-3.2

Source: Based on Istat data.

(1) For monthly data, moving averages for the three months ending in the reference period. See the notes to the statistical tables.

Table a19

## Balance of payments: current account and capital account

	Current account							Capital account			
	Goods	Services	Income	Transfers				Intangible assets	Transfers		
				Private		Public			Private	Public	
				Emigrants' remittances		EU institution				EU institution	
1999 .....	22,044	1,125	-10,392	-906	-191	-4,179	-4,684	-3	-7	2,799	3,201
2000 .....	10,368	1,167	-13,099	-698	-200	-4,044	-4,905	-72	162	3,106	3,624
2001 .....	17,775	338	-11,575	-2,760	-390	-3,956	-5,812	-311	65	1,184	1,748
2001 – Q3 .....	5,160	1,903	-3,431	-751	-111	-1,102	-1,579	-190	-27	270	285
Q4 .....	7,096	-1,365	-707	-775	-113	-2,165	-2,601	-51	95	196	598
2002 – Q1 .....	2,040	-2,918	-2,163	-556	-86	957	376	-8	144	537	661
Q2 .....	4,409	-433	-6,429	-244	-97	-1,700	-2,467	-85	6	325	346
2001 – July .....	3,082	1,399	-1,200	-249	-29	-203	-371	-173	-8	99	99
Aug. ....	1,918	-66	-1,200	-234	-49	-402	-558	-6	-5	75	75
Sept. ....	160	570	-1,031	-269	-33	-497	-650	-10	-14	96	111
Oct. ....	2,589	-271	272	-188	-41	-160	-310	-11	-3	217	338
Nov. ....	2,070	-372	-236	-172	-36	-467	-618	-31	11	63	158
Dec. ....	2,437	-721	-743	-414	-36	-1,539	-1,673	-10	88	-84	102
2002 – Jan. ....	-1,044	-1,109	-566	-32	-31	248	77	2	105	136	171
Feb. ....	1,039	-735	-549	-306	-29	234	53	5	11	153	191
Mar. ....	2,045	-1,074	-1,047	-218	-26	475	246	-15	28	248	299
Apr. ....	435	-879	-1,370	5	-30	-469	-714	-12	1	83	94
May .....	2,332	-319	-2,801	-82	-35	-486	-754	-29	2	89	99
June .....	1,642	765	-2,258	-167	-32	-746	-1,000	-44	2	153	153
July .....	(3,146)	(703)	(-1,242)	....	....	....	....	....	....	....	....
Aug. ....	(2,277)	(154)	(-627)	....	....	....	....	....	....	....	....

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		
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 .....	-23,995	16,618	-40,070	32,430	1,534	10,587	-477	484
2001- Q3 .....	-2,796	3,486	-670	-10,139	13,852	-7,340	36	1,789
Q4 .....	-2,100	4,023	-3,006	2,883	9,082	-15,667	-427	105
2002 - Q1 .....	-4,889	3,376	-8,420	-9,058	12,593	6,335	266	585
Q2 .....	-4,904	5,074	-6,085	12,862	-981	-1,705	-172	196
2001 - July .....	-1,611	1,346	-1,039	-803	10,986	-12,408	132	1,416
Aug. ....	-1,570	824	-2,601	-5,358	6,884	373	76	725
Sept. ....	385	1,316	2,970	-3,978	-4,018	4,695	-172	-352
Oct. ....	-296	1,974	-2,852	-660	2,736	-3,870	106	-508
Nov. ....	-358	735	-484	-283	4,483	-6,105	-463	-128
Dec. ....	-1,446	1,314	330	3,826	1,863	-5,692	-70	741
2002 - Jan. ....	-2,737	1,527	-6,662	-5,413	8,314	6,222	53	477
Feb. ....	-706	284	3,935	-5,742	9,385	-7,897	227	216
Mar. ....	-1,446	1,565	-5,693	2,097	-5,106	8,010	-14	-108
Apr. ....	-1,193	2,203	-7,993	3,188	2,871	2,323	198	-52
May .....	-1,382	1,027	-5,000	-2,488	8,682	338	222	665
June .....	-2,329	1,844	6,908	12,162	-12,534	-4,366	-592	-417
July .....	(-1,391)	(1,576)	(2,953)	(13,687)	(-8,426)	(-11,515)	(-287)	(191)
Aug. ....	(-2,112)	(593)	(-3,514)	(-2,623)	(11,550)	(-4,089)	(-523)	(77)

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 (1)						SSBR net of debt settlements and privatization receipts
1998 .....	307,667	339,578	-31,911	5,621	1,316	-877	-27,166	7,890	-2,463	-32,593	-30,214
1999 .....	353,612	393,397	-39,786	37,055	-119	-6,026	-8,757	22,641	-6,259	-25,139	-16,012
2000 .....	350,866	387,808	-36,942	17,447	-1,126	-6,164	-25,658	15,450	-4,599	-36,510	-25,472
2001 .....	352,007	426,396	-74,389	29,947	432	-1,733	-46,175	4,329	-10,290	-40,214	-34,857
1998 – Q1 .....	59,736	58,298	1,438	-14,561	0	339	-12,784	-48	1,859	-14,594	-15,177
Q2 .....	59,293	93,521	-34,228	17,907	19,686	2	-16,319	-2,292	-1,612	-12,415	-9,706
Q3 .....	89,398	83,207	6,192	-5,057	-18,254	529	1,664	6,550	-1,469	-3,417	-5,573
Q4 .....	99,239	104,551	-5,312	7,331	-116	-1,746	273	3,680	-1,240	-2,167	242
1999 – Q1 .....	67,863	71,574	-3,711	-10,180	250	-895	-14,786	283	-996	-14,073	-13,784
Q2 .....	69,902	89,606	-19,704	-5,070	-399	-1,563	-26,337	123	-1,338	-25,122	-20,994
Q3 .....	85,388	87,754	-2,367	10,088	1,880	-232	7,490	0	-2,610	10,100	11,256
Q4 .....	130,459	144,463	-14,004	42,217	-1,850	-3,337	24,877	22,235	-1,315	3,956	7,511
2000 – Q1 .....	73,190	81,696	-8,506	-3,108	-671	-1,514	-13,127	22	-3,095	-10,054	-7,206
Q2 .....	70,049	88,282	-18,233	5,649	17,259	-766	-13,349	40	-329	-13,060	-9,028
Q3 .....	88,533	77,471	11,062	-17,454	-14,625	208	-6,184	54	-152	-6,086	-7,555
Q4 .....	119,094	140,359	-21,265	32,359	-3,089	-4,093	7,002	15,335	-1,023	-7,310	-1,684
2001 – Q1 .....	73,661	97,057	-23,396	8,326	1,232	-238	-15,308	4,263	-2,289	-17,282	-17,355
Q2 .....	68,753	83,893	-15,140	1,954	17,737	636	-12,550	57	-3,539	-9,068	-9,247
Q3 .....	97,754	119,170	-21,416	14,905	-18,406	634	-5,877	1	-1,334	-4,544	-3,427
Q4 .....	111,840	126,276	-14,437	4,762	-130	-2,765	-12,440	8	-3,128	-9,320	-4,829
2002 – Q1 .....	63,905	78,188	-14,282	-6,850	-668	-1,783	-22,915	95	-522	-22,488	-21,049
Q2 .....	75,128	85,128	-9,999	1,987	16,644	-701	-8,714	83	-388	-8,408	-7,604
Q3 .....	88,577	107,588	-19,011	4,965	-16,377	664	-13,382	0	-2,362	-11,020	-12,701
2002 – Jan. ....	24,387	24,030	357	-3,522	-624	-1,192	-4,357	77	-48	-4,387	-3,271
Feb. ....	18,935	30,016	-11,081	7,921	201	139	-3,021	18	-137	-2,902	-3,325
Mar. ....	20,583	24,141	-3,558	-11,249	-245	-730	-15,536	0	-337	-15,199	-14,453
Apr. ....	22,322	24,066	-1,745	-3,618	162	227	-5,135	77	-19	-5,193	-6,595
May ....	23,988	27,851	-3,863	-6,790	-11	-945	-11,598	6	-65	-11,538	-10,412
June ...	28,819	33,211	-4,392	12,395	16,493	16	8,019	0	-304	8,323	9,403
July ....	44,659	50,518	-5,859	4,635	-16,322	619	-606	0	-400	-206	-2,500
Aug. ....	13,991	30,808	-16,816	13,238	18,124	251	-3,327	0	-520	-2,807	-3,002
Sept. ...	29,927	26,263	3,664	-12,908	-18,179	-206	-9,449	0	-1,442	-8,007	-7,199

(1) See the notes to the statistical tables.

