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CONTENTS

BOXES

SYMBOLS AND CONVENTIONS

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

In the following tables:

— the phenomenon in question does not occur;

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

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

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Errata corrige

In the previous issue of the Bulletin, the Document “Memorandum of the Bank of Italy on the Consolidated Law on Financial Intermediation” was attributed to the Financial Supervision Department instead of the Law and Economics Office.

Economic Developments and Policies

THE WORLD ECONOMY AND INTERNATIONAL FINANCE

World economic activity, which had begun to expand significantly again in the first half of 2002, slowed down from the summer onwards owing to a renewed heightening of international political tensions. World trade lost momentum in the third quarter and stagnated in the fourth. In the first few months of 2003 the prospect of a conflict in Iraq and uncertainty about its duration weighed on consumption and investment decisions.

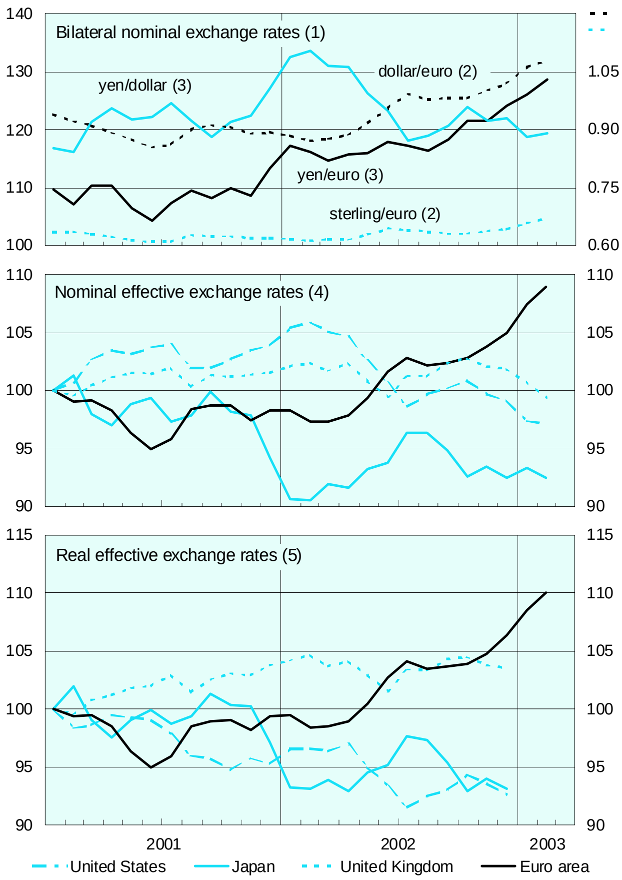
In the United States the massive stimulus from monetary and fiscal policy during 2001 fostered a significant acceleration in output from the end of that year onwards. During 2002 the economy was affected by renewed fears of terrorist attacks. Uncertainty emerged about the prospects for growth. Investors withdrew funds from the dollar and equity markets; long-term interest rates declined substantially.

Between March 2002 and the end of the first week of March 2003 the dollar depreciated by 21 per cent against the euro and by 11 per cent against the yen (Figure 1); its nominal effective exchange rate declined by 9 per cent. Over the same period the Dow Jones stock market index fell by 26 per cent and the yield on ten-year US Treasury bonds declined by 1.7 percentage points to 3.6 per cent.

Another reason for the decline of the dollar was concern about the widening of the deficit on the current account of the balance of payments, which is estimated to have increased to more than $500 billion in 2002, equal to 4.8 per cent of GDP, compared with $393 billion in 2001 (3.9 per cent).

Figure 1

Exchange rates of leading currencies and indicators of competitiveness
(monthly averages)



Sources: Bank of Italy and European Central Bank.

(1) Units of the first currency per unit of the second. – (2) Right-hand scale. – (3) Left-hand scale. – (4) Indices, January 2001=100. A rise indicates an appreciation. – (5) Indices, January 2001=100, on the basis of producer prices of manufactured goods. A rise indicates a loss of competitiveness.

Economic activity in the euro area was weaker in 2002 than in the preceding year, rising by barely 0.8 per cent. The stagnation in consumption and the significant fall in investment could be offset only partly by fiscal policies. On 6 March the Eurosystem decided to reduce official interest rates by a further 0.25 percentage points. In the United Kingdom output grew by 1.6 per cent during the year, sustained by strong growth in consumption.

In Japan economic activity picked up in the early part of the year, thanks largely to external demand, but faltered in the final quarter, albeit by less than expected.

As in the first half of the year, there were pronounced differences in performance between the economies of the emerging countries. In Asia growth generally continued at a sustained rate. In the main Latin American countries the extremely onerous terms for access to international capital markets for a large part of 2002 prevented the restoration of conditions conducive to growth; however, signs of recovery emerged in Brazil and Chile and output in Argentina picked up somewhat from the very depressed levels seen at the beginning of the year.

The outlook for the world economy remains heavily dependent on developments in the crisis with Iraq, which will have a crucial effect on oil prices. On 10 March the average price of the main grades of crude stood at around $34 per barrel, similar to the highs recorded in the autumn of 2000 and 46 per cent above the low of mid-November 2002. The rise was attributable partly to the fall in oil production in Venezuela and the reduction in industrial stocks in the United States, which fell to extremely low levels by historical standards. According to the indications implicit in futures contracts, the price of WTI grade oil is likely to remain at its current level until the beginning of April and then to fall gradually during the remainder of the year and 2004 to $25 per barrel.

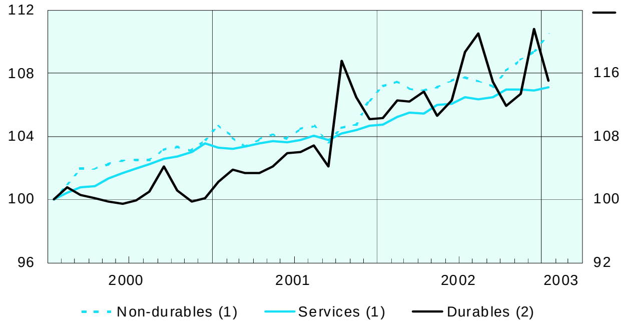
Economic developments and policies in the United States

In the fourth quarter of 2002 the growth in output in the United States slowed sharply, to an annual rate of 1.4 per cent in relation to the preceding quarter, compared with 4 per cent in the third quarter (Table 1). The deceleration in consumption growth, from 4.2 to 1.5 per cent, can be attributed mainly to a fall in purchases of motor vehicles, which had been brought forward to take advantage of temporary financial incentives introduced at the beginning of the summer. Increased uncertainty about future demand led to particularly cautious inventory management; after having bolstered activity noticeably in the first three quarters, stock-building came to a halt. Non-residential investment spending, which had fallen for eight quarters, rose by a modest 2.5 per cent; the strong recovery in expenditure on information processing equipment and software in the second and third quarters gave way to a sharply reduced growth rate of 3.4 per cent. A considerable part of the rise in economic activity in the fourth quarter (equal to 0.9 percentage points) was attributable to the expansion in public expenditure, mainly in the defence sector.

GDP increased by 2.4 per cent in 2002 as a whole. It continued to benefit from the strength of consumption, which rose by 3.1 per cent, compared with 2.5 per cent in 2001. The rise in consumption was fueled in turn by an increase of 7.3 per cent in spending on durable goods (compared with one of 6 per cent in 2001), supported partly by extremely low interest rates. The volatility of spending on durables from the second half of 2001 onwards was accentuated by the financial incentive schemes offered by automobile manufacturers (Figure 2).

Figure 2

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



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

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)
United States							
2001	0.3	2.5	3.7	−3.8	−1.2	0.4	−0.2
2002	2.4	3.1	4.4	−3.1	0.6	3.0	−0.7
Q1	3.5	3.5	5.7	−2.8	1.2	4.2	−0.8
Q2	2.7	2.9	3.0	0.8	0.6	3.3	−0.7
Q3.	4.0	4.2	2.9	−0.3	0.6	3.9	. .
Q4.	1.4	1.5	4.9	4.5	0.2	2.8	−1.4
Japan							
2001	0.4	1.7	2.6	−0.9	. .	1.1	−0.7
2002	0.3	1.5	2.3	−4.2	−0.4	−0.4	0.7
Q1	1.0	2.0	2.7	−4.7	−0.7	−0.4	1.4
Q2	3.5	2.1	1.3	2.3	1.2	3.2	0.3
Q3.	3.1	3.1	2.5	1.4	1.5	4.2	−0.9
Q4.	2.2	0.3	−0.2	4.9	−0.5	0.9	1.3
Euro area							
2001	1.4	1.8	2.1	−0.6	−0.4	0.9	0.5
2002	0.8	0.6	2.5	−2.5	−0.1	0.2	0.6
Q1	0.9	. .	3.1	−2.6	0.1	0.1	0.8
Q2	1.3	1.6	2.2	−1.8	0.1	1.1	0.2
Q3.	1.6	1.7	1.4	−0.8	−0.2	0.9	0.7
Q4.	0.7	1.4	2.2	−0.3	0.3	1.6	−0.8
United Kingdom							
2001	2.0	3.8	2.3	0.8	−0.6	2.4	−0.6
2002	1.6	3.9	4.2	−4.5	−0.1	2.4	−1.0
Q1	1.2	3.8	4.0	5.6	−0.3	2.0	−1.0
Q2	2.9	3.8	2.5	−1.9	0.7	3.3	−0.7
Q3.	3.8	3.4	5.2	−5.0	2.1	4.3	−0.8
Q4.	1.5	4.0	3.2	−2.5	2.5	5.3	−4.1

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 also includes changes in valuables.– (5) Goods and services.

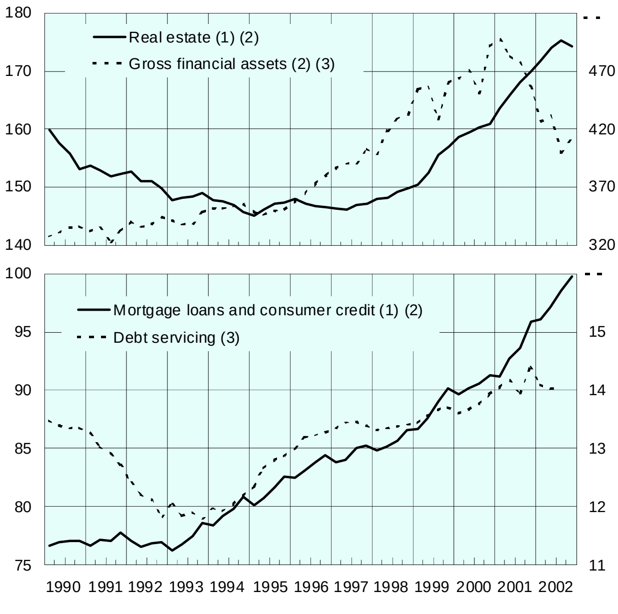
The growth in consumption last year was sustained by a significant increase in disposable income (4.5 per cent in real terms, compared with 1.8 per cent in 2001), in which large tax cuts were a contributory factor. As in 2001, the increase in households' spendable liquid funds was due partly to remortgaging, which continued apace throughout 2002.

House prices continued to rise in the second half of 2002, although more slowly than in the first: the increase over the year as a whole was 6.9 per cent. The rise in property prices and the further decline in interest rates enabled households to take advantage of a reduction in interest payments and higher borrowing mortgaged on the same property. According to estimates by the Federal Reserve, in the second half of 2002 the liquidity acquired by households by renegotiating mortgage loans contributed between 0.25 and 0.5 percentage points to the overall rise of 2.8 per cent in consumption. Moreover, around 25 per cent of the additional funds was used to repay other financial liabilities, in particular consumer credit, on which interest payments are higher and not tax-deductible. Households' gross debt rise from 91.3 per cent of disposable income at the end of 2000 to 99.8 per cent two years later (Figure 3).

Figure 3

US households' assets and liabilities

(end-of-period quarterly data; as a percentage of disposable income)



Source: Federal Reserve.

(1) Left-hand scale. – (2) For disposable income, the moving average for the 4 quarters ending in the one indicated. – (3) Right-hand scale.

The brisk activity in the property market and the fall in long-term interest rates encouraged investment in new residential construction, which rose at an annual rate of 9.4 per cent in the fourth quarter of 2002 and by 3.9 per cent during the year as a whole, after stagnating in the preceding two years.

In the fourth quarter the slowdown in economic activity caused hourly labour productivity in the non-farm business sector to come to a virtual standstill, in contrast to the sustained rise in the preceding quarters. The increase for 2002 as a whole was 4.8 per cent, the highest for the last forty years. This led to a reduction of 1.9 per cent in unit labour costs, despite a rise of 2.8 per cent in hourly wages.

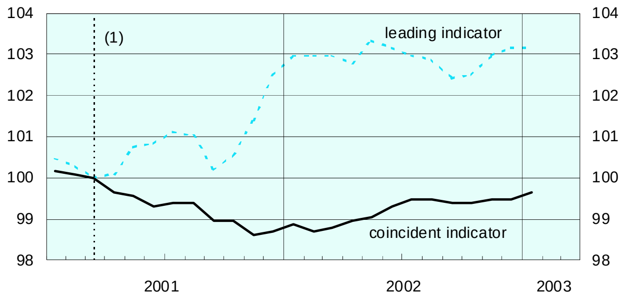
Excluding energy and food products, consumer price inflation continued to diminish in the last few months of 2002, reflecting the slowdown in the prices of services. In December it fell to a twelve-month rate of 1.9 per cent (compared with 2.2 per cent in October) and remained at that level in January of this year.

In 2002 investment was held back by high uncertainty about the international political situation; the cautious attitude adopted by firms was also due in part to the performance of profits, which were far lower than had been expected at the beginning of the year, and the vulnerability of corporate balance sheets to a possible deterioration in financial conditions. The profits of non-financial corporations, which had rebounded strongly at the end of 2001 to equal the previous year's average, remained unchanged in the first three quarters of 2002; it is fair to assume that they fell in the fourth in the light of the slackening of economic activity and productivity growth. Although the stock of non-financial corporations' debt remained stable during 2002, owing partly to the stagnation in investment, it is still extremely high (88 per cent of the sector's output at the end of the third quarter), even by comparison with the peak recorded at the beginning of the 1990s.

In the last few months both the coincident and leading indicators of the business cycle have become more difficult to interpret (Figure 4). In January the coincident indicator improved slightly, after having remained static in previous months. The leading indicator, which had been recovering gradually since October, failed to make further progress and remains below the level of last spring; moreover, in view of the sharp deterioration in business and consumer confidence, it is likely to have weakened in February.

Figure 4

Indicators of the business cycle in the United States
(indices, March 2001=100)



Source: Conference Board.
(1) Cyclical peak.

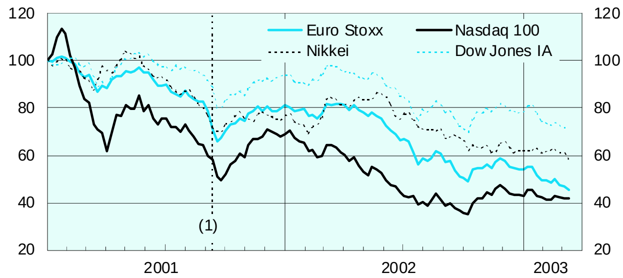
Industrial production rose by 0.7 per cent in January, thus offsetting the decline suffered in the final quarter of 2002. Payroll employment in the non-farm sector improved briefly in January but declined sharply again in February, with most of the lost jobs concentrated in services.

Since December the heightening of international political tensions and the increasingly clear signs of the weakness of economic activity have triggered a renewed fall in share prices. The funds withdrawn from the equity market have been invested partly in corporate bonds and partly in foreign markets, causing the dollar to depreciate further.

Equity prices, which had recovered significantly and become less volatile from mid-October onwards, turned downwards again at the beginning of December; since then the Dow Jones Industrial Average has declined by 13 per cent and the Nasdaq 100 by 12 per cent (Figure 5). In February the volatility of the indices implicit in the prices of derivatives began to rise again, though remaining below the peaks recorded in October.

Figure 5

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

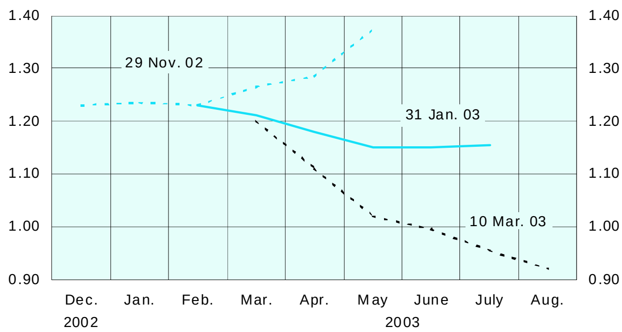


Source: Thomson Financial Datastream.
(1) 11 September 2001.

Uncertainty as to the timing and strength of the recovery also led to a significant change in market expectations about monetary policy. At the end of last November futures contracts on 30-day federal funds rates indicated expectations of a rise in interest rates as early as the second quarter of 2003. Since then the forward yield curve has shifted downwards and its slope has turned negative (Figure 6). As at 10 March 2003 the market did not rule out the possibility of a further quarter-point reduction in official short-term rates.

Figure 6

United States: forward interest rates implicit in futures on 30-day federal funds (1)
(percentages)

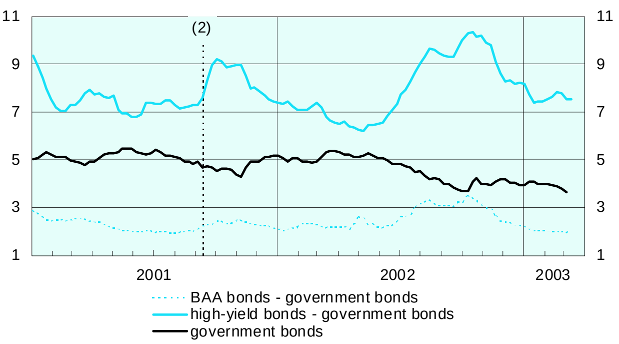


Source: Thomson Financial Datastream.
(1) Each curve relates to the contract date indicated. The horizontal axis shows the settlement dates for the futures contracts to which the yields refer.

The decline in corporate bond yields, the absence of strains in the market for bank loans and the abundance of liquidity suggest that financial conditions are not an impediment to a recovery in investment. Risk premiums on corporate bonds have decreased substantially since the beginning of November: for high-yield bonds the spread over the yield on ten-year government bonds has fallen from 10.1 to 7.5 percentage points and that for BAA-rated bonds has come down from 3.1 to 2 points (Figure 7). The outflow of funds from the equity market has not, however, benefited ten-year US Treasury bonds, yields on which fluctuated around the 4 per cent mark between mid-October and the end of February (Figure 7). The failure of Treasury bond prices to rise appears to have been due mainly to the rapid and conspicuous deterioration in the public finances that is already occurring and is expected to continue in the future. The federal budget (including social security), which showed a surplus equal to 2.4 per cent of GDP in the 2000 fiscal year, swung from a surplus of $127.3 billion (1.3 per cent of GDP) in 2001 to a deficit of $157.8 billion (1.5 per cent) last year. Since the beginning of March the yield on ten-year Treasury bonds has fallen to 3.6 per cent.

Figure 7

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



Source: Thomson Financial Datastream.
(1) Risk premiums are calculated as yield differentials between corporate bonds and 10-year government bonds. – (2) 11 September 2001.

The demand for corporate bank loans has remained weak in recent months and there has been no significant sign of supply restrictions. The Federal Reserve's quarterly Survey on Bank Lending Practices conducted in January reveals that although business demand for loans remains weak the number of banks indicating a fall in demand was lower than at the time of the previous survey. On the supply side, the proportion of US banks reporting that they had tightened their lending criteria for large and medium-sized firms remained unchanged at 20 per cent.

Despite the cyclical economic slowdown and the significant fall in share prices in recent years, the US banking system remains sound. In 2002 the return on equity was 14.5 per cent and the capital adequacy ratio 12.8 per cent. The industry's profitability and balance sheet situation have benefited from the fact that US banks have negligible equity portfolios (since 1994 shares have never exceeded 0.7 per cent of their total assets), low exposure towards emerging countries and a risk management policy that has enabled them to transfer more risky assets to other investors, partly by using innovative derivative instruments.

The economic and financial situation in Japan

In Japan GDP growth slowed down to an annual rate of 2.2 per cent in the fourth quarter owing to a stagnation in consumption, after having recorded rates of 5.5 and 3.1 per cent in the second and third quarters (Table 1). The external sector contributed 1.3 percentage points to growth, thanks to an increase of 17.6 per cent in exports, which had remained unchanged in the third quarter, and a slowdown in import growth to 6.7 per cent.

The labour market began to deteriorate again in October. In January of this year employment was 1 per cent lower than a year earlier, compared with 0.6 per cent in September. Despite the underlying contraction in the labour force, the unemployment rate rose to 5.5 per cent.

In 2002 the fall in consumer prices, net of the more volatile fresh food component, was almost the same as in 2001, standing at a twelve-month rate of 0.8 per cent in January 2003. Nominal wages have been falling more markedly since December; in the two months ending in January they were 2.3 per cent lower than in the corresponding period of the previous year.

Despite a recovery in profits generated by a rise in turnover in the last three quarters of the year, large manufacturing firms scaled down their investment plans in 2002. In December the Tankan survey reported a significant deterioration in firms' expectations about business conditions in the short term. Industrial production, which had been falling since September, rose by 1.5 per cent in January.

Japanese equity prices also began to fall again in December. At the end of the first week of March the Nikkei index was 11.6 per cent lower than at the end of November and at its lowest level since March 1983 (Figure 5). Bank shares were marked down severely, by 23.8 per cent since the beginning of November, partly on account of fears that some large institutions would be nationalized, which were fueled by the announcement of the Financial Revival Plan by the Financial Services Agency (FSA) at the end of October. To date, the Bank of Japan has purchased shares worth ¥831 billion from commercial banks under the programme announced on 18 September 2002.

According to the latest estimates from the FSA, the volume of non-performing loans (not taking account of provisions) amounted to about ¥40 trillion at the end of September, equal to 8.3 per cent of lending and 8 per cent of GDP. In February, under the Financial Revival Plan, the FSA launched a further inquiry into the quality of bank loans, based on new and more stringent valuation criteria.

The Bank of Japan further increased the supply of liquidity to the banking system from the end of October onwards. Outright purchases of government bonds were increased from ¥1,000 billion to ¥1,200 billion a month; on 19 November the target balance for financial institutions' current accounts with the central bank was raised to nearly the upper limit of the range announced at the end of October (¥20 trillion). In December the range of eligible collaterals that banks may use to guarantee advances from the central bank was widened further, as was that of the securities that the central bank will accept under repurchase agreements. Despite these measures, the growth in the broad monetary aggregate (M2+CDs) slowed down, from a twelve-month rate of 3.3 per cent in October to one of 2 per cent in February; bank lending, even including written-off non-performing loans, continued to contract, at a rate of 2.5 per cent in February. The switching of funds out of the equity market and the abundance of liquidity benefited the bond market, where the yield on ten-year government bonds has fallen by 0.3 percentage points since October to 0.7 per cent.

The yen weakened for a time against the dollar in the second half of October (to an exchange rate of ¥125) but began to strengthen again in December, reaching ¥116.6 at the end of the first week of March (Figure 1). In order to curb its appreciation, the Japanese authorities intervened both with public statements to the effect that the exchange rate was out of line with the fundamentals of the Japanese economy and, from January onwards, with large market purchases of dollars.

At the end of January the Diet approved a supplementary budget for the 2002 fiscal year (ending in March 2003), which provides for new spending measures worth ¥4.4 trillion, of which ¥1.8 trillion is earmarked to bolster the social security system and ¥2.6 trillion for infrastructure. On the basis of preliminary estimates from the Ministry of Finance, the budget deficit (including the social security surplus) will rise to 7 per cent of GDP in the 2002 fiscal year, compared with 6 per cent in the preceding year. The latest estimates from the OECD indicate that Japan's gross public debt amounted to 142.7 per cent of GDP at the end of 2002, compared with 132.6 per cent in 2001.

Economic developments in the emerging countries

The majority of the Asian economies continued to grow at a sustained pace (Table 2) and terms for access to international capital markets remained favourable (Figure 8). In China GDP increased by 8 per cent last year, boosted mainly by public investment and exports. In South Korea growth was

Table 2

Economic indicators for selected emerging countries

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

	% of world GNP in 2000 (1)	GDP				Domestic demand (2)			Net exports (3)		
		2001	2002	2002		2001	2002		2001	2002	
				H1	H2		H1	H2		H1	H2
Asia											
China	*11.1*	7.3	8.0	7.8	8.1	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
India (5)	*5.3*	5.6	. . . .	5.9	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Indonesia	*1.3*	3.3	3.6	3.1	4.0	5.0	–1.7	6.1	–1.4	4.8	–1.7
Malaysia	*0.4*	0.4	4.2	2.7	5.7	0.1	6.3	8.0	0.3	–2.9	–1.4
Philippines	*0.7*	3.2	4.6	4.3	4.8	5.0	2.7	7.6	–2.0	1.4	–3.2
South Korea . . .	*1.8*	3.0	. . . .	6.1	5.8 (4)	1.8	8.4	4.2 (4)	1.5	–0.8	2.3 (4)
Taiwan	. . . .	–2.2	3.5	2.6	4.5	–5.2	–1.3	3.9	2.7	3.8	0.9
Thailand	*0.9*	1.9	. . . .	4.5	5.8 (4)	2.1	3.3	5.7 (4)	0.1	1.6	0.9 (4)
Europe											
Poland	*0.8*	1.0	. . . .	0.7	1.6 (4)	–1.9	. . . .	. . . .	3.5	. . . .	. . . .
Russia	*2.6*	5.0	. . . .	3.9	4.3 (4)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Turkey	*1.0*	–7.5	. . . .	5.4	7.9 (4)	–18.5	6.7	8.1 (4)	12.3	–1.1	0.5 (4)
Latin America											
Argentina	*1.0*	–4.4	. . . .	–14.9	–10.1 (4)	–6.4	–21.9	–16.2 (4)	2.1	7.1	5.9 (4)
Brazil	*2.8*	1.4	1.5	0.1	2.9	0.5	. . . .	. . . .	1.0	. . . .	. . . .
Mexico	*1.9*	–0.3	. . . .	. .	1.8 (4)	0.4	0.4	1.6 (4)	–0.7	–0.4	0.2 (4)

Sources: National statistics, World Bank, IMF and OECD.

(1) On the basis of purchasing power parities. – (2) Includes change in stocks and statistical discrepancies. – (3) Contribution to GDP growth in relation to the same period of the previous year in percentage points. Includes goods and services. – (4) Third quarter. – (5) GDP at factor cost, fiscal year (April to March).

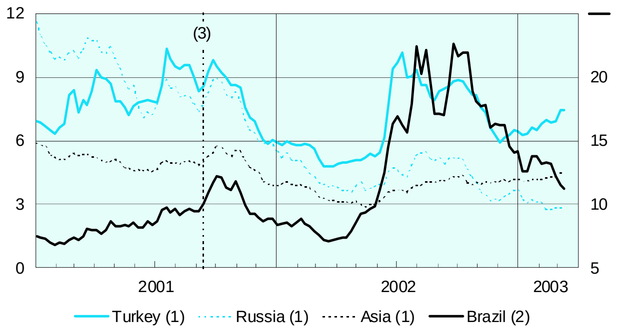
particularly rapid in the first half of the year but eased in the third quarter to 5.8 per cent in relation to the same period of 2001 as a result of a slowdown in consumption. Output in the two Asian economies that are most dependent on exports of high-technology products (Taiwan and Malaysia) also continued to grow appreciably in the second half of 2002, producing growth rates of 3.5 and 4.2 per cent for the year as a whole.

The economic situation in Latin America as a whole is weak but continued to evolve differently from country to country.

In Brazil, which has been recovering since the beginning of 2002, output in the second half of the year was 2.9 per cent higher than in the same period of 2001, thanks to external demand. The twelve-month inflation rate, which had been below 8 per cent until September, climbed to 14.5 per cent in January, owing partly to the pronounced depreciation of the real by more than 40 per cent between the beginning of 2002 and mid-October. In order to curb inflation, the central bank raised official interest rates by 8.5 percentage points between October and February, to 26.5 per cent. In 2002 the primary surplus on the consolidated public accounts increased to 3.9 per cent of GDP, in line with the target agreed with the IMF under the financial assistance programme granted last September. Since January, when the new government was installed, the premium for the risk of default on the country's sovereign debt has come down by 3.3 percentage points to 12.2 points; at the end of September, before the election, it had touched a peak of 24 points (Figure 8). In Chile, one of the most open economies in Latin America, the recovery that has been under way since the second quarter of last year derived support from the increase in external demand; according to the latest estimates from Consensus, growth averaged 1.9 per cent in 2002, compared with 2.8 per cent in 2001.

Figure 8

Yield differentials between long-term dollar-denominated bonds issued by selected emerging countries and 10-year 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.

In Argentina output collapsed in the first quarter of 2002 after the financial crisis erupted, falling by 16.3 per cent by comparison with the same period of the previous year. Activity began to recover in the second quarter. In the third GDP was still 10 per cent lower than a year earlier, but from December onwards industrial production was again showing positive twelve-month rates of increase, recording one of 13.1 per cent this January. Since last October the monthly rise in prices has fallen to an average of 0.6 per cent, owing partly to the stabilization of the peso, which appreciated by 10.7 per cent between the end of October and the first week of March, to stand at 3.20 pesos per dollar. Its current exchange rate is 70 per cent below the fixed parity that was in force until the beginning of 2002. Argentina remains excluded from the international capital markets. At the beginning of December the relative stability of the currency allowed the government to remove the limit of 500 pesos per week that had been imposed on withdrawals from sight deposits in national currency since January 2002; the restrictions on withdrawals from dollar-denominated deposits remain in force, however.

The economic situation in Venezuela, which had already worsened in the first half of 2002 owing to the deterioration in the political climate, was further exacerbated in the fourth quarter. The national strike called at the beginning of December caused an almost total stoppage in the oil sector, which generates more than a quarter of GDP, almost 80 per cent of exports and around 50 per cent of total tax revenues. According to the latest estimates from Consensus, the fall in GDP in 2002 as a whole could be as much as 9 per cent. After massive capital flight had caused the currency to depreciate by 35 per cent against the dollar from mid-December onwards, it was decided on 22 January to close the foreign exchange market for two weeks. When it re-opened, restrictions were placed on foreign exchange transactions and the official exchange rate of the bolivar was set at a level that represented a 20 per cent revaluation in relation to its level at the time of the closure.

In Turkey the economic recovery continued in the third quarter, with output showing an increase of 7.9 per cent over the same period a year earlier. The results of the parliamentary elections at the beginning of November resolved the uncertainty that had caused severe tension in the financial markets last summer. The yield differential on government securities in foreign currency fell from 8.2 percentage points at the beginning of November to 5.7 points in December. The subsequent deterioration in the international political climate drove it back up to 7.4 points (Figure 8); the lira remained relatively stable against the dollar.

Table 3

Crude oil production by OPEC countries

(millions of barrels per day)

	Production						Production capacity (2)
	1989		2002		December 2002	January 2003	
	Volume	As a percentage of world production (1)	Volume	As a percentage of world production (1)			
Algeria	0.72	*1.1*	0.85	*1.1*	0.98	1.00	1.10
Indonesia	1.23	*1.9*	1.12	*1.5*	1.12	1.12	1.18
Iran	2.84	*4.3*	3.42	*4.5*	3.60	3.63	3.90
Kuwait (3)	1.76	*2.7*	1.87	*2.4*	1.91	1.97	2.15
Libya	1.10	*1.7*	1.32	*1.7*	1.34	1.36	1.45
Nigeria	1.66	*2.5*	1.95	*2.5*	2.04	2.14	2.35
Qatar	0.38	*0.6*	0.64	*0.8*	0.72	0.72	0.75
Saudi Arabia (3)	5.07	*7.7*	7.65	*10.0*	8.02	8.52	9.50
United Arab Emirates	1.91	*2.9*	1.99	*2.6*	2.03	2.14	2.50
Venezuela	1.75	*2.6*	2.29	*3.0*	0.71	0.57	2.35
Total for above countries	**18.41**	***27.9***	**23.10**	***30.2***	**22.44**	**23.17**	**27.23**
Iraq	2.81	*4.3*	2.01	*2.6*	2.32	2.49	2.80
Total OPEC	**21.22**	***32.1***	**25.11**	***32.8***	**24.76**	**25.66**	**30.03**
Memorandum items:							
World production of crude and other natural gas liquids	66.06	*100.0*	76.59	*100.0*	76.39	77.58	....
OPEC production	23.79	*36.0*	28.54	*37.3*	27.88	28.70	....
Non-OPEC production	42.27	*64.0*	48.05	*62.7*	48.51	48.88	....
OECD countries (4)	18.89	*28.6*	21.93	*28.6*	22.18	22.30	....
Non-OECD countries (4)	22.12	*33.5*	24.37	*31.8*	24.55	24.75	....
of which: *Russia*	*11.08*	*16.8*	*7.66*	*10.0*	*7.98*	*8.02*	....

Sources: IEA, monthly *Oil Market Report.*

(1) World production includes the production of other natural gas liquids. – (2) Volume of production that could be achieved within one month and sustained for three months. – (3) Includes half of Neutral Zone production. – (4) Excludes losses of crude during marine transportation and due to other causes.

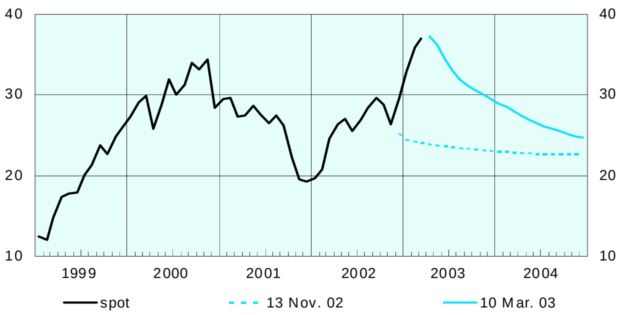
The prices of oil and other raw materials

In 2002 the price of crude oil (average for the three main grades) rose from $19 to about $30 per barrel (Figure 9). The further increases since this February took the level to around $34 per barrel on 10 March.

The rise in oil prices paused between October and mid-November but resumed thereafter, driven by the deterioration in the international political situation and, in December, by the drastic reduction in oil production in Venezuela (estimated at 73 per cent by the International Energy Agency of the OECD) and the consequent collapse in exports to the United States, of which Venezuela is the fourth largest supplier. At the end of December industrial stocks of crude in the industrial countries were 2.2 per cent below the average for the preceding three years, and at the end of January those in the United States were down by 8.6 per cent, at their lowest level since 1975.

Figure 9

WTI crude oil: spot price and futures prices according to maturity date (1)
(dollars per barrel)



Source: Thomson Financial Datastream.
(1) For the spot price, average monthly data; for March 2003, the latest available data relate to 10 March.

In January crude prices remained more or less stable following a partial easing of political tension in Venezuela in the second half of the month and the decision of the OPEC countries to raise the target for total production by a further 1.5 million barrels per day to 24.5 million from the beginning of February. Output by the OPEC countries, which fell from 26.5 million barrels per day in November to 24.8 million in December, increased again in January, to 25.7 million barrels (Table 3).

Oil prices began to rise again in February, owing partly to higher demand in North America due to bad weather. According to indications implicit in futures contracts on WTI grade listed on NYMEX on 10 March, the price is likely to remain close to the current level ($37.20 per barrel, Figure 9) until the beginning of April and then to decline gradually to around $30 at the end of the year and $25 at the end of 2004.

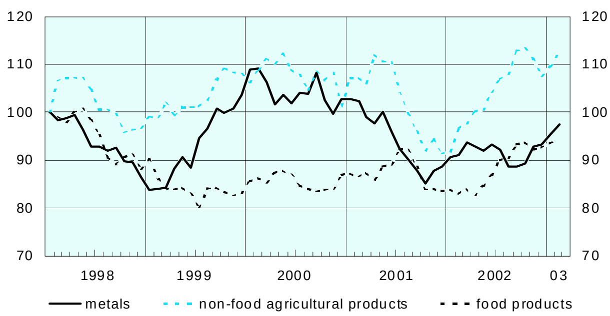
At present, the countries belonging to the OPEC cartel appear to have little spare production capacity that would allow them to increase output further. Excluding Iraq and Venezuela, which may continue to feel the adverse effects of the disruption of maintenance work at its plant for some months to come, the spare capacity of all the OPEC countries is estimated at little more than 2 million barrels per day, barely sufficient to replace Iraq's current output (Table 3).

The Gulf states accounted for 29 per cent of world oil production in 2002, compared with 27 per cent in 1989 before the Gulf War. The reduction in Iraq's share from 4.3 per cent in 1989 to 2.6 per cent in 2002 was offset by an increase in extraction by Saudi Arabia, whose share rose from 7.7 to 10 per cent. The other major oil producer and exporter, Russia, has a market share of 10 per cent.

The Gulf states have a much larger share of the world's total known oil reserves, 65 per cent according to the most reliable estimates. The largest deposits, which can be exploited commercially over the long term, are in Saudi Arabia (25 per cent) and Iraq (11 per cent). Russia has barely 5 per cent.