Table a22

**Financing of the general government borrowing requirement**  
(millions of euros)

	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	
1998 .....	42,824	861	-18,267	0	3,305	-2,001	-7,124	8,428	8,046	27,166
1999 .....	23,006	-2,753	-17,681	368	8,996	1,977	-891	-6,650	-7,255	8,757
2000 .....	34,926	16,075	-17,703	-237	4,660	-2,799	-3,560	10,134	9,708	25,658
2001 .....	24,147	10,278	11,494	202	10,919	-2,442	-1,322	3,378	-2,119	46,175
1998 – Q1 ....	17,810	746	-8,664	0	437	-798	-2,014	6,013	6,012	12,784
Q2 ....	18,420	626	-1,182	0	-96	404	-357	-869	-988	16,319
Q3 ....	11,980	-2,071	-2,509	0	727	-2,512	-1,244	-8,106	-8,275	-1,664
Q4 ....	-5,386	1,561	-5,912	0	2,238	906	-3,508	11,389	11,296	-273
1999 – Q1 ....	13,962	-3,519	233	412	2,978	-263	-37	-2,086	-2,155	14,786
Q2 ....	23,345	3,035	-2,132	403	1,494	861	22	2,747	2,770	26,337
Q3 ....	5,810	-2,243	-5,427	-79	2,082	-1,467	-348	-8,140	-8,186	-7,490
Q4 ....	-20,111	-27	-10,355	-369	2,442	2,845	-527	829	316	-24,877
2000 – Q1 ....	21,249	5,220	-4,339	272	1,991	-3,780	-1,622	-372	603	13,127
Q2 ....	19,581	5,769	-300	2,787	235	-129	-488	-5,550	-5,822	13,349
Q3 ....	2,515	4,495	-1,800	-3,008	430	-1,854	-166	7,059	6,934	6,184
Q4 ....	-8,419	592	-11,264	-287	2,004	2,963	-1,284	8,998	7,992	-7,002
2001 – Q1 ....	22,251	5,815	13,507	692	2,408	-1,211	-24	-21,624	-20,548	15,308
Q2 ....	10,793	-1,049	6,028	502	965	-426	-449	-4,362	-5,073	12,550
Q3 ....	-10,872	580	2,461	-330	2,146	-3,050	-205	15,397	14,197	5,877
Q4 ....	1,975	4,932	-10,502	-663	5,400	2,245	-645	13,966	9,305	12,440
2002 – Q1 ....	26,547	7,294	14,997	-222	2,468	606	-91	-21,612	-23,866	22,915
Q2 ....	476	-4,547	8,162	1,392	-202	-1,450	-708	2,435	2,885	8,714
Q3 ....	7,480	2,752	-3,489	99	1,080	-2,171	-31	10,513	10,507	13,382
2002 – Jan. ...	7,467	2,589	9,009	-57	1,488	27	-34	-13,600	-15,489	4,357
Feb. ...	4,281	665	2,716	-199	1,111	20	0	-5,108	-5,313	3,021
Mar. ...	14,798	4,040	3,272	34	-131	558	-57	-2,904	-3,064	15,536
Apr. ...	638	787	2,516	0	76	-1,497	-96	3,497	3,377	5,135
May ...	-2,039	-5,744	3,914	743	30	-591	0	10,284	10,988	11,598
June ...	1,877	410	1,732	649	-308	638	-612	-11,346	-11,480	-8,019
July ...	6,801	-20	-3,075	7	274	-2,345	0	-1,050	-791	606
Aug. ...	-579	285	-1,857	149	768	-592	0	5,586	5,423	3,327
Sept. ...	1,257	2,487	1,443	-57	38	766	-31	5,977	5,874	9,449

Table a23

**General government debt**  
(millions of euros)

	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		
1997 .....	831,000	148,324	90,999	80,662	79,965	2,134	1,233,084	30,469	27,655	2,188	1,207,166
1998 .....	878,318	137,340	94,304	71,795	63,693	2,319	1,247,769	22,294	21,728	69	1,221,008
1999 .....	910,635	119,777	103,300	73,114	59,400	2,897	1,269,123	29,151	29,047	5	1,236,066
2000 .....	942,799	101,997	107,960	66,855	62,493	4,839	1,286,942	19,554	15,126	4,219	1,247,690
2001 .....	962,994	113,570	118,879	63,396	64,326	12,265	1,335,430	23,550	21,287	176	1,294,424
1997 – Mar. ...	780,013	182,109	87,279	83,086	93,802	2,094	1,228,382	29,111	25,953	1,350	1,204,275
June ...	802,805	169,822	88,234	83,160	89,174	2,118	1,235,314	32,517	31,495	363	1,210,475
Sept. ...	826,856	160,087	89,253	81,652	81,947	2,154	1,241,950	32,539	31,597	429	1,217,923
Dec. ...	831,000	148,324	90,999	80,662	79,965	2,134	1,233,084	30,469	27,655	2,188	1,207,166
1998 – Mar. ...	853,810	140,490	91,436	77,922	74,087	2,188	1,239,934	24,501	22,046	1,784	1,214,349
June ...	871,336	142,400	91,339	77,868	69,963	2,250	1,255,156	25,436	24,632	187	1,229,580
Sept. ...	895,581	137,211	92,066	74,266	56,912	2,307	1,258,343	33,594	25,727	7,367	1,233,327
Dec. ...	878,318	137,340	94,304	71,795	63,693	2,319	1,247,769	22,294	21,728	69	1,221,008
1999 – Mar. ...	895,109	137,691	97,282	71,594	61,314	2,336	1,265,326	24,067	23,840	112	1,237,434
June ...	919,889	135,559	98,776	72,431	60,315	2,354	1,289,325	21,298	20,733	449	1,259,847
Sept. ...	925,867	130,133	100,858	70,564	61,402	2,346	1,291,170	29,430	28,916	453	1,261,474
Dec. ...	910,635	119,777	103,300	73,114	59,400	2,897	1,269,123	29,151	29,047	5	1,236,066
2000 – Mar. ...	930,932	115,437	105,291	67,789	61,995	3,272	1,284,715	28,491	28,407	42	1,250,125
June ...	949,276	115,061	105,526	67,175	62,994	3,603	1,303,636	34,373	32,883	1,388	1,268,258
Sept. ...	954,712	113,261	105,956	65,230	62,934	3,732	1,305,825	27,442	25,290	2,046	1,270,644
Dec. ...	942,799	101,997	107,960	66,855	62,493	4,839	1,286,942	19,554	15,126	4,219	1,247,690
2001 – Mar. ...	965,121	115,505	110,368	65,628	61,899	3,725	1,322,246	40,076	28,260	11,632	1,282,739
June ...	976,265	121,611	111,333	64,799	63,331	5,075	1,342,414	45,775	43,004	1,962	1,303,519
Sept. ...	963,483	124,071	113,480	61,529	63,235	5,567	1,331,364	30,873	29,642	1,126	1,293,138
Dec. ...	962,994	113,570	118,879	63,396	64,326	12,265	1,335,430	23,550	21,287	176	1,294,424
2002 – Jan. ...	973,428	122,700	120,367	63,402	62,219	11,501	1,353,617	37,087	36,748	205	1,311,415
Feb. ...	977,644	125,416	121,478	63,418	62,435	11,664	1,362,056	42,358	42,061	205	1,319,995
Mar. ...	991,567	128,690	121,347	63,913	63,014	11,826	1,380,358	45,423	45,124	205	1,337,570
Apr. ...	991,693	131,206	121,423	62,309	63,293	12,114	1,382,039	42,215	41,747	205	1,339,490
May ...	989,105	135,122	121,453	61,700	63,588	11,210	1,382,177	31,026	30,759	205	1,338,695
June ...	989,583	136,854	121,145	61,621	64,019	11,357	1,384,580	42,518	42,239	205	1,341,139
July ...	996,146	133,776	121,419	59,292	64,319	11,067	1,386,019	43,282	43,026	209	1,343,189
Aug. ...	995,095	131,877	122,187	58,694	64,730	11,236	1,383,819	37,865	37,603	209	1,341,234
Sept. ...	995,790	133,320	122,225	59,425	64,737	11,339	1,386,836	31,998	31,728	209	1,344,047

(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 €1,200 million and claims on UIC to €350 million.

Table a24

## ECB interest rates

Date announced	Standing facilities			Main refinancing operations			Memorandum item: official reference rate for instruments linked to the former official discount rate		
	Date effective	Deposit facility	Marginal lending facility	With effect from	Fixed rate (for fixed rate tenders)	Minimum bid rate (for variable rate tenders)	Order issued by the Governor		Rate
							Date issued	Date effective	
22.12.1998	1.1.1999	2.00	4.50	7.1.1999	3.00	–			
22.12.1998	4.1.1999	2.75	3.25	–	–	–			
22.12.1998	22.1.1999	2.00	4.50	–	–	–	23.12.1998	28.12.1998	3.00
8.4.1999	9.4.1999	1.50	3.50	14.4.1999	2.50	–	9.4.1999	14.4.1999	2.50
4.11.1999	5.11.1999	2.00	4.00	10.11.1999	3.00	–	6.11.1999	10.11.1999	3.00
3.2.2000	4.2.2000	2.25	4.25	9.2.2000	3.25	–	4.2.2000	9.2.2000	3.25
16.3.2000	17.3.2000	2.50	4.50	22.3.2000	3.50	–	18.3.2000	22.3.2000	3.50
27.4.2000	28.4.2000	2.75	4.75	4.5.2000	3.75	–	28.4.2000	4.5.2000	3.75
8.6.2000	9.6.2000	3.25	5.25	15.6.2000	4.25	–	10.6.2000	15.6.2000	4.25
8.6.2000	–	–	–	28.6.2000	–	4.25	–	–	–
31.8.2000	1.9.2000	3.50	5.50	6.9.2000	–	4.50	1.9.2000	6.9.2000	4.50
5.10.2000	6.10.2000	3.75	5.75	11.10.2000	–	4.75	6.10.2000	11.10.2000	4.75
10.5.2001	11.5.2001	3.50	5.50	15.5.2001	–	4.50	10.5.2001	15.5.2001	4.50
30.8.2001	31.8.2001	3.25	5.25	5.9.2001	–	4.25	30.8.2001	5.9.2001	4.25
17.9.2001	18.9.2001	2.75	4.75	19.9.2001	–	3.75	17.9.2001	19.9.2001	3.75
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
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
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
Feb. ....	3.16	3.35	3.49	3.45	3.38	3.27	3.33	3.35	3.40	3.60
Mar. ....	3.23	3.53	3.68	3.70	3.54	3.25	3.34	3.39	3.48	3.80
Apr. ....	3.24	3.46	3.78	3.54	3.54	3.31	3.32	3.40	3.53	3.88
May ....	3.29	3.60	3.61	3.42	3.52	3.31	3.36	3.46	3.61	3.95
June ...	3.37	3.46	3.84	–	3.55	3.34	3.38	3.47	3.58	3.84
July ....	3.19	3.30	3.62	–	3.38	3.30	3.36	3.41	3.48	3.53
Aug. ....	2.97	3.26	3.27	–	3.20	3.28	3.33	3.34	3.37	3.45
Sept. ...	3.14	3.03	3.21	3.21	3.13	3.31	3.31	3.30	3.25	3.20

(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
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	4.20	3.75
Feb. ....	1.36	1.44	3.36	3.05	2.54	2.92	4.14	3.72
Mar. ....	1.36	1.44	3.34	2.98	2.54	2.97	4.14	3.93
Apr. ....	1.39	1.45	3.32	2.92	2.53	2.99	4.07	3.92
May ....	1.40	1.46	3.32	2.88	2.55	3.07	4.06	4.03
June ....	1.42	1.47	3.33	2.86	2.55	3.13	4.07	3.85
July ....	1.43	1.48	3.34	2.85	2.55	3.14	4.08	3.97
Aug. ....	1.40	1.45	3.33	2.83	2.53	3.02	4.06	3.78
Sept. ....	(1.38)	(1.44)	(3.31)	(2.81)	(2.49)	(2.86)	(4.03)	(3.53)

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 enter- prises	Average for medium and long-term loans to consumer households	
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	5.61	4.59	6.00	7.25
Feb. ....	3.47	5.81	6.73	5.59	4.81	5.98	7.25
Mar. ....	3.47	5.77	6.70	5.52	4.75	5.91	7.25
Apr. ....	3.48	5.76	6.69	5.50	4.73	5.94	7.25
May ....	3.50	5.76	6.68	5.49	4.80	5.92	7.25
June ....	3.53	5.79	6.73	5.45	4.79	5.87	7.25
July ....	3.51	5.81	6.77	5.46	4.89	5.75	7.38
Aug. ....	3.50	5.79	6.75	5.45	4.93	6.08	7.38
Sept. ....	(3.50)	(5.77)	(6.71)	(5.42)	(4.80)	(5.79)	7.38

Table a28

**Banks and money market funds: balance sheet**  
(end-of-period data; millions of euros)

**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 government	Other sectors		MFIs	General government	Other sectors
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	60,549	862,250	58,760	111	15,770	69,308	43,388	146,097	7,936
2001 – Sept. ...	5,654	187,910	55,547	896,353	58,972	123	13,624	75,665	40,133	153,612	9,866
Oct. ...	6,009	187,163	55,825	902,153	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. ...	20,214	182,749	57,869	922,274	52,519	124	13,192	60,914	41,780	156,823	12,520
Feb. ...	14,794	181,531	57,915	921,851	53,232	124	13,393	63,670	43,305	158,086	12,347
Mar. ...	9,705	195,219	58,399	925,028	56,219	124	14,595	67,652	44,717	164,851	12,443
Apr. ...	9,214	200,850	56,929	927,103	63,098	123	14,262	66,729	45,422	162,379	12,694
May ...	8,141	213,522	56,344	935,849	62,247	113	13,645	65,141	46,001	164,999	12,162
June ...	7,386	198,060	57,029	944,310	65,683	110	13,559	62,324	47,646	160,476	12,181
July ...	7,834	224,352	54,634	948,654	64,517	113	14,070	66,138	45,084	154,146	12,329
Aug. ...	7,282	229,632	54,080	940,650	64,309	110	12,861	60,409	45,447	151,310	12,089
Sept. ...	7,428	226,303	54,845	943,582	71,712	115	12,593	60,278	46,681	154,696	12,290

**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
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. ....	181,823	7,456	619,412	118,392	925	8,978
Feb. ...	180,686	6,935	629,600	109,548	103	9,463
Mar. ...	196,211	7,156	636,801	113,440	162	9,873
Apr. ...	204,908	6,953	639,421	111,725	59	11,725
May ...	214,662	6,953	646,726	116,572	87	11,074
June ...	199,792	7,335	647,141	118,039	11	12,701
July ...	222,491	6,896	646,495	114,695	9	9,827
Aug. ...	230,182	7,083	637,360	113,903	733	10,418
Sept. ...	224,990	7,322	643,715	113,423	9	9,924

Table a28

than shares, at market value				Shares and other equity					Fixed assets	Remaining assets	Total assets
Residents of other euro-area countries			Rest of the world	Residents of Italy		Residents of other euro-area countries		Rest of the world			
MFIs	General government	Other sectors		MFIs	Other sectors	MFIs	Other sectors				
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
4,763	4,258	6,540	12,592	43,071	30,957	6,470	10,386	7,196	47,723	188,960	1,883,897
4,776	4,365	6,864	12,591	42,798	30,843	6,206	10,305	7,038	47,771	170,548	1,864,354
4,493	4,612	7,353	12,776	43,406	33,329	6,097	10,522	7,548	47,392	169,554	1,896,032
4,577	4,551	7,487	12,619	44,548	39,288	6,214	10,633	9,021	47,230	165,580	1,910,551
4,753	4,440	7,698	12,592	42,766	40,564	6,164	10,486	9,784	47,232	160,164	1,924,807
5,034	3,808	7,186	12,104	39,913	43,919	6,075	11,420	7,506	46,800	167,368	1,919,896
5,249	4,738	7,183	11,830	47,185	35,981	6,164	11,013	8,087	46,899	170,132	1,946,332
5,474	6,209	7,098	12,048	47,251	35,406	6,146	11,839	8,174	47,599	159,802	1,925,226
5,344	8,010	7,431	11,917	46,850	34,791	6,405	11,020	7,941	48,172	159,822	1,938,226