Figure 10

World prices in dollars of non-energy raw materials (1)
(monthly average data; indices, January 1998=100)



Source: IMF.
(1) For February 2003, provisional data.

By contrast, bad weather and other specific supply constraints have been at the root of the rise in the prices of primary commodities other than energy in recent months. In February the prices of agricultural raw materials for industrial use were 16.4 per cent higher than a year earlier, food prices 12.5 per cent higher and metals prices, which are usually highly sensitive to the economic cycle, showed an increase of barely 7 per cent (Figure 10).

ECONOMIC DEVELOPMENTS IN THE EURO AREA AND ITALY

Production, demand and the balance of payments

Economic activity

In 2002 the GDP of the euro area grew by 0.8 per cent, compared with 1.4 per cent in 2001 (Table 4). After the recovery in the first quarter, the pace of economic activity was modest. In the fourth quarter growth slowed down to an annual rate of 0.7 per cent.

Net exports contributed more than half a percentage point to overall growth, the same as the year before. The slowdown in activity in 2002 is ascribable entirely to the weakness of the domestic components of demand. Private consumption declined in the first quarter but subsequently began to increase again, albeit slowly, against the background of a deterioration in household confidence. Gross fixed capital formation was restrained by the large margins of spare capacity and continued high uncertainty; after falling sharply in the first half it remained essentially unchanged for the rest of the year.

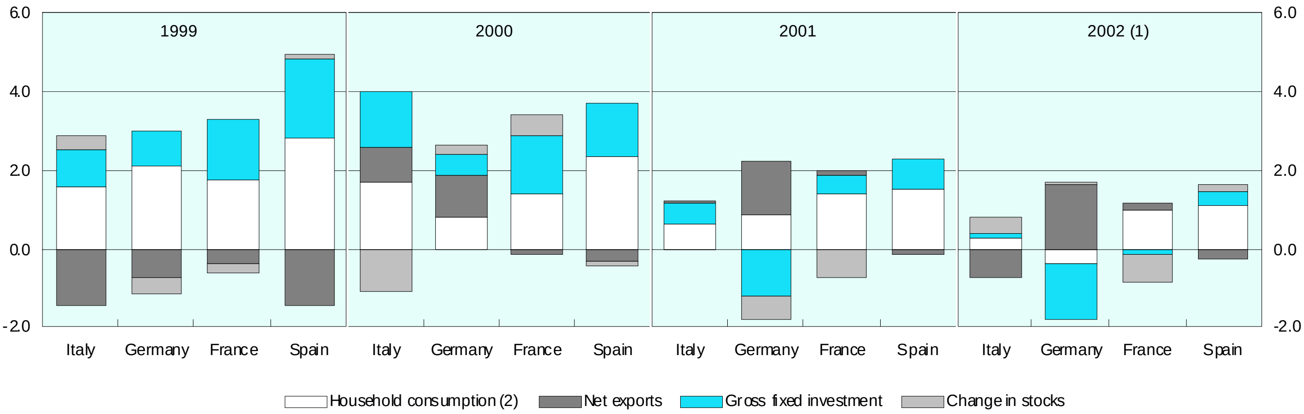
The slowdown in growth for the year as a whole affected all the major economies of the area, but France and Spain less than the others. In these two countries the increase in GDP, of 1.1 and 2 per cent respectively, was sustained mainly by private consumption (Figure 11).

Output in Germany stagnated, rising by only 0.2 per cent, after having slowed down appreciably in 2001. Over the last five years the negative growth gap between the German economy and that of the other euro-area countries as a whole has totaled around 6 percentage points, almost twice as much as in the preceding five years. In 2002 households' final consumption expenditure in Germany fell for the first time in twenty years and the decline in investment became more marked. The negative contribution of national demand was offset by an increase in net exports, mainly reflecting rapid export growth.

Figure 11

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

(at constant prices; percentage points)



Source: Based on national statistics.

(1) For France, estimated on the basis of the quarterly national accounts. – (2) Comprises consumption of resident households and non-profit institutions serving households.

Table 4

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

	1999	2000	2001	2002 (1)	2002 (2)			
	Year	Year	Year	Year	Q1	Q2	Q3	Q4
				GDP				
Germany	2.0	2.9	0.6	0.2	1.2	0.6	1.2	−0.1
France	3.2	3.8	1.8	1.1	2.8	1.8	1.2	0.9
Italy	1.7	3.1	1.8	0.4	. .	0.8	1.3	1.7
Spain	4.2	4.2	2.7	2.0	2.0	2.0	3.2	1.4
Euro area	2.8	3.5	1.4	0.8	1.6	1.3	1.6	0.7
				Imports				
Germany	8.5	10.5	1.0	−2.1	−13.6	6.9	8.8	7.7
France	6.2	14.3	0.1	1.2	12.5	6.4	2.3	−1.6
Italy	5.6	8.9	1.0	1.5	−2.3	15.8	10.0	8.5
Spain	12.7	10.6	3.5	2.2	−3.2	−0.3	17.9	16.9
Euro area	7.4	11.3	1.5	−0.3	−3.8	6.3	7.4	2.5
				Exports				
Germany	5.6	13.7	5.0	2.6	2.6	4.7	12.2	1.2
France	4.3	12.7	0.5	1.8	7.9	7.4	6.4	−1.4
Italy	0.1	11.7	1.1	−1.0	−14.6	22.4	13.8	−0.4
Spain	7.7	10.1	3.4	1.4	−9.0	5.8	25.6	4.3
Euro area	5.2	12.6	2.8	1.2	0.8	7.0	8.6	0.1
				Household consumption (3)				
Germany	3.7	1.4	1.5	−0.6	−2.8	0.7	1.4	0.2
France	3.2	2.5	2.6	1.8	1.3	1.7	2.6	1.6
Italy	2.6	2.7	1.0	0.4	−1.0	0.8	3.1	4.1
Spain	4.7	3.9	2.5	1.9	1.3	1.3	0.6	4.0
Euro area	3.5	2.5	1.8	0.6	−0.7	1.4	1.7	1.4
				Gross fixed capital formation				
Germany	4.1	2.5	−5.3	−6.7	−7.6	−13.2	−0.6	3.4
France	8.3	7.7	2.3	−0.7	1.1	−0.3	−2.6	−2.8
Italy	5.0	7.1	2.6	0.5	−5.7	2.0	11.7	8.5
Spain	8.7	5.7	3.2	1.4	3.0	3.9	5.6	−2.5
Euro area	5.9	4.9	−0.6	−2.5	−0.8	−5.2	−0.8	−0.3
				National demand				
Germany	2.8	1.8	−0.8	−1.5	−4.3	1.1	−0.3	1.9
France	3.6	4.0	1.7	0.9	3.9	1.4	. .	0.9
Italy	3.2	2.3	1.8	1.1	−4.1	−0.9	0.2	4.3
Spain	5.6	4.4	2.7	2.2	3.8	0.2	1.5	5.3
Euro area	3.5	2.9	0.9	0.2	−0.1	0.9	0.9	1.6

Sources: Based on Eurostat data and national statistics.
(1) For France, estimated on the basis of the quarterly national accounts. – (2) Seasonally adjusted data. – (3) Comprises consumption of resident households and non-profit institutions serving households.

The modest increase in Italy's GDP (0.4 per cent, against 1.8 per cent in 2001) was consistent with the unfavourable cyclical situation in the area as a whole. Output growth was held in check by the external components of demand, with national demand providing weak stimulus. In contrast to developments in the other major economies, Italian exports fell last year and Italian firms' share of world trade continued to contract. Private consumption and gross fixed investment slowed down; the change in stocks contributed 0.4 percentage points to GDP growth (Table 5). Economic activity picked up slightly as the year progressed. Private consumption rose appreciably in the second half of the year (at an annual rate of 2.8 per cent, compared with a contraction of 0.3 per cent in the first half), particularly spending on services and durable goods. Gross fixed investment, which had fallen during the first six months of the year, also staged a marked recovery, presumably encouraged by the approaching expiry of tax incentives under the Tremonti bis Law in December.

In 2002 as a whole the growth in activity occurred entirely in the services sector, where value added at constant prices rose by 1 per cent. Industrial activity, by contrast, contracted, a slight increase in construction being outweighed by a fall in manufacturing.

Table 5

Italy: resources and uses of income

(at constant price; percentage changes unless otherwise indicated)

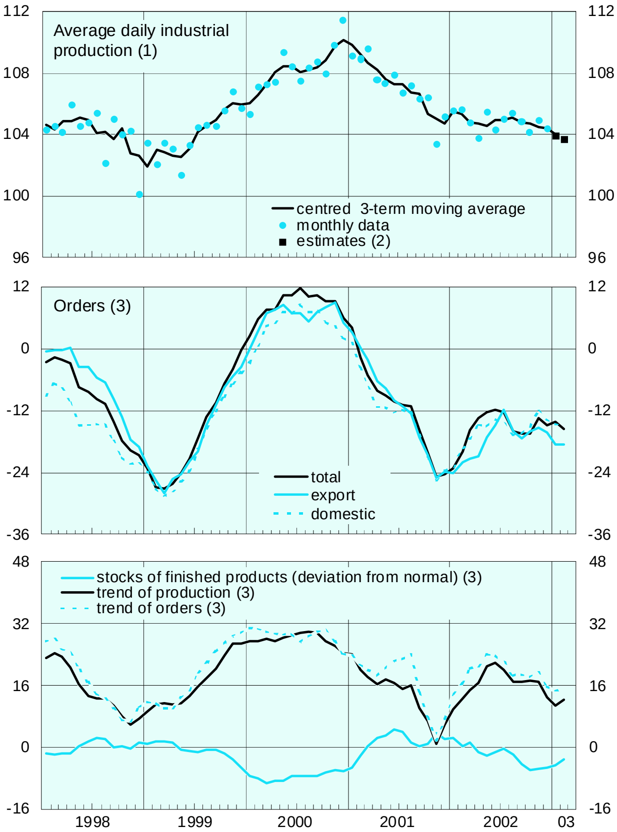
	As a percentage of GDP in 2002	1999	2000	2001	2002	Contribution to GDP growth in 2002 (1)
Resources						
GDP	–	1.7	3.1	1.8	0.4	–
Imports of goods and services	28.7	5.6	8.9	1.0	1.5	−0.4
Total resources	–	2.5	4.4	1.6	0.6	–
Uses						
Gross fixed capital formation	20.8	5.0	7.1	2.6	0.5	0.1
Construction	8.5	2.6	5.9	3.2	0.3	. .
Machinery, equipment and sundry products	9.7	4.9	7.6	0.9	0.8	0.1
Transport equipment	2.6	15.1	9.6	7.3	0.2	. .
Consumption of resident households	59.8	2.6	2.7	1.0	0.4	0.3
Non-durable goods (2)	26.3	1.4	1.6	0.5	−0.3	−0.1
Durable goods (2)	7.0	5.1	5.8	−0.6	−2.8	−0.2
Services (2)	27.1	2.7	4.0	1.8	0.7	0.2
Consumption of general government and non-profit institutions serving households	18.0	1.4	1.7	3.5	1.7	0.3
Change in stocks and valuables (3)	0.4	0.3	−1.1	. .	0.4	0.4
Total national demand	98.9	3.2	2.3	1.8	1.1	1.1
Exports of goods and services	29.8	0.1	11.7	1.1	−1.0	−0.3
Net exports (3)	1.1	−1.4	0.9	0.1	−0.7	−0.7

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

Figure 12

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.

Industrial production, which had already been at a low level at the end of 2001, maintained a slightly downward trend throughout the year (Figure 12; see the box "Economic developments in the regions of Italy" for an analysis of economic performance at local level). In 2002 as a whole it decreased by 2.1 per cent, a larger decline than in the rest of the area (Figure 13). The contraction was particularly marked in the final capital goods sector (4.0 per cent).

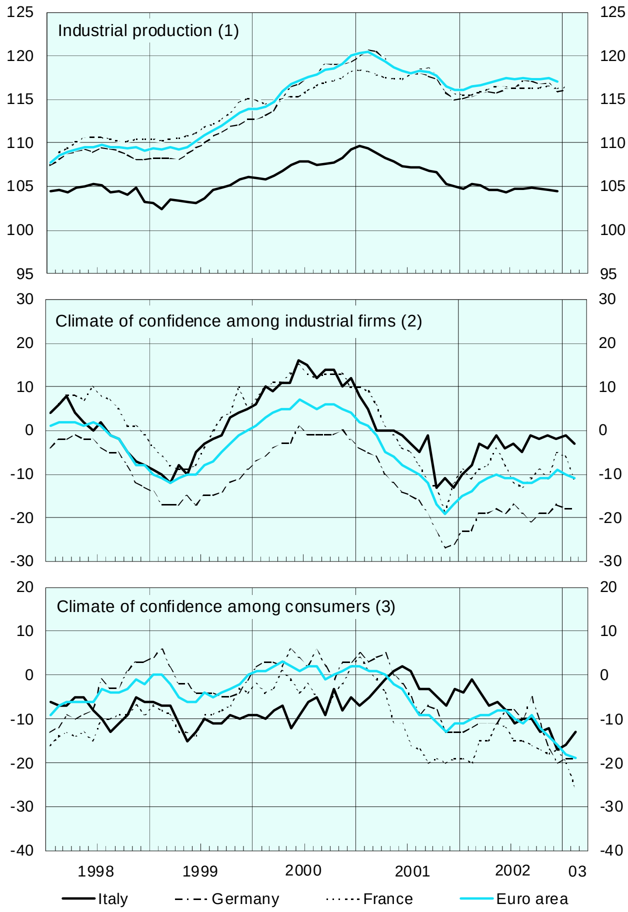
The latest indicators do not show substantial changes in the economic picture for the area as a whole or for Italy during the first few months of 2003.

Confidence among industrialists and consumers has shown a slight improvement but remains weak, confirming a prudent assessment of the short-term prospects for the economy. In January the EuroCOIN coincident indicator, which each month provides an estimate of the rate of growth in the cyclical component of the area's GDP, fell for the second consecutive month (Figure 14).

Figure 13

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 the level of orders, stocks of finished products and expectations for output. – (3) Climate of confidence calculated by the European Commission as the weighted average of the seasonally adjusted percentage balances of the responses to four questions on consumers' expectations regarding the economic situation, both general and personal, unemployment and the possibility of saving.

Economic developments in the regions of Italy

According to qualitative ISAE indicators, industrial activity showed signs of improvement in the regions of the South and North-West during the summer but remained broadly unchanged in all areas of the country in the last quarter of 2002. During the same period business confidence deteriorated everywhere except in the North-East. According to preliminary data available for the current year, production has begun to decline again in all areas except the North-East.

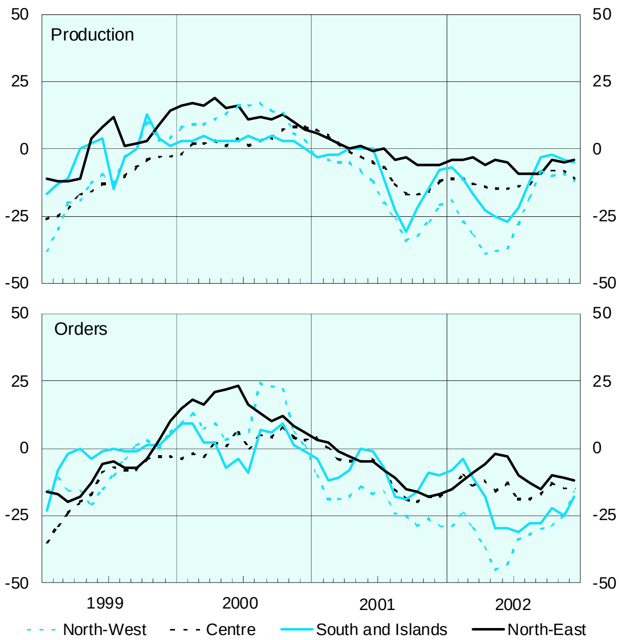
In the third quarter industrial production in the North-West *recovered strongly from the low level it had reached in the middle of the year in conjunction with a rise in orders (see figure). The recovery came to a halt in the fourth quarter, however, and expectations regarding production in the short term deteriorated appreciably, owing partly to the difficulties at FIAT. After falling sharply in the first half of the year, the area's exports rose in value by 4.1 per cent in the third quarter by comparison with the same period of 2001 (see table), owing mainly to the increase in exports from Lombardy, which were particularly strong in the chemical and machinery sectors. Exports of motor vehicle parts and accessories produced in Piedmont also increased, thanks to the ability of FIAT suppliers to reposition themselves.*

Cyclical fluctuations in industrial production were much less pronounced in the North-East *than in the North-West; a slight decline during the summer was made good during the remainder of the year. Manufacturing firms' expectations about the level of activity in the short term improved during the first half of the year but then leveled off. In the third quarter the value of exports grew again at a year-on-year rate that was above the national average owing to good sales of machinery, chemicals and non-metallic minerals from Emilia Romagna.*

According to the ISAE indicators, industrial production in the Centre *showed no significant change in the second half of 2002, a situation that was consistent with the static level of orders. In the final quarter, however, respondents indicated that they expected production in the short term to be below the average for the preceding months. In the third quarter the growth in exports by comparison with the same period of 2001 was higher than in all the other areas, consolidating the recovery that had begun in the preceding quarter. One factor was the large increase in exports by the aerospace industry in Latium (whose sales fluctuate widely) and those of machinery produced in Tuscany and the Marches.*

In the South *the large contraction in production in the first half of the year was offset in the third quarter, thanks to an improvement in domestic orders. Industrial*

Cyclical indicators for the macro-regions of Italy (1)



Source: ISAE.

(1) Manufacturing industry, seasonally adjusted monthly data, centred 3-term moving averages of the difference between the percentage of positive replies ("high", "increasing") and that of negative replies ("low", "decreasing"), not weighted by size of firm. The data for the final month are the simple averages of the preceding two values.

cont.

Exports of goods by macro-region
(percentage changes in nominal values)

	In relation to same period of previous year					In relation to preceding period			
	2001	2002				2001	2002		
	Q4	Q1	Q2	Q3	Jan.-Sept.	Q4	Q1	Q2	Q3
North-West	2.2	−12.8	−5.1	4.1	−5.0	1.6	−4.6	1.2	−0.3
North-East	3.3	−7.3	−4.1	4.1	−2.6	1.0	−3.7	0.6	2.1
Centre	−5.4	−11.0	0.8	4.9	−1.8	−2.7	−1.6	7.0	−0.8
South and Islands	−10.0	−13.0	−4.0	−1.8	−6.4	−5.2	0.5	1.7	−0.8
Italy (1)	−0.2	−10.9	−3.7	3.6	−3.9	0.0	−3.3	2.0	0.3

Source: Istat.
(1) Figures may differ from those obtainable from foreign trade statistics at aggregated level because of the different accounting methods applied to exports to EU countries.

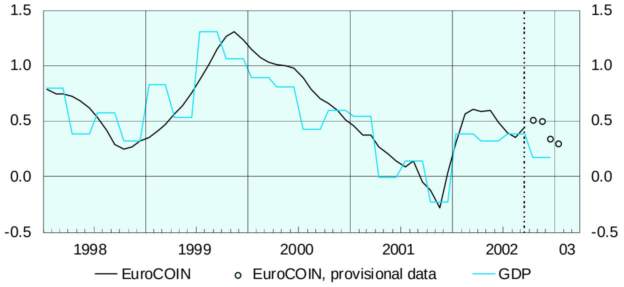
activity remained flat towards the end of the year, when production expectations deteriorated significantly. In the third quarter exports continued to fall in value terms (by 1.8 per cent by comparison with a year earlier), although less sharply than in the first half of the year. The fall was more pronounced in the islands, which are particularly vulnerable to fluctuations in exports of fuels.

Spending by foreign visitors to Italy, which had exceeded 2 per cent of GDP in 2001, increased by 2.8 per cent in the third quarter of 2002 by comparison with the corresponding period of the previous year. According to UIC statistics, the increase affected all areas except the Centre, where there was a fall of almost 9 per cent. Istat data on hotel occupancy rates confirm that the number of overnight stays of foreign visitors was unchanged at national level by comparison with the same period in 2001 but declined in the regions of the Centre, where the sharp fall in arrivals was only partly offset by an increase in the average length of stay. In Christmas week the number of overnight stays of foreign visitors in the Centre was distinctly higher than a year earlier but still below the level recorded before the steep decline that occurred in the wake of the events of 11 September 2001.

According to Istat labour market statistics, employment in the South was 1.8 per cent higher in the second half of 2002 than in the same period of the preceding year, compared with a national average increase of 1.2 per cent. The largest rise was in industry excluding construction (3.2 per cent, more than double the national average) and in services, which nonetheless suffered a fall in the northern regions. This confirms that in 2002 as a whole there was an employment growth differential in favour of the southern regions; according to preliminary estimates from SVIMEZ, GDP growth in the South was also slightly higher than in the rest of the country.

Figure 14

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

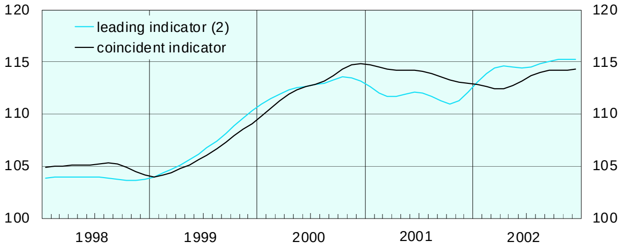


(1) The method of constructing the indicator is described in the "Note metodologiche" section of the Appendix to the Bank's Annual Report for 2001 in Italian.

In Italy, estimates based on electricity consumption indicate that in January and February 2003 industrial production was on average slightly lower than in the preceding two months. The leading indicator, which predicts the course of the Italian economy as a whole over the next five to six months, does not point to a recovery in activity (Figure 15).

Figure 15

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 increased by 0.6 per cent in real terms in 2002, compared with 1.8 per cent the preceding year.

The rates of increase in France and Spain were well above the average, although lower than previously. In these two countries private consumption, which continued to be the main driving force of GDP growth, was sustained by the rise in real disposable income, in particular by the increase in total compensation.

Household spending was, at best, weak in the other major euro-area countries. In Germany it fell by 0.6 per cent, with all the contraction occurring in the first half of the year. The three-year programme of reductions in income tax rates that was launched in 2001 provided only temporary stimulus, which rapidly evaporated as employment fell sharply.

In Italy private consumption increased marginally (by 0.4 per cent over the year) after having slowed down abruptly from 2.7 per cent in 2000 to 1 per cent in 2001. This outcome was due partly to the slower growth in households' real disposable income, which is put provisionally at around 0.5 per cent, compared with about 2 per cent in 2001. A number of factors were at play here: a slowdown in real earnings from salaried employment, the slight increase reflecting a rise in the number of standard labour units but virtually no change in unit wages and salaries; real income from self-employment unchanged from the previous year; and a fall in households' net receipts of interest income, due entirely to the decline in yields. The caution consumers displayed in their spending decisions may also have reflected the perception that inflation was higher than it actually was, which combined with a sharp deterioration in consumer confidence.

Households' assessments of the general economic situation and labour market prospects have steadily worsened; uncertainty about international geopolitical developments has heightened in recent months. Nevertheless, consumer spending revived in the second half of the year, fueled mainly by expenditure on services. There was also a rapid acceleration in purchases of transport equipment. On the basis of data from the National Association of Automobile Manufacturers, new car registrations rose by 15.6 per cent between the first and second halves of the year, boosted by the introduction of temporary fiscal incentives for purchases of vehicles with a reduced environmental impact.

In 2002 as a whole, however, spending on consumer durables decreased by 2.8 per cent and that on non-durables, which as usual was less volatile, by 0.3 per cent. Expenditure on services increased slightly, by 0.7 per cent.

Investment and stocks

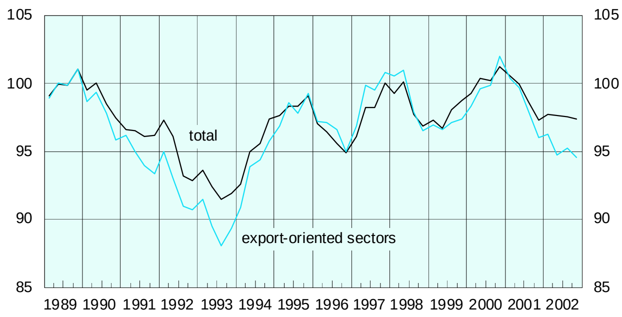
Investment in the euro area, which had declined by 0.6 per cent in 2001, contracted by a further 2.5 per cent last year in response to the persistent weakness of demand and growing uncertainty about the timing and strength of the economic recovery. On the basis of available disaggregated data for the first nine months of the year, spending on machinery, equipment, transport equipment and intangible assets fell by 3.7 per cent and that on construction by 2.7 per cent. The decrease in gross fixed investment eased towards the end of the year.

Capital expenditure showed a slight decrease of 0.7 per cent in France, all of which occurred in the second half of the year. In Germany there was a more marked fall of 6.7 per cent, following one of 5.3 per cent in 2001; construction spending, which declined by 5.9 per cent, has been contracting since the mid-nineties, but it has now been joined by investment in other capital goods, which decreased by 4.4 per cent in 2001 and 7.7 per cent last year. The figures reflect the prolonged stagnation of demand at a low level, which has its counterpart in the lowest capacity utilization rate since 1995. In Spain investment rose by 1.4 per cent.

The growth in capital formation in Italy slowed down further, from 2.6 per cent in 2001 to 0.5 per cent last year, owing partly to an increase in spare capacity, especially among firms in export-oriented sectors (Figure 16), and the progressive downgrading of the short-term prospects for production. As reported above, spending on capital goods quickened in the second half of the year, presumably in view of the approaching expiry of the Tremonti bis Law. In 2002 as a whole investment in machinery, equipment and intangible assets increased by only 0.6 per cent. The growth in purchases of transport equipment virtually disappeared, amounting to only 0.2 per cent, compared with 7.3 per cent in 2001.

Figure 16

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.

Investment in construction remained essentially static; as a result of the decreases recorded between the third quarter of 2001 and the first quarter of 2002, the growth for the year came to 0.3 per cent, compared with an average of 3.9 per cent in the three preceding years. The deterioration was greatest in non-residential construction, which saw investment fall by 0.3 per cent. By contrast, there was an increase of close to 1 per cent in residential building, into which a greater proportion of savings was channeled in view of the fall in share prices. Renovation work on residential properties also had a positive effect: the number of notifications of the commencement of work eligible for incentives under Law 449/1997 and subsequent amendments is thought to have increased by 12.3 per cent last year. Mortgage lending to finance the purchase or construction of housing rose strongly; on the basis of preliminary estimates, the house price index rose by almost 10 per cent in 2002.

In the early months of last year expectations of a cyclical recovery induced a rebuilding of stocks of finished products, which according to ISAE surveys rose above the level businesses consider normal. In the second half of the year, with orders stagnating and short-term expectations deteriorating, there was some destocking. According to national accounts data, production for stock supported the growth in GDP in 2002 as a whole, after having made a nil contribution the previous year.

Exports and imports

Euro-area exports of goods and services increased by 1.2 per cent at constant prices in 2002, compared with 2.8 per cent the previous year.

Despite the appreciation of the euro, imports decreased slightly, by 0.3 per cent, reflecting the sharp slowdown in activity. Among the major countries, only Germany saw imports contract (by 2.1 per cent); in Italy they increased by 1.5 per cent.

Exports rose especially strongly in Germany (2.6 per cent), which benefited from fairly rapid growth in its export markets, particularly in Central and Eastern Europe and Asia excluding Japan. In France and Spain they grew more slowly, by 1.8 and 1.4 per cent respectively. Italy's exports contracted by 1 per cent, the first decrease since 1991.

Since it is estimated that world trade expanded by about 2 per cent in real terms, the decline in Italian exports is a sign of the continued fall in our market shares.

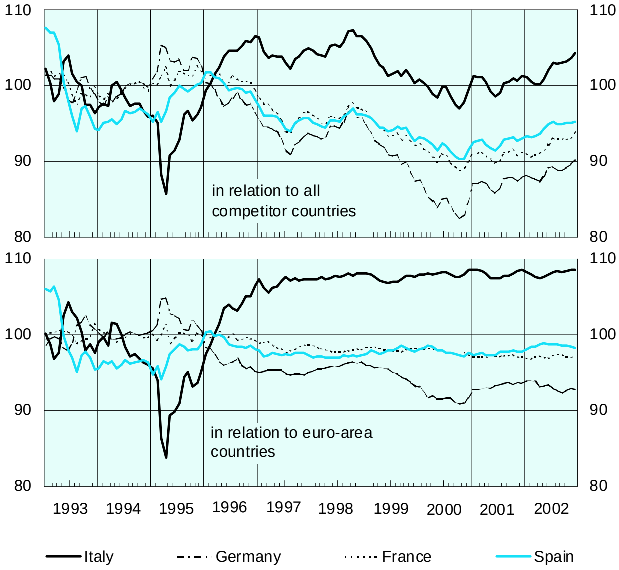
The capacity of Italian firms to compete continues to be affected by the national specialization model centred on traditional sectors, which are more exposed to competition from emerging economies. An additional factor last year was a loss of price competitiveness, equal to 2.9 per cent in December in relation to the end of 2001 on the basis of the producer prices of manufactured goods. The loss of competitiveness worsened as the year progressed: between April and December it amounted to 4.2 per cent, almost 1 percentage point more than in Germany and France owing to an increase in the relative prices of Italian goods (Figure 17). Moreover, Italy's exports reflected the rate of demand growth in the main foreign markets for our products, which had slowed down appreciably in 2001 and was probably even weaker last year.

Istat data on foreign trade in the first eleven months of 2002 (which, however, tend to underestimate the volume of trade in the current year) confirm the picture revealed by the national accounts: the volume of exports fell by 1 per cent by comparison with the same period of 2001 and that of imports rose by 0.7 per cent.

Figure 17

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

(indices, 1993=100)



Source: Based on national statistics.

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

As in 2001, the contraction occurred in exports to EU markets (3.6 per cent). The greatest factor by far was a fall of more than 10 per cent in the volume of exports to Germany. According to disaggregated data at current prices, which are available only for the first nine months of the year, the decrease in sales to the German market was substantial for all the main branches of activity (Table 6). German data on trade in value terms, however, indicate that Italy's share of Germany's total imports decreased only slightly, whereas that of other euro-area countries increased moderately and non-European industrial countries suffered a more pronounced fall. The contraction in Italian exports to the other major EU countries was much smaller than that in exports to Germany, amounting to 1.3 per cent to France and 0.4 per cent to the United Kingdom; exports to Spain rose by 0.8 per cent.

Table 6

Italian exports by value, disaggregated according to main branches of activity and by export market, in the first nine months of 2001 and 2002

		Total	*of which:*											
			Agricul-ture	Food	Textiles and clothing	Leather and footwear	Paper and pub-lishing	Chemi-cal products	Rubber and plastic	Non-metallic minerals	Metals and metal products	Mechan-ical machin-ery and equip-ment	Electri-cal machin-ery	Trans-port equip-ment	Other manu-factured goods
World	A	100	1.5	5.5	10.6	5.2	2.3	10.3	3.7	3.5	8.0	19.6	9.1	11.5	6.2
	B	100	100	100	100	100	100	100	100	100	100	100	100	100	100
	C	6.6	9.8	7.7	9.5	13.1	5.0	6.6	5.0	3.6	6.9	7.7	9.8	0.3	2.4
	D	−3.1	−1.5	5.6	−5.7	−10.0	−0.8	5.6	−1.9	−3.5	−5.6	−3.3	−13.7	−0.5	−4.8
of which:															
Germany	B	13.8	34.4	19.3	14.4	11.7	18.1	12.8	16.7	14.3	15.9	10.4	12.5	16.9	10.3
	C	4.5	12.0	9.2	2.4	9.3	7.4	14.9	4.6	−7.7	7.0	4.9	2.6	1.0	−4.7
	D	−12.3	−6.4	−0.9	−15.2	−22.0	−5.3	−7.6	−7.9	−15.3	−16.8	−12.2	−21.9	−4.6	−17.9
France	B	12.3	9.5	12.9	10.6	9.8	21.1	9.8	17.3	13.5	15.4	11.0	12.7	16.1	10.3
	C	5.5	3.6	4.1	9.3	12.3	10.4	3.1	2.7	6.4	1.6	8.6	1.9	3.6	7.3
	D	−5.7	−6.2	3.8	−6.0	−1.8	2.6	5.1	−1.9	−1.0	−10.5	−5.6	−16.8	−3.2	−6.4
Spain	B	6.3	4.9	3.6	5.8	3.2	5.8	6.9	8.7	3.9	8.4	6.7	6.9	6.4	3.5
	C	7.3	3.2	3.0	7.3	8.4	−6.3	6.8	3.8	7.4	2.6	2.5	10.9	6.6	4.2
	D	−4.3	3.3	6.5	−2.9	−7.1	1.6	10.2	0.1	0.5	−3.8	−9.3	−1.1	−1.1	−4.9
UK	B	6.9	6.4	9.5	6.5	6.2	7.8	5.8	8.0	4.5	6.2	6.3	5.6	10.0	9.2
	C	5.0	8.6	14.2	7.6	8.8	−2.5	15.6	2.1	10.7	3.2	0.2	−1.9	2.1	10.5
	D	−3.2	−4.7	5.8	−0.7	−6.7	−0.1	2.2	−4.1	−0.8	−7.0	−0.5	−8.5	−8.2	7.7
CEEC (1) . . .	B	8.2	8.9	4.4	11.9	14.4	7.2	6.0	8.9	7.8	9.6	8.7	8.5	5.5	5.2
	C	19.5	14.1	17.5	26.9	33.0	19.4	13.0	18.5	20.5	19.8	20.8	36.3	−9.7	15.3
	D	6.0	6.9	15.2	9.2	2.7	0.7	1.9	8.2	−0.3	4.8	15.8	−6.9	5.0	5.6
US	B	9.7	1.0	12.8	8.3	12.8	5.3	8.2	4.5	18.0	5.7	8.0	8.3	11.2	21.5
	C	−0.2	23.0	7.2	6.1	4.5	−7.4	−25.6	3.4	1.9	5.4	0.5	1.0	−2.3	−1.1
	D	−2.9	−15.6	10.1	−18.9	−17.2	−3.4	6.0	−6.6	1.3	−0.6	−9.2	−16.3	29.8	2.6
Japan	B	1.7	0.7	3.1	4.2	3.9	0.4	1.8	0.6	1.2	0.3	0.9	1.3	1.3	2.1
	C	4.4	−8.4	4.5	3.8	1.7	4.3	.5	7.9	27.2	14.4	6.8	12.8	3.0	−1.3
	D	−2.3	8.3	7.2	−10.5	−7.6	0.8	8.3	−2.2	−19.1	−3.6	−5.4	28.3	12.0	−10.6
Far East (2) .	B	3.7	0.5	1.0	5.5	7.5	2.1	3.7	2.0	3.0	2.0	4.2	7.4	1.0	3.7
	C	3.7	−7.4	−5.5	12.4	4.5	−2.2	−4.1	−3.9	−7.6	−2.0	8.8	2.6	26.1	−7.1
	D	−8.0	−6.5	1.4	−10.3	−15.1	14.0	2.0	−0.5	−10.4	0.6	−3.6	−20.3	−0.6	14.5
China	B	1.5	. .	0.1	0.6	1.3	0.5	1.1	0.5	0.4	1.2	3.3	2.1	2.2	0.7
	C	39.0	17.6	41.5	25.4	38.9	34.2	9.7	5.2	22.6	57.0	45.0	72.9	13.0	10.1
	D	28.5	−61.1	−19.5	−6.3	−18.2	69.8	19.8	22.5	−14.2	96.9	14.5	−2.2	565.2	−13.4
Russia	B	1.4	0.7	0.9	2.6	2.7	0.9	0.8	0.9	1.4	1.4	2.0	0.8	0.2	2.3
	C	35.7	29.0	59.0	41.5	34.7	35.4	41.5	30.6	63.7	11.6	42.5	31.8	45.7	18.2
	D	16.2	59.8	14.6	13.6	1.9	0.6	22.0	1.4	12.7	54.3	22.3	10.5	57.9	3.4
Mercosur (3)	B	1.0	0.2	0.4	0.2	0.2	1.0	1.3	0.9	0.4	0.8	1.5	1.1	1.5	0.7
	C	6.9	−11.1	−12.5	−12.8	19.7	9.4	5.3	−2.2	−8.8	4.2	5.1	30.2	2.9	−17.4
	D	−37.5	−55.3	−33.0	−45.6	−32.8	−30.8	−11.5	−26.8	−35.7	−5.7	−38.9	−62.5	−31.7	−40.3

Source: Based on Istat data.

Key: A: percentage breakdown, by branch of activity, of total Italian exports in the first 9 months of 2002; B: percentage of total Italian exports in each category going to the export market in question in the first 9 months of 2002; C: percentage change in the first 9 months of 2001 by comparison with the same period of 2000; D: percentage change in the first 9 months of 2002 by comparison with the same period of 2001.

(1) Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, FYR Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, Serbia and Montenegro, Slovakia and Slovenia. – (2) Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand. – (3) Argentina, Brazil, Paraguay and Uruguay.

Table 7

Italian imports by value, disaggregated according to main branches of activity and by origin, in the first nine months of 2001 and 2002

		Total	*of which:*												
			Agriculture	Mineral fuels	Food	Textiles and clothing	Leather and footwear	Paper and publishing	Chemical products	Rubber and plastic	Metals and metal products	Mechanical machinery and equipment	Electrical machinery	Transport equipment	Other manufactured goods
World	A	100	3.4	8.9	7.0	5.7	2.6	2.6	13.8	2.2	9.5	7.7	13.1	14.9	1.6
	B	100	100	100	100	100	100	100	100	100	100	100	100	100	100
	C	5.7	−0.8	7.5	8.9	12.8	25.2	−4.0	4.1	3.3	2.5	6.4	1.8	9.6	6.5
	D	−4.7	−2.7	−15.3	−3.6	−0.7	−3.1	−4.6	0.9	−1.3	−9.5	−7.0	−11.1	. .	−7.1
of which:															
Germany	B	17.6	4.2	0.7	18.9	7.2	1.9	19.3	19.6	24.2	16.0	28.6	21.8	31.2	10.1
	C	6.2	10.8	−100.0	16.6	8.0	19.8	−3.2	4.3	2.4	2.1	8.2	4.7	7.3	14.9
	D	−5.6	−4.6	(. .)	−9.5	−12.7	−10.2	1.4	−7.0	−1.6	−13.6	−7.6	−10.9	4.7	−9.0
France	B	11.1	19.1	0.1	13.4	7.0	3.5	10.9	13.6	16.1	11.0	10.7	9.8	16.8	6.9
	C	2.6	−14.0	−88.3	−0.4	1.4	15.7	−3.0	2.8	0.4	3.1	6.6	6.7	5.9	−4.9
	D	−5.5	−4.1	775.1	−5.2	−10.0	−8.2	−13.1	−0.8	−0.5	−10.6	−0.3	−20.6	2.8	−19.8
Spain	B	4.4	7.7	. .	11.0	3.6	2.2	4.2	3.7	6.4	3.8	3.1	2.2	8.9	3.4
	C	6.4	2.0	. .	16.8	17.1	49.7	4.9	8.4	24.4	2.4	10.7	−10.5	3.2	12.0
	D	0.9	−2.4	. .	21.0	0.9	−23.1	−0.6	−0.5	3.1	−8.6	−10.6	7.5	1.2	−5.9
UK	B	5.0	1.3	0.5	2.9	2.6	2.3	4.5	8.0	6.1	4.4	6.1	8.5	5.6	3.8
	C	−1.2	−13.9	−50.4	−5.3	−0.5	18.9	5.3	5.1	−14.4	−1.2	8.3	−10.9	26.8	2.7
	D	−7.4	−32.3	−59.8	−1.2	−14.7	−10.9	−2.6	13.6	−3.8	−14.1	−10.2	−12.8	−6.9	−0.6
CEEC (1)	B	6.2	5.7	0.4	2.9	22.3	29.7	4.9	2.7	5.4	8.2	5.3	3.8	5.1	8.4
	C	19.3	22.0	197.1	27.7	37.6	33.5	3.3	1.3	12.6	7.2	26.3	11.1	19.8	9.8
	D	4.9	7.8	11.3	11.4	14.0	7.6	−2.3	−7.0	14.2	−3.4	10.1	17.0	−12.0	10.4
US	B	5.0	6.3	. .	1.3	0.9	1.6	8.8	5.7	2.8	1.6	7.9	7.2	9.2	3.8
	C	−4.7	−14.1	. .	−3.7	−7.6	33.2	−13.0	−27.0	−2.7	25.3	−7.7	−9.2	17.1	15.9
	D	−2.0	14.6	. .	−22.6	−5.8	−20.6	0.3	8.7	−15.0	−46.5	−8.6	−20.8	23.8	−13.7
Japan	B	2.1	. .	. .	. .	0.5	0.1	0.3	2.0	2.5	0.4	4.6	3.2	5.8	1.8
	C	3.2	−19.2	. .	43.0	−7.2	29.4	−16.3	−0.7	−2.5	−3.1	−15.9	−3.0	20.1	−7.7
	D	−21.4	−21.9	. .	−30.9	−14.4	13.9	−12.1	−9.5	−8.8	3.6	−20.3	−26.4	−25.6	−21.4
Far East (2)	B	2.9	1.7	. .	1.6	4.9	3.0	1.4	1.6	5.3	1.6	3.6	5.9	3.2	8.1
	C	−3.1	−10.5	. .	−0.9	−10.1	−7.9	13.3	4.3	−0.9	−25.2	−2.8	0.4	−2.1	2.7
	D	−5.9	−4.9	. .	−0.7	−8.5	−5.8	−31.6	−10.5	−6.2	−13.7	−16.8	−6.8	3.6	−9.6
China	B	3.3	2.1	. .	0.8	12.9	12.0	0.6	1.3	4.8	2.0	4.1	5.6	0.4	24.3
	C	9.8	8.6	. .	33.6	10.1	12.7	34.2	11.7	8.3	−9.8	15.8	11.6	50.8	−0.9
	D	8.0	−27.6	. .	−28.6	9.2	1.5	−9.9	23.0	6.4	14.6	8.3	26.1	−30.9	1.3
Russia	B	3.1	2.4	24.0	0.4	0.5	1.3	1.0	0.4	0.1	4.2	0.1	. .	. .	0.1
	C	16.2	62.2	25.4	10.5	1.2	53.4	10.4	44.8	35.0	−9.7	−25.5	9.8	−35.0	−37.7
	D	−12.7	340.6	−17.5	−52.4	19.9	76.6	−16.5	−8.6	40.5	−19.4	−3.7	−4.1	−11.7	−6.0
Mercosur (3)	B	1.4	6.0	0.1	5.5	0.7	7.3	2.3	0.3	0.8	0.7	0.6	0.3	0.4	0.2
	C	−2.7	25.6	. .	18.4	38.0	26.3	−26.7	11.3	3.4	−16.9	30.3	−2.5	−56.1	−9.2
	D	−4.7	−7.2	−43.8	8.6	−2.1	−16.1	27.3	8.6	49.1	4.1	17.1	37.6	−50.5	−14.6

Source: Based on Istat data.

Key: A: percentage breakdown, by branch of activity, of total Italian imports in the first 9 months of 2002; B: percentage of total Italian imports in each category from the origin in question in the first 9 months of 2002; C: percentage change in the first 9 months of 2001 by comparison with the same period of 2000; D: percentage change in the first 9 months of 2002 by comparison with the same period of 2001; (..): very large variation owing to erratic nature of item.

(1) Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, FYR Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, Serbia and Montenegro, Slovakia and Slovenia. – (2) Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand. – (3) Argentina, Brazil, Paraguay and Uruguay.

Exports to non-EU markets, on the other hand, increased by an average of 2.2 per cent in volume terms, compared with 3.7 per cent in the same period of 2001. Sales to the United States began to increase again, rising by 5.1 per cent, and those to Russia and China continued to grow rapidly, especially to the latter.

In the first eleven months of 2002 the average unit values of total exports fell by 1.7 per cent, compared with an increase of 4.4 per cent in the same period of the preceding year. The fall was smaller for goods sold within the EU (1.1 per cent) than for those shipped to non-EU countries (2.4 per cent), especially the United States and Japan (6.2 and 3.2 per cent respectively). Given the appreciation of the currency, these rates of change seem to indicate policies aimed at defending market shares. The fall of 1.9 per cent in the average unit values of manufactured exports was larger than that in the producer prices of the same goods sold on the domestic market.

The rise of 0.7 per cent in the volume of imports in the first eleven months of 2002 was the net result of a decrease in the first half of the year and a recovery in the months that followed. Nevertheless, the branches of activity most closely linked to fixed investment, such as metal manufacture and mechanical engineering, reduced their imports (see Table 7 for disaggregated data according to both country of origin and branch of activity, which are available only in value terms).

The volume of imports from EU countries was more or less unchanged, rising by 0.6 per cent, while that of imports from non-EU countries rose by 1 per cent, despite a decline of 7.3 per cent in imports from the United States and a more pronounced fall of 17.5 per cent in those from Japan. A contributory factor was presumably the rise in the average unit values of imports from these two countries by comparison with those of goods from Italy's other main suppliers.

The balance of payments

At a time of weakening economic activity in the euro area and a modest recovery at international level, provisional data show that the area's balance of payments on current account recorded a surplus of €62 billion in 2002, compared with a deficit of €13.8 billion in 2001 (Table 8). As in the previous year, the improvement can be attributed almost entirely to an increase in the trade surplus, which rose from €75.8 billion to €132.7 billion; in addition, there was a significant increase in the surplus on services, from €0.9 billion to €13.3 billion. The deficit on account of transfers declined by around €6 billion and that on the income account remained more or less unchanged. Contributing to the rise in the trade surplus were a further fall of 3.4 per cent in the value of imports and a moderate increase of 2.4 per cent in that of exports. The terms of trade improved, reflecting the appreciation of the euro, which in particular reduced the cost of crude oil expressed in the common currency.

The deficit on the financial account rose from €40.5 billion in 2001 to €171.3 billion in 2002. The overall position in respect of direct investment, portfolio investment and financial derivatives swung from a deficit of €67.1 billion to a surplus of e15.7 billion, an outcome that was due entirely to a fall in net outflows of direct investment from €101.5 billion to €21 billion, as the variations in portfolio investment and financial derivatives broadly canceled each other out to give a more or less unchanged net figure.

The decline in the deficit on direct investment stemmed from a large contraction in outflows (from €255.8 billion to €151 billion), with inflows holding broadly steady at €129.9 billion, compared with €154.3 billion in 2001. The fall of 41 per cent in direct outward investment follows one of 42 per cent the previous year. As in 2001, it should be seen in the context of a general reduction in the corporate merger and acquisition activity that had been a feature of the last few years of the nineties; another factor was the slowdown in the US economy, which had previously attracted a substantial share of direct investment by residents of the euro area.

Portfolio investment gave rise to net inflows of €50.4 billion, about €12 billion more than in 2001. As conditions for equity investment remained unattractive everywhere, the tendency for investors to

Table 8

Balance of payments of the euro area

(net flows in millions of euros)

	2001			2002		
	H1	H2	Year	H1	H2	Year
Current account	**–28,073**	**14,295**	**–13,778**	**14,614**	**47,355**	**61,969**
Goods	21,153	54,677	75,830	57,066	75,614	132,680
Exports	*515,684*	*517,287*	*1,032,971*	*521,075*	*536,368*	*1,057,443*
Imports	*494,531*	*462,610*	*957,141*	*464,006*	*460,754*	*924,760*
Services	–2,050	2,971	921	2,235	11,099	13,334
Income	–26,370	–13,376	–39,746	–23,420	–15,800	–39,220
Current transfers	–20,809	–29,974	–50,783	–21,268	–23,559	–44,827
Capital account	**6,515**	**2,409**	**8,924**	**6,558**	**5,294**	**11,852**
Financial account	**44,612**	**–85,120**	**–40,508**	**–55,512**	**–115,786**	**–171,298**
Direct investment	–93,696	–7,799	–101,495	–22,925	1,897	–21,028
outward	*–171,978*	*–83,857*	*–255,835*	*–101,844*	*–49,129*	*–150,973*
inward	*78,282*	*76,061*	*154,343*	*78,919*	*51,026*	*129,945*
Portfolio investment	–19,902	58,039	38,137	5,615	44,834	50,449
Equity securities	*36,027*	*86,541*	*122,568*	*14,041*	*25,068*	*39,109*
assets	*–82,621*	*–25,948*	*–108,569*	*–47,219*	*10,099*	*–37,120*
liabilities	*118,648*	*112,489*	*231,137*	*61,260*	*14,969*	*76,229*
Debt instruments	*–55,929*	*–28,502*	*–84,431*	*–8,426*	*19,763*	*11,337*
assets	*–92,004*	*–87,381*	*–179,385*	*–77,897*	*–61,088*	*–138,985*
liabilities	*36,075*	*58,879*	*94,954*	*69,471*	*80,851*	*150,322*
Financial derivatives	13,575	–17,311	–3,736	–1,512	–12,252	–13,764
Other investment	132,561	–123,796	8,765	–40,370	–144,042	–184,412
Reserve assets	12,071	5,744	17,815	3,678	–6,221	–2,543
Errors and omissions	**–23,054**	**68,410**	**45,356**	**34,339**	**63,137**	**97,476**

Source: ECB.

increase the proportion of more liquid forms of financial assets in their portfolios and for borrowers to concentrate new issues in this segment grew more pronounced. Flows of equity investment from and to the euro area contracted by two thirds; inflows exceeded outflows by €39.1 billion, compared with €122.6 billion in 2001. Inflows on account of investment in debt instruments also exceeded outflows by €11.3 billion, whereas in 2001 there had been net outflows of €84.4 billion. Residents of the area mainly reduced their foreign purchases of longer-term bonds and significantly increased those of short-term paper. The reduction in residents' purchases of foreign bonds reflected portfolio adjustment in favour of assets issued within the euro area, which were perceived to be less risky. The rest of the world increased its purchases both of bonds and, on a substantial scale, short-term securities issued by residents of the area.

The item "Other investment", which includes movements of bank capital, recorded net outflows of €184.4 billion, compared with net inflows of €8.8 billion in 2001. Lending by monetary and financial institutions decreased sharply in both directions, and outflows exceeded inflows by more than €137 billion. In the first nine months of the year euro-area businesses also showed a tendency to increase trade credit to foreigners, whereas there was a reduction in trade credit received.

France, Germany and Spain recorded improvements in their current accounts. Germany's surplus for the year rose by €48.6 billion, with the trade surplus increasing from €90.1 billion to €120.4 billion and the deficit on services contracting. In France the current account surplus increased by just over €6 billion and the trade surplus by €8.6 billion. Spain's current account showed a modest improvement in the first eleven months of the year, with the deficit declining by €0.5 billion. Over the same periods, flows of outward direct investment by all three countries decreased substantially, while inflows remained broadly stable in Germany and Spain and declined slightly in France. In Germany and Spain the behaviour of portfolio investment largely mirrored the trends observable in the euro area as a whole; in Spain, however, flows of equity investment were small, as they had been in the preceding year. In France foreign investment by residents was either broadly unchanged (equities) or lower (other securities) and there were smaller inflows on account of foreign investment in debt instruments in combination with outflows for equities.

In 2002 Italy had a current account deficit of €7.2 billion, whereas in 2001 the account had been broadly in balance (Table 9). The trade surplus increased slightly, from €17.4 billion to €17.8 billion, while the services account recorded a deficit of €4.4 billion, the first such deficit for many years. The deficit on the income account rose from €11.6 billion to €15.7 billion and that in respect of current transfers declined from €6.5 billion to €4.8 billion.

Exports and imports in value terms fell slightly (by 1.9 and 2.2 per cent respectively) in response to the slowdown in activity in the euro area and in Italy and the variation in the terms of trade, which improved by 2.2 per cent in the first eleven months of the year, as the average unit values of imports decreased by more than those of exports.

The deterioration in the services account was caused by an increase of €3.4 billion in outflows (5.3 per cent) and a fall of €1.3 billion in inflows (2 per cent). On the basis of available disaggregated data for the main types of services, the deterioration in the balance can be attributed mainly to a significant contraction in the surplus on foreign travel.

The reduction in the surplus on foreign travel for the second consecutive year (from €12.7 billion to €10.4 billion in the first eleven months) stemmed from a decrease of 3 per cent in receipts and an increase of 10.1 per cent in spending abroad by Italians. Given that the number of foreign visitors to Italy rose by 3.2 per cent, the contraction in receipts reflected a fall in the number of visitors with higher per capita expenditure (visitors from the United States and business travellers). The growth in spending abroad by Italians, which was accompanied by a slight rise of 1.3 per cent in the number of those travelling, can be attributed mainly to an increase in travel to other EU countries.

The significant rise of €4.2 billion in the deficit on the income account occurred mainly in the last few months of the year. In the first ten months, for which disaggregated data are available, €0.6 billion of the deterioration of only €1.5 billion during that period was attributable to earnings from employment and €0.9 billion to property income. Within the latter item, there was a deterioration in net portfolio income.

The combined deficit on the current account and the capital account amounted to €6.1 billion; against this the financial account showed a surplus of €7.1 billion, including an increase of €3.1 billion in the official reserves.

The deficit on direct investment fell from €7.4 billion to €4 billion. While inward investment remained more or less unchanged at €16.9 billion, outward investment fell by about 13 per cent to €20.9 billion, but this was still one of the highest levels in recent years. This would suggest that Italian businesses are continuing with the efforts of recent years to increase the geographical diversification of production.

Table 9

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

	2001			2002		
	H1	H2	Year	H1	H2	Year
Current account	**–4,535**	**4,173**	**–363**	**–6,642**	**–545**	**–7,187**
Goods	5,024	12,379	17,403	6,845	10,918	17,763
Exports	*140,249*	*133,345*	*273,594*	*130,970*	*137,408*	*268,378*
Imports	*135,225*	*120,966*	*256,191*	*124,125*	*126,489*	*250,615*
Services	–200	538	338	–3,667	–707	–4,374
Income	–7,436	–4,139	–11,575	–8,276	–7,461	–15,737
Current transfers	–1,924	–4,606	–6,529	–1,544	–3,296	–4,840
Capital account	**645**	**293**	**938**	**920**	**164**	**1,084**
Financial account	**4,000**	**–6,889**	**–2,889**	**5,073**	**2,070**	**7,143**
Direct investment	–9,990	2,613	–7,377	–1,343	–2,667	–4,010
outward	*–19,099*	*–4,896*	*–23,995*	*–9,793*	*–11,089*	*–20,882*
inward	*9,109*	*7,509*	*16,618*	*8,450*	*8,422*	*16,872*
Portfolio investment	3,292	–10,932	–7,640	–10,701	24,935	14,234
Equity securities	*–15,344*	*3,837*	*–11,507*	*–19,834*	*4,875*	*–14,959*
assets	*–11,296*	*143*	*–11,153*	*–8,392*	*3,833*	*–4,560*
liabilities	*–4,048*	*3,694*	*–354*	*–11,442*	*1,042*	*–10,400*
Debt instruments	*18,636*	*–14,769*	*3,867*	*9,133*	*20,060*	*29,193*
assets	*–25,098*	*–3,819*	*–28,917*	*–6,113*	*–2,691*	*–8,803*
liabilities	*43,734*	*–10,950*	*32,784*	*15,246*	*22,751*	*37,997*
Financial derivatives	–86	–391	–477	94	–2,636	–2,542
Other investment	12,194	–73	12,121	16,242	–13,698	2,544
Reserve assets	–1,410	1,894	484	781	–3,864	–3,083
Errors and omissions	**–110**	**2,423**	**2,313**	**649**	**–1,689**	**–1,040**

(1) Provisional data for November and December 2002.

Portfolio investment recorded net inflows of €14.2 billion, compared with net outflows of €7.6 billion the previous year. The movements in the main categories of instruments mirrors those described for the euro area. There was an extremely large contraction in equity investment: Italian investors reduced purchases from €11.2 billion to €4.6 billion while foreigners carried out net disinvestment of €10.4 billion. Italians also significantly reduced investment in foreign debt instruments from €28.9 billion to €8.8 billion, while foreigners increased their investment in Italian securities of that kind from

€32.8 billion to €38 billion. According to data available for the first ten months of the year, foreign investment was channeled mainly into government securities. Purchases of Treasury bills and bonds increased and foreigners made larger net disposals of Treasury credit certificates (Table 10).

The item “Other investments” fell from €12.1 billion to €2.5 billion last year. The banking system’s transactions with the rest of the world gave rise to net outflows of €43.7 billion, compared with net inflows of €27.6 billion in 2001; in the first ten months of the year the net figure reflected the growth in lending and net repayments of foreign debt, taking net assets to €36.2 billion. This was offset by net inflows of deposits and borrowing by private non-bank residents (€32.3 billion), almost entirely due to the repatriation of capital by residents (€28.6 billion), to a large extent ascribable to the effects of Decree Law 350/2001.

At the end of the first half of 2002 Italy had a net external debtor position of €35.6 billion, equal to 2.8 per cent of annual GDP, compared with a net creditor position of €21 billion (1.7 per cent of GDP) at the end of 2001. Transactions on the financial account were responsible for a small part of the deterioration (€5.1 billion), but most of it was attributable to a fall in the value of non-bank residents’ foreign assets, in particular portfolio investment. The contraction in the stock of their foreign shares was due primarily to the fall in share prices on the main international markets, and that in their holdings of securities other than equities to the depreciation of securities issued by some Latin American countries.

Table 10

Portfolio investment in Italy (1)

(millions of euros)

	2001			2002	
	H1	January-October	Year	H1	January-October
Government securities	35,703	18,604	12,790	6,706	26,247
BOTs	5,829	−2,918	−5,287	4,606	9,909
BTPs	20,217	23,525	26,227	8,044	27,344
CTEs	−220	−608	−608	–	–
CCTs	787	−10,342	−13,652	−12,765	−20,218
CTZs	3,843	−991	−3,172	4,123	3,203
Republic of Italy issues	5,235	10,040	9,404	1,981	5,818
Other government securities	12	−101	−122	718	192
Bonds	7,540	13,180	21,602	9,906	13,039
Bank securities	947	841	−950	−1,254	−1,549
Equity securities	−4,915	−3,833	−1,306	−11,327	−5,595
Other securities (2)	410	94	294	−227	−1,195
Total	**39,686**	**28,887**	**32,430**	**3,804**	**30,949**

(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 investment funds.

The labour market

Employment

Employment in the euro area grew modestly in the first nine months of 2002, owing to the slowdown in economic activity. According to preliminary national accounts figures, the number of persons employed rose by 0.5 per cent compared with the same period of 2001.

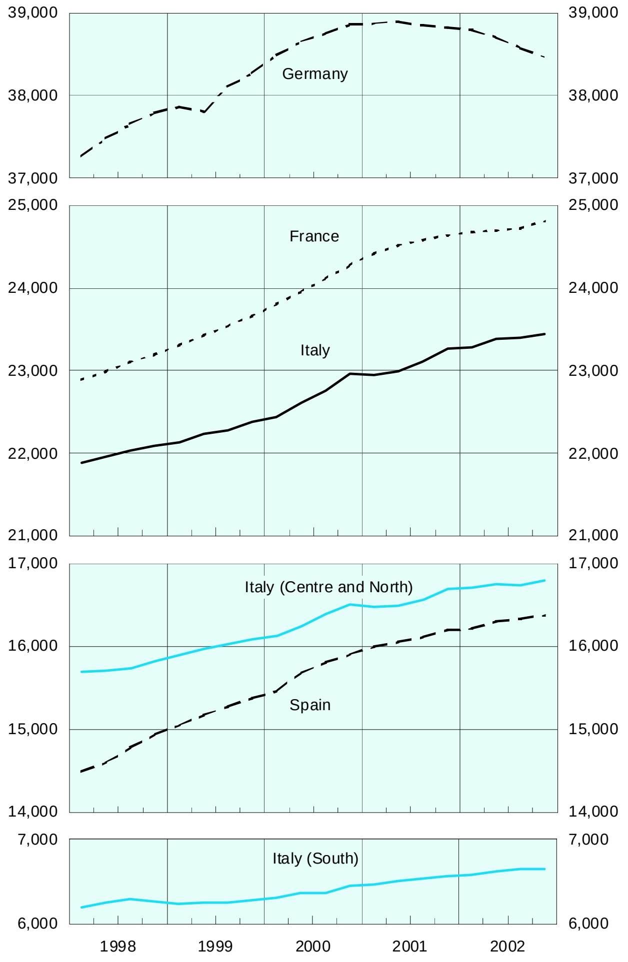
The slowdown affected all the large countries and worsened in the course of the year. In Germany the number of persons in work declined by 0.6 per cent on average for 2002 as a whole, the downturn being particularly pronounced from the spring onwards. In France and Spain employment continued to increase (by 0.8 and 1.3 per cent respectively), but at a slackening pace (Figure 18).

In Italy employment rose again in 2002. The gain of 1.4 per cent (1.1 per cent in terms of standard labour units) reflected expansion in the first quarter followed by basically no change in the rest of the year. Against the background of stagnation in economic activity, value added per worker fell by 0.5 per cent. Thus, despite the slow growth in per capita earnings, which rose by 2.6 per cent nominally and were flat in real terms, unit labour costs increased by 2.9 per cent (2.7 per cent in 2001).

In all the large European countries employment has grown faster in recent years than one might have expected on the basis of its historical elasticity with respect to GDP. The phenomenon has been more pronounced in Italy, especially compared with Germany or France, and was observable from 1995 to the early months of 2002. It may have been due to wage moderation and greater flexibility in employment relationships, which made it more advantageous for firms to take on staff as output expanded. The increase in labour input has mainly involved such low-productivity activities as household services. Between 1995 and 2002 value added per worker rose by 4.8 per cent in Italy, 1.6 percentage points less than in France and 4.9 points less than in Germany.

Figure 18

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 segments are partly estimated. For the other countries, Eurostat and national accounts.

According to Istat's quarterly labour force survey, which measures the number of persons working and not labour input, last October there were 21,931,000 persons in work, 233,000 or 1.1 per cent more than in October 2001 (Table 11). On a seasonally adjusted basis the number was 21,863,000, representing a rise of 50,000 or 0.2 per cent by comparison with July.

Table 11

Labour force status of the Italian population

(*thousands of persons and percentages*)

	2001 average (1)		2002 average (1)		October 2001		October 2002	
	Number	Percentage share (2)	Number	Percentage share (2)	Number	Percentage share (2)	Number	Percentage share (2)
Employees	**15,517**	**72.1**	**15,850**	**72.6**	**15,650**	**72.1**	**15,933**	**72.7**
open-ended contracts	14,002	65.1	14,287	65.4	14,145	65.2	14,334	65.4
full-time	13,083	60.8	13,301	60.9	13,268	61.2	13,348	60.9
part-time	920	4.3	986	4.5	877	4.0	986	4.5
fixed-term contracts	1,514	7.0	1,563	7.2	1,505	6.9	1,599	7.3
full-time	1,045	4.9	1,104	5.1	1,057	4.9	1,128	5.1
part-time	469	2.2	459	2.1	448	2.1	471	2.1
Self-employed	**5,997**	**27.9**	**5,980**	**27.4**	**6,047**	**27.9**	**5,998**	**27.3**
full-time	5,570	25.9	5,555	25.4	5,648	26.0	5,578	25.4
part-time	428	2.0	425	1.9	399	1.8	420	1.9
Total persons in work	**21,514**	**100.0**	**21,830**	**100.0**	**21,697**	**100.0**	**21,931**	**100.0**
men	13,455		13,593		13,544		13,639	
women	8,060		8,236		8,154		8,293	
Unemployed	**2,267**		**2,164**		**2,225**		**2,152**	
Labour force	**23,781**		**23,993**		**23,922**		**24,083**	
men	14,521		14,610		14,587		14,653	
women	9,261		9,383		9,336		9,431	
Non-labour-force	**33,567**		**33,482**		**33,501**		**33,388**	
non-working age (under 15)	8,265		8,270		8,271		8,270	
working age (15-64)	15,336		15,137		15,212		15,042	
not actively seeking work but would be immediately available	*1,175*		*1,125*		*1,131*		*1,073*	
non-working age (65 and over)	9,966		10,074		10,018		10,076	
Population	**57,348**		**57,475**		**57,423**		**57,471**	
Unemployment rate	**9.5**		**9.0**		**9.3**		**8.9**	
men	7.3		7.0		7.1		6.9	
women	13.0		12.2		12.7		12.1	
Participation rate (ages 15-64)	**60.4**		**61.0**		**60.8**		**61.2**	
men	73.6		74.0		73.8		74.3	
women	47.3		47.9		47.7		48.1	
Employment rate (ages 15-64)	**54.6**		**55.4**		**55.0**		**55.7**	
men	68.1		68.8		68.5		69.1	
women	41.1		42.0		41.6		42.3	

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

On average for 2002 total employment increased by 315,000 persons, or 1.5 per cent, raising the employment rate for the population of working age (15-64) from 54.6 to 55.4 per cent. Women accounted for most of the increase (177,000 or 2.2 per cent) and now make up 38 per cent of Italy's workforce. Despite the sharp rise from 35.8 per cent in 1993 to 42 per cent in 2002, the employment rate for women remains low by comparison with the EU average of 54.9 per cent (in 2001).

As in 2001, the overall gain in employment was due exclusively to payroll positions, which increased by 332,000 or 2.1 per cent, while self-employment declined by 18,000 or 0.3 per cent. The strong growth of open-ended employment contracts continued (an increase of 285,000 or 2 per cent), while the number of fixed-term contracts also returned to growth (49,000 or 3.2 per cent), most markedly in the October survey following the suspension of the tax credit for permanent hiring in July.

Part-time jobs increased further by 56,000 or 4.1 per cent, and their share of total payroll employment rose to 9.1 per cent (Table 12). The share of part-time employees rose among women (from 16.9 to 17.4 per cent), workers in the central age-groups, and in industry and services.

Table 12

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

	Fixed-term		Part-time	
	2001 average	2002 average	2001 average	2002 average
Men	8.3	8.4	3.5	3.4
Women	11.9	12.0	16.9	17.4
Aged 15-34	15.1	15.5	10.0	10.0
35 and over	6.4	6.3	8.3	8.6
Agriculture	38.4	38.7	18.1	18.0
Industry excluding construction	6.1	6.3	4.6	4.9
Construction	12.2	12.6	4.0	3.8
Services	9.8	9.7	10.9	11.1
of which: wholesale and retail trade and hotels	*12.1*	*11.9*	*15.0*	*15.1*
Total economy	**9.8**	**9.9**	**8.9**	**9.1**

Source: Istat, labour force surveys.

Sectoral and regional developments in Italy

Average employment in 2002 increased throughout the economy except in agriculture, where it fell by 2.7 per cent (Table 13).

Table 13

Employment by sector and geographical area in Italy, 2002
(yearly averages, unadjusted)

	October 2002	2002 average on 2001 average			October 2002 on July 2002 (1)
	Percentage share of national total	Absolute change	Percentage change	Contribution, percentage points	Percentage change
Sector					
Agriculture	5.1	−30,339	−2.7	−0.1	−1.2
Industry excl. construction	23.8	50,340	1.0	0.2	−0.1
Construction	8.2	40,154	2.4	0.2	0.4
Services	62.9	254,790	1.9	1.2	0.4
Geographical area					
North	51.4	123,000	1.1	0.6	0.3
Centre	20.3	79,410	1.8	0.4	0.2
South	28.3	112,600	1.9	0.5	. .
Italy	**100.0**	**315,010**	**1.5**	**1.5**	**0.2**

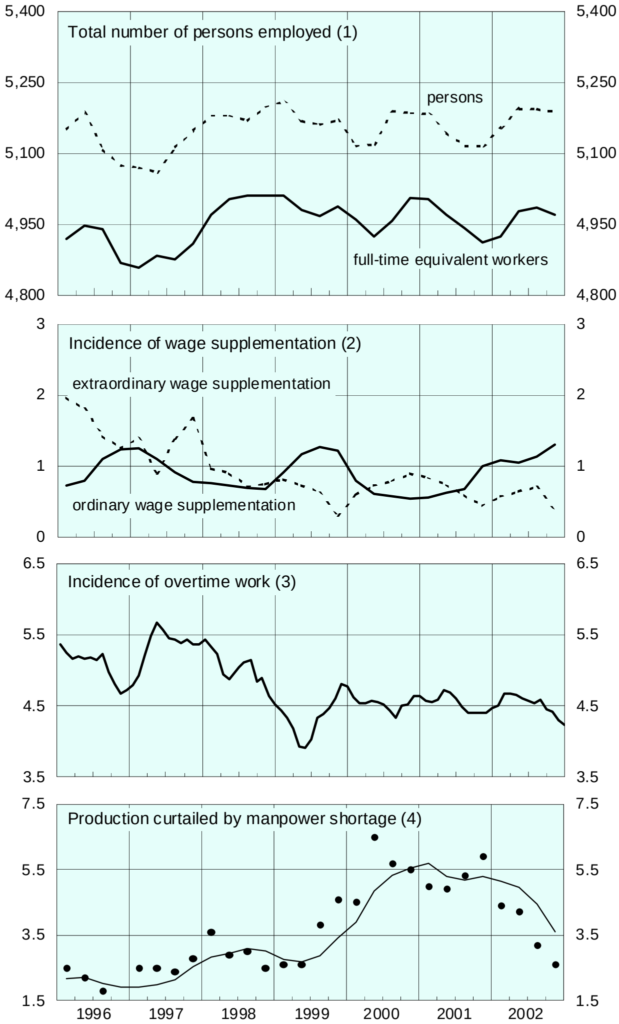
Source: Istat, labour force surveys.
(1) Seasonally adjusted.

The number of persons employed in services rose by 1.9 per cent (254,000) on average for the year and by 0.4 per cent (62,000) between July and October on a seasonally adjusted basis. The cyclical indicators for the early months of 2003 point in different directions. According to the ISAE business survey in December, most small retailers expected to reduce staff in the subsequent quarter, unlike large retailers.

In the construction industry the rise in employment under way since 1999 continued. The average increase of 2.4 per cent (40,000 persons) in 2002 was less than that registered in 2001. Between July and October there was a seasonally adjusted increase of 0.4 per cent (7,000 persons). In December the ISAE indicator of employment growth forecasts for the subsequent quarter again registered one of the highest figures in recent years.

Figure 19

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 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 of the four quarters ending in the reference quarter.

Despite the decline in activity, total employment in industry excluding construction expanded for the first time since 1998, with growth of 1 per cent (Figure 19). All of the increase occurred between January and April; the July and October surveys essentially showed stagnation. The ISAE indicator in December pointed to a deterioration in employment expectations for the following three months and less difficulty, in all parts of the country, in finding manpower. This may have been influenced by the crisis of the Fiat group and its repercussions on contract suppliers.

For the second year running, employment growth was faster in the South than nationwide (1.9 as against 1.5 per cent), slightly easing geographical disparities. Southern employment rose to 28.4 per cent of the national total, compared with 28.1 per cent in 2000, while the region's share of Italy's population was basically unchanged at 35.8 per cent. The South's relative progress is reflected in the composition of the new employment as well. The employment share of women on open-ended contracts increased by 0.4 percentage points, that of women aged 25-29 by 0.16 points and that of women aged 45-64 by 0.26 points. This change was fostered by the tax credit for permanent hiring, which provided a proportionally greater reduction in labour costs than in the rest of the country, especially for women.

Unemployment and labour supply

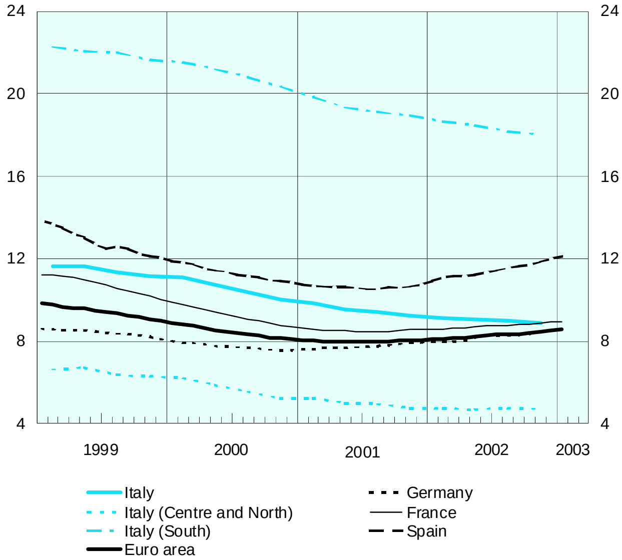
The euro-area unemployment rate, which had been gradually declining since 1997, turned upwards at the end of 2001 and rose from 8 per cent in November 2001 to 8.6 per cent in January 2003. The increase involved all the main economies except Italy (Figure 20).

The German unemployment rate was 8.6 per cent in January, 0.6 points higher than a year earlier. There was an even sharper increase in Spain, where the jobless rate rose by 1.2 points between January 2002 and January 2003 to 12.1 per cent, the same level as at the end of 1999. Over the same twelve months the French unemployment rate rose by 0.4 points to 9 per cent.

Figure 20

Unemployment rates in the euro area

(seasonally adjusted data; percentages)



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

In Italy, the seasonally adjusted unemployment rate eased to 8.9 per cent in October from 9 per cent in April and July. On average for the year the rate declined to 9 per cent, from 9.5 per cent in 2001. The reduction involved the South, where the rate came down from 19.3 to 18.3 per cent, and the Centre, where it fell from 7.4 to 6.6 per cent. In the North the average held at 4 per cent despite a slight increase in the last two surveys (July and October). Only in the North-East did unemployment remain at frictional levels (3.3 per cent, with a low of 2.6 per cent in Trentino-Alto Adige). The nationwide jobless rate for men declined from 7.3 to 7 per cent, that for women from 13 to 12.2 per cent.

Labour market participation increased again. The average participation rate for the population aged 15-64 rose from 60.4 to 61 per cent, that for the entire population aged 15 or more from 48.5 to 48.8 per cent. Participation increased throughout the country, but most sharply in the Centre and North, further widening geographical disparities. The male participation rate began increasing again (rising from 73.6 to 74 per cent) and the women's rate continued to rise, albeit more slowly than in years past (from 47.3 to 47.9 per cent).

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

For the four large euro-area economies as a group, modest increments in per capita labour costs (2.2 per cent) and in productivity (0.5 per cent) resulted in a slight deceleration in unit labour costs in 2002 (Table 14).