Rest of the world	Money market fund shares/units	Debt securities issued	Capital and reserves	Remaining liabilities	Total liabilities
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
165,597	27,891	336,453	136,123	280,848	1,883,898
161,776	29,174	340,214	136,181	260,674	1,864,354
163,338	30,752	344,768	136,712	256,820	1,896,032
160,028	32,247	347,324	138,216	257,945	1,910,551
153,328	33,769	352,296	138,183	251,157	1,924,807
146,856	35,140	358,666	138,909	255,306	1,919,896
143,365	36,080	357,821	145,747	262,905	1,946,332
139,601	38,126	359,830	145,719	242,269	1,925,226
141,343	39,045	362,986	146,218	249,251	1,938,226

Table a29

**Banks: deposits and bonds***(end-of-period data; millions of euros)*

	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				
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 – Jan. ....	376,827	47,245	10,022	55,621	75,075	13,224	285,692
Feb. ....	372,557	47,025	9,433	54,881	77,272	13,296	289,859
Mar. ....	378,634	46,183	8,537	54,433	81,497	13,108	295,223
Apr. ....	384,936	45,810	7,974	54,431	79,831	12,732	297,996
May ....	390,532	45,840	7,161	53,958	87,172	12,374	300,057
June ....	392,681	45,951	6,826	53,994	82,360	12,282	303,262
July ....	389,757	44,995	6,316	54,166	84,641	12,868	305,728
Aug. ....	379,838	45,105	5,389	54,302	90,551	12,950	308,165
Sept. ....	400,271	44,344	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. ....	420,241	44,036	3,606	58,710	77,418	12,441	319,483
Feb. ....	424,441	44,060	3,553	59,001	82,045	12,608	323,461
Mar. ....	425,999	43,837	3,469	58,534	88,304	12,723	327,775
Apr. ....	432,881	43,053	3,421	58,639	85,143	13,028	330,118
May ....	435,902	42,132	3,503	58,675	89,578	13,533	334,642
June ....	440,256	41,374	3,298	59,016	86,866	13,855	340,904
July ....	435,155	41,701	3,507	59,262	90,655	14,019	339,902
Aug. ....	424,033	41,163	3,644	59,719	91,286	14,085	341,875
Sept. ....	436,680	40,463	3,511	59,893	86,747	14,868	344,858

Table a30

**Banks: loan and securities portfolios**  
(end-of-period data; millions of euros)

	Loans to residents of Italy						Loans to non-residents of Italy	Bad debts and unpaid and protested 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				
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 – 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. ....	464,196	439,226	461,569	455,866	925,765	895,092	21,212	45,536	21,216
2002 – Jan. ....	464,226	438,493	462,105	456,311	926,331	894,804	20,656	45,784	20,815
Feb. ....	461,322	434,963	463,726	457,928	925,048	892,891	20,907	45,930	21,127
Mar. ....	454,494	428,729	472,521	466,739	927,015	895,467	21,537	45,325	20,253
Apr. ....	451,200	426,686	478,243	472,407	929,443	899,093	20,881	45,388	19,715
May ....	452,028	429,574	484,462	478,790	936,490	908,364	20,203	45,834	19,970
June ....	456,657	436,486	487,613	482,158	944,270	918,644	19,896	45,188	20,040
July ....	459,268	439,926	488,865	483,320	948,134	923,246	20,529	45,434	20,257
Aug. ....	448,122	429,121	490,908	485,346	939,029	914,467	19,045	45,706	20,555

	Securities: book value							
	Italian government securities					Other securities		Total
	of which:					of which: bonds issued by banks		
	BOTs and BTEs	CTZs	CCTs	BTPs				
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 – 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. ....	116,933	12,010	3,459	60,934	38,225	40,827	36,113	157,760
2002 – Jan. ....	119,551	13,824	4,361	60,385	38,915	40,163	35,433	159,714
Feb. ....	120,271	13,999	4,779	60,589	38,826	41,702	36,969	161,973
Mar. ....	124,342	15,618	5,339	59,780	41,548	43,152	38,516	167,494
Apr. ....	119,936	16,320	5,394	58,567	37,581	43,898	39,296	163,834
May ....	120,157	19,721	5,655	59,102	33,756	44,440	39,833	164,597
June ....	114,883	19,132	6,478	56,130	31,282	45,890	41,294	160,773
July ....	109,102	17,960	5,193	54,353	29,762	44,504	40,147	153,606
Aug. ....	104,090	16,312	5,294	54,112	26,474	42,887	40,325	146,977

Table a31

**Italian investment funds: securities portfolios and net assets**

(end-of-period market values; millions of euros)

	Residents							
	Government securities					Bonds	Shares	Total
	of which:							
	BOTs	CTZs	BTPs	CCTs				
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 .....	122,306	14,162	3,878	76,156	26,081	10,793	26,053	159,152
2000 – Q3 ..	127,943	7,234	11,279	78,983	28,114	8,615	46,272	182,830
Q4 ..	125,957	4,111	9,484	84,634	25,621	8,773	44,275	179,004
2001 – Q1 ..	118,167	5,013	6,270	80,222	24,588	7,957	37,259	163,383
Q2 ..	112,445	8,041	4,650	74,082	23,508	8,140	34,917	155,502
Q3 ..	118,087	11,464	4,539	73,210	26,812	9,677	25,102	152,866
Q4 ..	122,306	14,162	3,878	76,156	26,081	10,793	26,053	159,152
2002 – Q1 ..	121,306	16,698	6,045	66,745	28,682	10,064	26,866	158,236
Q2 ..	122,096	17,851	7,507	61,523	32,295	10,160	23,307	155,563
2001 – Sept. ....	118,087	11,464	4,539	73,210	26,812	9,677	25,102	152,866
Oct. ....	123,921	13,329	4,813	75,759	27,815	9,837	25,526	159,284
Nov. ....	126,112	15,046	3,708	77,647	27,619	9,772	26,258	162,142
Dec. ....	122,306	14,162	3,878	76,156	26,081	10,793	26,053	159,152
2002 – Jan. ....	120,701	14,329	4,616	72,393	27,306	10,405	26,071	157,176
Feb. ....	123,105	15,591	5,794	70,941	27,626	9,916	25,696	158,716
Mar. ....	121,306	16,698	6,045	66,745	28,682	10,064	26,866	158,236
Apr. ....	115,180	17,227	6,473	59,428	29,035	9,474	24,397	149,051
May ....	121,111	17,903	6,901	61,271	32,030	10,020	24,747	155,878
June ....	122,096	17,851	7,507	61,523	32,295	10,160	23,307	155,563
July ....	124,216	19,259	7,638	61,118	33,248	10,106	21,267	155,589

Table a31

Non-residents		Other financial assets	Total portfolio	Net assets	Memorandum items:		
	of which: shares				gross subscriptions	net subscriptions	
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	218,576	-20,365	..... 2001
258,024	150,750	104	440,958	472,178	60,798	-1,222	..... Q3 - 2000
238,401	135,174	178	417,584	449,931	60,750	-1,355	..... Q4
230,058	115,744	177	393,618	424,262	63,390	-9,548	..... Q1 - 2001
234,364	122,365	187	390,053	425,139	47,583	-4,099	..... Q2
196,042	89,665	89	348,997	386,634	51,299	-9,320	..... Q3
210,608	102,886	151	369,912	403,689	56,304	2,602	..... Q4
208,311	105,018	171	366,719	403,645	50,349	-1,032	..... Q1 - 2002
182,172	83,573	144	337,879	376,276	46,823	-7,549	..... Q2
196,042	89,665	89	348,997	386,634	24,142	-8,348	..... Sept.- 2001
200,517	92,244	160	359,961	396,166	21,918	2,341	..... Oct.
207,582	98,726	162	369,885	402,451	18,504	47	..... Nov.
210,608	102,886	151	369,912	403,689	15,881	124	..... Dec.
210,410	100,807	156	367,742	402,125	15,652	-74	..... Jan. - 2002
206,103	99,878	159	364,978	400,421	16,073	-347	..... Feb.
208,311	105,018	171	366,719	403,645	18,624	-611	..... Mar.
188,124	91,556	164	337,339	397,012	15,853	-1,354	..... Apr.
196,195	93,965	155	352,228	389,915	15,411	-2,479	..... May
182,172	83,573	144	337,879	376,276	15,559	-3,716	..... June
171,129	76,045	137	326,856	366,145	17,362	-2,719	..... July



Table 32

### Italian investment funds: net purchases of securities

(end-of-period market values; millions of euros)