Italy. – The cost of labour per employee rose by 2.4 per cent in 2002, in line with the value added deflator. The simultaneous decline in output per worker (0.5 per cent) resulted in a 2.9 per cent increase in unit labour costs (2.7 per cent in 2001).

Earnings per full-time equivalent worker rose by 2.6 per cent during the year, on a par with contractual earnings (2.5 per cent) and consumer prices (2.6 per cent).

In industry excluding construction, too, per capita earnings rose at virtually the same rate as contractual earnings under the national collective bargaining agreements (2.8 and 2.7 per cent respectively; Figure 21). Per capita labour costs rose less (2.6 per cent), but unit labour costs increased by 3 per cent because of the fall in productivity (0.4 per cent; Table 14).

In services, the increase in per capita earnings was smaller (2.5 per cent). As productivity decreased by 0.6 per cent, unit labour costs increased by 3 per cent. In the first nine months, earnings in the private service sector rose slightly less than in services overall, and the productivity drop was sharper.

The renewal of the glass industry contract covering 12,000 workers in December marked the first time that a wage settlement diverged to a significant extent from the incomes policy rules introduced in the early 1990s. The increase of 6 per cent over the two years 2003-2004 comprises not only the recouping of the difference between target and actual inflation in 2001-2002 (1.9 per cent) but also forecast inflation for 2003-2004 (about 2 per cent in each year) rather than the Government's target inflation rate of 1.4 per cent.

In the public sector, the new four-year agreement covering 204,000 ministerial employees for the period 2002-2005 was signed on 28 February. The economic portion, for 2002-2003 only, calls for an increase of 6.5 per cent when fully phased in.

Table 14

Unit labour costs, per capita earnings, productivity and its components
(percentage changes on previous year)

	Cost of labour		Productivity						Unit labour costs	
			per employee (1)		*of which:*					
					Value added (2)		Employment (1)			
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
					Industry excluding construction (3)					
Germany	1.8	1.7	0.3	2.0	0.4	−0.2	0.1	−2.1	1.5	−0.2
France	2.2	2.8	0.7	1.6	1.7	−0.2	0.9	−1.8	1.5	1.1
Italy	2.9	2.6	1.6	−0.4	0.9	−0.1	−0.7	0.4	1.3	3.0
Spain	4.1	4.3	. .	1.5	1.4	1.0	1.4	−0.5	4.1	2.7
Euro 4 (4)	2.2	2.1	0.6	1.1	1.0	. .	0.3	−1.1	1.6	1.0
					Services (5)					
Germany	1.6	1.7	0.7	1.0	2.0	1.4	1.3	0.4	0.9	0.7
France	2.6	2.7	−0.5	0.2	2.0	1.7	2.6	1.5	3.2	2.5
Italy	3.3	2.3	0.1	−0.6	2.3	0.9	2.2	1.5	3.3	3.0
of which: private	*2.1*	. . . .	*0.5*	. . . .	*3.0*	. . . .	*2.5*	. . . .	*1.6*	. . . .
public	*3.9*	. . . .	*−0.2*	. . . .	*1.1*	. . . .	*1.3*	. . . .	*4.0*	. . . .
Spain	4.2	3.7	1.6	0.4	4.0	2.7	2.4	2.3	2.5	3.3
Euro 4 (4)	2.5	2.3	0.3	0.3	2.3	1.5	2.0	1.3	2.2	2.0
					Total economy					
Germany	1.7	1.6	0.7	1.3	1.1	0.7	0.4	−0.6	1.0	0.3
France	2.6	2.7	−0.3	0.5	1.8	1.2	2.1	0.8	2.9	2.2
Italy	3.0	2.4	0.3	−0.5	2.0	0.6	1.7	1.1	2.7	2.9
Spain	4.1	4.0	0.8	1.0	3.2	2.3	2.4	1.3	3.2	2.9
Euro 4 (4)	2.4	2.2	0.3	0.5	1.7	1.0	1.5	0.5	2.1	1.7

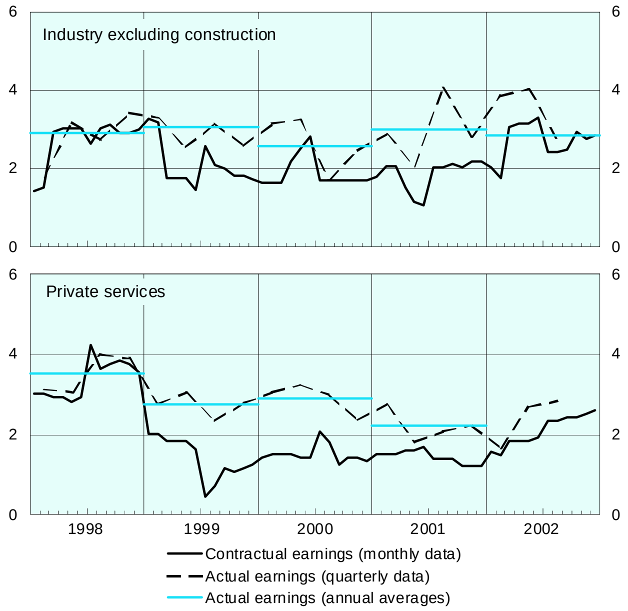
Source: Based on Eurostat data.

(1) For Germany and France, persons employed; for Italy and Spain, standard labour units. – (2) At 1995 base prices. – (3) In addition to manufacturing, includes extractive industries and energy production and distribution. – (4) Weighted average for France, Germany, Italy and Spain. – (5) Comprises wholesale and retail trade, transport and telecommunications, financial and real estate intermediation, and “other sectors”.

Figure 21

Italy: per capita contractual and actual earnings

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



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

These agreements come at the start of a major round of bargaining that will see new contracts for wholesale and retail employees and metal and engineering workers, which together account for some 40 per cent of the total wage bill in industry (excluding construction) and private services. In October, for the first time since the 1960s the three main metalworkers' unions presented separate negotiating platforms, the CISL and UIL demanding 6 per cent and the CGIL 8.5 per cent (see *Economic Bulletin* No. 35, October 2002).

On 5 February the enabling law empowering the Government to reform a number of labour market rules was approved. The law involves several measures included in the so-called Pact for Italy (reform of public and private employment agencies, training contracts, part-time work and various forms of occasional employment; see the box "Labour market measures in the Pact for Italy", *Economic Bulletin* No. 35, October 2002). The law does not touch on the more controversial aspects (reorganization of employment incentives, the experimental suspension of Article 18 of the 1970 Labour Rights Law and arbitration of individual grievances), which have been grouped in a separate draft enabling law to be discussed in Parliament in the coming months.

Germany. – Wages rose by 1.5 per cent in 2002, compared with 1.9 per cent in 2001. Per capita labour costs rose by 1.6 per cent, as in the previous year. As a result of the contraction of employment owing to the economic slowdown, productivity returned to growth (1.3 per cent), curbing the rise in unit labour costs (0.3 per cent).

The contract for the banking industry was renewed in December, with a settlement of 6.2 per cent over the two years from May 2002 to May 2004. For the first time it allows employers to grant variable bonuses of up to 4 per cent of annual earnings in connection with results.

The contract for 2.8 million public employees, running from November 2002 to January 2005, was signed in January. It calls for larger raises in the eastern than in the western regions (10.7 and 5.9 per cent respectively, when fully phased in) to reduce the gap between the two parts of the country, which is to be closed entirely by the end of 2007. Many observers judged the increase too costly in view of the state of the public finances.

In December Parliament passed several measures to increase labour market flexibility, as the Hartz Committee had proposed. The most important innovation is the creation at the regional labour offices of special "personal service agencies" that in many ways resemble temporary employment agencies. Their mission is to hire job seekers on an open-ended basis and place them temporarily with firms. Wages are governed by the principle of equality between temporary and permanent employees. However, during the first six months with the service agency the salary may be lower, as long as it is not less than unemployment benefits.

France. – Per capita earnings rose by 2.6 per cent in 2002 and total labour costs by 2.7 per cent. Unit labour costs increased by 2.2 per cent, 0.7 points less than in 2001, thanks in part to a modest gain in per capita productivity, especially in industry excluding construction.

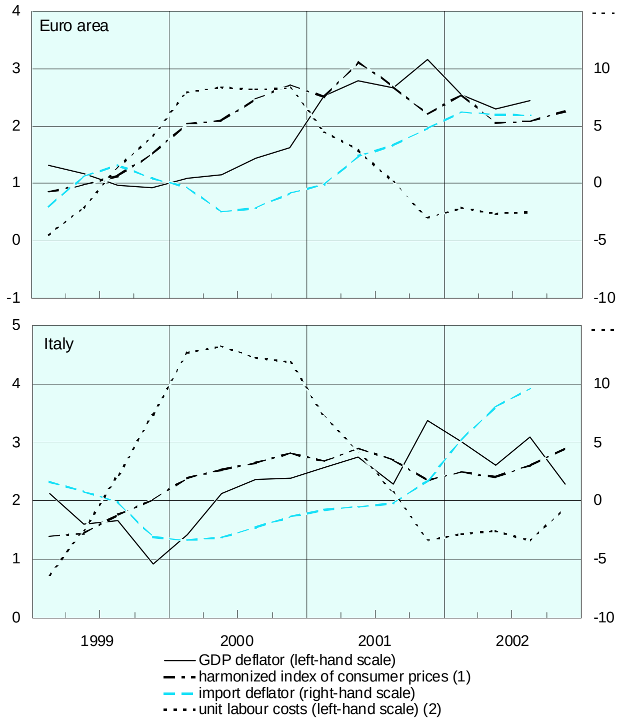
Spain. – Per capita labour costs increased by 4 per cent in 2002, almost as much as in 2001. A 1 per cent rise in productivity attenuated the impact on unit labour costs, which increased by 2.9 per cent. Awareness of the differential in wage increases vis-à-vis the other European economies and the consequent threat to Spanish competitiveness led the social partners to agree another incomes policy pact for 2003, similar in spirit to the Italian accords of 1992 and 1993. Wage increases are to be equal to the Government's target inflation rate (2 per cent), on top of which there may be company-level increments linked to productivity. There is a safeguard clause that applies if actual inflation is higher than the Government's target. It is expected that overall wage increases will not exceed 3 per cent in 2003.

Prices and costs

In 2002 the harmonized index of consumer prices in the euro area rose on average by 2.2 per cent compared with 2.6 per cent in 2001. The slowdown reflected the less rapid increase in the most volatile components, which attenuated the rise in core inflation. Despite the stagnation of the economy and the weakness of consumer demand, core inflation was driven by pressures from domestic costs in some of the main countries (Figure 22). By contrast, the contribution of imported inputs to curbing inflation, under way since the end of 2001, was further strengthened. The surge in dollar oil prices in the summer, however, dampened the effects of the nominal appreciation of the euro. Consumer price inflation was especially high and unabated in the service sector, where domestic costs weigh more heavily and where the euro cash changeover had a larger impact on prices. However, according to available information, the impact of the new currency on consumer prices as a whole in 2002 was generally modest.

Figure 22

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



Sources: Based on Istat and Eurostat data.

(1) For the years before 2002, the percentage changes are calculated with reference to harmonized indices that exclude temporary price reductions. – (2) For the entire economy. Moving averages of the 4 quarters ending in the reference quarter. For the euro area, the changes are calculated on the basis of the figures for France, Germany, Italy and Spain; for Italy and Spain, unit labour costs are based on standard labour units.

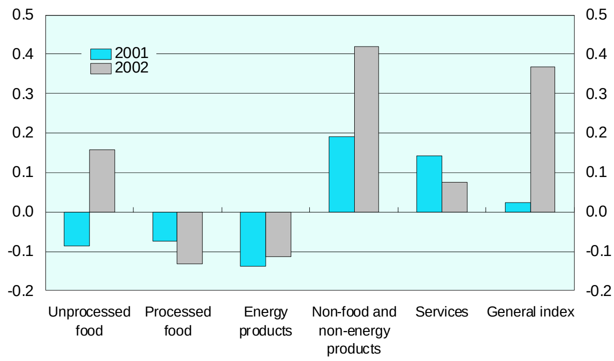
In Italy, too, the stagnation of economic activity and the good performance of imported input prices curbed the rise in the harmonized index, which eased from 2.7 per cent in 2001 to 2.6 per cent in 2002. The rise in unit labour costs was larger in Italy than in the other main euro-area economies, causing core inflation, particularly the industrial goods component, to increase in the second half of the year. Together with the acceleration in the prices of unprocessed food products from the summer onwards, in contrast to the slowdown in other countries, this re-opened a consumer price inflation differential of 0.4 points between Italy and the rest of the area; it had been virtually nil in 2001 (Figure 23). The increase in the harmonized index in 2002 was 1.3 per cent in Germany, 1.9 per cent in France and 3.6 per cent in Spain.

As a consequence of the divergences in core inflation, the dispersion of rates of inflation within the euro area also increased.

In Italy and the euro area there was a growing discrepancy throughout 2002 between official figures for inflation and subjective perceptions of price developments gleaned from consumer surveys. Perceived inflation has been partly influenced by higher-than-average increases in the prices of frequently purchased goods and services. In principle, assessments unsupported by official statistics may have had repercussions on spending decisions and inflation expectations.

Figure 23

Contributions to the inflation differential between Italy and the euro area (1)
(*percentages*)



Source: Based on Eurostat data.
(1) The inflation rates for 2001 are calculated with reference to harmonized indices that exclude temporary price reductions.

Consumer and business expectations in fact point to a gradual slowdown in prices during 2003. Professional forecasters project that inflation will drop below the 2 per cent threshold in the euro area in the first half of the year and in Italy in the third quarter. These projections are dependent on the fall in oil futures. Persistently weak economic growth and the stability of the euro at the present exchange rate are expected to help contain inflation.

Consumer prices

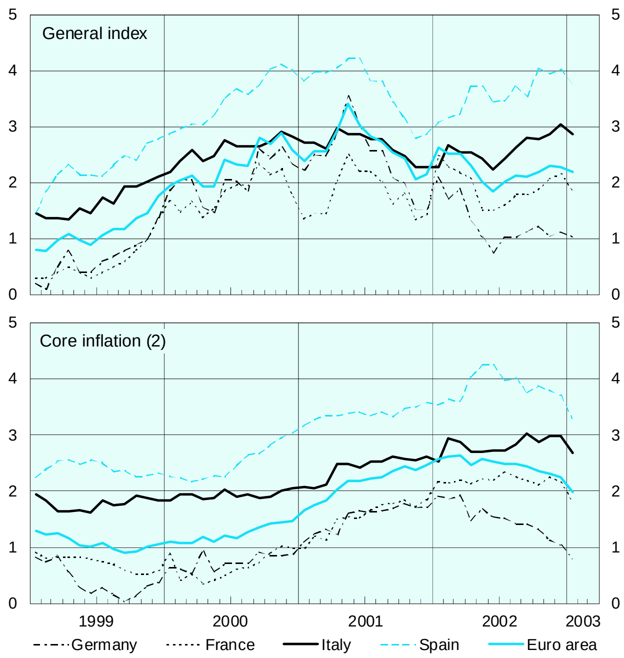
The twelve-month rate of increase in the HICP declined in June to 1.8 per cent in the euro area and 2.2 per cent in Italy, then rose to 2.2 per cent and 2.9 per cent respectively in January (Figure 24). The upturn was mainly due to prices of energy products, which fell sharply in the first half of the year but picked up in the summer following the oil price rise that more than offset the appreciation of the euro.

Euro-area core inflation (net of energy and unprocessed food products) increased to 2.6 per cent on average in the first half of the year before edging down to 2.4 per cent in the second half (Table 15), while in Italy it rose from 2.7 per cent to 2.9 per cent. The rise can be attributed mainly to the developments in goods prices, since the prices of services moved in line with the area average. In particular, the prices of non-food products accelerated in Italy but slowed in the other main euro-area countries, especially Germany. In the second half of 2002, the gap widened to 1.7 percentage points vis-à-vis France and 2.5 vis-à-vis Germany. This pattern is borne out by changes in the corresponding producer prices and can be largely ascribed to less favourable developments in domestic costs in Italy than in the rest of the euro area, and notably in Germany. Consumer and producer prices of processed food products in Italy also diverged from the rest of the euro area, continuing to rise unabated in the second half of the year in contrast with a sharp area-wide deceleration.

The more rapid rise in the prices of non-energy products can probably be attributed to the structure of distribution in Italy, where fewer large retailers are present. The evidence suggests that there were disparities in the size of price increases between small and large outlets during the changeover to the euro.

Figure 24

Harmonized index of consumer prices (1)
(*monthly data; twelve-month percentage changes*)



Source: Based on Eurostat data.
(1) For the years before 2002, the percentage changes are calculated with reference to harmonized indices that exclude temporary price reductions. – (2) General index excluding unprocessed food and energy products.

Table 15

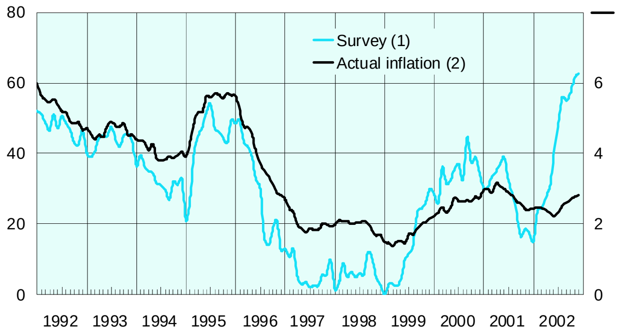
Inflation indicators in Italy and the euro area
(*percentage changes on year-earlier period*)

	Italy				Euro area			
	2001	2002	2002 H1	2002 H2	2001	2002	2002 H1	2002 H2
Consumer prices (1)								
General index	2.7	2.6	2.4	2.8	2.6	2.2	2.3	2.2
Excluding unprocessed food and energy products	2.4	2.8	2.7	2.9	2.1	2.5	2.6	2.4
of which: non-food and non-energy products	*1.8*	*2.4*	*2.3*	*2.5*	*1.4*	*1.5*	*1.6*	*1.2*
processed food products	*2.5*	*2.2*	*2.3*	*2.2*	*2.9*	*3.0*	*3.4*	*2.8*
services	*2.9*	*3.4*	*3.3*	*3.5*	*2.5*	*3.2*	*3.1*	*3.2*
Unprocessed food products	5.8	4.9	5.8	4.0	7.2	3.0	4.7	1.5
Energy products	1.6	–2.6	–4.6	–0.6	2.8	–0.7	–2.2	1.0
Producer prices								
General index	1.9	–0.2	–1.1	0.8	2.2	–0.1	–0.8	0.5
of which: final consumption goods excluding food and energy products	*2.5*	*2.0*	*2.2*	*1.7*	*2.0*	*1.7*	1.7	1.5
Unit labour costs (2)								
Total economy	2.7	2.9	4.4		2.1	1.7	2.2	
of which: industry excluding construction	*1.3*	*3.0*	*6.6*		*1.6*	*1.0*	*2.4*	
services	*3.3*	*3.0*	*3.8*		*2.2*	*2.0*	*2.3*	

Source: Based on Eurostat data.
(1) Harmonized index. Percentage changes for 2001 are calculated with reference to the harmonized index that excludes temporary price reductions. – (2) For the euro area, the changes are calculated on the basis of the figures for France, Germany, Italy and Spain; for Italy and Spain, unit labour costs are based on standard labour units.

Figure 25

Survey of assessments of price developments and actual inflation
(*monthly data*)



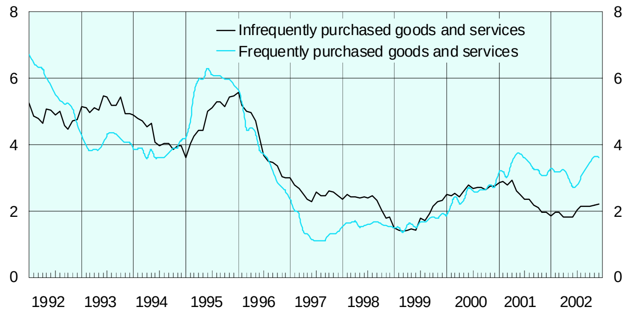
Sources: Based on Istat and ISAE data.
(1) Left-hand scale. Percentage balance between positive replies ("rising faster", "increasing at same rate") and negative replies ("stable", "decreasing") provided by consumers regarding the change in prices in the previous twelve months. – (2) Right-hand scale. General index of consumer prices: twelve-month percentage changes.

The prices of services accelerated in nearly all the euro-area countries, again partly in response to the introduction of the new currency. In Germany the rate of growth rose from 1.9 per cent in 2001 to 2.1 per cent in 2002, in France from 1.5 to 2.8 and in Italy from 2.9 to 3.4 per cent.

According to the monthly ISAE survey, the share of Italian consumers who felt that prices had risen sharply in the previous twelve months increased significantly in the course of 2002. Consequently, the balance of respondents who believed that inflation was picking up also grew (Figure 25). A similar phenomenon has been reported for other euro-area countries. In Italy, statistical evidence has shown that when consumers formed their opinions about inflation they may have implicitly attributed more weight to frequently purchased goods and services than these actually carry in the consumer price index basket, which is based on the average structure of consumption of the population as a whole. Since the middle of 2001 prices of frequently purchased goods and services have been increasing much faster than average (Figure 26).

Figure 26

General consumer price index by frequency of purchase (1)
(*monthly data; twelve-month percentage changes*)

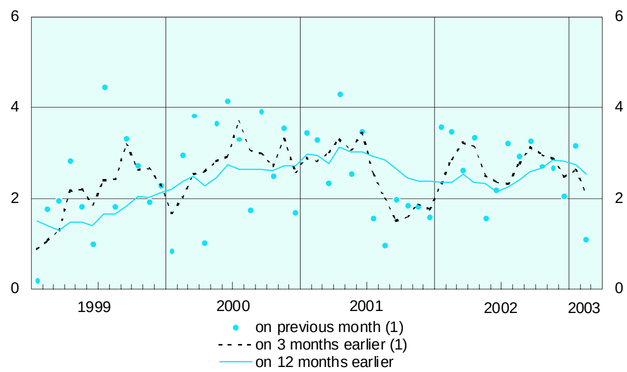


Source: Based on Istat data.
(1) The 208 items included in Istat's basket have been separated into two categories according to the frequency of purchase. The relative incidence of frequently purchased items (at least once a month) is 59 per cent.

In Italy and Germany, preliminary figures on consumer prices for February show a twelve-month increase in the harmonized index of 2.6 and 1.2 per cent respectively. In Italy this represented a decline from 2.8 per cent in December and January.

Figure 27

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



Source: Based on Istat data.
(1) Seasonally adjusted and annualized.

Among the components of the general index for Italy, the prices of regulated goods and services helped to dampen inflationary pressures in 2002; overall they rose by 0.3 per cent on average. Disaggregated data on unregulated goods point to fairly large price increases in a number of segments, especially services, ranging from 11.6 per cent in insurance to 7.2 per cent in banking and 4.5 per cent in hotels and restaurants. By contrast, the prices of some durable goods decreased significantly, such as computer prices, which fell by 11.5 per cent, and telephony equipment, down by 2.8 per cent.

Producer prices and costs

The general index of producer prices remained virtually unchanged on average in 2002; the decreases in the euro area as a whole and in Italy were barely 0.1 and 0.2 per cent respectively, compared with increases of 2.2 and 1.9 per cent in 2001 (Table 15). This reflected the sharp decline in the producer prices of energy products, which turned upwards again in the summer, however. Their twelve-month change swung from a decline of 5.6 per cent in June to a rise of 4.2 per cent in December in the euro area (and in Italy from –7.7 to 2.1 per cent). The rise in the nominal exchange rate of the euro only partly offset that in dollar oil prices in the second half of the year. The prices of other raw materials increased more moderately, easing pressures on the prices of non-energy intermediate goods: the twelve-month rate of change in the euro area rose from –0.5 per cent in June to 1 per cent in December.

The producer prices of non-food and non-energy consumer products slowed by a similar amount in Italy and the euro area; between January and December 2002 their rate of increase fell from 2.6 per cent to 2 per cent in Italy and from 2.1 to 1.6 per cent in the euro area. The deceleration was most pronounced in Germany, from 2.5 per cent to 1 per cent, in line with the corresponding consumer prices.

In the short term, according to the survey conducted by the European Commission in January, the responses of industrial firms in the euro area concerning their pricing policies confirm the virtual absence of inflationary pressures on producer prices.

Changeover to the euro and consumer price inflation in Italy

According to ex ante projections prepared throughout 2001 by central banks and statistical institutes in the euro area, the inflation risk associated with the changeover to the euro would mainly stem from a tendency among retailers to set prices at "psychological" levels (such as €4.99 instead of €5) or at "rounded" ones (to give fewer coins as change), hence adopting what the literature terms "attractive" prices.

The European Central Bank judged from these studies that there was only a moderate risk that the changeover would push up consumer prices significantly. Eurostat examined the harmonized index of consumer prices for some 80 goods categories, estimating that the changeover effect in the area including Italy would average between 0 and 0.2 percentage points in the first quarter of 2002. However, to estimate, even approximately, the effect on inflation of changing prices to "attractive" levels in the new currency it is necessary to use the levels of single consumer prices.

Istat and the Bank of Italy have surveyed some 90,000 base price quotes that account for 61 per cent of the general index of consumer prices recorded monthly from January to October 2002.[1] Two different methods have been used to estimate the specific impact on inflation in Italy due to the shift of price quotes to psychological and rounded thresholds in euros, which has been singled out using precise rules fixed in advance.

The first method consists in finding for each price that becomes attractive in a given month the threshold closest to the previous month's level (above or below depending on which way the price moved); the specific effect ascribed to rounding or psychological price setting is thus the percentage change between that threshold and the old price. For example, if a price is raised from 52 to 60 cents (or 59), the part of the increase ascribable only to finding an attractive price is equal to the difference between 52 and 55, which is the closest attractive level to 52; the difference between 55 and 60 cents (or 59) is attributed to other factors.

The second method, continuing with the same example, assumes that the effect of rounding is equal to the entire difference between 52 and 60 cents (or 59) less the average rise that month in the prices of similar products that were not made attractive (for example, a price that is raised from 52 to 57 cents). This method uses the monthly increase in prices not set at attractive levels as a proxy of the change ascribable to factors other than rounding or psychological pricing: the difference between this and the increases in prices becoming attractive in the same month is imputed to the search for an attractive price in euros.[2]

The exercise shows that the proportion of quotes set at attractive levels rose from around one-fifth in January to more than half in October, indicating a process of gradual adjustment to the new currency. Even in October the share of attractive prices was still about a third lower than a similar set of quotes in lire in September 2001.

The cumulative consumer price impact of attractive price setting in the new currency from January to October 2002 works out at 0.3 percentage points by the first method and 0.9 by the second, compared with a 2.4 per cent increase in the general index of consumer prices (see table).[3] For 2002 as a whole, the effect accounted for between 0.1 and 0.5 points out of Italy's average inflation of 2.5 per cent.

cont. ➤

Reuters' monthly survey of purchasing managers in manufacturing points to a slowdown in the growth of input costs in Italy and the euro area after the middle of 2002 (Figure 28). In the second half of the year, international euro prices of non-energy raw materials fell by 3.4 per cent on average compared with the preceding six months.

Against a background of moderate imported input costs, prices were driven up by the domestic component of costs, especially unit labour costs, which accelerated from the middle of 2000 to the middle of 2002 (Figure 29). Last year the increase for the economy as a whole was 2.9 per cent in Italy and Spain and 2.2 per cent in France, compared with just

The changeover effect associated with attractive pricing in euros was absorbed almost exclusively in items sold through traditional channels (small retail shops and the like; see table), whose prices rose much more than those of more modern outlets (supermarkets, hypermarkets, etc.).

These results are in line with the ex ante exercise for a scenario in which the two categories of retailers behave differently;[4] once the changeover was complete the estimated effect on the index of consumer prices was 0.7 percentage points, about the middle of the range calculated in the survey based on data actually recorded in 2002.

Impact of attractive price setting on price increases from January to October 2002 by channel of distribution (1)
(percentage points)

Memorandum item: Istat index (2)	Excluding unprocessed food products			Including unprocessed food products (3)
	Small retailers	Large retailers	Total	
2.4	0.14-0.70	0.02-0.05	0.16-0.75	0.26-0.85

(1) The prices used represent 61 per cent of the general consumer price basket; for items not included in the survey the impact of attractive pricing is assumed to be nil. – (2) Percentage change in the general consumer price index from January to October 2002. – (3) The effect also includes the estimated impact on prices of unprocessed food products (not included among the set of items used for empirical analysis), which is 0.1 percentage points.

Provisional results of available studies suggest that in some other countries the changeover effect was less than in Italy. This might be because the empirical analyses covered different periods of time (much longer than the Italian study) or because of divergences in basic data. Moreover, since the changeover effect was larger in small retail outlets in other countries as well, notably France and Germany, where there are more large retailers, this structural difference could have widened the inflation differential with Italy.

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[1] *See Mostacci F. and R. Sabbatini, "Has the Euro Caused Inflation? The Changeover and Consumer Price Rounding in Italy", forthcoming in* Contributi Istat*. The items not included in the survey are: regulated prices, rents, some prices directly recorded by Istat because the price is standardized throughout the country (flights, motor vehicles, other durable goods, personal computers, mobile telephones, financial and insurance services, some recreational services, repairs), unprocessed food products (excluding meat), and energy products. It is assumed that rounding in euros has very little impact on these prices, either for "institutional" reasons in the case of regulated prices, or because, since most of these items carry high prices, the effect of rounding on the end price is presumably quite limited. An ad hoc estimate was made only for the prices of unprocessed food products, changes in which probably reflect psychological pricing or rounding.*

[2] *In both methods, for each product the impact of price changes to attractive levels is considered once only, in the month the price first becomes attractive in euros. Later increases are ascribed to the same factors causing changes in non-attractive prices.*

[3] *This figure also takes account of the estimated contribution based on ad hoc considerations regarding the prices of unprocessed food products.*

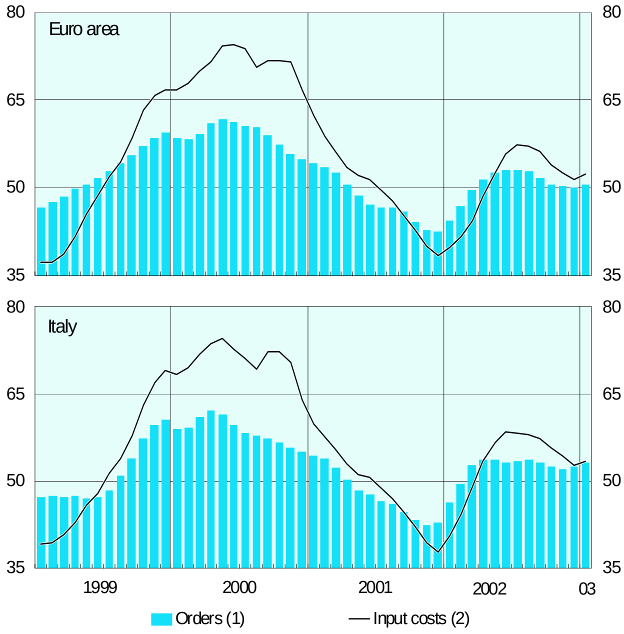
[4] *See Mostacci F. and R. Sabbatini, "Una stima ex ante dell'impatto del changeover sui prezzi al consumo in Italia",* Contributi Istat *No. 11, 2001.*

0.3 per cent in Germany. In Italy the pickup in unit labour costs was especially sharp in industry, where they increased by 3 per cent, compared with 1.3 per cent in 2001, owing to declining labour productivity, which fell by 0.4 per cent, compared with a gain of 1.6 per cent in 2001. In the service sector unit labour costs edged down from a rate of 3.3 per cent in 2001 to 3 per cent in 2002, reflecting slower growth in per capita earnings.

Istat's indicators of input and output prices used for Italy's national accounts confirm that imported input costs declined by 4 per cent on average in the first three quarters of 2002 in manufacturing, compared with an increase of 2.2 per cent in 2001 (Table 16). The cost of domestic non-labour inputs also declined slightly in the sector. By contrast, the more rapid rise in the cost of labour inputs fuelled unit variable costs, which rose by 1.6 per cent overall. The increase was larger than that in output prices. As a consequence, profit margins in the manufacturing sector narrowed, after widening in 2001. In the service sector, margins continued to grow, as in 2001.

Figure 28

Demand and input costs for manufacturers
(*percentages*)

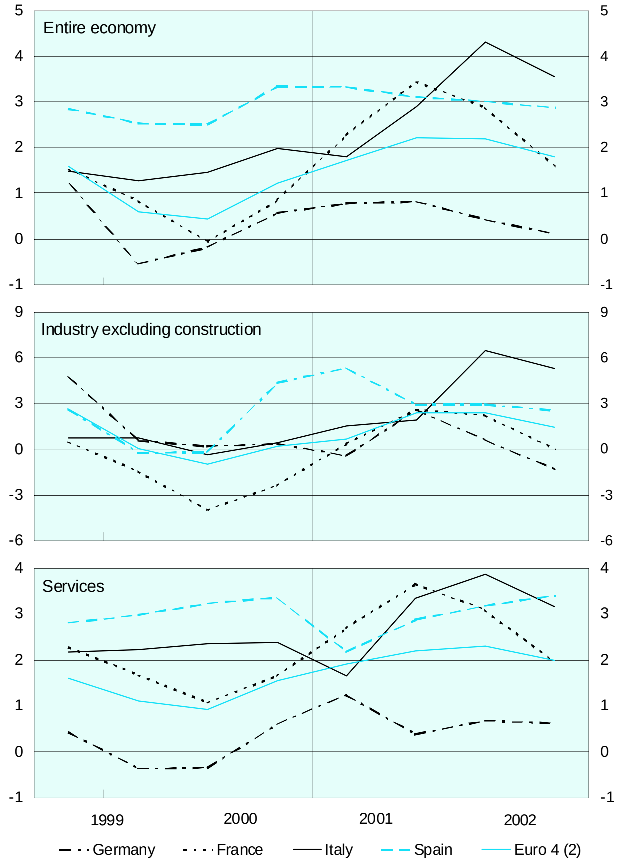


Source: Monthly survey conducted by Reuters of a sample of manufacturing firms.
(1) Percentage balance between positive replies ("high", "increasing") and negative replies ("low", "decreasing") by firms on the level of total orders. – (2) Purchasing managers of firms in the sample are asked to give their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

These patterns are confirmed by the national accounts, which show that the ratio of gross operating profit to value added in industry excluding construction declined from 38 per cent in 2001 to 37 per cent in 2002 in Italy and from 40 to 39 per cent in France, whereas in Germany it rose by about one percentage point to 26 per cent. In the service sector the ratio of profits to value added remained virtually unchanged in the three countries.

Figure 29

Unit labour costs (1)
(*percentage changes on year-earlier half*)



Source: Based on Eurostat data.
(1) For Italy and Euro 4, the figures for the second half of 2002 are calculated as the change in the third quarter on the year-earlier period. For Italy and Spain, unit labour costs are based on standard labour units. – (2) Average of the figures for France, Germany, Italy and Spain.

Against a background of persistently weak domestic and world demand, Italian exporters' pricing strategies in 2002 focused on limiting the loss of market shares. In the first eleven months of the year average unit export values in euros on EU markets declined by 1.1 per cent from the year-earlier period, while domestic producer prices in the same markets fell by 0.3 only per cent. The decline in average unit export values on non-EU markets was more pronounced (down by 2.4 per cent), about the same as the rise in the nominal effective exchange rate of the euro, which appreciated by 2.7 per cent in the same period. Italian exporters responded to especially weak national and euro-area demand by defending their

Table 16

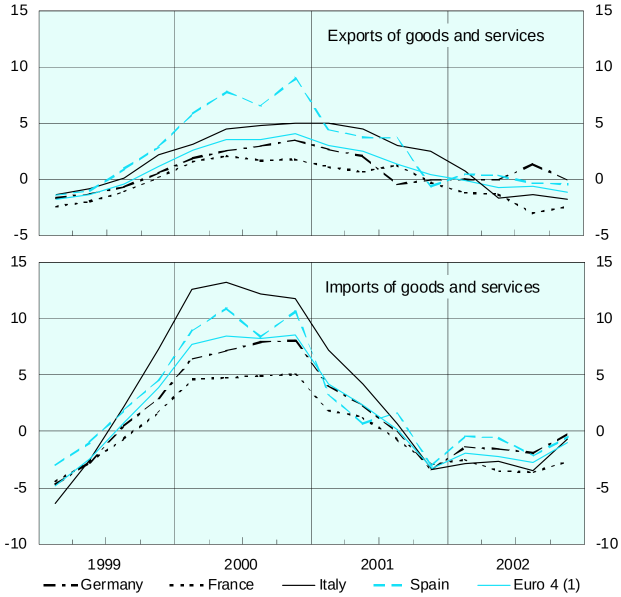
Unit variable costs and output deflator in Italy (1)
(*percentage changes on year-earlier period*)

	Manufacturing			Services (excluding public services)		
	Weights in 1995	2001	2002 (2)	Weights in 1995	2001	2002 (2)
Unit variable costs	**100.0**	**1.8**	**1.6**	**100.0**	**2.5**	**2.4**
Labour inputs	35.9	3.1	8.9	73.6	2.1	6.2
Other inputs	64.1	1.1	–2.3	26.4	3.5	–6.7
Domestic	38.3	0.1	–0.9	19.9	3.6	–8.4
Imported	25.8	2.2	–4.0	6.5	3.3	–1.7
Output prices	**100.0**	**2.1**	**1.1**	**100.0**	**2.7**	**2.7**
Domestic	58.3	0.8	2.4	91.3	2.7	2.6
External	41.7	3.6	–0.3	8.7	3.1	3.2

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

Figure 30

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.

competitive positions in the most dynamic non-EU markets.

According to the national accounts, in 2002 the implicit export deflator for goods and services declined on average by 1 per cent in Italy and 2.1 per cent in France. In Germany and in Spain it was virtually unchanged, with variations of 0.3 and 0 per cent respectively (Figure 30). The implicit import deflator declined by 2.4 per cent in Italy, 3.1 per cent in France, 1.3 per cent in Germany and 0.9 per cent in Spain.

Inflation expectations

The professional forecasters surveyed by *Consensus Forecasts* have gradually raised their expectations for Italian inflation in 2003 from 1.8 per cent in August 2002 to 2.2 in February this year as observed consumer price inflation increased (Table 17). Expected inflation for the euro area remains steady at 1.8 per cent for this year, falling to 1.7 for 2004, compared with 1.9 per cent for Italy. These figures, however, discount a fall in oil prices in the course of this year. Italy's inflation differential vis-à-vis France and Germany in 2003 is projected to average 0.5 and 1 percentage points respectively, slightly lower than last year.

Table 17

Inflation expectations for 2003 and 2004 in the euro area measured by *Consensus Forecasts*

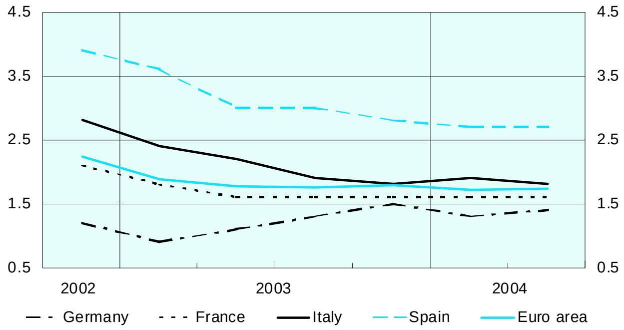
	Forecasts for 2003		Forecasts for 2004
	August 2002 survey	February 2003 survey	February 2003 survey
Italy	1.8	2.2	1.9
France	1.6	1.7	1.6
Germany	1.5	1.2	1.3
Spain	2.7	3.1	2.7
Euro area	1.8	1.8	1.7

The quarterly *Consensus Forecasts* survey in December signaled expectations that Italy's rate of inflation would ease more gradually in the course of 2003 than had been supposed at the end of the summer. Consumer price inflation is not projected to drop to 2 per cent until the third quarter of this year, whereas in the euro area it is expected to do so in the first quarter (Figure 31).

According to the monthly surveys conducted in the main euro-area countries by the European Commission, consumer expectations regarding price developments over the following twelve months improved gradually in 2002, confirming that consumer prices will decelerate this year.

Figure 31

Inflation expectations for the subsequent eight quarters
(*December 2002; percentage changes on year-earlier quarter)*



Source: *Consensus Forecasts.*

The quarterly survey of a sample of about 450 Italian firms conducted jointly by the Bank of Italy and *Il Sole 24 Ore* in December found that the respondents expected to raise prices by 1.7 per cent over the next twelve months. This was more than in the previous survey but still 1 percentage point lower than the expected rate of consumer price inflation for the same period. Compared with the September survey, the responding firms attributed less importance to raw material prices among the factors of prospective inflation, but labour costs were expected to continue to exert upward pressures.

In the financial markets, expectations over the longer run confirm that inflation in the euro area is projected to remain steadily below the 2 per cent threshold.

THE PUBLIC FINANCES IN THE EURO AREA AND ITALY

Highlights of the outturn for 2002

The main euro-area countries have had to face the slowdown in economic activity of the last two years with limited scope for stimulatory fiscal action, owing to the insufficient progress made earlier towards the budgetary positions close to balance called for in the Stability and Growth Pact. Support for economic activity has had to rely on the working of the automatic stabilizers and the full impact of tax relief granted in preceding years.

The ratio of euro-area general government net borrowing to GDP rose for the second year, from 1.6 to 2.2 per cent of GDP. Net borrowing amounted to 3.6 per cent of GDP in Germany, thus triggering the excessive deficit procedure; it was 3 per cent in France, which received an early warning.

In Italy general government net borrowing was 2.3 per cent of GDP, down from 2.6 per cent in 2001 (Table 18 and Figure 32). In March 2002 the latter figure had been estimated at 1.4 per cent and the Forecasting and Planning Report of September 2001 had indicated a target for 2002 of 0.5 per cent.

One of the factors that influenced the results was the performance of the economy: GDP grew by 0.4 per cent in 2002, whereas the Forecasting and Planning Report had indicated a figure of 2.3 per cent.

In the last part of 2002 the Government intensified the action to curb expenditure and adopted measures whose effect is estimated to have been more than 1 per cent of GDP. Partly in view of the unfavourable macroeconomic context, the measures were mainly of a temporary nature.

The primary surplus declined by 0.4 percentage points to 3.4 per cent of GDP. Tax revenue and social security contributions declined by 0.5 points to 41.6 per cent of GDP. The primary current expenditure ratio rose by 0.4 points. Capital expenditure, excluding the proceeds of sales of real estate, increased by 7.3 per cent, to 4.2 per cent of GDP. Interest payments fell from 6.4 to 5.7 per cent of GDP.

Table 18

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

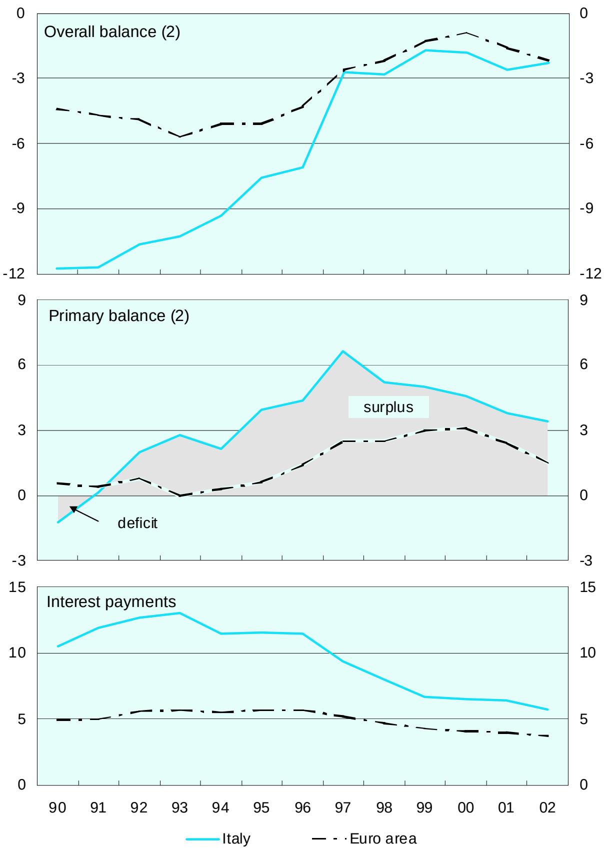
	2000		2001	2002
	Including UMTS (2)	Excluding UMTS		
Net borrowing	0.6	1.8	2.6	2.3
Primary surplus	5.8	4.6	3.8	3.4
Interest payments	6.5		6.4	5.7
Gross borrowing requirement	2.1		3.6	2.9
Debt	110.6		109.5	106.7

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

Excluding settlements of past debts and privatization receipts, the general government borrowing requirement declined from 3.1 to 2.6 per cent of GDP. As a consequence of the revisions made to net borrowing in 2001, the margin by which the borrowing requirement exceeded net borrowing narrowed to 0.5 percentage points in that year, from 1.3 points in 2000. In 2002 the gap decreased to 0.3 points; excluding the effects of the measures that curbed the borrowing requirement without affecting net borrowing, it was significantly larger.

Figure 32

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



Sources: Based on Istat and European Commission data.
(1) Following the switch to ESA95, there is a break in the euro-area series between 1994 and 1995. For the euro-area data for 2000 and 2001, see note 2 to Table 19. – (2) Excludes the proceeds of sales of UMTS licences.

In 2002 the ratio of public debt to GDP fell by 2.8 percentage points to 106.7 per cent. Some 1.9 percentage points of the total improvement came from the assignment of bonds to the Bank of Italy for the conversion of securities issued in 1994 to consolidate the Treasury's liabilities deriving from its former current account with the Bank.

Objectives and results in the euro area

On the basis of the stability programme updates submitted in late 2001 and early 2002, general government net borrowing in the euro area should have declined by 0.2 percentage points in relation to GDP last year. Nearly every country failed to achieve its objective and the outturn for the area as a whole was an increase of 0.6 points (Table 19). The result was influenced by the persistence of unfavourable economic conditions, the full impact of tax relief granted in preceding years and in some cases faster-than-expected growth in expenditure.

In connection with the budget results expected in 2002, on 21 January 2002 the European Council formally confirmed the existence of an "excessive deficit" in Germany and asked for measures to be adopted that would guarantee the reduction of the deficit to below the threshold of 3 per cent of GDP.

In January the ECOFIN Council served an "early warning" on France, as provided for in the Stability and Growth Pact. The deficit expected at the time for 2002 was significantly larger than that originally planned; moreover, looking ahead, there was the risk that the 3 per cent limit would be exceeded in 2003.

The agreement reached in October 2002 within the Eurogroup provides for a commitment by the countries that have not achieved the medium-term objective of a budgetary position close to balance or in surplus to improve their cyclically adjusted balances every year by at least 0.5 percentage points in relation to GDP. The part played by one-off measures will be assessed case by case.

According to the latest stability programme updates, which in most cases contain an estimate for 2002 basically in line with the latest available figures, net borrowing in the euro area should fall to 1.7 per cent of GDP in 2003. Among the countries that recorded large deficits in 2002, the forecast improvements in relation to GDP are as follows: Germany 1 percentage point, Italy 0.6 points, Portugal 0.4 points and France 0.2 points (Table 20). The ratio of debt to GDP in the euro area should fall by about 1 percentage point to 68.3 per cent.

Table 19

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

	2001		2002		2003		2004	
	Euro area	EU	Euro area	EU	Euro area	EU	Euro area	EU
Net borrowing								
Outturn for 2001 and preliminary outturn for 2002 (2)	1.6	1.0	2.2	2.0	–	–	–	–
Objectives set in stability and convergence programmes (3)	1.5	1.0	2.2	1.9	1.7	1.7	1.0	1.0
European Commission (November 2002)	1.5	0.9	2.3	1.9	2.1	1.8	1.8	1.6
OECD (December 2002) (4)	1.5	1.0	2.2	2.0	2.1	1.9	1.8	1.6
Cyclically-adjusted net borrowing								
European Commission (November 2002)	1.9	1.3	2.1	1.7	1.8	1.5	1.7	1.5
OECD (December 2002)	1.5	1.0	1.6	1.4	1.4	1.2	1.4	1.2
Expenditure and revenue (European Commission, November 2002)								
Expenditure	48.2	47.1	48.6	47.6	48.3	47.4	47.8	47.1
of which: interest payments	*3.9*	*3.6*	*3.8*	*3.5*	*3.7*	*3.4*	*3.7*	*3.4*
Revenue	46.7	46.3	46.3	45.7	46.2	45.7	46.0	45.5
Debt								
Outturn for 2001 and preliminary outturn for 2002 (2)	69.2	62.9	69.1	62.5	–	–	–	–
Objectives set in stability and convergence programmes (3)	69.2	62.8	69.4	62.8	68.3	62.0	66.4	60.4
European Commission (November 2002)	69.3	63.0	69.6	63.0	69.2	62.5	68.2	61.6
OECD (December 2002)	69.3	63.0	69.9	63.4	70.0	63.5	69.5	63.1

Sources: Based on: European Commission, *Autumn Forecast*, November 2002; OECD, *Economic Outlook*, December 2002; and updates to stability and convergence programmes.
(1) GDP-weighted averages. – (2) Preliminary, partly estimated figures based on data made public in the press releases of individual countries. – (3) Means of the figures contained in the latest updates to the stability and convergence programmes. – (4) Means of data that include the proceeds of sales of UMTS licences. For the years covered by the table, the impact of such proceeds on the means was not material.

On the basis of the latest stability and convergence programme updates, both the euro area and the EU should have a budgetary position close to balance in 2006. This result presupposes sizable improvements in the balances of Germany, France and Italy compared with 2002.

In Germany net borrowing is forecast to fall by 3.8 percentage points in relation to GDP, with balance being achieved in 2006. A reduction of about 4 percentage points in the expenditure ratio would be offset only to a very limited extent by a decline in the revenue ratio attributable to the implementation of further steps in the reform of the tax system that was started some years ago. Owing to the poor state of the public finances, the part of the reform that should have been implemented in 2003 has been postponed for a year.

In France the reduction in the deficit would bring net borrowing down to 0.5 per cent of GDP in 2006 with the more optimistic macroeconomic scenario

Table 20

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

	2001 (2)		2002 (2)		2003		2004		2005		2006	
	Net borrowing	Debt	Net borrowing	Debt	Net borrowing	Debt	Net borrowing	Debt	Net borrowing	Debt	Net borrowing	Debt
						Stability programmes						
Germany	2.8	59.5	3.8	61.0	2.8	61.5	1.5	60.5	1.0	59.5	0.0	57.5
France	1.4	57.3	2.8	58.7	2.6	59.1	2.1	58.7	1.5	57.8	0.8	56.2
Italy	2.2	109.9	2.1	109.4	1.5	105.0	0.6	100.4	0.2	98.4	−0.1	96.4
Spain	0.1	57.1	0.2	55.2	0.0	53.1	0.0	51.0	−0.1	49.0	−0.2	46.9
Netherlands	−0.1	52.8	0.7	51.9	1.0	51.2	0.7	49.0	0.4	47.4	−0.1	45.3
Belgium	−0.2	108.6	0.0	106.1	0.0	102.3	−0.3	97.9	−0.5	93.6	....	....
Austria (3)	0.0	61.8	0.0	59.6	0.0	57.2	−0.2	54.7	−0.5	52.1	....	....
Finland	−4.9	43.4	−3.8	42.5	−2.7	41.9	−2.1	41.9	−2.6	41.4	−2.8	40.7
Greece	1.7	107.0	1.1	105.3	0.9	100.2	0.4	96.1	−0.2	92.1	−0.6	87.9
Portugal	4.1	55.4	2.8	58.8	2.4	58.7	1.9	57.5	1.1	55.3	0.5	52.7
Ireland	−1.6	36.7	0.5	34.1	0.7	34.0	1.2	34.5	1.2	34.9	....	....
Luxembourg	−6.1	5.3	0.3	5.1	0.3	4.1	0.7	3.8	0.1	2.9	....	....
						Convergence programmes						
United Kingdom	0.2	38.2	1.8	37.9	2.2	38.8	1.7	38.9	1.6	38.9	1.6	39.1
Sweden	−4.8	56.6	−1.7	53.6	−1.5	50.9	−1.6	49.3	−2.0	48.0	....	....
Denmark	−2.8	44.7	−2.1	43.9	−2.2	42.1	−2.5	39.2	−2.4	36.7	....	....

Sources: Based on the updates to stability and convergence programmes submitted starting in the last few months of 2002.

(1) Where programmes contain more than one scenario, figures for an intermediate scenario have been taken or calculated. Excludes the proceeds of sales of UMTS licences. – (2) Outturns for 2001 and preliminary or forecast outturns for 2002 as reported in the updates to stability and convergence programmes. – (3) The figures refer to the latest stability programme update available, which was submitted in November 2001.

and to 1 per cent with the less favourable one. As in Germany, the improvement in the balance would be due to a reduction in the expenditure ratio offset only in part by a decline in the revenue ratio following the introduction of tax reliefs.

The European Commission has pointed out that the stability programme updates are based on macroeconomic assumptions that could prove to be optimistic, especially in 2003. As regards the three largest euro-area countries, the European Council has stressed the risks for compliance with the European budgetary rules in 2003, the importance of one-off measures and the need for structural reforms capable of improving the economy's growth potential.

Objectives and results in Italy

The Economic and Financial Planning Document of July 2001 set an objective of 0.5 per cent of GDP for net borrowing in 2002. The Forecasting and Planning Report published in September of the same year confirmed this figure.

The borrowing requirement in the first few months of 2002 was higher than expected. The Quarterly Report on the Borrowing Requirement published in April raised the forecast for the state sector net borrowing requirement by 0.4 percentage points to 2.1 per cent of GDP but left the objective for net borrowing unchanged at 0.5 per cent.

The Economic and Financial Planning Document for 2003-06 published in July raised the objective for net borrowing to 1.1 per cent of GDP. The Document acknowledged the delay in the economic recovery that had been expected (the forecast GDP growth rate was lowered to 1.3 per cent, from 2.3 per cent in the Forecasting and Planning Report), the partial ineffectiveness of the steps taken in 2001 to curb health spending, and the first revisions of the data for 2001, which raised net borrowing for that year from 1.4 to 2.2 per cent of GDP.

In the summer, primarily in connection with the poor performance of self-assessed income taxes, the gap between the borrowing requirement and that of the previous year widened; there was clearly a risk that the deficit would considerably overshoot the objective. Faced with this prospect, the Government introduced measures of immediate application to curb expenditure and increase revenue.

The automatic utilization of tax credits introduced in the budget for 2001 was suspended in July. In addition, tax collection agents were required to make a payment on account at the end of the year in respect of receipts of amounts entered in the tax rolls.

In September a decree aimed at strengthening the mechanisms for controlling expenditure established that, in the event of a sizable divergence from the objectives for the public finances indicated in the Economic and Financial Planning Document, the Minister for the Economy could restrict the use of budget appropriations for discretionary spending. In addition, changes were made to the methods of calculating the Irpeg tax base that would boost the yield of the second payment on account in 2002. The payment on account by tax collection agents for some indirect taxes was also increased. Lastly, it was decided to raise the levy on insurance companies.

At the end of September, the GDP growth forecast was lowered further to 0.6 per cent in the Forecasting and Planning Report and in the update of the Economic and Financial Planning Document. Even after taking the effects of the corrective measures into account, the estimate of general government net borrowing was raised to 2.1 per cent of GDP and that of the state sector net borrowing requirement to 2.6 per cent.

In the last two months of the year an operation involving the securitization of the proceeds of real-estate sales was completed. In December provision was made for banks to repay the tax relief they had obtained under Law 461/1998 and the payment on account by tax collection agents was increased further. Towards the end of the year some financial transactions were carried out aimed at reducing the borrowing requirement and the debt.

The corrective measures implemented during the year and especially the last quarter can be estimated to have reduced net borrowing by more than 1 per cent of GDP. The adjustment was mostly of a temporary nature. If the effects of the budgets for 2000 and 2001 are included, the total impact on net borrowing of temporary measures rises to around 1.5 per cent of GDP.

Net borrowing was equal to 2.3 per cent of GDP. The divergence with respect to the original objective of 0.5 per cent was mainly due to the result on the revenue side. This was adversely affected by the poorer-than-expected performance of the economy, but benefited from the additional revenue amounting to 0.3 per cent of GDP produced by the measures enacted during the year. The decree issued in September to strengthen the mechanisms for controlling expenditure reduced commitments for intermediate consumption and other current expenditure. The proceeds of sales of real estate, accounted for as reductions in capital expenditure, amounted to around €10.8 billion (0.9 per cent of GDP).

Net borrowing was slightly less than in 2001, when it had been 2.6 per cent of GDP. The fall of 0.7 percentage points in interest payments more than offset the decline of 0.4 points in the primary surplus, the fifth consecutive decrease since the peak in 1997.

General government expenditure and revenue in Italy

Expenditure

General government expenditure amounted to €594 billion in 2002. Excluding extraordinary receipts from swaps and the sale of real estate, accounted for by making a corresponding deduction from expenditure, it amounted to €606.7 billion, an increase of 2.9 per cent compared with 2001; as a ratio to GDP, it declined from 48.3 to 48.2 per cent.

Interest payments fell from 6.4 to 5.7 per cent of GDP. This item benefited from the redemption in 2001 and 2002 of a very large volume of ten-year BTPs with high coupons and the above-mentioned swaps, which reduced outlays by €1.9 billion.

Primary current expenditure increased by 4.1 per cent and rose from 37.8 to 38.2 per cent of GDP. Spending on social assistance and pensions rose from 16.6 to 17.1 per cent of GDP; final consumption expenditure remained unchanged at 18.8 per cent of GDP.

Among the components of final consumption, compensation of employees was basically unchanged at 10.7 per cent of GDP as a consequence of the partial freeze on hiring imposed in the budget for 2002 and the delay in the renewal of labour contracts for the years 2002-03. Intermediate consumption, which was curbed by the measures introduced in the last part of the year, diminished slightly in relation to GDP, from 5.1 to 5 per cent. There was a sharp slowdown in the rate of increase in purchases of social benefits in kind, from 13.8 to 4.8 per cent; in relation to GDP they remained unchanged at 2.6 per cent. This result was influenced by the measures regarding health sector expenditure, primarily those included in the agreement concluded between central government and the regions in August 2001, and the action taken to curb spending on drugs in the budget for 2002 and the decree law issued in April 2002.

Social benefits in cash were affected by the rise in the number of new pensions, which had been kept down in the two previous years by the increase of one year in the

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

	2001	2002	2001/2000	2002/2001
EXPENDITURE				
Final consumption expenditure	229,661	235,945	7.7	2.7
of which:				
compensation of employees	*130,968*	*134,593*	*6.1*	*2.8*
intermediate consumption	*62,560*	*62,765*	*7.5*	*0.3*
purchases of social benefits in kind	*31,299*	*32,793*	*13.8*	*4.8*
Social benefits in cash	202,217	215,363	3.5	6.5
Interest payments	78,013	71,261	3.6	–8.7
Other current expenditure	29,562	28,821	5.0	–2.5
Current expenditure	**539,453**	**551,390**	**5.3**	**2.2**
as a percentage of GDP	*44.2*	*43.8*		
Current expenditure, net of interest payments	**461,440**	**480,129**	**5.6**	**4.1**
as a percentage of GDP	*37.8*	*38.2*		
Investment (1)	30,175	23,165	8.5	–23.2
Investment grants	15,687	17,982	18.0	14.6
Other capital expenditure	1,963	1,489	–117.2	–24.1
Capital expenditure (1)	**47,825**	**42,636**	**61.1**	**-10.8**
Total expenditure, net of interest payments (1)	**509,265**	**522,765**	**9.1**	**2.7**
as a percentage of GDP	*41.7*	*41.5*		
TOTAL EXPENDITURE (1)	**587,278**	**594,026**	**8.4**	**1.1**
as a percentage of GDP	*48.1*	*47.2*		
REVENUE				
Direct taxes	182,703	177,323	7.1	–2.9
Indirect taxes	176,492	183,606	0.8	4.0
Social security contributions	153,906	159,306	3.9	3.5
Other current revenue	38,546	39,371	8.6	2.1
Current revenue	**551,647**	**559,606**	**4.2**	**1.4**
as a percentage of GDP	*45.2*	*44.5*		
Capital revenue	**3,402**	**5,613**	**-33.4**	**65.0**
TOTAL REVENUE	**555,049**	**565,219**	**3.9**	**1.8**
as a percentage of GDP	*45.5*	*44.9*		
NET BORROWING	**32,229**	**28,807**	**327.2**	**-10.6**
as a percentage of GDP	*2.6*	*2.3*		
Primary surplus	**45,784**	**42,454**	**-32.5**	**-7.3**
as a percentage of GDP	*3.8*	*3.4*		
Memorandum item:				
GDP	*1,220,147*	*1,258,349*	*4.6*	*3.1*

Source: Based on Istat data.
(1) This item includes the proceeds of sales of real estate entered with a negative sign.

cont.

retirement age for old-age pensions, and the automatic adjustment of pensions to inflation (3 per cent, as against 2.5 per cent in 2001).

Capital expenditure, excluding the proceeds of real-estate securitizations that complied with the accounting rules laid down by Eurostat (€6.6 billion in 2002) and the proceeds of other sales of real estate (€4.2 billion, compared with €2 billion in 2001), rose from 4.1 to 4.2 per cent of GDP. The result reflected the increase in investment from 2.6 to 2.7 per cent of GDP and that in investment grants from 1.3 to 1.4 per cent.

Revenue

General government revenue rose by 1.8 per cent to €565.2 billion, while in relation to GDP it declined by 0.6 percentage points to 44.9 per cent.

Tax revenue and social security contributions fell from 42.1 to 41.6 per cent of GDP. Revenue of a temporary nature amounted to 0.7 per cent.

Direct tax receipts fell from 15 to 14.1 per cent of GDP, while indirect tax receipts edged up from 14.5 to 14.6 per cent, primarily as a consequence of the increase in those assigned to local authorities. Capital taxes rose from 0.3 to 0.4 per cent of GDP, benefiting from the receipts associated with the repatriation and regularization of assets held abroad and the repayment by banks of the incentives they had obtained under Law 461/1998.

Social security contributions rose from 12.6 to 12.7 per cent of GDP; actual contributions increased by 3.7 per cent, compared with an increase of 4.2 per cent in total gross earnings. The result for the year was influenced by the reduction in contribution rates introduced in February 2001.

The performance of the main items of tax revenue is analyzed below on the basis of the cash receipts recorded in the central government accounts.

Receipts of personal income tax (Irpef) rose by 1.8 per cent (€2.1 billion). When the data are adjusted to take account of the recording in 2002 of €1.5 billion withheld in respect of 2001, they decreased by 0.7 per cent. The result reflected the increase in tax credits for dependent children introduced in the budget for 2002, which were officially forecast to reduce receipts by €1.1 billion.

Receipts of corporate income tax (Irpeg) fell by 9.5 per cent (€3.1 billion). The factors that contributed to the downturn included the impact of the poor performance of the economy on the tax base, investment incentives and the effects of the measures enacted in 2000 and 2001 concerning the revaluation of corporate assets. On the opposite side were the effects of the corrective measures enacted in September 2002 (see the box "The corrective measures introduced during the year" in Economic Bulletin, *No. 35, November 2002*).

Among the taxes on interest income and capital gains, the only one to increase was the tax on interest income from bank deposits, which rose by 11.5 per cent (€0.4 billion). The yield of the tax on capital gains arising in connection with the sale of businesses and equity investments fell by 41.7 per cent (€1.7 billion) compared with 2001, when receipts had been temporarily boosted by changes in the law.

Among the other direct taxes, the yield of the tax on the revaluation of corporate assets fell from €5 billion to €1.6 billion. The direct tax receipts generated by the temporary measures introduced in the budget for 2002 and that concerning insurance companies adopted at the end of last year amounted to respectively €1.7 billion and €0.5 billion.

Receipts of VAT increased by 2.5 per cent (€2.3 billion). The figure rises to 3.2 per cent when account is taken of the receipts set aside to finance investment incentives in 2003 under the so-called Tremonti bis law.

The fall in receipts of other excise and sales taxes by 8.5 per cent (€0.5 billion) was due to permanent reductions in the tax on methane for domestic use.

The first step of the reform of personal income tax

January 2003 saw the entry into force of the changes to the structure of personal income tax (Irpef) introduced in the Finance Law for 2003. They represent the first step of a reform that when completed will lead to just two Irpef rates instead of the present five and to deductions aimed primarily at low and medium-income taxpayers.

The first step consists in changes to the first three income brackets and the related tax rates. The increase in the rate applicable to the first income bracket and the decrease in that applicable to the third have begun a reshaping of the tax rate curve tending to make it flatter.

In order to increase the progressiveness of the tax with respect to the new statutory rates, the system of deductions has been altered. In this first step, a deduction has been introduced that decreases linearly with income; it is applicable to all types of income and guarantees different degrees of progressiveness. This deduction results in a minimum level of income below which no tax is payable equal to respectively €7,500 for employee income, €7,000 for pension income, €4,500 for self-employment income and €3,000 for all other types of income; the deduction is zero for incomes, including tax credits and net of deductible expenses, exceeding respectively €33,500 for employee income, €33,000 for pension income, €30,500 for self-employment income and €29,000 for all other types of income.

Comparison of the old and new average net tax rates, which take account of the combined effects of the statutory rates and the system of deductions and tax credits, makes it possible to analyze the variations in the impact of the first step of the reform of Irpef (Figure 1). For employees and pensioners the new average net rate is lower up to an income of respectively €33,500 and €33,000. For higher incomes the average net rates are basically the same under both systems since the reduction in the tax liability deriving from the changes in the statutory rates is offset by the elimination in the new system of the tax credit for employees and pensioners, which higher income earners had also been entitled to under the old system. For self-employment income and all the other types of income, the new average net rate is lower than the old one for the last two income brackets as well, albeit by only 0.1 percentage points. The old system provided for tax credits only for self-employment income and then only for the lower income brackets.

Figure 1

Reduction in average net tax rates between the system in force in 2002 and that introduced in 2003 (1)

(percentage points)

(1) The x-axis shows nominal income in thousands of euros. The average net tax rate is the ratio of the tax liability (after tax credits) to income (before deductions).

cont.

The ratio of tax revenue and social security contributions to GDP declined by 0.5 percentage points, mainly as a consequence of the performance of direct taxes. In addition to slower-than expected growth, this was affected by tax relief granted in earlier years and measures that reduced the Irpeg tax base (see the box "State sector tax revenue and expenditure", *Economic Bulletin*, No. 35, November 2002). The primary current expenditure ratio rose by 0.4 points, reflecting the increase in social benefits. In a context marked by a gradual decline in interest rates, the reduction of e6.8 billion in interest payments included about e2 billion deriving from swaps (see the box "General government expenditure and revenue in Italy").

The reduction in tax liabilities resulting from the first step of the reform is thus concentrated among low and middle-income taxpayers. When fiscal drag is factored in, the basically unchanged average net rate for persons with higher incomes implies a slight increase between 2002 and 2003 in their taxation in real terms.

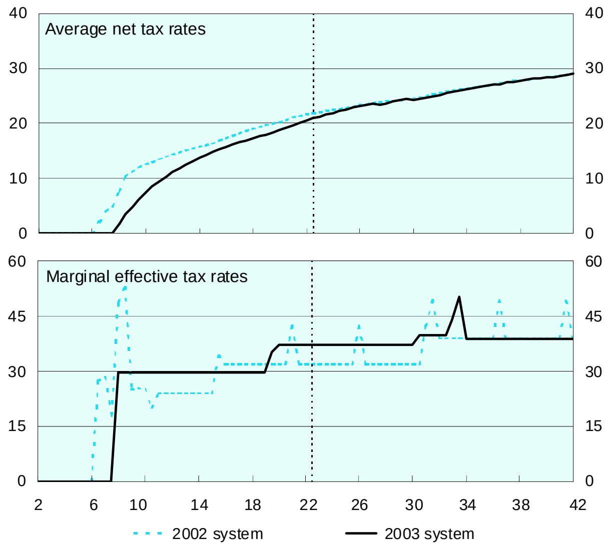
The changes introduced have led in general to an increase in the marginal effective rates for low and middle-income taxpayers. This is because under the new system the marginal effective rates are higher than the statutory rates for the low and middle-income brackets, whereas under the old system they had been the same as the statutory rates except at the point of transition from one income bracket to the next with different tax credits. The differences between the marginal effective rates under the two systems are due to the replacement of tax credits that were the same within each tax bracket with deductions that are a linear function of income. The marginal effective rates for higher incomes, which are not entitled to the deduction, continue in general to be the same as the statutory rates.

For an employee with an income equal to the average according to the national accounts, the first step of the reform brings a reduction in his or her tax liability: the average net rate falls from 21.6 to 20.7 per cent. However, the same person's marginal effective rate rises from 32 to 37.4 per cent (Figure 2). The view usually adopted in the economic literature is that tax-induced distortions in individuals' choices are related to their marginal rates more than their average rates. Accordingly, the new system has increased Irpef's potentially distortionary effects for payroll workers with an income equal to the average.

Figure 2

Comparison for payroll workers of the system in force in 2002 with that introduced in 2003 (1)

(percentages)



(1) The x-axis shows nominal income in thousands of euros. The average net tax rate is the ratio of the tax liability to income received. The marginal effective tax rate is the ratio of the increase in the tax liability corresponding to an increase in income of 500 euros and the increase in income itself. In both cases the tax is after tax credits and the income before deductions. The vertical line corresponds to the average income of a payroll worker according to the national accounts for 2002.

The first step of the reform is officially expected to reduce revenue in 2003 by around €5.5 billion on an accrual basis. This is €4.1 billion more than had been estimated as a result of the changes to Irpef in 2003 introduced in the Finance Law for 2001 and subsequently repealed. The relief will offset all or part of the increase in personal income tax due to fiscal drag.

The public finances probably did not have a restrictive effect on economic activity in 2002. The primary surplus was smaller. Investment, which has a direct and immediate impact on GDP, rose by 5.6 per cent after growing by 11.5 per cent in 2001 (excluding sales of real estate). There was an increase in revenue of a temporary nature, which is likely to have a less restrictive impact on the spending decisions of the private sector than that of a permanent nature.

Net borrowing in 2001, which had been estimated at 1.4 per cent of GDP in March 2002, was progressively revised by Istat: to 1.6 per cent in June 2002 owing to adjustments to health expenditure, transfers to enterprises and tax revenue; to 2.2

per cent in July 2002 as a result of the application of the accounting rules adopted by Eurostat for securitizations; and to 2.6 per cent in February 2003 owing to adjustments to health expenditure and the accounts of central government.

Despite the corrective action taken in the second half of 2002, the outcome for net borrowing was in line with the forecasts prepared by the Bank of Italy and adopted as a prudential hypothesis in the Economic and Financial Planning Document of July 2001.

The borrowing requirement and the public debt in Italy

The overall general government gross borrowing requirement decreased from €43.5 billion in 2001 to €36.8 billion in 2002 and from 3.6 to 2.9 per cent of GDP. Settlements of past debts amounted to €5.9 billion and privatization receipts to €2 billion (compared with €10.3 and €4.3 billion in 2001). Excluding these items, the borrowing requirement was equal to 2.6 per cent of GDP, compared with 3.1 per cent in 2001 (Tables 21, a21 and a22). The reduction in the borrowing requirement produced by temporary measures can be estimated at more than 2 per cent of GDP.

The initial estimate of the general government borrowing requirement in 2001, made in March 2002, was only 0.2 percentage points less than the forecast on a current programmes basis published in the Economic and Financial Planning Document of July 2001. By contrast, the initial estimate of net borrowing (1.4 per cent of GDP) was significantly less than the forecasts on a current programmes basis published in the Planning Document (1.9-2.7 per cent). According to the foregoing estimates, net borrowing was thus 1.5 percentage points of GDP less than the net borrowing requirement, as in 2000. The subsequent upward revision of net borrowing by 1.2 percentage points and the borrowing requirement by 0.2 points narrowed the gap to 0.5 points in 2001.

In 2002 the gap narrowed further to 0.3 percentage points of GDP. A contribution to this result of about three quarters of a point came from transactions of a temporary nature that curbed the borrowing requirement without affecting net borrowing: the securitization of claims of Cassa Depositi e Prestiti, that of contributions due to INPS, some of the payments by tax collection agents brought forward to 2002, and the freeze imposed on the automatic use of tax credits introduced in the budget for 2001.

Table 21

General government and state sector balances
(*millions of euros*)

	2000	2001	2002 (1)
General government gross borrowing requirement	25,028	43,510	36,756
as a percentage of GDP	*2.1*	*3.6*	*2.9*
General government borrowing requirement net of settlements and privatization receipts	35,879	37,550	32,914
as a percentage of GDP	*3.1*	*3.1*	*2.6*
State sector borrowing requirement net of settlements and privatization receipts (2)	25,472	34,857	25,315
as a percentage of GDP	*2.2*	*2.9*	*2.0*
Memorandum items:			
Settlements of past debts	4,599	10,290	5,873
Privatization receipts (3)	15,450	4,329	2,031

(1) Provisional. – (2) Based on Ministry for the Economy and Finance data; the figures do not take Eurostat's decisions on securitizations fully into account. – (3) The figure for 2000 includes the part of the proceeds of the sale of UMTS licences used to reduce the public debt (€10,709 million). The balance of these proceeds (€1,190 million) was accounted for under revenue.

General government debt grew by €6.1 billion to €1,342.3 billion (Table a23). The conversion of bonds in the Bank of Italy's portfolio reduced the increase by nearly €24 billion. Other reductions included €2.2 billion from the decrease in the Treasury's liquid balances held with the Bank of Italy, €3.7 billion as a result of the appreciation of the euro (which diminished the value of liabilities denominated in foreign currencies), and €0.8 billion of net issue discounts and other residual items.