	Residents					
	Government securities				Bonds	
	of which:					
	BOTs	CTZs	BTPs	CCTs		
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 .....	-3,404	9,936	-5,841	-8,528	1,124	2,049
2000 – Q3 .....	-7,378	-749	-2,471	-2,643	-1,574	-167
Q4 .....	-2,667	-3,053	-1,870	4,747	-2,347	48
2001 – Q1 .....	-8,065	877	-3,304	-4,823	-733	-780
Q2 .....	-4,819	2,983	-1,715	-5,211	-930	166
Q3 .....	4,843	3,409	-128	-1,741	3,371	1,413
Q4 .....	4,637	2,667	-694	3,248	-584	1,250
2002 – Q1 .....	-832	2,539	2,253	-8,459	2,605	-14
Q2 .....	991	1,149	1,374	-5,070	3,584	537
2001 – Sept. ....	2,469	1,452	869	-142	437	232
Oct. ....	5,078	1,847	232	1,819	1,048	292
Nov. ....	2,684	1,710	-1,097	2,326	-147	-81
Dec. ....	-3,125	-889	172	-898	-1,485	1,040
2002 – Jan. ....	-1,348	173	754	-3,491	1,227	321
Feb. ....	1,528	1,267	1,169	-1,401	308	-475
Mar. ....	-1,012	1,099	330	-3,567	1,069	140
Apr. ....	-1,463	555	407	-3,327	817	-67
May .....	1,738	667	384	-1,614	2,410	-13
June .....	716	-73	583	-129	357	617
July .....	1,729	1,377	103	-695	955	226

Table a32

		Non-residents		Other financial assets	Total portfolio	
Shares	Total		<i>of which:</i> shares			
-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	-7,122	-7,563	-12,374	1,613	-13,072	..... 2001
-40	-7,585	7,438	6,422	45	-102	..... Q3 - 2000
531	-2,088	6,663	9,433	6	4,581	..... Q4
-1,954	-10,799	5,821	-3,539	-463	-5,441	..... Q1 - 2001
59	-4,594	-6,918	-4,877	389	-11,123	..... Q2
-2,297	3,959	-8,917	-4,832	403	-4,555	..... Q3
-1,575	4,312	2,451	874	1,284	8,047	..... Q4
-457	-1,303	-1,527	1,577	-36	-2,866	..... Q1 - 2002
645	2,173	-4,106	-614	538	-1,395	..... Q2
-1,104	1,597	-5,480	-4,756	71	-3,812	..... Sept. - 2001
-613	4,757	-764	-1,083	508	4,501	..... Oct.
-390	2,213	1,314	132	-80	3,447	..... Nov.
-572	-2,657	1,900	1,825	856	99	..... Dec.
46	-981	1,220	-195	133	372	..... Jan. - 2002
-198	855	-2,591	554	-320	-2,056	..... Feb.
-305	-1,177	-156	1,218	151	-1,182	..... Mar.
138	-1,392	386	-761	25	-981	..... Apr.
184	1,909	-1,134	371	278	1,053	..... May
323	1,656	-3,357	-224	235	-1,466	..... June
-18	1,937	-4,531	-359	485	-2,109	..... July

Table a33

## Portfolio management services (1)

(end-of-period market values; millions of euros)

	Government securities				Bonds		Shares	
	of which:			Italian	Foreign	Italian	Foreign	
	BOTs	BTPs	CCTs					
<b>2000 - Q2</b>								
Banks .....	50,220	1,796	24,631	17,809	5,347	12,514	9,471	4,729
Securities firms .....	10,802	618	5,906	3,220	1,067	2,873	2,750	2,105
Asset management cos	42,817	825	28,799	10,808	13,247	5,215	10,969	3,510
<b>Total ...</b>	<b>103,839</b>	<b>3,239</b>	<b>59,336</b>	<b>31,837</b>	<b>19,661</b>	<b>20,602</b>	<b>23,190</b>	<b>10,344</b>
<b>2000 - Q3</b>								
Banks .....	48,328	1,598	24,693	16,977	5,093	12,362	9,107	5,205
Securities firms .....	8,911	151	5,525	2,504	1,062	2,614	2,548	1,420
Asset management cos	42,722	940	28,837	10,692	13,759	5,558	11,093	4,151
<b>Total ...</b>	<b>99,961</b>	<b>2,689</b>	<b>59,055</b>	<b>30,173</b>	<b>19,914</b>	<b>20,534</b>	<b>22,748</b>	<b>10,776</b>
<b>2000 - Q4</b>								
Banks .....	43,267	1,277	22,472	15,529	4,868	12,290	8,766	4,477
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
<b>Total ...</b>	<b>98,996</b>	<b>2,070</b>	<b>62,768</b>	<b>27,173</b>	<b>22,851</b>	<b>19,324</b>	<b>22,043</b>	<b>9,636</b>
<b>2001 - Q1</b>								
Banks .....	40,809	1,083	21,496	14,467	4,410	13,445	7,872	4,287
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
<b>Total ...</b>	<b>105,819</b>	<b>2,046</b>	<b>71,093</b>	<b>26,402</b>	<b>27,704</b>	<b>19,593</b>	<b>23,735</b>	<b>9,878</b>
<b>2001 - Q2</b>								
Banks .....	41,746	1,135	22,435	14,736	4,190	13,452	7,741	4,437
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
<b>Total ...</b>	<b>107,960</b>	<b>2,149</b>	<b>70,296</b>	<b>29,488</b>	<b>29,333</b>	<b>19,337</b>	<b>22,061</b>	<b>9,561</b>
<b>2001 - Q3 (2)</b>								
Banks .....	41,218	1,089	20,971	15,729	4,207	13,074	6,142	2,723
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
<b>Total ...</b>	<b>120,282</b>	<b>2,378</b>	<b>79,284</b>	<b>31,536</b>	<b>34,912</b>	<b>19,061</b>	<b>18,236</b>	<b>6,344</b>
<b>2001 - Q4 (2)</b>								
Banks .....	41,286	942	20,793	16,499	3,553	12,538	6,556	3,166
Securities firms .....	6,646	200	4,188	1,901	717	2,385	1,434	994
Asset management cos	76,310	1,250	59,429	12,437	29,201	3,124	13,030	3,757
<b>Total ...</b>	<b>124,242</b>	<b>2,392</b>	<b>84,410</b>	<b>30,837</b>	<b>33,471</b>	<b>18,047</b>	<b>21,020</b>	<b>7,917</b>
<b>2002 - Q1 (2)</b>								
Banks .....	39,010	833	19,399	16,028	3,429	12,304	6,525	4,007
Securities firms .....	7,502	422	4,205	2,056	720	3,142	1,389	1,244
Asset management cos	79,758	1,272	59,137	15,863	30,255	3,248	12,859	3,586
<b>Total ...</b>	<b>126,271</b>	<b>2,527</b>	<b>82,741</b>	<b>33,947</b>	<b>34,405</b>	<b>18,694</b>	<b>20,774</b>	<b>8,836</b>
<b>2002 - Q2 (2)</b>								
Banks .....	39,280	1,478	17,460	17,458	3,125	13,364	4,877	3,462
Securities firms .....	8,122	583	4,223	2,287	749	3,991	1,173	1,150
Asset management cos	84,750	2,122	63,306	15,772	31,311	3,340	11,001	2,692
<b>Total ...</b>	<b>132,152</b>	<b>4,183</b>	<b>84,989</b>	<b>35,517</b>	<b>35,185</b>	<b>20,695</b>	<b>17,051</b>	<b>7,304</b>