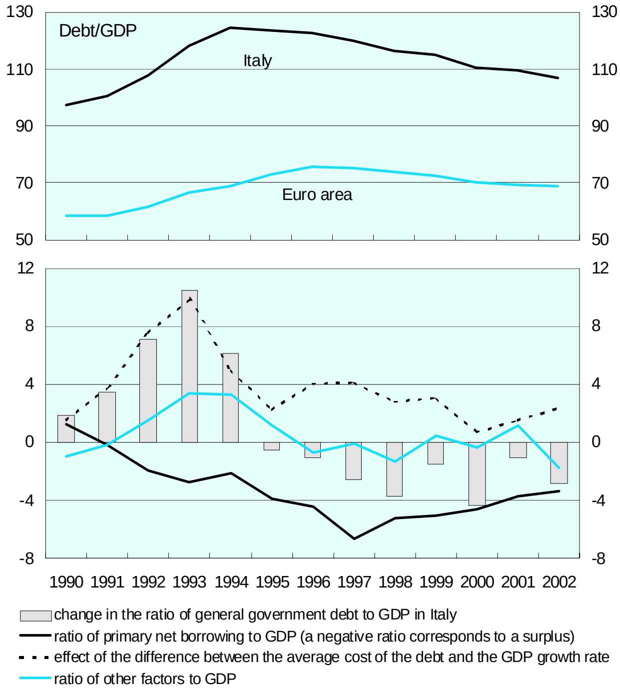
The average residual maturity of the debt in the form of listed bonds shortened from 5.8 to 5.5 years as a consequence of the above-mentioned bond conversion.

The ratio of the debt to GDP fell by 2.8 percentage points to 106.7 per cent (the revision of GDP carried out in February 2003 reduced the ratio in 2001 by 0.3 percentage points). Two thirds of the reduction in the ratio attributable to the primary surplus was offset by the gap between the average cost of the debt and the growth in nominal GDP, which widened from 1.4 to 2.2 percentage points, since the former decreased less (from 6 to 5.3 per cent) than the latter (from 4.6 to 3.1 per cent). A contribution of nearly 2 percentage points to the reduction in the debt ratio came from the residual item, which mainly reflected the above-mentioned bond conversion (Figure 33).

The report submitted to the European Commission in February as part of the excessive deficit procedure was fully compliant with the accounting rules adopted by Eurostat for securitizations (previously the new rules had only been applied to the securitizations carried out in 2001 for the proceeds of real-estate sales and lotto and other lottery receipts). The general government borrowing requirement and general government debt were revised. Compared with the figures previously published, the debt was up by €4.1 billion in 1999, €3.5 billion in 2000 and €0.8 billion in 2001, while the borrowing requirement was up by €4.1 billion in 1999 and down by €0.6 billion in 2000 and €2.7 billion in 2001.

Figure 33

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



(1) For the method of obtaining the breakdown of the change in the ratio of debt to GDP, see the note to Figure 30 in *Economic Bulletin*, No. 32, March 2001. Following the switch to ESA95, there is a break in the euro-area debt series between 1995 and 1996.

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

Interest rates and the exchange rate of the euro

The Governing Council of the ECB reduced the Eurosystem's official rates by 0.5 percentage points on 5 December 2002 and by another 0.25 points on 6 March of this year (Figure 34).

The minimum bid rate on main refinancing operations currently stands at 2.5 per cent.

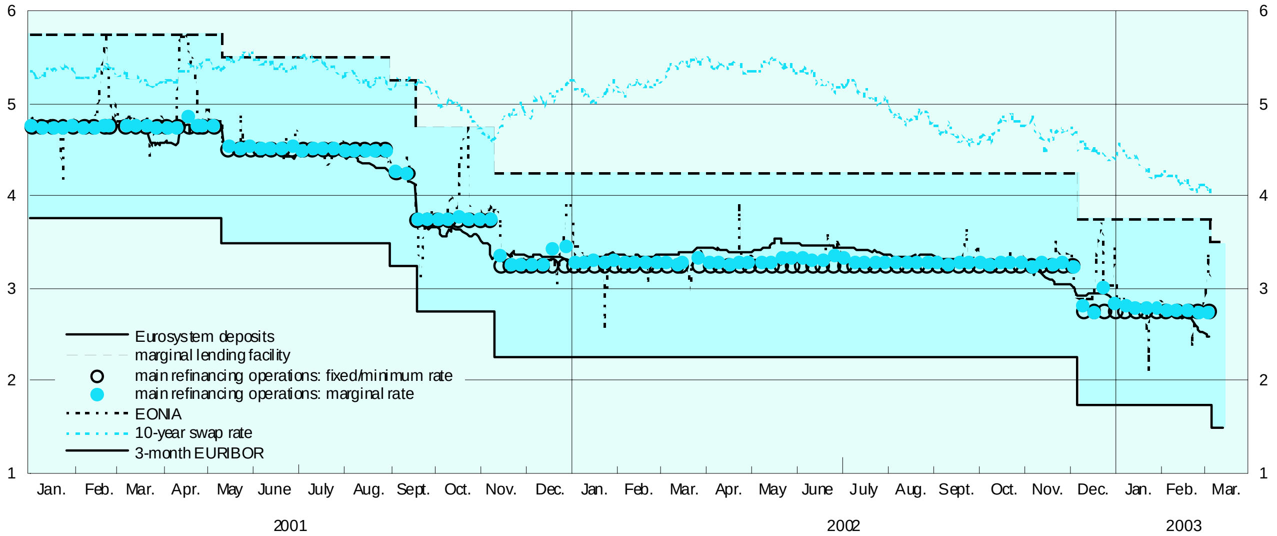
The interest rate decisions were taken in a macroeconomic context characterized by the easing of inflationary pressures, the stagnation of economic activity and increasingly uncertain prospects of cyclical recovery owing to rising international political tensions.

On the whole, the market anticipated the movements in short-term interest rates in 2002. The differential between the three-month spot rate in euros and the three-month forward rate observed one month earlier was generally very small (Figure 35). However, it turned negative for a while in the second quarter, when forward rates still indicated expectations of a moderate rise in rates. In subsequent months, when the intensification of geopolitical tensions added to the uncertainty about the timing of the economic recovery, the yield curve shifted downwards and the differential between the spot rate and the forward rate of the previous month tended to close. At the beginning of December the spot rate was around 0.25 percentage points below the previous month's forward rate, indicating that the reduction in official rates decided by the Governing Council was larger than the market had expected.

Figure 34

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

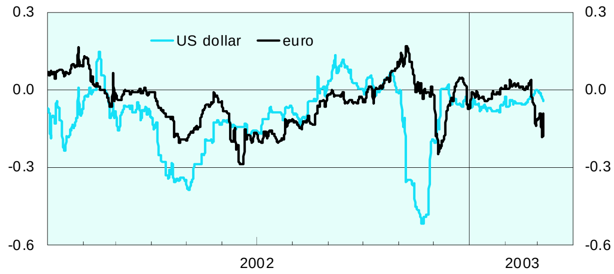
(daily data; percentages)



Sources: ECB, Reuters and Telerate.

Figure 35

Differential between actual and expected 3-month interest rates (1)
(daily data; percentage points)

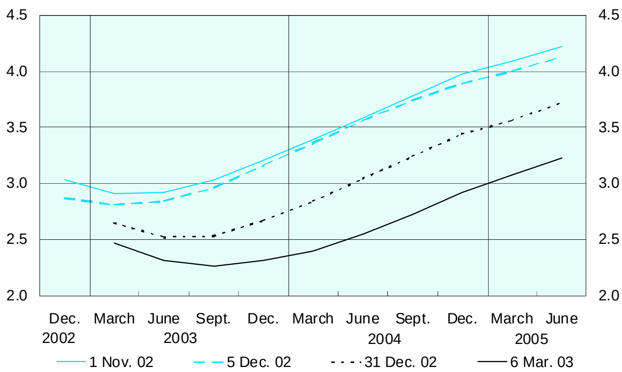


Source: Reuters.
(1) LIBOR rates. The expected interest rate is the rate implied by the yield curve one month before the date indicated; the actual rate is the spot rate.

Short-term rates came down in late 2002 and the early months of this year. Between the beginning of November and the end of the first third of March, the three-month interbank rate declined by 0.7 percentage points to 2.5 per cent. Over the same period the yield curve implied by futures contracts gradually shifted downwards. Yields currently incorporate expectations of a further reduction in short-term rates during 2003 (Figure 36).

Figure 36

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

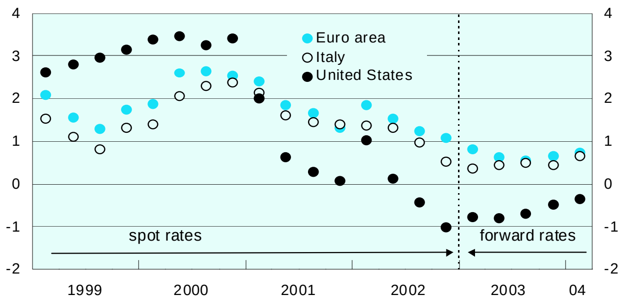


Source: Reuters.
(1) Each curve relates to the contract date indicated in the legend. The horizontal axis shows the settlement dates for the futures contracts to which the yields refer.

The real short-term interest rate, calculated on the basis of surveys of expected inflation, fell further in the fourth quarter of 2002, primarily reflecting the decline in the nominal rate. The real rate thus reached its lowest level since the start of the third stage of monetary union (1.1 per cent; Figure 37). Over the same period the real dollar rate was around –1 per cent, even lower than the level reached in the two years following the 1990 recession. The markets expect the differential between real rates in the euro area and the United States to remain positive but to diminish gradually in the course of 2003 as dollar rates rise.

Figure 37

Real spot and forward 3-month interest rates (1)
(quarterly data; percentages)



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

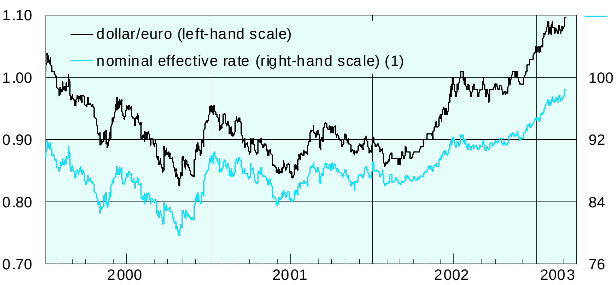
Long-term rates, which began to fall in the second quarter of 2002, also continued downwards. The yield on ten-year government bonds, calculated as the average of the yields on the benchmark securities of the main euro-area countries, is currently 4.1 per cent, 0.7 percentage points lower than at the beginning of November. From November 2002 until the first ten days of March 2003, the ten-year yield implied by euro interest rate swaps fell by 0.8 points to 4 per cent, one of the lowest levels since the end of the 1980s.

The decline in long-term rates reflects the diminished prospects of recovery, against the background of expectations that inflation will remain consistently below 2 per cent over the medium term. In a phase marked by stock market turbulence and a deteriorating geopolitical situation, another factor was portfolio adjustment in favour of fixed-income securities, which also extended to the bonds of private-sector issuers. Between the beginning of November and the end of February the yield differential between private and public-sector bonds fell back from the exceptionally high level reached in October.

The shift into what are regarded as safer assets also involved gold: between November 2002 and February of this year the average monthly price rose by 13 per cent to $360 an ounce, not far from the figure reached in the first quarter of 1991 during the Gulf War.

Figure 38

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



Source: ECB.
(1) Index: first quarter of 1999=100.

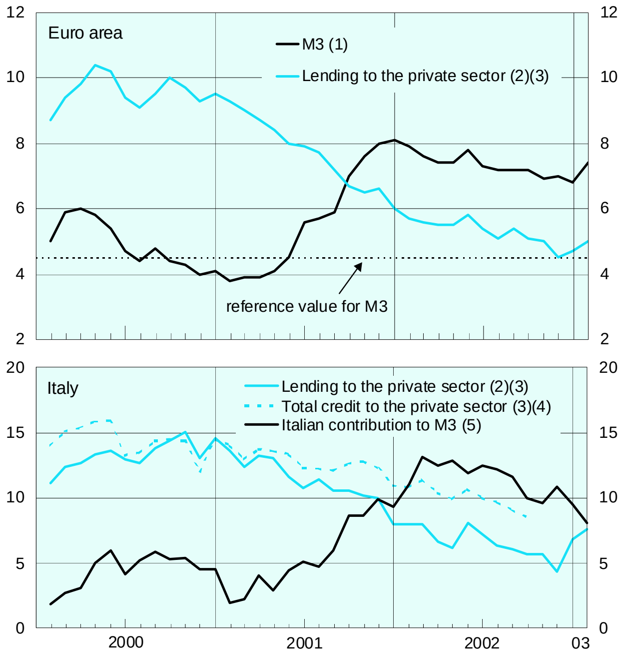
After appreciating in the second quarter of 2002, the euro strengthened further against the other main currencies. Between the beginning of November and the first ten days of March, a period of dollar weakness, the euro gained 10.1 per cent against the dollar, 5.1 per cent against the yen and 8.4 per cent against sterling. In nominal effective terms the appreciation amounted to 5.5 per cent for that period and 8.8 per cent for 2002 as a whole (Figure 38). The strengthening of the euro against the dollar primarily reflected fears of the adverse effects of the geopolitical tensions on the US economy and the worsening of the American trade deficit (see the box "Recent developments in the exchange rate of the euro").

The money supply and credit

The twelve-month rate of growth in euro-area M3 remained high in the final part of 2002, at around 7 per cent (Figure 39); it averaged 7.1 per cent in the three months ended in January 2003.

Figure 39

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 enterprises, insurance companies, 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.

The rapid expansion in M3 was fueled partly by the uncertainty prevailing in the financial markets, which prompted investors to increase their holdings of riskless monetary assets, and partly by a reduction during the year in the opportunity cost of liquid instruments, measured by the differential between long and short-term yields. It also reflected an exceptional increase in currency in circulation (34.6 per cent in the twelve months to January). This followed a sharp contraction in the demand for banknotes in the second half of 2001 during the run-up to the currency changeover and indicates the rebuilding of cash balances in euros, which presumably also occurred in countries outside the area.

Table 22

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

	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 BOTs	Medium and long-term securities	Other financial assets (5)	
	12-month percentage changes											
2000 – Dec. . .	6.8	1.2	14.5	14.5	20.4	13.8	5.2	3.2	2.8	4.2	−3.6	9.7
2001 – Dec. . .	6.9	3.7	10.9	7.9	113.3	15.0	6.3	7.3	6.7	9.3	−15.9	4.1
2002 – Jan. . .	7.1	4.0	10.8	7.9	111.2	14.4	6.7	8.1	7.2	10.4	−14.6	3.7
Feb. . .	7.2	3.8	11.4	8.0	144.5	15.2	6.7	9.5	8.0	12.5	−15.0	0.6
Mar. . .	7.0	4.2	10.4	6.6	117.4	17.3	6.6	9.9	8.4	12.8	−13.4	−0.6
Apr. . . .	6.6	3.8	9.9	6.1	114.1	17.3	6.4	9.9	8.1	13.1	−13.1	−1.1
May . .	6.6	3.3	10.7	8.1	79.4	14.3	6.8	9.7	7.9	12.9	−11.9	0.3
June . .	6.3	3.2	10.0	7.2	59.3	16.6	6.9	10.7	8.8	13.9	−11.4	−1.4
July . . .	6.5	4.0	9.6	6.3	64.0	17.5	6.7	10.4	8.7	13.2	−9.8	−1.6
Aug. . .	6.4	4.2	9.1	6.1	68.2	14.7	6.8	10.3	7.9	13.9	−7.9	−0.9
Sep. . .	6.2	4.3	8.5	5.7	60.9	13.8	5.9	9.0	6.6	12.9	−19.5	−1.1
Oct. . . .	. . . .	4.2	. . . .	5.7	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Nov. . .	. . . .	4.6	. . . .	4.3	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Dec. . .	. . . .	2.6	. . . .	6.8	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
2003 – Jan. . .	. . . .	. . . .	. . . .	7.6	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
	Percentage shares of stocks											
2000 – Dec. . .	100.0	54.9	45.1	36.7	0.7	7.7	100.0	68.2	36.5	29.7	2.0	31.8
2001 – Dec. . .	100.0	53.3	46.7	36.8	1.5	8.3	100.0	69.2	37.2	30.9	1.1	30.8
2002 – Sep. . .	100.0	53.3	46.7	36.2	1.7	8.7	100.0	72.9	38.6	33.5	0.8	27.1

(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 enterprises, insurance companies, 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.

These temporary factors, together with the deceleration in credit, suggest that the rapid expansion in M3 does not pose an inflationary risk in the medium term. In December 2002 the Governing Council of the ECB re-affirmed the medium-term reference value of 4.5 per cent for the growth in M3.

The twelve-month growth in the Italian component of M3, calculated net of currency in circulation, amounted to 9.5 per cent in December 2002 (compared with 4.4 per cent for the corresponding aggregate in the rest of the euro area); in January 2003 it was 8.1 per cent (5.6 per cent in the rest of the area). The average growth in the Italian component of M3 was 11.5 per cent in 2002, more than 3 percentage points higher than that in the corresponding aggregate in the rest of the area. The expansion in overnight deposits was particularly pronounced.

The higher demand for monetary assets in Italy than in the rest of the area does not appear to be attributable to differences in inflation and real income growth. The faster increase in the Italian component of M3 presumably stems from the stronger impact of interest rate changes on the demand for monetary assets, owing to the larger proportion of short-term components of the money supply in Italy than in the

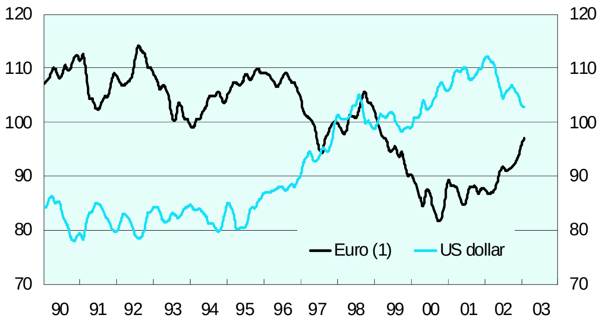
Recent developments in the exchange rate of the euro

The exchange rate of the euro has fluctuated widely since the start of stage three of Economic and Monetary Union in 1999. In its first two years the currency depreciated by around 14 per cent in nominal effective terms. In 2001 it held broadly stable. International institutions and major market participants suggested that at the beginning of 2002 the euro was undervalued by anywhere from 20 to 35 per cent with respect to its long-term value against the dollar. This conclusion was based principally on comparison of the exchange rate with the price levels in the euro area and the United States, in accordance with the theory of purchasing power parity.

Between March 2002 and January 2003 the euro appreciated by more than 11 per cent in effective terms, regaining the levels registered in the second quarter of 1999. Its performance during these months depended mainly on the weakness of the dollar, which accounted for more than half of the total appreciation, and also on a strengthening vis-à-vis the pound sterling and the yen.

Figure 1

The nominal effective exchange rates of the euro and the dollar
(monthly averages; index: Q1 1999 = 100)



Sources: ECB and Bank of Italy.
(1) Through December 1998, the exchange rate of the "theoretical" euro, as defined in footnote 2.

Over the last four years the fluctuations in the effective exchange rate of the euro have been of about the same amplitude as those of the dollar (Figure 1), smaller than those of the yen and larger than those of the pound. Large as they have been, these swings in the value of the euro are not unprecedented. A decomposition of the time series of the nominal effective exchange rate into its "short-term" and "medium-term" cyclical components[1] shows that the volatility of the latter is in line with that of the "theoretical" euro [2] in the 1990s, prior to the launch of EMU (see table). The same goes for the volatility of the "short-term" cyclical components and vis-à-vis the leading world currencies.

Nominal effective exchange rate volatility (1)

CURRENCY	Short-term		Medium-term	
	1990-98	1999-2002	1990-98	1999-2002
Euro	1.69	1.74	1.98	1.80
Dollar	1.92	1.26	1.05	1.30
Pound	2.14	1.07	2.18	0.67
Yen	3.47	2.69	2.72	2.84

Sources: ECB and Bank of Italy.
(1) Standard deviation, in percentage, of the nominal effective exchange rate attributable to the "short-term" and "medium-term" components, calculated respectively on the basis of frequencies of 2 to 24 and 24 to 60 months. The filter methodology is from Baxter and King.

Developments in the dollar/euro exchange rate in 2002 were affected by a number of specific factors. In part, the appreciation of the euro in the second quarter (by more than 14 per cent) reflected concerns over the possible repercussions on the United States of the international political situation, whose effects were compounded by growing uncertainty over the outlook for US economic growth. The differential between long-term interest rates in dollars and in euros narrowed; that between the ten-year yields implied by swap contracts

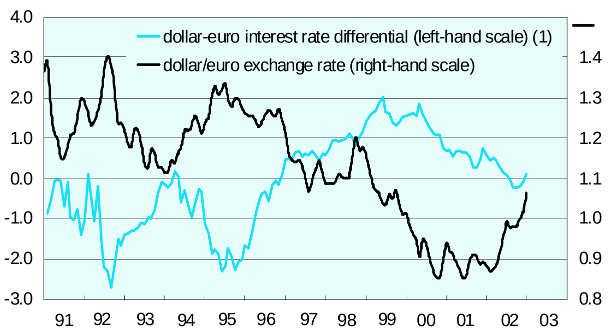
cont.

practically vanished (in December 2001 it had been 0.75 percentage points). Despite significant short-period deviations, over the longer run the negative correlation between changes in the yield differential and those in the dollar/euro spot exchange rate proves to be quite robust (Figure 2). The dollar was also apparently weakened by the release of data indicating a sharp deterioration in the US balance of payments on current account. The weakness of the main American stock exchanges, aggravated by the revelation of cases of serious accounting irregularities, may also have undermined investors' expectations concerning the ability of the United States to attract the capital inflows needed to finance the current account deficit.

Figure 2

Dollar/euro exchange rate and long-term interest rate differential

(monthly averages)



Sources: Reuters and ECB.

(1) Calculated on the basis of 10-year Euromarket swap rates. Percentage points.

From mid-July through November the exchange rate hovered at around $0.98 per euro. During this period the euro also held steady vis-à-vis the pound and the Swiss franc. The nominal effective appreciation of the euro reflected its strengthening against the yen, which was presumably affected by growing concerns over the state of the Japanese banking system.

The euro started to appreciate against the dollar again in December and by the end of January had gained around 9 per cent. In this phase the exchange rate was affected by mounting geopolitical tensions. The dollar may also have been weakened by a negative assessment of the medium-term consequences of the American administration's expansionary tax package and by the release of new data confirming that the current account deficit had continued to run close to 4.8 per cent of GDP in the third quarter of 2002. In the second half of the 1980s deficits of that order of magnitude coincided with a nominal effective depreciation of the dollar of about 30 per cent in just over three years.

The appreciation of the euro in 2002 was accompanied by an increase in net financial flows into the area. In the first eleven months the net inflow on account of direct and portfolio investment amounted to about €34 billion. This was the first net capital inflow for the euro area in five years.

[1] *The decomposition uses Baxter and King's band-pass filter (see "Measuring business cycles: approximate band-pass filters for economic time series",* Review of Economics and Statistics, *Vol. 81, No. 4, November 1999).*

[2] *The nominal effective exchange rate of the euro prior to stage three of EMU is tracked by an indicator developed by the ECB using a basket of the currencies that now make up the euro. See ECB,* Monthly Bulletin, *April 2000.*

rest of the area. It should also be borne in mind that in 2001 the expansion in overnight deposits had been faster in the area than in Italy, whereas currency in circulation had contracted more sharply as the changeover to the euro approached. This factor may have contributed to slower growth in overnight deposits in the rest of the area in 2002.

Credit growth continued to slow down in the area, reflecting the weak phase of economic activity. Lending by monetary financial institutions to the private sector increased by 4.8 per cent in the twelve months to January 2003, compared with 6.7 per cent in 2001.

In Italy bank lending to the private sector grew by 6.8 per cent in the twelve months to December 2002 (7.9 per cent in 2001; Table 22), compared with nominal GDP growth of 3.1 per cent; the twelve-month growth in lending rose to 7.6 per cent in January of this year. On the basis of data available up to September, there was a slowdown in total finance to the Italian private sector, which includes foreign loans and bond issues; the growth in the latter decelerated markedly from the rapid rate of the previous year.

The financial saving of households and corporate financing in Italy

Against the background of persistent uncertainty about the outlook in the share market, in the first nine months of 2002 households increased their net purchases of medium and long-term securities to €80.5 billion while making net disposals of investment fund units and equities of €3.9 billion and €15.3 billion respectively (Table 23). Primarily as a consequence of the large drop in share prices, the proportion of equities in households' total financial assets fell to 12.8 per cent in September 2002, more than 6 percentage points lower than a year earlier.

Households made disposals of foreign financial assets totaling €14 billion; the disinvestment involved sight deposits (€20.5 billion) and was concentrated in the first half of the year, in connection with the measure to facilitate the repatriation of assets held abroad.

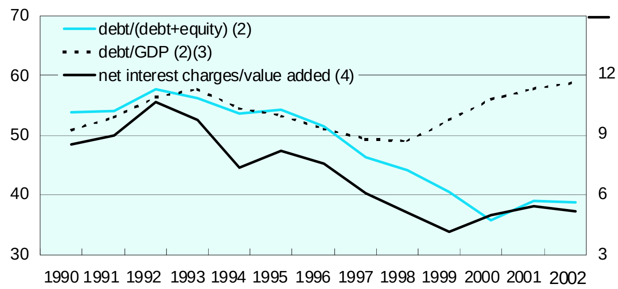
The growth in spending for the purchase and renovation of property led to a further rise of €21.2 billion in households' medium and long-term debt, compared with one of €12.8 billion in the same period of 2001. In September households' total financial liabilities were equal to 23.7 per cent of GDP, well below the euro-area average of around 50 per cent.

The increase in non-financial firms' overall debt was smaller in the first nine months of 2002 than in the same period of the previous year; short-term debt contracted by €15.6 billion, while medium and long-term debt continued to expand rapidly, rising by €25.7 billion.

Firms' leverage, calculated as the ratio of debt to the sum of debt and equity, remained virtually unchanged with respect to September 2001 at 38.8 per cent (Figure 40), a low level by historical standards. By contrast, the ratio of corporate debt to GDP rose from 57.7 to 58.8 per cent, lower than the euro-area average, which exceeded 70 per cent in 2001. The ratio of the corporate sector's net interest charges to value added remains very low, edging downwards to 5.2 per cent in the first nine months of 2002, compared with 5.4 per cent in 2001.

Figure 40

Debt and net interest charges of Italian non-financial enterprises (1)
(percentages)



Sources: Bank of Italy financial accounts and Istat.

(1) Data from 1995 onwards relate to the new definitions of instruments and sectors of economic activity introduced by ESA 95. – (2) Left-hand scale. The stocks of debt and equity refer to September of each year. – (3) GDP for the full year. – (4) Right-hand scale. Net interest charges and value added of non-financial enterprises refer to the full year, except for the figure for 2002, which refers to the first three quarters. The value added for 2002 is estimated on the basis of quarterly national accounts data.

Table 23

Financial assets and liabilities of Italian households and enterprises (1)
(millions of euros)

	Households (2)			Non-financial enterprises		
	Flows		Stocks	Flows		Stocks
	Jan.-Sept. 2001	Jan.-Sept. 2002	Sept. 2002	Jan.-Sept. 2001	Jan.-Sept. 2002	Sept. 2002
Assets						
Cash and sight deposits	−3,946	−5,245	396,102	3,489	−596	104,675
Other deposits	2,785	203	277,743	−427	1,019	10,104
Short-term securities	9,003	3,429	25,940	−183	−461	307
Medium and long-term securities	64,399	74,557	546,796	−1,017	6,495	39,300
of which: government securities	*27,623*	*35,411*	*227,253*	*−1,869*	*4,703*	*21,300*
Investment fund units	−13,391	−2,934	344,009	−186	−41	4,784
Shares and other equity	−4,552	−16,994	235,839	13,695	24,939	871,673
External assets	43,632	−13,992	208,720	14,562	16,167	263,179
of which: deposits	*966*	*−20,481*	*9,610*	..	..	..
short-term securities	*28*	*−214*	*654*	*142*	*−189*	*1,730*
medium and long-term securities	*13,452*	*5,935*	*94,314*	*1,086*	*56*	*19,269*
shares and other equity	*34,752*	*1,719*	*75,309*	*13,128*	*8,012*	*119,832*
investment fund units	*−5,567*	*−951*	*28,833*	*292*	*48*	*9,862*
Other financial assets (3)	26,631	29,418	399,159	3,850	−15,640	233,788
Total assets	**124,561**	**68,442**	**2,434,308**	**33,783**	**31,882**	**1,527,810**
Liabilities						
Short-term debt (4)	−413	−1,993	53,266	4,807	−13,973	303,250
of which: bank	*−395*	*−2,028*	*52,572*	*3,901*	*−15,400*	*274,857*
Medium and long-term debt (5)	12,760	21,198	243,768	19,519	27,573	310,634
of which: bank	*12,566*	*20,525*	*222,633*	*12,240*	*20,854*	*242,197*
Securities	–	–	–	−983	6,113	19,540
of which: medium and long-term securities	–	–	–	*−1,250*	*5,826*	*16,362*
Shares and other equity	–	–	–	2,211	7,827	1,042,886
External liabilities	–	–	–	10,954	1,346	260,202
of which: short-term debt	–	–	–	*−3,195*	*−1,598*	*79,257*
medium and long-term debt	–	–	–	*2,117*	*−1,911*	*3,570*
medium and long-term securities	–	–	–	*7,007*	*2,036*	*21,040*
shares and other equity	–	–	–	*6,804*	*2,424*	*119,878*
Other financial liabilities (6)	1,286	1,397	25,315	7,114	−12,924	301,035
Total liabilities	**13,633**	**20,602**	**322,349**	**43,622**	**15,962**	**2,237,547**
Balance	**110,928**	**47,840**	**2,111,959**	**−9,839**	**15,920**	**−709,737**

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, includes pension funds as well. − (4) Includes finance provided by factoring companies and repos. − (5) Includes finance provided by leasing companies; for households, includes consumer credit from finance companies as well. − (6) Includes severance pay and pension funds; for enterprises, includes domestic trade credit and domestic derivatives as well.

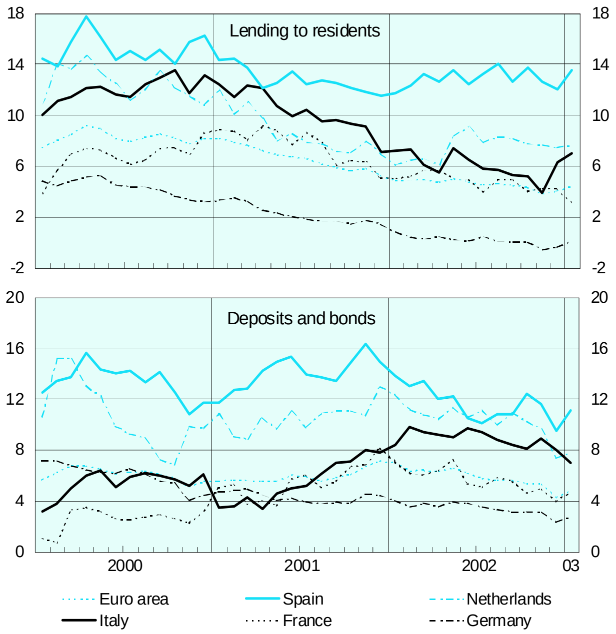
Bank lending in Italy

In 2002 bank lending slowed down both in Italy and in the euro area as a whole. Its growth rate in Italy remained constantly higher than the euro-area average (Figure 41) and that in GDP.

Figure 41

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

(monthly data; twelve-month percentage changes)



Sources: Based on ECB data and national statistics.

(1) Lending and funding of the monetary financial institutions (MFIs) of the euro-area countries (excluding the Eurosystem), from and to non-MFI customers resident in the area. The series for bonds comprises all debt securities, including money-market paper. The percentage changes are adjusted to take account of reclassifications, revaluations, exchange rate variations and any other changes not arising from transactions.

After the surge in 2000 and the early months of 2001, the rate of expansion in Italian banks' loans declined steadily until late November, but recovered the following month and in January of this year. The twelve-month growth in lending to residents amounted to 6.3 per cent in December, compared with 7.1 per cent in 2001 (Table 24), and rose to 7 per cent in January.

The slowdown in lending in 2002 was due to the stagnation of short-term loans, which had grown by 6.4 per cent the previous year (Table 25). Medium and long-term lending continued to grow at a rapid rate (11.7 per cent). The change in the composition of lending by maturity was partly the consequence of that in the composition according to borrower sector (see the box "The maturity composition of bank lending to enterprises").

The deceleration mainly concerned loans to financial and insurance companies, whose rate of growth fell from 12.8 per cent in 2001 to 4.9 per cent (Table 26). The growth in lending to enterprises slackened from 8 to 5.4 per cent overall. The sharp slowdown in lending to the manufacturing and service sectors (from 3.9 to –0.2 per cent and from 10.5 to 6.4 per cent respectively) contrasted with an acceleration in that to the construction industry (from 6.9 to 9.4 per cent). Loans to holding companies, especially those of groups with significant interests in the property sector, also increased substantially, with the rate of growth rising from 1.3 to 22.7 per cent.

Lending to consumer households increased by 10.7 per cent over the year, compared with 9.2 per cent in 2001. During a phase of robust activity in the property market, mortgage loan disbursements for the purchase of housing rose to €36.9 billion, compared with €30.1 billion in 2001.

The average rate on short-term bank loans in Italy declined by 0.1 percentage points in the first eleven months of 2002 (Figure 42). In December, after the reduction in official rates, it came down by another 0.1 points; this decrease was in line with the figure in the euro area as a whole and similar to that recorded in October 2001 following the 0.5 point reduction in official rates the previous month. In January of this year short-term lending rates fell by a further 0.1 points to 5.5 per cent. This was the lowest level since comparable data began to be collated in the early 1960s, with the exception of the summer of 1999, when they were 0.3 points lower.

The rate on new medium and long-term bank loans to firms fell during the year by 0.3 percentage points to 4.4 per cent (Figure 43). The decline was smaller than the decrease in the rate on five-year BTPs but broadly in line with that in the yields on CCTs, reflecting the large proportion of new loans

Table 24

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

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

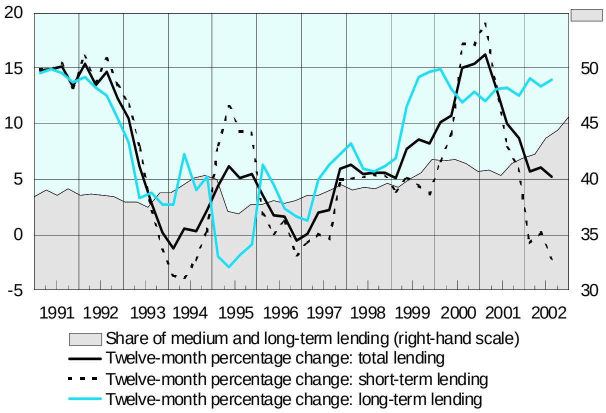
	Deposits (2)										Debt securities issued (3)		Loans (4)	
			Excluding central government											
			Overnight		With agreed maturity		Redeemable at notice		Repurchase agreements					
	Stocks	% change	Stocks	% change	Stocks	% change	Stocks	% change	Stocks	% change	Stocks	% change	Stocks	% change
							Euro area (5)							
2001 – 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	3,010.9	7.0	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	3,036.6	7.1	7,251.0	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	3,031.0	7.8	7,317.5	5.8
Dec.	5,867.1	6.7	1,882.1	13.0	2,257.5	2.9	1,405.0	5.8	218.5	14.0	3,030.2	8.0	7,340.7	5.2
2002 – Jan.	5,825.6	6.6	1,832.9	13.4	2,253.8	2.0	1,418.8	6.6	216.2	2.3	3,069.9	7.7	7,352.8	4.8
Feb.	5,825.6	6.3	1,828.9	13.1	2,251.0	1.4	1,420.9	7.2	221.1	3.8	3,078.4	6.5	7,369.9	4.9
Mar.	5,843.3	6.1	1,823.1	12.3	2,266.3	1.4	1,423.0	7.5	229.6	3.2	3,114.9	7.0	7,432.4	4.9
Apr.	5,870.6	5.9	1,852.1	12.1	2,269.0	1.6	1,414.7	6.8	228.1	3.1	3,120.7	7.0	7,447.2	4.7
May	5,890.2	5.9	1,852.8	10.9	2,278.8	2.4	1,415.5	7.0	234.8	0.5	3,142.7	8.0	7,462.5	5.0
June	5,909.8	5.7	1,898.8	11.2	2,256.3	1.7	1,421.7	6.8	229.6	3.3	3,131.4	7.2	7,494.9	4.8
July	5,886.0	5.4	1,870.1	10.4	2,263.8	1.7	1,424.3	6.7	228.8	2.1	3,137.5	6.4	7,494.8	4.5
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	3,141.5	6.3	7,484.4	4.6
Sept.	5,909.8	5.1	1,891.3	9.3	2,242.8	1.5	1,432.8	6.6	238.3	5.5	3,144.9	6.6	7,521.6	4.5
Oct.	5,921.9	4.9	1,873.5	8.4	2,263.8	2.3	1,438.1	6.3	235.6	0.0	3,158.0	6.3	7,537.1	4.3
Nov.	5,965.1	4.7	1,925.7	8.5	2,259.8	2.1	1,448.7	6.1	229.6	2.2	3,186.7	6.6	7,557.7	3.8
Dec.	6,057.5	3.7	1,985.1	5.4	2,261.3	1.6	1,477.8	5.1	226.4	4.2	3,135.8	5.4	7,589.4	4.0
2003 – Jan.	6,051.0	4.3	1,941.0	5.9	2,263.9	1.7	1,500.1	5.8	240.6	11.9	3,174.3	5.9	7,618.4	4.4
							Italy (6)							
2001 – 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	7.1
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	7.2
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	7.3
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	6.1
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	5.5
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	7.4
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	6.5
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	5.8
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	5.7
Sept.	651.4	7.1	445.3	9.0	51.8	−5.2	59.9	6.8	87.0	6.2	363.0	10.9	998.5	5.3
Oct.	654.2	6.6	447.3	8.4	51.1	−6.7	60.0	6.9	89.0	6.4	364.1	11.1	1,002.6	5.2
Nov.	655.4	8.0	449.5	10.4	50.5	−6.7	60.0	6.8	88.6	7.2	364.8	10.5	1,006.2	3.9
Dec.	696.2	6.7	488.0	7.2	50.0	−8.6	61.7	5.4	89.3	17.2	368.0	10.3	1,035.9	6.3
2003 – Jan.	669.8	5.6	461.7	5.7	48.3	−9.4	61.3	4.4	91.1	17.6	367.6	9.7	1,047.1	7.0

(1) End-of-period data; the percentage changes are adjusted to take account of reclassifications, exchange rate variations and any other changes not arising from transactions. The definitions are consistent with those of the data published in the *Monthly Bulletin* of the ECB. – (2) Denominated in euros and other currencies. – (3) Total debt securities, including money-market paper; 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.