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

Table a33

Investment fund units		Other financial assets	Total portfolio	Total managed funds	Memorandum items:		
Italian	Foreign				gross inflow	net inflow	
<b>2000- Q2</b>							
116,815	16,598	1,216	216,910	224,630	20,864	1,185	..... Banks
16,498	11,793	296	48,184	49,331	6,255	-5,235	..... Securities firms
45,604	1,954	1,254	124,570	127,994	22,358	15,975	Asset management cos
<b>178,917</b>	<b>30,345</b>	<b>2,766</b>	<b>389,664</b>	<b>401,955</b>	<b>49,477</b>	<b>11,925</b>	... <b>Total</b>
<b>2000- Q3</b>							
118,385	19,676	1,524	219,681	226,072	15,644	-1,367	..... Banks
11,291	12,632	169	40,647	42,037	3,124	854	..... Securities firms
49,362	2,129	1,668	130,442	134,825	10,296	4,848	Asset management cos
<b>179,038</b>	<b>34,437</b>	<b>3,361</b>	<b>390,770</b>	<b>402,934</b>	<b>29,064</b>	<b>4,335</b>	... <b>Total</b>
<b>2000- Q4</b>							
110,419	21,535	2,032	207,654	213,367	16,347	-6,903	..... Banks
10,466	12,090	150	37,895	39,346	3,199	-1,186	..... Securities firms
49,861	2,155	88	136,095	139,399	20,100	8,338	Asset management cos
<b>170,746</b>	<b>35,780</b>	<b>2,270</b>	<b>381,644</b>	<b>392,112</b>	<b>39,646</b>	<b>249</b>	... <b>Total</b>
<b>2001- Q1</b>							
99,509	22,850	1,693	194,876	201,333	14,230	-7,746	..... Banks
9,588	13,175	818	36,569	37,533	3,902	-565	..... Securities firms
48,670	1,859	94	153,539	157,989	37,493	20,371	Asset management cos
<b>157,767</b>	<b>37,884</b>	<b>2,605</b>	<b>384,984</b>	<b>396,855</b>	<b>55,625</b>	<b>12,060</b>	... <b>Total</b>
<b>2001- Q2</b>							
95,471	25,445	1,597	194,076	199,261	13,457	-2,865	..... Banks
9,470	16,848	813	40,333	41,373	6,193	3,548	..... Securities firms
50,107	2,034	112	155,740	159,843	9,577	955	Asset management cos
<b>155,048</b>	<b>44,327</b>	<b>2,522</b>	<b>390,149</b>	<b>400,477</b>	<b>29,227</b>	<b>1,638</b>	... <b>Total</b>
<b>2001- Q3 (2)</b>							
81,782	24,510	1,184	174,842	184,069	9,309	-6,838	..... Banks
8,259	16,036	780	37,824	38,904	3,470	682	..... Securities firms
50,351	1,709	92	170,871	175,915	31,998	22,298	Asset management cos
<b>140,392</b>	<b>42,255</b>	<b>2,056</b>	<b>383,537</b>	<b>398,888</b>	<b>44,777</b>	<b>16,142</b>	... <b>Total</b>
<b>2001- Q4 (2)</b>							
79,056	29,711	1,793	177,657	184,484	27,752	-4,610	..... Banks
8,244	17,496	639	38,557	39,620	3,864	-623	..... Securities firms
54,461	2,287	73	182,242	186,901	13,703	3,257	Asset management cos
<b>141,761</b>	<b>49,494</b>	<b>2,505</b>	<b>398,456</b>	<b>411,005</b>	<b>45,319</b>	<b>-1,976</b>	... <b>Total</b>
<b>2002 - Q1 (2)</b>							
73,645	32,351	1,931	173,200	180,110	20,770	-4,103	..... Banks
8,377	18,456	97	40,928	42,312	5,532	2,092	..... Securities firms
57,399	2,000	55	189,161	195,152	25,013	5,646	Asset management cos
<b>139,421</b>	<b>52,808</b>	<b>2,083</b>	<b>403,289</b>	<b>417,574</b>	<b>51,315</b>	<b>3,635</b>	... <b>Total</b>
<b>2001 - Q2 (2)</b>							
62,624	35,254	1,407	163,396	170,630	17,673	-2,971	..... Banks
7,738	17,050	83	40,054	41,719	5,237	1,744	..... Securities firms
55,828	1,722	54	190,699	196,226	17,852	6,054	Asset management cos
<b>126,190</b>	<b>54,026</b>	<b>1,544</b>	<b>394,149</b>	<b>408,575</b>	<b>40,762</b>	<b>4,828</b>	... <b>Total</b>

Table a34

**Italian components of euro-area monetary aggregates: residents of the euro area**

*(end-of-period stocks; millions of euros)*

	Currency in circulation	Current account deposits	Total	Deposits with agreed maturity up to 2 years	Deposits redeemable at notice up to 3 months	Total
1999 .....	66,110	389,876	455,986	65,747	128,860	650,593
2000 .....	69,680	412,275	481,955	57,611	125,783	665,349
2001 – Jan. ....	65,489	389,132	454,621	56,889	126,774	638,284
Feb. ....	65,057	385,168	450,225	56,240	127,108	633,573
Mar. ....	65,879	391,770	457,649	56,764	126,894	641,307
Apr. ....	66,319	397,354	463,673	54,600	127,631	645,904
May ....	66,184	403,462	469,646	56,277	126,945	652,868
June ....	66,745	405,827	472,572	56,853	127,381	656,806
July ....	66,461	403,797	470,258	54,880	127,651	652,789
Aug. ....	64,508	392,514	457,022	55,369	128,571	640,962
Sept. ...	63,573	414,263	477,836	55,327	129,590	662,753
Oct. ....	61,645	418,813	480,458	53,580	130,616	664,654
Nov. ....	59,768	411,798	471,566	53,319	131,171	656,056
Dec. ....	57,506	450,832	508,338	52,623	135,123	696,084
2002 – Jan. ....	53,189	432,785	485,974	56,117	141,801	683,892
Feb. ....	43,082	438,361	481,443	56,221	143,102	680,766
Mar. ....	46,994	439,998	486,992	56,689	142,506	686,187
Apr. ....	47,581	446,301	493,882	57,723	143,035	694,640
May ....	50,002	450,332	500,334	55,920	143,096	699,350
June ....	52,482	454,026	506,508	56,475	143,181	706,164
July ....	53,924	447,546	501,470	55,280	143,678	700,428
Aug. ....	54,836	437,842	492,678	55,382	144,821	692,881
Sept. ...	(55,433)	(449,311)	(504,744)	(54,197)	(144,580)	(703,522)

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 monetary aggregates (excluding currency in circulation)		
				M1	M2	M3
50,754	13,058	9,904	724,309	389,876	584,483	658,199
68,303	10,039	11,137	754,828	412,275	595,669	685,148
75,203	10,392	11,354	735,233	389,132	572,795	669,744
77,405	11,406	11,291	733,675	385,168	568,516	668,618
81,622	12,613	10,919	746,461	391,770	575,428	680,582
79,932	14,448	10,700	750,984	397,354	579,585	684,665
87,344	14,991	10,481	765,684	403,462	586,684	699,500
82,567	15,763	10,234	765,370	405,827	590,061	698,625
84,899	16,791	10,523	765,002	403,797	586,328	698,541
90,837	17,892	10,624	760,315	392,514	576,454	695,807
82,027	21,881	10,723	777,384	414,263	599,180	713,811
83,692	23,500	10,641	782,487	418,813	603,009	720,842
82,740	24,356	10,302	773,454	411,798	596,288	713,686
76,213	26,103	10,118	808,518	450,832	638,578	751,012
77,548	27,822	10,087	799,349	432,785	630,703	746,160
82,222	29,110	9,923	802,021	438,361	637,684	758,939
88,435	30,684	9,915	815,221	439,998	639,193	768,227
85,319	32,189	9,739	821,887	446,301	647,059	774,306
89,779	33,712	10,180	833,021	450,332	649,348	783,019
87,257	35,082	10,601	839,104	454,026	653,682	786,622
90,955	36,039	10,695	838,117	447,546	646,504	784,193
91,405	38,083	10,826	833,195	437,842	638,045	778,359
(86,931)	(38,850)	(11,238)	(840,541)	(449,311)	(648,088)	(785,108)

Table a35

## Financial assets: residents of Italy

(end-of-period stocks; millions of euros)

	Total monetary assets	Other deposits	BOTs		Medium and long-term securities			
			held by non-money- market funds	Government securities		Other debt securities		
				held by non-money- market funds	held by non-money- market funds	held by non-money- market funds		
1999 .....	719,635	52,708	35,642	5,996	408,617	146,686	232,479	7,695
2000 .....	748,965	48,150	31,167	2,979	413,739	113,326	259,985	8,764
2001 – Jan. ...	729,182	47,278	39,049	2,268	426,208	109,958	262,478	7,892
Feb. ...	727,963	46,812	38,829	2,223	422,343	105,661	265,955	7,839
Mar. ...	738,655	46,001	41,347	1,867	422,018	103,424	272,002	7,929
Apr. ...	746,290	45,485	40,937	2,706	426,654	102,570	276,856	7,778
May ...	760,321	44,685	40,135	2,833	431,722	97,586	283,503	8,233
June ...	759,158	44,310	38,542	3,797	429,135	96,036	288,835	8,041
July ...	759,490	43,674	39,360	3,926	431,982	96,283	292,286	9,316
Aug. ...	755,039	42,841	41,148	4,892	436,224	95,974	294,135	9,606
Sept. ...	769,463	42,822	44,123	5,289	431,671	96,448	297,324	9,775
Oct. ...	776,690	42,701	46,593	5,864	432,914	99,121	299,993	9,930
Nov. ...	769,302	42,653	46,065	6,661	432,832	99,311	302,616	9,809
Dec. ...	805,761	43,370	36,929	5,772	424,772	96,807	309,721	10,836
2002 – Jan. ...	791,245	(41,157)	47,236	6,365	441,443	95,235	312,314	10,051
Feb. ...	793,735	(41,102)	50,059	6,655	453,235	94,913	317,275	9,516
Mar. ...	806,684	(41,018)	54,585	7,900	462,762	92,801	321,302	9,774
Apr. ...	811,983	(40,964)	52,625	9,475	464,014	85,873	321,832	9,308
May ...	823,843	(41,045)	51,196	10,383	466,089	90,757	326,196	9,460
June ...	828,159	(40,830)	50,526	10,293	459,243	90,543	330,016	9,595

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
44,642	905	1,494,629	678,654	231,718	2,173,283	475,301	462,243
44,280	937	1,547,224	722,514	239,260	2,269,738	449,931	439,891
44,833	950	1,549,978	736,608	255,367	2,286,586	453,793	443,401
40,143	950	1,542,996	727,185	240,319	2,270,181	433,916	422,510
37,259	963	1,558,246	736,397	234,523	2,294,643	424,262	411,649
39,191	964	1,576,377	754,219	243,357	2,330,596	433,291	418,843
36,750	968	1,598,083	759,341	242,939	2,357,425	432,961	417,970
34,917	961	1,595,857	755,382	239,364	2,351,239	425,139	409,376
33,680	986	1,601,508	737,114	229,339	2,338,662	417,640	400,849
31,147	1,008	1,601,541	718,129	217,938	2,319,670	408,625	390,733
25,102	1,003	1,611,508	701,953	200,622	2,313,462	386,634	364,752
25,526	1,001	1,625,417	714,772	205,639	2,340,189	396,166	372,666
26,258	1,004	1,620,730	729,311	212,828	2,350,041	402,451	378,095
26,053	984	1,647,591	732,995	216,010	2,380,586	403,689	377,586
26,071	(1,014)	(1,660,479)	735,593	215,511	(2,396,071)	402,125	374,303
25,696	(986)	(1,682,087)	719,054	211,802	(2,401,141)	400,421	371,311
26,866	(972)	(1,714,189)	721,864	213,650	(2,436,052)	403,645	372,961
24,397	(984)	(1,716,825)	714,084	207,170	(2,430,910)	397,012	364,823
24,747	(1,002)	(1,734,119)	700,866	201,019	(2,434,985)	389,915	356,203
23,307	(990)	(1,733,072)	670,919	186,530	(2,403,991)	376,276	341,194



**Table a36**

**Credit: residents of Italy**

(end-of-period stocks; millions of stocks)

	Finance to "other residents"					Total E=C+D
	Bank loans A	Bonds placed domestically		Total domestic finance C=A+B	External finance D	
		B	held by Italian MFIs			
1999 .....	761,349	13,701	5,450	775,050	158,535	933,586
2000 .....	862,250	16,729	7,995	878,980	180,508	1,059,488
2001 – Jan. ....	860,542	16,581	8,120	877,123	182,729	1,059,852
Feb. ....	859,900	15,281	8,018	875,181	185,083	1,060,264
Mar. ....	874,951	17,170	7,883	892,121	185,727	1,077,848
Apr. ....	881,074	17,538	8,314	898,612	187,218	1,085,830
May ....	873,099	21,744	9,627	894,843	193,268	1,088,111
June ....	887,530	24,688	9,608	912,218	192,233	1,104,450
July ....	896,686	25,932	9,594	922,619	191,812	1,114,430
Aug. ....	890,320	25,349	9,825	915,670	197,501	1,113,171
Sept. ...	896,353	26,677	9,932	923,030	198,924	1,121,953
Oct. ....	902,153	29,000	9,841	931,153	202,508	1,133,661
Nov. ....	917,127	29,118	10,444	946,245	200,744	1,146,989
Dec. ....	922,575	37,194	13,629	959,769	207,731	1,167,500
2002 – Jan. ....	922,274	36,685	12,639	958,959	208,922	1,167,881
Feb. ....	921,851	39,151	12,466	961,002	213,423	1,174,424
Mar. ....	925,028	39,141	12,564	964,169	217,805	1,181,974
Apr. ....	927,103	38,865	12,809	965,968	219,715	1,185,683
May ....	935,849	38,683	12,277	974,532	221,102	1,195,634
June ....	944,310	37,909	12,244	982,219	224,353	1,206,572

**Table a36**

F	General government debt		Credit		Memorandum item: shares placed domestically, held by Italian MFIs
	G	held domestically	Total domestic G+C	Total E+F	
		held by Italian MFIs			
1,269,100	1,198,367	300,126	1,973,417	2,202,686	28,559
1,286,914	1,202,535	269,893	2,081,514	2,346,402	34,641
1,299,600	1,212,309	270,992	2,089,432	2,359,453	34,704
1,309,796	1,219,527	272,882	2,094,708	2,370,060	34,425
1,322,225	1,230,976	271,796	2,123,097	2,400,073	35,759
1,329,607	1,235,459	276,350	2,134,071	2,415,437	38,646
1,338,501	1,240,945	273,901	2,135,788	2,426,612	39,585
1,342,416	1,250,381	275,830	2,162,599	2,446,866	39,482
1,334,940	1,241,164	269,912	2,163,782	2,449,371	36,737
1,328,553	1,236,037	267,402	2,151,706	2,441,723	35,312
1,331,373	1,240,995	273,205	2,164,025	2,453,326	32,516
1,341,278	1,246,719	276,231	2,177,872	2,474,939	33,929
1,343,728	1,247,847	274,933	2,194,092	2,490,718	35,781
1,335,433	1,241,383	272,208	2,201,152	2,502,933	36,882
(1,353,600)	(1,256,620)	277,561	(2,215,579)	(2,521,481)	37,262
(1,362,039)	(1,264,797)	279,092	(2,225,799)	(2,536,463)	37,011
(1,380,342)	(1,279,080)	286,792	(2,243,249)	(2,562,316)	39,628
(1,382,027)	(1,280,685)	283,183	(2,246,652)	(2,567,710)	45,340
(1,382,149)	(1,286,326)	285,488	(2,260,858)	(2,577,782)	46,403
(1,384,583)	(1,289,728)	282,172	(2,271,947)	(2,591,155)	49,418

Table a37

## Supervisory capital and capital requirements (on a consolidated basis) (1)

(millions of euros)

	Tier 1	Tier 2		Supervisory capital	Solvency ratio (percentages)	Excess capital	Capital shortfalls		
			of which: subordinated liabilities				Number of banks	Amount	Percentage of excess risk assets (2)
<b>December 1999</b>									
Banks in the Centre and North	83,633	24,762	20,490	103,755	10.4	25,222	7	1,329	1.7
Banks in the South .....	5,797	826	681	6,503	15.1	3,063	2	2	..
<b>Total ...</b>	<b>89,430</b>	<b>25,588</b>	<b>21,171</b>	<b>110,258</b>	<b>10.6</b>	<b>28,285</b>	<b>9</b>	<b>1,331</b>	<b>1.7</b>
<b>June 2000</b>									
Banks in the Centre and North	87,459	27,546	23,303	110,078	10.4	25,995	5	627	0.8
Banks in the South .....	5,451	780	663	6,108	14.2	2,663	1	1	..
<b>Total ...</b>	<b>92,910</b>	<b>28,326</b>	<b>23,965</b>	<b>116,186</b>	<b>10.5</b>	<b>28,658</b>	<b>6</b>	<b>627</b>	<b>0.8</b>
<b>December 2000</b>									
Banks in the Centre and North	87,806	32,644	27,653	114,724	10.1	24,022	1	8	..
Banks in the South .....	3,611	392	247	3,901	17.2	2,086	2	1	..
<b>Total ...</b>	<b>91,417</b>	<b>33,036</b>	<b>27,900</b>	<b>118,625</b>	<b>10.2</b>	<b>26,108</b>	<b>3</b>	<b>9</b>	<b>..</b>
<b>June 2001</b>									
Banks in the Centre and North	94,420	35,606	30,821	123,374	10.4	29,631	1	19	..
Banks in the South .....	3,723	378	230	3,973	18.1	2,212		–	..
<b>Total ...</b>	<b>98,143</b>	<b>35,984</b>	<b>31,051</b>	<b>127,347</b>	<b>10.6</b>	<b>31,843</b>	<b>1</b>	<b>19</b>	<b>..</b>
<b>December 2001</b>									
Banks in the Centre and North	94,448	38,916	34,104	125,980	10.5	31,680	3	482	0.5
Banks in the South .....	2,974	273	183	3,233	18.1	1,817	3	10	..
<b>Total ...</b>	<b>97,422</b>	<b>39,189</b>	<b>34,287</b>	<b>129,213</b>	<b>10.6</b>	<b>33,497</b>	<b>6</b>	<b>492</b>	<b>0.5</b>

(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.