The maturity composition of bank lending to enterprises

Bank lending to the non-financial corporate sector grew by 5.4 per cent in 2002, compared with 8 per cent in 2001. The slowdown was accompanied by a change in the maturity composition. Loans with less than eighteen months maturity contracted by 1.2 per cent (they had expanded by 5 per cent in 2001), while the growth in medium and long-term lending accelerated from 12.6 to 15.3 per cent (see table).

Lending to non-financial corporations (1)
(quarterly data; percentages)



(1) Lending excludes repos, bad debts and some minor items included in the aggregate reported in Table 24.

The lengthening of the maturity of firms' bank debt in part reflects a trend that began in the second half of the 1990s (see figure) and involved all the main sectors. Between 1995 and 2001 the share of medium and long-term loans in total lending rose from 42.7 to 52.2 per cent for the construction industry, from 33.9 to 41.4 per cent for service companies and from 27.6 to 34.5 per cent for manufacturing firms. In recent years, the shift towards longer maturities was accentuated by the decline in the differential between short-term and medium and long-term lending rates, which averaged 1 percentage point between 1999 and 2001, compared with 1.4 points in the previous four years.

The rise in the proportion of medium and long-term bank loans accelerated in 2002. An important contributory factor was the restructuring of the financial liabilities of a number of large companies, primarily in the telecommunications, transport-equipment, clothing and paper industries. The change in lending to these sectors accounts for around 70 per cent of the overall contraction in short-term loans to enterprises.

In the service sector, the rapid expansion in medium and long-term loans (19.7 per cent, up from 19.3 per cent in 2001) was partially due to the surge in lending to real-estate companies.

In manufacturing industry, the slackness of production depressed demand for short-term credit, which constitutes two thirds of the sector's total bank debt. Short-term loans declined by 5.3 per cent over the year.

The positive phase of activity in the property market and the growth of investment in new residential building fueled the construction industry's demand for longer-term financing and growth in medium and long-term lending to the sector picked up from 9.9 to 14.5 per cent.

Sectoral specialization affected lending growth rates and maturity composition differently in the various parts of Italy in 2002. In the South, where the incidence of manufacturing firms is smaller and the debt restructurings had less impact, the growth in short-term loans remained unchanged at 4.5 per cent, while that in medium and long-term lending rose from 6 to 9.7 per cent. Short-term lending in the South outpaced that in the rest of the country in all the main sectors. Loans at short term to the construction industry rose by 8.7 per cent, compared with 3 per cent in the Centre and North; those to service companies by 6.7 per cent, compared with

cont.

a contraction of 4.3 per cent in the Centre and North. The fall in short-term lending to manufacturing firms was more moderate in the South than in the rest of country (2.4 against 5.5 per cent).

Italian bank lending to enterprises by maturity and geographical area (1)
(twelve-month percentage changes) (2)

	North		Centre		South		ITALY	
	Dec. 2001	Dec. 2002	Dec. 2001	Dec. 2002	Dec. 2001	Dec. 2002	Dec. 2001	Dec. 2002
Enterprises								
Short-term	4.6	−2.5	6.8	1.0	4.5	4.5	5.0	−1.2
Medium and long-term	12.3	15.4	17.7	18.3	6.0	9.7	12.6	15.3
Total	7.4	4.3	11.1	7.9	5.3	7.0	8.0	5.4
Manufacturing								
Short-term	3.0	−4.9	2.4	−7.9	6.9	−2.4	3.3	−5.3
Medium and long-term	4.9	9.0	9.2	12.6	0.4	4.4	4.9	9.3
Total	3.6	−0.2	4.6	−1.1	4.1	0.4	3.9	−0.2
Construction								
Short-term	7.1	3.5	1.0	1.9	−1.5	8.7	4.3	3.7
Medium and long-term	11.2	16.2	11.8	14.8	3.3	8.2	9.9	14.5
Total	9.0	9.6	6.5	8.7	1.2	8.4	6.9	9.4
Services								
Short-term	5.2	−8.9	4.1	11.2	2.7	6.7	4.8	−3.2
Medium and long-term	16.1	16.9	33.1	28.5	13.3	16.6	19.3	19.7
Total	9.4	1.6	15.7	18.5	7.3	11.1	10.5	6.4

(1) Lending excludes repos, bad debts and some minor items included in the aggregate reported in Table 24. The distribution by geographical area is based on the residence of the borrower. – (2) Calculated net of the effects of reclassifications, exchange rate variations and other changes not arising from transactions.

granted at variable rates (more than 70 per cent). The rate for medium and long-term lending to households, which includes loans for the purchase of housing and consumer credit with a maturity of more than 18 months, stood at 5.4 per cent in December, 0.5 percentage points lower than a year earlier. In the euro area the decline was 0.4 points.

Credit conditions remain generally easy. The differential between the average and minimum rates on short-term loans, which tends to widen when credit conditions are tightening, remained virtually unchanged during the year. The undrawn margin on overdraft facilities remained large; the percentage drawn was 42.5 per cent in December, compared with 43.9 per cent a year earlier.

The ratio of new bad debts to total lending rose to 1 per cent last year, up slightly from 0.9 per cent in 2001 (Table 27).

Table 25

Assets and liabilities of Italian banks (1)

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

	2001	2002	2002 (2)				January 2003	
			Q1	Q2	Q3	Q4	Stocks	12-month % change
Assets								
Securities	–11.7	–15.6	–2.1	–20.0	–22.7	–16.4	169,009	–15.3
of which: government securities	*–16.4*	*–19.8*	*–1.0*	*–26.9*	*–26.3*	*–22.3*	*108,058*	*–19.9*
Loans	7.1	6.3	6.2	7.8	4.4	6.7	1,040,407	7.0
of which: (3) *short-term (a)*	*6.4*	*0.5*	*–2.4*	*3.4*	*–1.7*	*2.5*	*466,471*	*0.9*
medium and long-term (b)	*9.0*	*11.7*	*14.2*	*11.6*	*11.2*	*10.1*	*515,477*	*12.0*
(a)+(b)	*7.7*	*6.1*	*5.7*	*7.5*	*4.8*	*6.4*	*981,948*	*6.4*
repos	*–18.3*	*–7.2*	*83.5*	*13.6*	*–40.7*	*–40.1*	*8,705*	*66.2*
bad debts (4)	*–12.7*	*1.9*	*–2.3*	*5.0*	*3.1*	*2.2*	*46,777*	*2.2*
Memorandum item: bad debts at estimated realizable value	*–13.6*	*–0.4*	*–4.3*	*–9.9*	*5.8*	*9.4*	*20,633*	*–0.9*
External assets	–8.2	20.0	29.1	20.2	4.3	28.2	203,975	17.3
Liabilities								
Domestic funding (5)	7.8	8.0	11.4	8.9	6.3	5.3	1,037,377	7.0
Deposits	6.4	6.7	10.7	4.4	7.1	4.6	669,792	5.6
of which: (6) *overnight*	*9.4*	*7.2*	*12.9*	*6.3*	*7.9*	*1.5*	*461,747*	*5.7*
with agreed maturity	*–11.7*	*–8.6*	*–7.8*	*–15.4*	*–1.0*	*–9.6*	*48,251*	*–9.4*
redeemable at notice	*0.1*	*5.4*	*14.3*	*4.6*	*2.6*	*1.0*	*61,304*	*4.4*
repos	*11.6*	*17.2*	*12.5*	*8.0*	*10.9*	*35.9*	*91,134*	*17.6*
Debt securities issued (5)	10.6	10.3	12.6	17.7	4.8	6.6	367,584	9.7
External liabilities	4.1	–4.1	–1.6	–2.3	–18.2	7.7	281,553	–0.2

(1) The figures for January 2003 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 debt securities held by non-residents; also includes money-market paper. – (6) Excludes those of central government.

Table 26

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

	General govern-ment	Finance and insurance compa-nies	Firms						Households		Total
				Holding companies	Non-financial corporations						
						Manu-facturing industry	Construc-tion	Services	Consumer households	Producer house-holds	
					12-month percentage (2)						
					Centre and North						
2001 – December .	−4.5	14.0	8.3	1.1	8.9	3.8	8.2	10.8	9.4	3.8	8.0
2002 – March	−2.2	14.6	5.0	8.9	4.7	3.7	9.3	5.7	9.2	4.6	6.4
June	−5.0	9.2	6.1	13.0	5.6	0.4	10.9	8.3	10.0	6.4	6.5
September .	−2.5	−1.4	5.4	23.3	3.8	−0.7	10.1	6.5	10.1	6.3	4.9
December .	−4.3	5.6	5.2	22.9	3.7	−0.3	9.4	5.7	11.0	8.8	5.9
2003 – January . . .	−5.2	5.8	5.9	25.0	4.4	. . . .	. . . .	. . . .	10.9	8.9	6.2
					South						
2001 – December .	−0.5	−11.4	5.3	27.2	5.2	4.1	1.2	7.3	8.4	2.9	5.1
2002 – March	8.7	−15.8	4.0	28.6	3.9	2.5	2.5	8.0	7.8	4.6	4.8
June	16.2	−8.9	5.2	−5.8	5.3	0.7	5.4	7.6	7.6	6.3	6.2
September .	12.8	−11.2	5.3	−31.4	5.5	0.3	5.6	8.6	8.0	5.3	6.0
December .	6.7	−14.0	7.0	1.2	7.0	0.4	8.4	11.1	9.4	7.0	7.1
2003 – January . . .	12.8	−14.9	7.8	−10.0	7.9	. . . .	. . . .	. . . .	8.5	6.9	7.4
					Italy						
2001 – December .	−4.1	12.8	8.0	1.3	8.5	3.9	6.9	10.5	9.2	3.6	7.7
2002 – March	−1.1	13.2	4.9	9.1	4.6	3.4	8.2	5.8	8.9	4.6	6.2
June	−2.8	8.5	6.1	12.8	5.6	1.2	9.4	8.7	9.5	6.4	6.4
September .	−0.9	−1.7	5.4	22.8	4.0	−0.6	9.4	6.7	9.6	6.1	5.0
December .	−3.2	4.9	5.4	22.7	4.1	−0.2	9.4	6.4	10.7	8.4	6.1
2003 – January . . .	−3.2	5.1	6.1	24.7	4.8	−0.1	7.8	7.8	10.4	8.4	5.8
					Stock of lending in December 2002 (3) *(millions of euros)*						
Centre and North . . .	49,213	113,205	487,236	42,817	444,419	158,410	47,916	197,362	161,833	45,033	856,520
South	6,330	3,306	57,236	309	56,926	16,769	8,700	25,375	43,067	12,711	122,650
Italy	55,542	116,511	544,472	43,126	501,346	175,137	56,617	222,770	204,900	57,744	980,253
					Percentage composition of lending in December 2002 (3)						
Centre and North . . .	5.7	13.2	56.9	5.0	51.9	18.5	5.6	23.0	18.9	5.3	100.0
South	5.1	2.7	46.7	0.3	46.4	13.7	7.1	20.7	35.1	10.4	100.0
Italy	5.7	11.9	55.5	4.4	51.1	17.9	5.8	22.7	20.9	5.9	100.0

(1) Loans exclude repos, bad debts and other minor items included in the aggregate reported in Table 24. The geographical distribution is based on the place of residence of the customer. – (2) Adjusted to take account of reclassifications, exchange rate variations and any other changes not arising from transactions. – (3) The sum of stocks according to geographical area may differ from the total, as the data are derived from items other than the supervisory reports.

Table 27

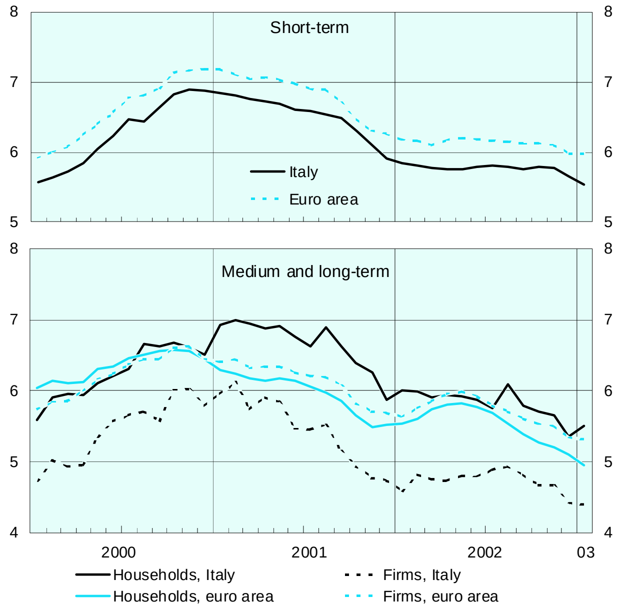
Bad debts of Italian banks by geographical area and sector of economic activity (1)

	General govern-ment	Finance and insurance compa-nies	Enterprises						Households		Total
				Holding companies	Non-financial corporations						
						Manu-facturing industry	Construc-tion	Services	Consumer households	Producer house-holds	
	12-month percentage changes in stocks (2)										
	Centre and North										
2001 – December .	59.2	−33.3	−16.4	4.3	−16.9	−15.8	−21.9	−16.3	−11.1	−13.1	−15.2
2002 – March	51.8	−30.9	−13.9	−9.6	−14.0	−13.3	−16.5	−13.6	−11.0	−12.2	−13.4
June	75.9	−10.3	3.6	−21.0	4.2	7.3	−5.5	8.4	19.8	2.8	6.6
September .	26.7	−9.4	8.3	−21.6	9.0	10.2	3.2	12.3	20.0	4.5	9.9
December .	8.2	−4.6	7.6	−7.7	8.0	5.0	10.8	9.0	17.3	2.7	8.8
2003 – January . . .	17.9	3.2	8.1	−9.1	8.5	. . . .	. . . .	. . . .	15.1	2.5	8.7
	South										
2001 – December .	−15.8	−15.9	−7.7	−44.5	−7.4	−9.4	−8.4	−6.1	−9.8	−7.4	−8.2
2002 – March	3.2	−18.7	−14.0	−45.6	−13.8	−13.6	−16.7	−11.3	−16.6	−12.8	−14.4
June	6.3	−22.4	−6.6	45.2	−7.0	−3.9	−14.4	−2.3	−11.0	−9.7	−8.6
September .	9.8	−20.9	−7.7	38.8	−8.0	−1.6	−20.5	−1.8	−9.8	−8.9	−8.6
December .	12.7	−10.1	−7.0	108.1	−7.5	2.5	−20.9	−1.7	−7.4	−8.7	−7.5
2003 – January . . .	13.4	−11.5	−5.9	122.6	−6.5	. . . .	. . . .	. . . .	−8.4	−8.3	−7.2
	Italy										
2001 – 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	7.4	5.9	−2.9	2.1
December .	11.6	−5.9	2.4	1.2	2.4	4.3	−4.8	5.7	6.0	−3.6	1.9
2003 – January . . .	14.5	−0.4	3.2	1.0	3.2	5.4	−3.2	6.4	4.2	−3.5	2.2
	Flow of new bad debts during the year as a percentage of lending (3)										
	2001										
Centre and North . . .	0.0	0.1	1.1	. . . .	. . . .	1.0	1.7	1.0	1.2	0.7	0.8
South	0.1	0.1	3.0	. . . .	. . . .	2.4	6.0	1.7	2.4	1.2	1.9
Italy	0.0	0.1	1.3	. . . .	. . . .	1.2	2.4	1.1	1.5	0.8	0.9
	2002										
Centre and North . . .	0.0	0.1	1.2	. . . .	. . . .	1.2	1.7	1.1	1.4	1.1	0.9
South	0.1	0.0	2.5	. . . .	. . . .	3.2	1.8	1.6	2.2	1.0	1.6
Italy	0.0	0.1	1.4	. . . .	. . . .	1.4	1.7	1.2	1.6	1.0	1.0

(1) The geographical distribution is based on the place of residence of the customer. – (2) Not adjusted for write-offs or assignments of claims. Source: supervisory statistical reports. – (3) Adjusted new bad debts as a percentage of the stocks of adjusted performing loans outstanding at the end of the preceding year. Sources: supervisory statistical returns (for the stocks of loans), Central Credit Register (for the flow of adjusted new bad debts). Data on holding companies and non-financial companies are not currently available.

Figure 42

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

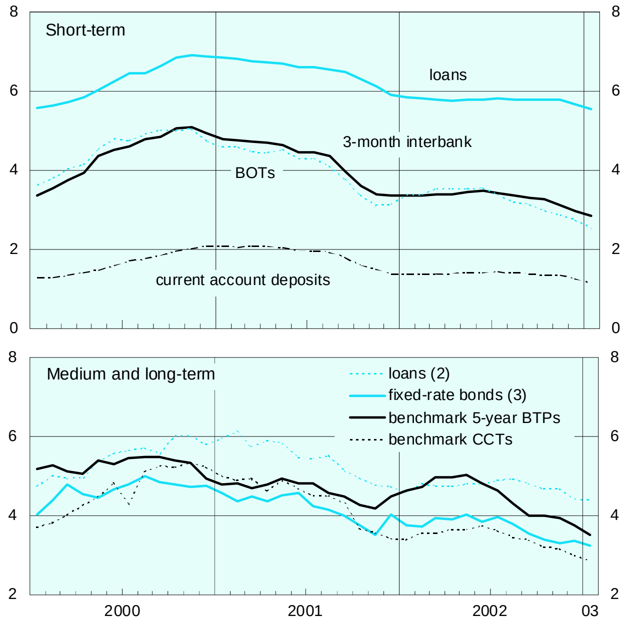


Sources: Based on statistics for 10-days periods and ECB data.

(1) Weighted averages of national interest rates reported by central banks. As the data are not 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 mortgage loans and lending to finance the purchase of consumer durables); that for the euro area mainly consists of loans for house purchases.

Figure 43

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 transactions in euros. – (2) Average rate on loans disbursed during the month to resident firms. – (3) Average rate on bank bonds issued during the month.

The stock of bad debts fell from 4.7 per cent of total loans at the end of 2001 to 4.5 per cent at the end of 2002. Bad debts continued to decrease until April but grew over the year as a whole, although the increase was moderate (1.9 per cent, as against a contraction of 12.7 per cent in 2001). This development was largely due to the decrease in bad debt securitizations; if these transactions were included in the aggregate, bad debts would have increased by 4.5 per cent in 2001 and by 6.7 per cent last year. The stock of loans to customers in temporary difficulty rose by €1.2 billion or 5.9 per cent, compared with 2 per cent in 2001; the ratio of these substandard assets to total loans outstanding net of bad debts remained unchanged at 2.1 per cent.

Lending in the South

In 2002 bank lending grew by 7.1 per cent in the South, compared with 5.9 per cent in the Centre and North (Table 26). If loans that were classified as bad debts during the year are included in total loans, the increase in the stock of bank lending was around 2 percentage points larger in the South than in the rest of Italy, since new bad debts amounted to 1.6 per cent of total loans in the South and 0.9 per cent in the Centre and North (Table 27).

Including loans newly classified as bad debts, bank lending has grown at a slightly slower pace in the South than in the Centre and North since 1990. A small overall differential prevailed between 1998 and 2001, basically owing to the strong demand for credit in the Centre and North in connection with major corporate operations by holding companies, such as mergers and acquisitions. In major sectors, such as industry and services, there were no differences in the rate of growth of lending between the two parts of Italy during that period.

In the South the pick-up in lending in 2002 (excluding new bad debts) was attributable to an acceleration from 5.3 to 7 per cent in lending to firms, against a deceleration from 8.3 to 5.2 per cent in the Centre and North. The growth in lending to the service sector accelerated from 7.3 to 11.1 per cent, again in contrast with developments in the Centre and North, where it slowed down from 10.8 to 5.7 per cent. Lending to manufacturing companies increased by 0.4 per cent in the South, whereas it declined by 0.3 per cent in the rest of the country.

The data from the sample of firms surveyed by the Company Accounts Data Service, which are available up to 2001, indicate that the ratio of firms' financial debt to value added was higher in the South than in the Centre and North in the last ten years. In 2001 the figure was 170 per cent, compared with 140 per cent in the rest of Italy; in particular, the ratio of bank debt alone to value added was 120 per cent, compared with 80 per cent in the Centre and North.

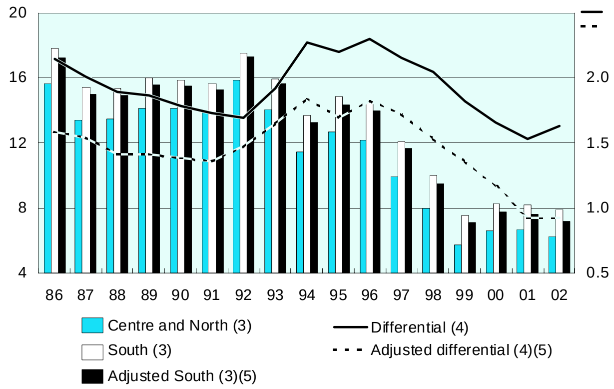
In the first nine months of 2002 interest rates on short-term loans to firms fell by around 0.3 percentage points in both the South and the Centre and North (to 7.8 and 6.3 per cent respectively). In particular, for manufacturing firms the decline amounted to 0.6 points in the South and 0.3 points in the Centre and North.

The differential between short-term bank lending rates to firms in the South and those in the Centre and North has tended to narrow since 1996, when it was equal to 2.3 percentage points. In September 2002 it stood at 1.6 points, a very low level by historical standards (Figure 44).

This differential reflects the differences between corporate borrowers in the two parts of the country. Small companies and firms operating in higher-risk sectors are more numerous in the South. If the average interest rate is calculated by applying to the South the sectoral and size composition of loans to companies of the Centre and North, the differential in 2002 falls to 0.9 percentage points, the lowest figure in the fifteen years for which comparable data are available.

Figure 44

Cost of corporate credit and differential between the South and the rest of the country (1)
(annual average data;(2) *percentages)*



Source: Central Credit Register.

(1) Short-term interest rates for non-financial companies and producer households. The geographical distribution is based on the location of the bank branch. – (2) The data for 2002 relate to the first nine months of the year. – (3) Left-hand scale. – (4) Right-hand scale. – (5) The adjusted cost of credit in the South is calculated by dividing firms into 69 groups derived from the combination of the usual 23 branches of production and 3 size categories for overall credit facility (less than €500,000, from €500,000 to less than €5 million, €5 million or more). The adjusted rate is the weighted average of the rates for the 69 groups, using as weights the shares of lending to each group in the Centre and North.

Apart from the effect of differences in size and sectoral composition, there is still a large difference in loan risk between the two parts of Italy, measured by the proportion of loans newly classified as bad debts each year. The higher risk of lending in the South, which is responsible for the higher cost of bank credit than in the Centre and North, is due to the external diseconomies that weigh on the productive system in the South.

The interest rate on households' bank deposits in the South steadily approached that in the Centre and North in the second half of the 1990s, reflecting the increasing functional efficiency of the southern credit market. In 2002 the differential between the two areas was virtually nil.

Bank loans to customers resident in the South were equal to 83 per cent of the funds raised by banks in the area in 2002, down slightly from around 85 per cent in the two previous years. In the second half of the 1990s, when the ownership of southern banks was changing very rapidly, the ratio of lending to funding rose by around 7 percentage points in the South. The ratio is lower than the above-mentioned figure of 83 per cent if it is calculated only for banks with their registered office in the South, which are smaller than those based in the Centre and North. For the latter, lending exceeded funding in the South.

In the Centre and North the ratio of local lending to funding (117 per cent in 2002) is higher than in the South, reflecting the fact that a substantial share of loans in the Centre and North are made with funds raised abroad. It should be taken into account that a significant share of the loans made in the Centre and North are to financial companies and group holding companies located in the area but often with nation-wide business operations.

The ratio of loans to funds raised only in the form of bank deposits is greater than 1 in the South.

There is no evidence of a significant flow of private capital from one part of Italy to the other. The South's structural trade deficit is virtually offset by the transfer of public resources resulting from the excess of expenditure over revenue.

Italian banks' funding, securities holdings and profitability

Fund-raising by Italian banks increased by 8 per cent in 2002, compared with 7.8 per cent in 2001 (Table 25); in the twelve months ending in January of this year the aggregate grew by 7 per cent.

Among the components of banks' funds, the twelve-month rate of increase in current account deposits touched 13.8 per cent in February 2002 but subsequently fell back to 7.2 per cent at the end of the year (5.7 per cent in January of this year).

In parallel with the lengthening of loan maturities, fund-raising by means of bond issues continued to grow rapidly (by 10.3 per cent in 2002, compared with 10.6 per cent in 2001); issues of subordinated bonds rose by 11 per cent (30 per cent in 2001) and constituted 12.2 per cent of total bonds at the end of the year.

The average rate on deposits declined from 1.5 per cent at the end of 2001 to 1.3 per cent in response to the fall in market rates; the decrease, which occurred mainly towards the end of the year, was comparable in size to that observed in the euro area. The issue yield on fixed-rate bank bonds decreased by 0.6 percentage points to 3.4 per cent (Figure 43). In the euro area interest rates on bank deposits for terms of more than two years came down by 0.3 points.

The banking system's holdings of securities fell by 15.6 per cent in 2002 (Table 25). The banks with the largest decreases reduced their net debtor positions in the interbank market, especially in relation to non-resident credit institutions.

Italian banks reduced their net external debt by a substantial 44.9 per cent in 2002 in view of the large expansion in domestic funding, the decline in holdings of securities and the slowdown in domestic lending; the reduction was the result of an increase of €36 billion in external assets (mainly claims on banks) and a contraction of €11.6 billion in liabilities. At the end of December 2002 their net external liabilities amounted to €54.3 billion (compared with €106 billion a year earlier), equal to 2.6 per cent of their total liabilities (5.6 per cent at the end of 2001); this was close to the proportion recorded at the end of 1998, when lending growth was still moderate. The large increase in net liabilities vis-à-vis non-residents in the three years from 1999 to 2001 had enabled the banks, and especially those belonging to large groups, to finance the strong growth in domestic lending. The three largest banking groups accounted for more than 40 per cent of the fall in net external liabilities in 2002.

Preliminary data on banks' profit and loss accounts indicate a fall of about 7 per cent in gross operating profit in 2002. Gross income declined by 3 per cent owing to a contraction in income from services and income from securities and foreign exchange trading, which was only partly offset by an increase in net interest income. Operating expenses remained broadly unchanged, whereas they had risen by 3.9 per cent in 2001; banking staff costs rose by 1.4 per cent.

Data for the first half of 2002 indicate that during that period the return on equity worked out at 7.2 per cent, lower than in the preceding three years but above the average of 6 per cent in the nineties. The decline in profits during the first half was due mainly to temporary factors, such as the rise in net value adjustments and allocations to provisions to cover risks stemming from exposure to Latin American countries and large multinational groups.

In June 2002 the banking system's supervisory capital and reserves on a consolidated basis amounted to €133,704 million (Table a37), 5 per cent more than a year earlier. The solvency ratio (ratio of supervisory capital and reserves to risk-weighted assets) rose to 11.2 per cent, compared with 10.6 per cent in June 2001.

The government securities market

Net issues of government securities in the euro area rose from €94 billion in 2001 to €143 billion in 2002. The increase, which reflected the deterioration in the public finances of some countries, was largest in Germany and France.

In Italy net issues declined considerably last year, from €31.3 to €0.8 billion (Table 28). Almost €24 billion of the decrease represented the accounting effect of the exchange of securities carried out with the Bank of Italy and the remainder was the result of the fall in the overall borrowing requirement.

The securities exchange involved Treasury bonds issued to the Bank of Italy in November 1994 to convert the accumulated debt on the Treasury's overdraft facility with the Bank. These securities, which had a face value of €39.4 billion, a coupon of 1 per cent and maturity dates between 2014 and 2044, were converted into Treasury bonds issued at market rates with the same market value but a face value of €15.4 billion and maturity dates between 2012 and 2031.

As a result of this operation, which reduced the proportion of long-term securities in the overall public debt, the average residual maturity of the debt decreased from five years and ten months at the end of 2001 to five years and six months (Figure 45). By contrast, the average duration of the stock of government securities, which is calculated for securities listed on the MTS secondary market, increased from three years and three months to three years and nine months, because the Treasury bonds received by the Bank of Italy are listed on the MTS, whereas those they replaced were not.

Table 28

Issues of Italian government securities (1)

(millions of euros)

TITOLI	2001	2002	2001	2002
	Gross issues		**Net issues (2)**	
BOTs	188,677	208,761	11,717	−70
CTZs	35,528	32,556	−16,476	8,335
CCTs	28,330	44,535	−9,812	−12,290
BTPs	119,929	133,646	38,256	39,803
Other	54	. .	−1,446	−39,357
Total	**372,517**	**419,498**	**22,239**	**−3,579**
Republic of Italy issues	22,529	16,135	9,049	4,388
Total government securities	**395,046**	**435,633**	**31,288**	**809**

(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 29

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

	Public sector securities						Corporate bonds	Total public sector securities and corporate bonds	Listed Italian shares
	BOTs	CTZs	CCTs	BTPs	Other (2)	Total			
				Net purchases January-December 2002					
Central bank	175	175	1,020	17,191	–17,520	1,041	–21	1,020	346
Banks	4,139	971	–13,257	–13,656	–106	–21,909	3,646	–18,263	....
Investment funds (3)	3,036	4,079	7,815	–8,608	324	6,645	680	7,325	–1,133
Other investors (4)	–7,419	3,111	–7,868	44,876	–14,457	18,242	61,927	80,169	....
of which: non-residents (5)	*9,909*	*3,203*	*–20,218*	*27,344*	*5,818*	*26,056*	*13,039*	*39,096*	*–6,724*
Total	**–70**	**8,335**	**–12,290**	**39,803**	**–31,759**	**4,019**	**66,232**	**70,251**	**3,867**
				Stocks at end-December 2002					
Central bank	180	180	8,724	30,896	1,120	41,100	164	41,264	4,805
Banks	16,363	4,724	47,512	24,582	5,046	98,227	52,497	150,724	....
Investment funds (3)	17,587	8,523	33,540	65,344	1,727	126,721	10,272	136,993	17,925
Other investors (4)	79,610	45,766	123,442	549,793	89,298	887,909	474,946	1,362,855	....
of which: non-residents (5)	*61,830*	*25,962*	*47,751*	*321,295*	*80,618*	*537,456*	....	*537,456*	*60,593*
Total	**113,740**	**59,193**	**213,218**	**670,615**	**97,191**	**1,153,957**	**537,879**	**1,691,836**	**447,075**
Percentage share of total public sector securities	**9.9**	**5.1**	**18.5**	**58.1**	**8.4**	**100**			

(1) Stocks of public sector 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, Italian investment firms and insurance companies; the figures for shares are estimated.– (5) Provisional figures for October 2002.

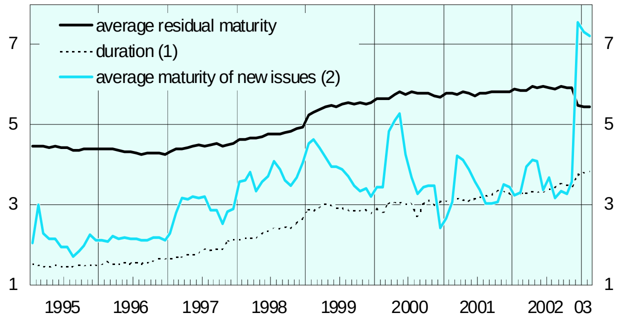
Italian government securities were purchased mainly by non-residents (€26.1 billion in the first ten months of 2002; Table 29); the amount held abroad rose to €537.5 billion in October of last year. In 2002 investment funds were net purchasers for the first time since 1998. Net disposals by banks involved primarily CCTs and BTPs.

The yield differential between the benchmark 10-year BTP and the equivalent German security narrowed further, to stand at 20 basis points at the end of February 2003. The reduction reflected mainly the adverse prospects for Germany's public finances.

Trading in Italian government securities on the MTS domestic secondary market remained stable during the first nine months of 2002 but fell by 18.3 per cent in the last quarter by comparison with the same period of the previous year, reflecting mainly the contraction in trading in BTPs, which was due partly to the decrease in gross issues in the last few months of the year.

Figure 45

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



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

By contrast, the strong demand for short-term assets was reflected in a substantial increase both in trading in short-term and index-linked securities (105 per cent in the case of BOTs and 14.3 per cent in that of CCTs in the last quarter by comparison with a year earlier) and in repos trading on MTS.

Bank and corporate bonds

Bond issues decreased both in the euro area and in Italy last year.

Net issues of medium and long-term bank and corporate bonds in the euro area amounted to €273.7 billion, 29.8 per cent less than in 2001. There was a particularly large contraction in issues by non-financial enterprises (68 per cent) but a smaller one in bank issues (28.8 per cent). Issues by non-bank financial companies, which include securities issued as part of securitization transactions, fell slightly, by 5.4 per cent.

Net issues by Italian banks and companies fell by 17.6 per cent between 2001 and 2002, from €78.6 billion to €64.8 billion, owing mainly to a reduction in net issues by non-financial companies (from €8.9 billion to €5.4 billion) and non-bank financial companies (from €35.8 billion to €26.1 billion). Net issues by banks remained virtually unchanged, at around €33 billion.

Issuing activity on the Eurobond market also declined; gross issues by euro-area banks and private sector companies fell from €422.8 billion to €364 billion, a decline of 13.9 per cent (Table 30). Issues by non-financial companies came down from €136.7 billion to €102.8 billion, with those by Italian companies declining from €24.8 billion to €13 billion. The contraction in issues by the financial sector involved almost exclusively Italian and German institutions, whose issues decreased from €48.7 billion to €36.4 billion and from €76.5 billion to €58.5 billion respectively.

The reduction in Eurobond issues by residents of the euro area was more pronounced for securities with a lower rating; it involved primarily telecommunications and automobile companies, which had had greater recourse to the market in past years, accumulating high levels of debt; the share of these sectors in total Eurobond issues by private sector non-financial companies fell from 45.1 to 32.5 per cent.

Default rates for private sector Eurobond issuers (resident in any country) have increased substantially in the last two years and are now close to the levels observed during the recession of the early nineties. According to Moody's agency, at the end of 2002 the ratio between the number of firms declared insolvent during the year and the total number of issuers with a high credit risk (a rating of less than Baa3) was 8.1 per cent; during the downturn in 1990 and 1991 it had averaged 10.1 per cent. The increase in defaults mainly involved companies in the telecommunications sector; as in 2001, the credit rating of some of them was revised downwards. In the second half of the year some large companies in the financial sector were also downgraded.

The yield on the euro-denominated securities of non-financial companies with a low credit risk decreased by 0.91 percentage points during the year to 4.7 per cent. That on securities of this kind from high-risk companies was more than 9 percentage points higher at the end of 2002, at 13.8 per cent.