### Tables a12 and a13

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 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. 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. As of January 2002, however, the construction of the HICP complies with Commission Regulation 2602/2000 which requires account to be taken of price reductions (e.g. sales and promotions), provided they last for at least 15 days. This innovation (the minimum duration used to be a month in Italy) has two effects: on the one hand, it causes pronounced monthly variations in the HICP and, on the other, it results in a difference between the intra-year performances of the HICP and the NIC, to which the regulation has not been applied since it is only mandatory for the HICP. The latter, with account taken of price reductions, has been reconstructed for 2001 so as to permit the calculation in 2002 of the percentage changes with respect to the previous year. This is not sufficient, however, to obtain a reliable estimate of the seasonality present in the new series. Accordingly, for the analysis of inflation reference must be made primarily to the NIC, which does not suffer from discontinuities on a similar scale.

For the NIC index, the identification of items with regulated prices refers to the situation in May 2002. 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 a14 and a15**

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. As of January 2002, the Italian and Spanish indices, and hence the averages for the euro area, are constructed taking account of price reductions that last for at least 15 days area (in compliance with Commission Regulation 2602/2000). This innovation gives rise to pronounced monthly variations in the HICP series and has caused a discontinuity. The series have been reconstructed for 2001 with account taken of price reductions, so as to permit the calculation in 2002 of the percentage changes with respect to the previous year. This is not sufficient, however, to obtain a reliable estimate of the seasonality present in the HICP. It is therefore not possible to use a single series for the analysis of inflation in the two countries concerned and reference must be made to the old series (which do not take account of price reductions) for the calculation of the rate of inflation up to the end of 2001 and to the new series from then onwards.

#### **Tables a16 and a17**

The indices of producer prices measure the changes in the prices of goods sold in the domestic market by industrial producers. The items included in the basket of each index are classified on the basis of their economic purpose (consumer goods, investment goods and intermediate goods). In contrast with the HICP, producer prices have not been fully harmonized and there are important differences across countries in the composition of the baskets. A degree of harmonization has nonetheless been carried out by Eurostat, which currently compiles indices for the EU countries on the basis of data transmitted monthly by each national statistical institute using a uniform classification of the branches of economic activity

based on NACE 1st revision. The indices are also reworked by Eurostat using a classification of economic purpose based on the criterion of “prevalent purpose”. This is the main cause of the differences to be found between the indices by economic purpose for Italy published by Eurostat and Istat, which uses the criterion of “effective use”.

The classification of goods by economic purpose used by Eurostat is not sufficiently disaggregated for the short-term analysis of inflation. For consumer goods, in particular, it does not distinguish between food and non-food products. For the main euro-area countries – Italy, France, Germany and Spain – and for the area average, a more meaningful breakdown by economic purpose has been constructed, using not only data classified by economic purpose but also data classified by branch of economic activity, as follows: general index, food products, energy products, investment goods, non-energy intermediate goods, consumer goods excluding energy and food products and the general index excluding energy and food products.

A meaningful comparison across countries has to be made using these partially harmonized indices. For Italy, instead, it is best to use the indices published by Istat for the analysis of domestic price developments and those published by Eurostat for comparisons with the other EU countries.

#### 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

Account is taken of the decision adopted by Eurostat on 3 July 2002 with regard to the accounting treatment of the proceeds of securitizations. 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.

#### **Table a22**

Account is taken of the decision adopted by Eurostat on 3 July 2002 with regard to the accounting treatment of the proceeds of securitizations. 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 relating to operations entered into by the State Railways with the cost borne by the government.

#### **Table a23**

Account is taken of the decision adopted by Eurostat on 3 July 2002 with regard to the accounting treatment of the proceeds of securitizations. 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 relating 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. As of that date, the UIC's securities portfolio is consequently included under "Medium and long-term securities excluding central bank".

#### **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. The Treasury bill yields are calculated using the 360-day year 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 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 "Monetary Financial Institutions: Banks and Money Market Funds" in the series Supplements to the *Statistical Bulletin*.

Data are reported by banks in accordance with the 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 issues. 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.

"Other" securities refer to banks' holdings of lira and foreign currency bonds issued by residents.

The indication "lire/euros" means that 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, net



of those held by Italian banks. 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 excluding banknotes and coin in euros and euro-area national currencies.

#### **Table a35**

All the items refer to the financial assets of the “money holding sector” comprising residents of Italy (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.) 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.

#### **Table a36**

“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).

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.

#### **Table a37**

Source: Supervisory reports

The data refer to supervisory capital and the solvency ratio, calculated on a consolidated basis.

Supervisory capital is determined as the algebraic sum of a series of positive and negative items, whose inclusion in core or supplementary capital is admitted, with or without restrictions, according to the item.

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 loan 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 solvency ratio figures take account of the prudential requirements for market risks.

### List of abbreviations

ABI	—	<i>Associazione bancaria italiana</i> Italian Bankers' Association
BI	—	<i>Banca d'Italia</i> Bank of Italy
BOT	—	<i>Buoni ordinari del Tesoro</i> Treasury bills
BTP	—	<i>Buoni del Tesoro poliennali</i> Treasury bonds
CCT	—	<i>Certificati di credito del Tesoro</i> Treasury credit certificates
CIP	—	<i>Comitato interministeriale prezzi</i> Interministerial Committee on Prices
CIPE	—	<i>Comitato interministeriale per la programmazione economica</i> Interministerial Committee for Economic Planning
Confindustria	—	<i>Confederazione generale dell'industria italiana</i> Confederation of Italian Industry
Consob	—	<i>Commissione nazionale per le società e la borsa</i> Companies and Stock Exchange Commission
CTE	—	<i>Certificati del Tesoro in ECU</i> Treasury certificates in ecus
CTO	—	<i>Certificati del Tesoro con opzione</i> Treasury option certificates
CTZ	—	<i>Certificati del Tesoro zero-coupon</i> Zero coupon Treasury certificates
ICI	—	<i>Imposta comunale sugli immobili</i> Municipal property tax
Iciap	—	<i>Imposta comunale per l'esercizio di imprese e di arti e professioni</i> Municipal tax on businesses and the self-employed
Ilor	—	<i>Imposta locale sui redditi</i> Local income tax
INAIL	—	<i>Istituto nazionale per l'assicurazione contro gli infortuni sul lavoro</i> National Industrial Accidents Insurance Institute
INPS	—	<i>Istituto nazionale per la previdenza sociale</i> National Social Security Institute
Irap	—	<i>Imposta regionale sulle attività produttive</i> Regional tax on productive activities
Irpef	—	<i>Imposta sul reddito delle persone fisiche</i> Personal income tax
Irpeg	—	<i>Imposta sul reddito delle persone giuridiche</i> Corporate income tax
ISAE	—	<i>Istituto di studi e analisi economica</i> Institute for Economic Research and Analysis
Isco	—	<i>Istituto nazionale per lo studio della congiuntura</i> National Institute for the Study of the Economic Situation
Istat	—	<i>Istituto nazionale di statistica</i> National Institute of Statistics
MIF	—	<i>Mercato italiano dei futures</i> Italian Futures Market
MTS	—	<i>Mercato telematico dei titoli di Stato</i> Screen-based market in government securities
SACE	—	<i>Istituto per i servizi assicurativi del commercio estero</i> Export Credit Insurance Institute
UIC	—	<i>Ufficio italiano dei cambi</i> Italian Foreign Exchange Office

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