Table 30

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)

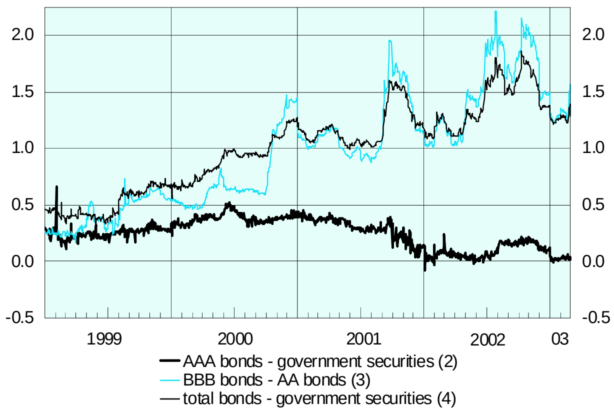
	1995	1996	1997	1998	1999	2000	2001	2002	2002 Q1	2002 Q2	2002 Q3	2002 Q4
Italy												
Gross issues *(number of operations)*	22	29	35	40	104	190	262	192	45	56	34	57
(millions of euros)	2,662	3,717	5,496	8,073	40,923	47,183	73,575	49,383	11,367	14,038	7,754	16,225
of which: non-financial firms (millions of euros)	*213*	*463*	*1,899*	*3,599*	*24,072*	*11,602*	*24,835*	*12,978*	*4,835*	*3,532*	*2,915*	*1,696*
France												
Gross issues *(number of operations)*	80	87	88	63	181	246	265	349	97	108	67	77
(millions of euros)	7,590	10,664	14,905	11,251	45,211	50,189	60,266	65,743	22,445	21,569	7,437	14,292
of which: non-financial firms (millions of euros)	*707*	*1,490*	*3,589*	*3,420*	*28,167*	*25,347*	*33,412*	*30,191*	*11,731*	*10,885*	*2,217*	*5,358*
Germany												
Gross issues *(number of operations)*	132	251	260	293	603	642	459	396	123	104	88	81
(millions of euros)	14,621	33,470	34,096	46,096	107,996	122,249	119,490	98,712	42,683	29,463	13,962	12,603
of which: non-financial firms (millions of euros)	*908*	*4,085*	*4,369*	*6,348*	*16,619*	*25,930*	*42,961*	*40,237*	*15,482*	*17,329*	*3,390*	*4,035*
Euro area												
Gross issues *(number of operations)*	558	719	764	722	1,426	1,803	1,787	1,873	509	526	368	470
(millions of euros)	53,650	82,262	96,307	116,527	305,754	397,232	422,763	364,001	119,647	107,525	62,096	74,732
of which: non-financial firms (millions of euros)	*3,807*	*9,071*	*13,201*	*22,882*	*93,631*	*124,526*	*136,705*	*102,767*	*35,802*	*38,575*	*12,137*	*16,254*

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 firms are classified according to the sector to which the controlling company belongs. Amounts raised before 1999 have been translated into euros at the exchange rate of the euro applicable at 1 January 1999.

The yield differential between euro-denominated bonds of non-financial companies and government securities, which had risen to a peak of 1.9 percentage points early in October, declined appreciably in the last quarter of 2002. At the end of the year it stood at 1.3 points, which was 0.1 points higher than a year earlier (Figure 46). Differentials in the financial sector followed a similar course, showing a rise of around 0.2 points at the end of the year (Figure 47).

Figure 46

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

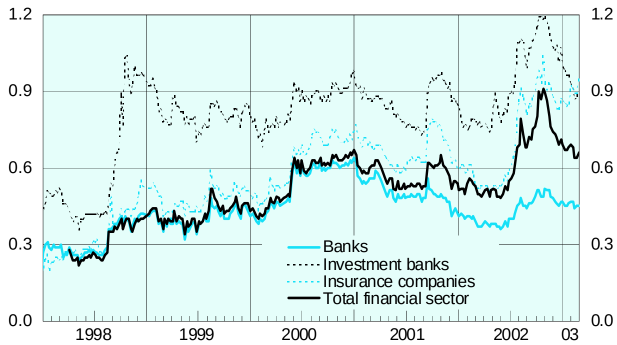


Source: Based on Merrill Lynch data.

(1) Yields on fixed-rate euro-denominated Eurobonds with a residual term to maturity of not less than one year issued by non-financial firms resident in countries whose long-term foreign currency debt bears a rating not lower than Baa3 or BBB-. – (2) Yield differential between AAA-rated bonds and French and German government securities. – (3) Yield differential between BBB-rated and AA-rated bonds. – (4) Yield differential between all bonds issued by the non-financial sector and French and German government securities.

Figure 47

Yield differentials between euro-denominated bonds issued by financial firms 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 firms resident in countries whose long-term foreign currency debt bears a rating not lower than Baa3 or BBB-. Yield differentials are calculated by reference to French and German government securities.

The stock markets

In 2002 share prices in the euro area fell sharply for the third consecutive year. The Dow Jones Euro Stoxx index, which contains the shares of the area's largest companies in terms of market capitalization, declined by 35 per cent during the year (Figure 48). Share prices came down by 43 per cent in Germany, 34 per cent in France, 24 per cent in Italy and 23 per cent in Spain and the United States.

Share prices remained flat overall between mid-October 2002 and mid-January. The impact of the reduction in official rates in the United States and the euro area was curbed by the deterioration in the growth prospects for the major economies, which led to a downward revision of companies' profit forecasts at the end of the year. Stock market indexes began to fall again in the second half of January in the light of further bad economic news and the heightening of geopolitical tension.

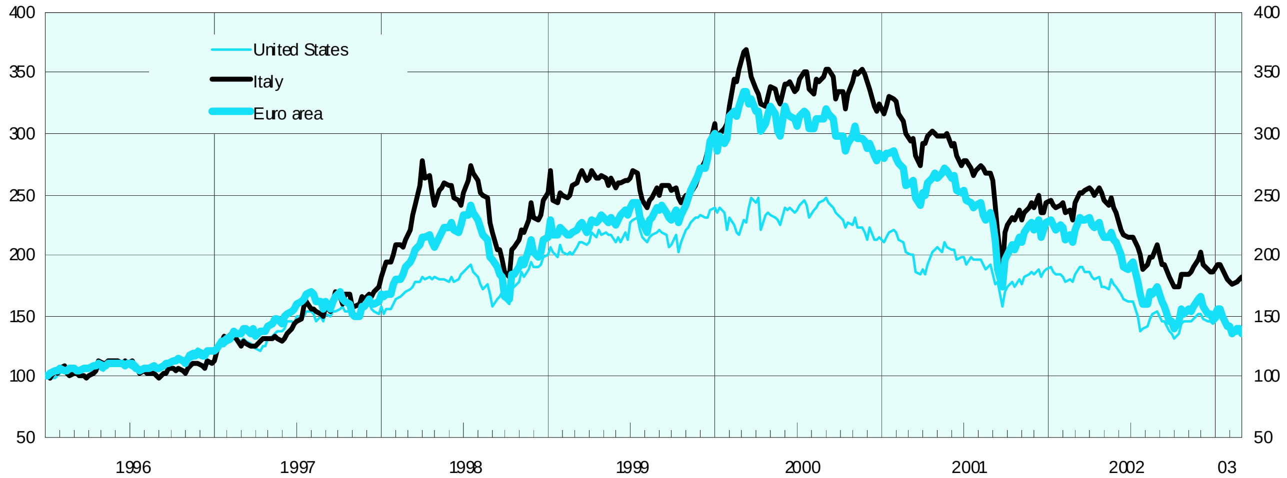
During 2002 the often conflicting signals about the prospects for growth in the leading industrial countries and continuing international tensions kept share price volatility historically high, exceeded only by the level recorded in October 1987.

As in the preceding two years, the fall in equities in the euro area in 2002 was much steeper in the case of technology stocks (41 per cent). The indexes for the banking and insurance sectors declined by 24 and 46 per cent respectively, whereas the average for all sectors excluding high-tech sectors was 20 per cent. The balance sheets of European banks were affected by the very low growth in lending and, above all, by the fall in income from securities trading services; insurance companies' profits were undermined by large losses on equity portfolios and an increase in claims in the non-life sector.

The better performance of the Italian stock exchange by comparison with the other major equity markets in the euro area in 2002 reflected a substantial appreciation of Italian energy shares,

Figure 48

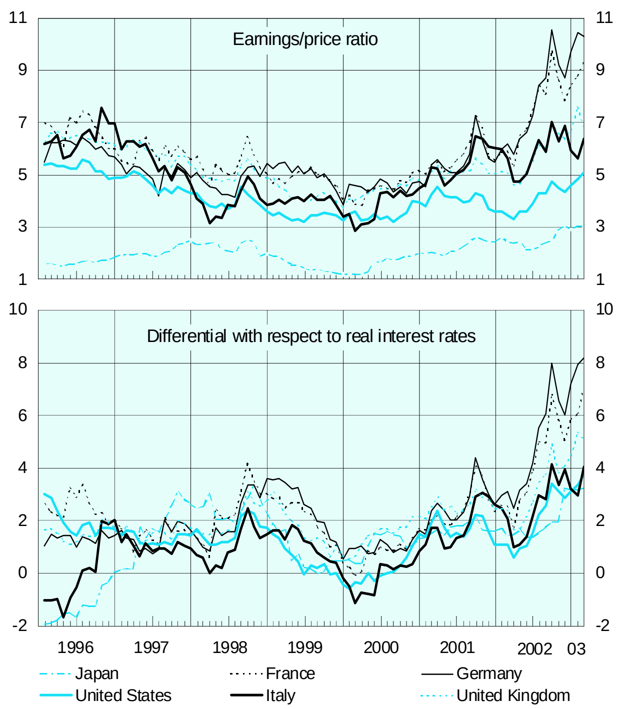
Share prices (1)
(end-of-week data; indices, 31 December 1995=100)



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

Figure 49

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



Sources: Thomson Financial, Bank of Italy and Consensus Economics.
(1) Real interest rates are calculated by deflating nominal rates on 10-year benchmark government securities by expectations of long-term consumer price inflation.

which fell in other markets, and the more modest decline in telecommunications and insurance shares.

The fall in share prices on the euro-area equity markets over the last three years led to a large increase in earnings/price ratios (Figure 49). At the end of February the differential with respect to the real long-term interest rate was close to the level recorded in the first half of the nineties before the steep rise in equity prices.

Forecasts of corporate profits for the 2002 financial year were steadily revised downwards as the year progressed. According to surveys by IBES, during the year as a whole the reduction in nominal terms was 13 per cent in the United States, 14 per cent in France, 19 per cent in Italy and 27 per cent in Germany. At the end of 2002 the growth in nominal profits expected over the medium term, which had been very high in several countries in the three years from 1998 to 2000, was close to the level prevailing at the beginning of the last decade.

The prolonged fall in share values discouraged firms from raising capital in the equity markets (see the box "Equity capital raised on stock exchanges, 2001-2002"). In 2002 five new companies were listed on the Italian stock market, compared with 17 in 2001. New issues of shares amounted to €3.9 billion,

Equity capital raised on stock exchanges, 2001-2002

The collapse of share prices in the course of 2001 and 2002 led to retrenchment in firms' recourse to the equity markets. Both capital increases and initial public offerings declined, as did the number of newly-listed companies. The fall was drastic in the United States and very sharp in Europe as well.

Share issues. – *In 2001 and 2002 the average annual amount of equity issues in the G10 countries was nearly halved by comparison with 1995-2000 to just over $200 billion (Table 1). New share issues thus fell from 1.8 to 0.9 per cent of total stock market capitalization, and from 1.9 to 0.9 per cent of GDP. In the euro area new equity issues declined to a yearly average of about $90 billion, falling from 3.4 to 2.2 per cent of market capitalization.*

Considering the euro area plus non-euro G10 countries (18 countries), the US share of total equity issues fell from 52 per cent in 1995-2000 to 36 per cent in 2001-2002. The portion of equity issues accounted for by the London market rose sharply from 6 to 11 per cent, that of euro-area markets from 31 to 39 per cent. The Italian stock exchange's share rose from 2 to 4 per cent.

The contraction in new issues involved both capital increases by already listed firms and share issues upon listing. In the euro area, IPOs accounted for nearly half the total volume, compared with scarcely a third in the G10 countries as a group.

New stock exchange listings. – *The number of companies going public in 2001 and 2002 was down*

Table 1

Equity issues on the stock exchanges of the leading industrial countries (1)
(annual averages; billions of dollars)

	Issues by listed companies			Equity issues at listing (2)			Total value		
	1990-94	1995-2000	2001-02 (3)	1990-94	1995-2000	2001-02 (3)	1990-94	1995-2000	2001-02 (3)
				Amount (4)					
Italy	7	8	5	2	3	4	9	11	9
Germany	11	9	....	1	10	1	13	19	....
France	12	17	9	5	6	7	17	24	16
United Kingdom	15	15	19	10	10	8	25	25	27
United States (5)	41	153	56	42	80	29	84	233	85
G10	114	250	129	71	146	73	185	396	202
Euro area	43	82	47	16	57	44	60	139	91
18-country total (6)	117	282	142	73	166	94	190	448	236
				As a percentage of stock market capitalization (7)					
Italy	4.4	1.7	0.9	1.1	0.7	0.8	5.5	2.4	1.7
Germany	2.8	1.1	....	0.4	1.1	0.1	2.9	2.2	....
France	3.1	1.9	0.8	1.2	0.7	0.6	4.0	2.6	1.5
United Kingdom	1.5	0.7	1.0	1.0	0.5	0.4	2.5	1.2	1.4
United States (5)	0.9	1.3	0.4	0.9	0.7	0.2	1.9	2.0	0.7
G10	1.1	1.2	0.6	0.7	0.7	0.3	1.8	1.8	0.9
Euro area	3.0	2.1	1.1	1.2	1.3	1.1	4.2	3.4	2.2
18-country total (6)	1.1	1.3	0.6	0.7	0.7	0.4	1.8	2.0	1.1

Sources: Based on data from World Federation of Exchanges and national stock exchanges.

(1) Capital increases by resident companies (excluding investment funds). The type of operation counted may differ from country to country, in some cases possibly including sales of shares already issued. – (2) Sales of shares issued in concomitance with the listing of the company on the exchange. In some cases this may include sales of shares already issued prior to listing. For some stock exchanges, it also includes placements by companies whose shares were already listed on other exchanges. – (3) Provisional. – (4) Annual average of equity placements during the reference period, converted into dollars at the annual average of end-of-month exchange rates. – (5) New York Stock Exchange and Nasdaq. For 2001-2002, partially estimated. – (6) G10 countries plus non-G10 euro-area countries. – (7) Average for the period of percentage ratios of new equity placed by resident companies each year to stock market capitalization of resident companies at the end of the same year.

cont.

sharply from the very high levels of 1995-2000 (Table 2). According to Thomson Financial, which covers most of these operations, in the 18 countries surveyed there were fewer than 500 new listings a year, compared with almost 1,200 between 1995 and 2000. In the euro area the average fell from 234 to 92, the sharpest drop coming in Germany. The annual value of the equity placed (counting both shares outstanding prior to listing and new issues) came to $62 billion.

There were substantial alterations in the sectoral composition of new listings in the 18 countries. The share of media and telecommunications companies, which had jumped from 8 per cent in 1990-1994 to 20 per cent in 1995-2000, fell to 6 per cent in the last two years. That of banks and financial companies, which had fallen by nearly one half to 11 per cent, recovered to 27 per cent. Within the euro area alone the sectoral makeup was somewhat more stable; there was a significant decline in the incidence of manufacturing enterprises in 2001-2002 (to 9 per cent), while both financial and telecommunications firms increased their shares (to 17 and 24 per cent respectively).

In a development partly connected with the sectoral change, the average size of newly listed companies increased. For the G10, the median number of employees (available only for a narrow sample of listings) rose from 250 between 1995 and 2000 to 320 in 2001-2002, although this remained well below the figure of 570 registered in the first half of the 1990s.

In concomitance with the sharp fall in IPOs, underwriting fees declined in 2001 and 2002 to 5.7 per cent of the value of the securities placed in the G10 countries, compared with 6.5 per cent in the 1990s. Fees were relatively uniform across sectors but were proportionally lower for the larger placements. The average fee for the bottom quartile of issues was 6.3 per cent in 2001-2002, compared with 4.9 per cent for the top quartile.

Table 2

Initial public offerings in the leading industrial countries (1)
(annual averages)

	Number of companies			Value of equity placed (billions of dollars) (2)												Fees (3) (percentages)		
							of which (percentage share):											
							financial (4)			manufacturing			media and telecommunications					
	1990-94	1995-2000	2001-02	1990-94	1995-2000	2001-02	1990-94	1995-2000	2001-02	1990-94	1995-2000	2001-02	1990-94	1995-2000	2001-02	1990-94	1995-2000	2001-02
Italy	3	20	12	1.6	7.2	1.9	80.6	16.1	0.0	19.2	9.9	17.6	0.0	6.9	0.0	3.9	4.1	3.7
Germany	9	68	15	0.9	9.1	1.4	29.9	5.9	32.1	51.8	35.2	15.1	0.0	23.8	0.7	4.0	4.8	4.0
France	12	71	38	4.2	6.2	6.3	44.3	13.9	21.0	29.6	38.4	4.3	0.2	18.5	45.9	3.5	4.5	3.0
United Kingdom .	36	125	94	5.7	10.6	5.3	20.9	30.9	46.5	13.2	13.9	10.2	7.8	10.1	0.1	1.8	3.1	3.1
United States . . .	538	659	133	26.1	54.7	33.8	15.0	10.0	28.3	33.0	27.0	33.0	3.9	17.0	1.6	7.4	7.1	6.7
G10	678	1.156	459	50.3	114.3	61.2	18.8	11.3	26.8	31.9	26.2	25.7	8.1	19.3	6.2	7.0	6.2	5.7
Euro area	38	234	92	8.8	35.5	12.2	44.8	10.3	17.0	29.2	28.6	8.5	8.5	21.8	23.8	4.1	4.4	3.3
18 country total (5)	688	1.199	484	51.2	119.3	61.9	19.1	11.3	26.5	31.9	25.9	25.8	8.0	20.4	6.1	6.9	6.2	5.6

Source: Based on data from Thomson Financial.

(1) Initial public offerings of ordinary shares by companies resident in the country or area indicated. Excluding investment funds. – (2) The ordinary shares placed may be either new issues or already issued. – (3) As a percentage of the value of the shares placed. The data refer to a narrow sample of operations for which data are available. – (4) Banks, insurance companies and other financial corporations. – (5) G10 countries plus non-G10 euro-area countries.

of which €3.2 billion were capital increases, compared with €6.2 billion and €3.6 billion respectively in 2001.

Investment funds

In the fourth quarter of 2002 investment funds controlled by Italian intermediaries recorded net subscriptions of €1.6 billion, but in the year as a whole there were net outflows of €8 billion (€2.2 billion in 2001, Table 31) owing to substantial redemptions between May and July.

The average yield of Italian investment funds in 2002 was negative for the third consecutive year (–9.1 per cent, compared with –8 per cent in 2001 and –3.7 per cent in 2000). The yield of equity and balanced funds slipped further into negative territory, to –26.3 and –12.1 per cent respectively, compared with –17 and –7.2 per cent in 2001, while bond and money market funds achieved lower positive yields of 2.2 and 2.8 per cent respectively, down from 2.8 and 3.7 per cent in 2001.

In the last few months of 2002 subscribers continued to show a marked preference for funds invested mainly in short-term assets. “Flexible” funds and, to a lesser extent, funds specializing in shares of US companies also achieved net subscriptions.

Table 31

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

(*millions of euros*)

FONDI	2001	2002	2002 January	2003 January
	Net assets *(end-of-period data)*			
Italian funds	403,689	360,557	402,125	359,461
Foreign funds (2)	105,079	97,536	105,845	95,612
Total	**508,768**	**458,093**	**507,970**	**455,073**
	Net fund-raising (*flows*)			
Italian funds	–20,365	–12,339	–74	2,304
Foreign funds	18,117	4,371	492	–243
Total	**–2,248**	**–7,969**	**418**	**2,061**
	Gross fund-raising *(flows)*			
Italian funds	218,576	190,253	15,652	17,612
Foreign funds	97,174	87,109	4,426	7,044
Total	**315,750**	**277,362**	**20,078**	**24,656**

Sources: Bank of Italy and Assogestioni.

(1) The figures refer to harmonized investment funds. The data for the last few months of 2002 and January 2003 are provisional. – (2) Value of units subscribed by Italian investors.

At the end of 2002 the net assets of investment funds controlled by Italian intermediaries amounted to €458.1 billion, 10 per cent less than a year earlier. Italian funds accounted for 78.7 per cent of the total, compared with 79.3 per cent a year earlier.

SHORT-TERM ECONOMIC PROSPECTS

The world economy

The growth in the world economy and international trade was more pronounced in 2002 than the year before, with annual rates of 2.8 and 2.1 per cent respectively, compared with 2.2 and -0.1 per cent in 2001 (Table 32). Economic activity in the main industrial countries was sustained by expansionary monetary policies and the stimulus provided by budgets.

In the United States output increased by 2.4 per cent, exceeding the expectations formulated a year ago. Flexible use of the factors of production and large budget surpluses permitted aggressive monetary and budgetary policy measures, and the economy, which had been in recession since the spring of 2001, had already begun to pick up in the fourth quarter of that year.

In Japan economic activity virtually stagnated, recording an increase of 0.3 per cent; the recovery was held back by the performance of the domestic components of demand, particularly investment. In the emerging countries the rate of growth rose from 3.8 to 4.2 per cent. Growth continued at a rapid pace in China, India and the newly industrialized Asian economies, which benefited from the effects of the upturn in world trade in the first half of the year.

From the summer onwards heightened international political tensions caused a gradual slowdown in global economic activity and a surge in oil prices.

In the last quarter of 2002 the US economy expanded by 1.4 per cent on an annual basis, which was much slower than in the first nine months of the year. Employment figures were disappointing and consumer confidence deteriorated. Since December fears of war with Iraq have increased and the prospects of growth now appear more uncertain.

Conflicting signals have emerged from the US economy in the early months of this year. In January, industrial output rose by 0.7 per cent, after falling since August of last year; consumption of non-durable goods held up well but that of durables slipped; after an upturn in January, employment declined significantly in February, mainly in the service sector. Meanwhile, consumer and business confidence indicators fell sharply. Investors moved out of the dollar and the stock market. Between the beginning of December 2002 and mid-March 2003 the US currency weakened again, losing 9 per cent against the euro. Equity prices also declined, falling by 12 per cent.

The performance of the world economy in 2003 is overshadowed by the uncertainties regarding the geopolitical situation.

The scenarios produced by the leading international organizations and professional forecasters suggest that if international tensions abate rapidly, with the price of oil falling to last spring's $25 per barrel, the US economy will start to grow at a fairly brisk pace by the second half of the year. According to recent forecasts by the Federal Reserve, GDP could be up by 3.5 per cent in the fourth quarter of 2002 compared with a year earlier. In 2003 as a whole growth is expected to be between 2 and 2.8 per cent. If business confidence recovers, the acceleration in economic activity would benefit from the expansionary monetary and budgetary policies, the generally easy conditions in the credit market and banks' strong balance sheets.

In Japan, assessments of the prospects of a recovery in economic activity, even assuming a rapid end to the Iraq crisis, still tend to be pessimistic, reflecting the economy's structural difficulties.

Expected rates of growth remain extremely modest, ranging from 0.2 to 1.1 per cent.

Economic expansion is seen as remaining buoyant in the rest of Asia, notably China and India, with rates of growth of close to 6 per cent. Growth rates in Latin America are also expected to turn positive again, although by only a small margin. Argentina's financial situation is still fragile, partly because of political uncertainties. Financial conditions in Brazil have improved substantially since the beginning of the year, although access to international credit continues to be expensive. Heightened inflationary tensions have prompted the central bank to raise interest rates on several occasions in recent months.

If the Iraq crisis escalates into a protracted conflict, it would affect both the financial markets and consumer and business confidence, with repercussions on consumption and investment decisions that are difficult to quantify. World oil production might be hard put to satisfy demand, leading to even larger price hikes, which might take some to reabsorb. This could slow the rate of growth of economic activity in the leading industrial economies considerably with respect to the scenarios outlined above.

Table 32

Actual and forecast performance of selected international macroeconomic variables
(percentage changes on previous year)

	2002 (1)	2003 (2)				
		OECD Dec. 2002	Consensus Economics 10.3.2003	JP Morgan 7.3.2003	Goldman Sachs 7.3.2003	Deutsche Bank 10.3.2003
GDP (3)						
United States	2.4	2.6	2.4	2.2	2.0	2.8
Japan	0.3	0.8	0.6	1.1	0.7	0.2
Euro area	0.8	1.8	1.1	1.3	0.9	1.2
Emerging economies	4.2*	–	–	4.1	–	–
of which: Asia	*5.9**	–	–	*5.6*	*6.2*	–
Latin America	*–0.6**	–	*1.4*	*2.1*	*1.0*	–
Consumer prices						
United States	1.6	1.9	2.3	1.4 (4)	2.3	1.6
Japan	–0.9	–1.1	–0.6	–0.4 (4)	–0.5	–0.6
Euro area	2.2	2.2	1.8	1.4 (4)	1.7	1.8
Emerging economies	6.0*	–	–	6.8 (4)	–	–
of which: Asia	*2.0**	–	–	*2.3* (4)	*1.2*	–
Latin America	*8.6**	–	*13.1* (5)	*11.4* (4)	*12.9*	–
World trade (3) (6)	**2.1***	**7.7**	**-**	**-**	**-**	**-**
Oil prices						
Average of the three main grades ($ per barrel)	24.9	25.8 (7)	29.7 (8)(9)	–	–	–

Sources: IMF, *World Economic Outlook: Trade and Finance*, September 2002; OECD, *Economic Outlook*, December 2002; Consensus Economics, *Consensus Forecasts*, 10 February 2003; JP Morgan *Global Data Watch*, 7 March 2003; Goldman Sachs, *Asia Pacific Economics Analyst,* 27 February 2003; *US Economics Analyst*, 7 March 2003; *Japan Economics Analyst*, 28 February 2003; *European Weekly Analyst*, 7 March 2003; *Latin America Economic Analyst*, 7 March 2003; Deutsche Bank, *Focus Europe,* 10 March 2003.

(1) The figures marked by an asterisk are IMF estimates. – (2) Forecasts. – (3) At constant prices. – (4) Change 2003-IV/2002-IV. – (5) Change December 2003/December 2002. – (6) Goods and services. – (7) Price of OECD countries' imports. – (8) WTI. – (9) Forecasts for end-June 2003.

The euro area

Economic activity in the euro area grew by 0.8 per cent in 2002, down from 1.4 per cent in 2001. The hesitant acceleration of the first quarter was not maintained. As in other areas, the aggravation of international tensions held back the recovery.

Export demand continued to make a positive contribution. Growth was affected by the slowdown in the domestic components of demand: investment expenditure contracted, while private consumption remained sluggish.

In the main euro-area countries large budget deficits limited the scope for fiscal policy stimulus. Economic activity was sustained by the action of built-in stabilizers and the effect of tax cuts enacted in previous years.

A more expansionary monetary policy became possible towards the end of the year thanks to the easing of inflationary pressures and in response to the fading signs of economic recovery.

The deceleration of economic activity resulted in a progressive slowdown in employment growth. In line with the trend under way since mid-2001, the area’s unemployment rate rose to 8.6 per cent in January 2003.

Consumer price inflation slowed by 0.3 percentage points in the course of 2002. On average for the year the rate was 2.2 per cent. Slack demand and uncertainty over the cyclical upturn helped to offset the pressure exerted by domestic cost components in some countries.

Since the turn of the year cyclical indicators have confirmed the weak state of the economy. A slight improvement in the business climate indicator, albeit to a level that is still depressed, has been accompanied by a decline in consumer confidence to record lows. The euro-area coincident indicator in January again showed growth slower than the long-term average.

In view of the absence of concerns for price stability in the medium term and the low level of economic activity, the ECB Governing Council lowered the official rates by 0.5 percentage points on 5 December and by a further 0.25 points on 6 March, underscoring its determination to effect timely interventions in relation to the prospects for the area’s economy. Interest rates are now very low in both nominal and real terms.

The markets expect a further reduction in interest rates in the coming months. In mid-March the yield curve indicated that short-term rates would decline slightly over the rest of the year and not return to around 3 per cent until the beginning of 2005.

Euro-area M3 continues to expand rapidly (at an average annual rate of 7.1 per cent in the three months ending in January), owing chiefly to a strong preference for liquidity. This rapid growth contrasts with the slower expansion of credit to the private sector (by 4.8 per cent in the twelve months to January). The demand for credit has been affected by the weakness of economic growth and the uncertain prospects for an upturn.

Heightened uncertainty, sharply rising oil prices and the substantial appreciation of the euro have led to a broad downward revision of growth forecasts for 2003.

The figures released by Consensus Economics in March put the area’s GDP growth at 1.1 per cent for the year, more than half a point lower than indicated in November. Some professional forecasters predict even lower growth rates. The OECD foresaw faster growth in December but is in the process of revising its figures downwards. Forecasters’ assessments reflect the expectation of further postponement of the economic upturn; they assume that the current international tensions will be resolved. Against this backdrop growth is seen as remaining modest in the first half of 2003 and coming back up into line with the potential rate late this year or early next.

Inflation forecasts, by contrast, have undergone only marginal adjustments. The downward pressure associated with the more pronounced slowdown in economic activity will be probably be offset in part by rising energy prices. Consumer price inflation in the euro area should thus be 1.8 per cent in 2003, less than the figure of 2.2 per cent put forward by the OECD.

Inflation of 1.6 per cent is forecast for 2004, assuming a decline in oil prices during the year.

General government net borrowing in the euro area rose from 1.6 per cent to 2.2 per cent of GDP last year. France reached the 3 per cent deficit limit and Germany breached it.

The European Council initiated the excessive deficit procedure for Portugal, with reference to its accounts for 2001, and Germany, with reference to its projections for 2002. In January the Council also issued an early warning to France because of the large deficit expected for 2002 and the risk of crossing the 3 per cent threshold in 2003.

According to the stability programmes presented in the last few months, the area's public finances should improve in 2003. Net borrowing should be reduced to 1.7 per cent of GDP. However, the French, German and Portuguese deficits are set to remain large, ranging from 2.4 to 2.8 per cent.

In October the finance ministers of the euro-area countries agreed that those with large deficits must achieve a cyclically adjusted budget improvement of at least 0.5 per cent of GDP each year until balance is attained.

The Italian economy

In 2002 the Italian economy slowed down more sharply than those of the other euro-area countries. GDP growth amounted to 0.4 per cent, compared with 1.8 per cent in 2001.

The weakness of national demand, which was common to all the main countries of the area, was compounded in Italy by the fall of 1 per cent in exports. Italy's market shares continued to contract, reflecting not only a further loss of competitiveness but also the slower expansion of Italy's principal outlet markets compared with the growth in world trade.

Despite a marked acceleration during the year, household consumption registered only a modest increase in 2002 as a whole. This was partly due to the stagnation of real disposable income, which had risen slightly in the preceding years.

The long expansion in investment virtually came to an end. Gross fixed capital formation grew by 0.5 per cent, more than 2 percentage points less than in 2001. Despite mounting uncertainty regarding a rapid recovery in demand and the low plant capacity utilization rate, spending on capital goods proceeded at a sustained pace in the second half of the year in view of the expiry of the tax incentives introduced with the economic stimulus package approved after the summer of 2001.

According to Istat's quarterly labour force surveys, employment growth remained strong (1.5 per cent on average for the year) in relation to the modest expansion in economic activity. It was concentrated in the first quarter, after which it was virtually flat for the rest of the year.

In 2002 the gap between consumer price inflation in Italy and the euro area as a whole reopened (2.6 against 2.2 per cent). This was partly due to a pronounced decline in productivity, which caused a steeper increase in unit labour costs than in the other major euro-area countries. A limited, one-off contribution to the rise in prices came from the changeover to the euro.

After slowing in 2002, lending by Italian banks has accelerated in recent months. The increase in lending to households, the construction industry and services has been particularly large; the upturn in that to manufacturing firms has been smaller, reflecting the weakness of economic activity. Lending to borrowers resident in the South continues to outpace lending to residents in the rest of the country.

The banking system as a whole maintained easy lending conditions. Short-term rates currently average 5.5 per cent, historically a very low level. The differential between bank lending rates in the South and the rest of the country is among the narrowest recorded since the mid-1980s. Firms generally have large undrawn margins on their credit facilities.

In the last few months, the slowdown in economic activity has been reflected in a moderate rise in new bad and doubtful debts in relation to total loans.

The fall in income from services and the performance of the foreign exchange and financial markets have negatively affected banks' income statements.

The decline in bank profits last year was due largely to temporary factors, which are not likely to have a significant impact on results in subsequent years. Future profitability could be affected by a protraction of the weak cyclical phase. The banking system's capital base is strong, ensuring its stability and its ability to finance the economy. At the end of June 2002 the solvency ratio was 11.2 per cent, compared with the required minimum of 8 per cent.

The most recent indicators suggest economic activity remained weak in the opening months of 2003.

There have been slight improvements in both household confidence, which fell drastically in 2002, and business sentiment, which remained at low levels during the past year. In January, however, the leading indicator of the business cycle pointed to the persistence of slow growth in economic activity. Estimates based on electricity consumption indicate that the index of industrial production recorded a further small decline in the first two months of this year after continuing to fall in the last quarter of 2002.

The latest estimates by the leading professional forecasters tracked by Consensus Economics indicate a 1.3 per cent increase in GDP this year. Growth is expected to be fueled by the domestic components of demand, with consumption accelerating by 1 percentage point and capital formation by around 2 points compared with 2002. Given the stagnation of activity that is taking shape for the current quarter, this scenario requires a return to annualized growth rates of around 2 per cent no later than the spring. As with the euro area, the sharp retrenchment in the forecasts for growth has not been accompanied by a significant revision of inflation expectations. Consumer price inflation in Italy is forecast to average 2.3 per cent this year.

The estimate of general government net borrowing in 2001 has been raised to 2.6 per cent of GDP. The deficit in 2002 is estimated to have been 2.3 per cent of GDP; the objective for that year, originally set at 0.5 per cent, was raised to 2.1 per cent in September.

The ratio of interest payments to GDP fell by 0.7 percentage points to 5.7 per cent. The primary surplus declined by 0.4 points to 3.4 per cent of GDP, reflecting the unfavourable economic conditions.

The ratio of the general government net borrowing requirement to GDP decreased by 0.5 percentage points to 2.6 per cent. The temporary measures that reduced the borrowing requirement are estimated to have amounted to more than 2 per cent of GDP. Excluding the effects of those that temporarily curbed the borrowing requirement without affecting net borrowing, the difference between the two balances is significantly larger than in 2001, when it amounted to 0.5 per cent of GDP.

The Government has set the objective of reducing net borrowing to 1.5 per cent of GDP in 2003. To curb the growth in the balance on a current programmes basis, Parliament has approved corrective measures amounting to around 1 per cent of GDP (see box).

The bulk of the additional revenue of around €9 billion is to come from regularization schemes; the fact that these are voluntary and the one-off nature of the related outlays reduce their negative impact on economic activity. Structural reforms that will rein in the growth in spending in the medium term remain necessary.

The possibility of achieving the objective for net borrowing this year could be affected by a slower-than-expected recovery in economic activity. It is necessary to define fully some of the measures to curb spending and to evaluate the carryover effect of the 2002 deficit overshoot.

The stability programme envisages a gradual improvement in the public finances in the years ahead, accompanied by a reduction in the tax burden. Net borrowing is forecast to fall to 0.6 per cent of GDP in 2004; a surplus of 0.1 per cent is expected in 2006. Achieving the objective for 2004 will require a budget adjustment that takes account of the dropping out of the temporary revenues expected this year.

The implementing provisions of the budget for 2003

Parliament approved the Finance Law for 2003 in December of last year (see the box "The budget for 2003" in Economic Bulletin, No. 35, 2002). The expected improvement in general government primary net borrowing compared with that on a current programmes basis is officially estimated to be equal to about one per cent of GDP. The effect of the measures included in the Finance Law is estimated to be €9 billion. Further savings are expected to come, as indicated in the update of the Stability Programme, from measures regarding public enterprises.

Overall the Finance Law is expected to reduce net expenditure by nearly €4.7 billion and increase net revenue by around €4.3 billion.

Revenue

The Finance Law provides for €9.1 billion of additional revenue and €4.8 billion of tax relief. Compared with the Government's original proposals, Parliament augmented both the additional revenue (by €1.1 billion) and the tax relief (by €0.5 billion).

Increase in revenue. *– The amendments introduced by Parliament include new schemes for settling tax and social security contribution liabilities, in addition to the three schemes already contained in the Finance Bill (the tax conciliation scheme, the regularization of assets held abroad by natural persons, and the closing of tax disputes). However, the innovations did not change the total revenue the various schemes are expected to produce (€7.9 billion).*

Several different regularization schemes have been introduced for firms, both so as to avoid future disputes and to resolve those already pending. In addition to the tax conciliation scheme, which is restricted to businesses with an annual turnover of up to €5.1 million, Parliament introduced a scheme for the automatic and final assessment of taxable income and an amended return scheme. Both the latter schemes apply to natural persons as well.

The automatic determination of income allows taxpayers to avoid any disputes with regard to direct taxes, Irap and VAT for the five years 1997-2001 by paying a sum based on the gross tax liability shown in

Estimated effects of the budget on the general government consolidated accounts for 2003 (1)
(millions of euros)

REVENUE	
Increase in revenue	**9,110**
Tax regularization and conciliation schemes	7,900
Change in taxation of video games	650
Increase in excise duties on tobacco	430
Other measures	130
Decrease in revenue	**-4,790**
Change in structure of Irpef	-3,490
Effects on Irpef surtaxes	-210
Reduction of Irpeg rate	-190
Irap relief for agriculture	-330
Extension of building renovation incentives	-200
Extension of excise duty reliefs	-90
Extension of VAT deductibility for company cars	-160
Other measures	-120
Net change in revenue	**4,320**
EXPENDITURE	
Decrease in expenditure	**-8,100**
Domestic stability pact	-2,250
Health care and pensions	-2,460
Purchases of goods and services	-730
Staff costs	-360
Rationalization of grants to firms and other capital expenditure	-2,300
Increase in expenditure	**3,420**
Staff costs	870
Local finances	630
Social assistance and pensions	570
Capital expenditure and other	1,350
Net change in expenditure	**-4,680**
Reduction in net borrowing due to measures included in the Finance Law	**9,000**
Other expenditure savings	**-3,300**
TOTAL REDUCTION IN NET BORROWING	**12,300**

(1) Based on official estimates and ISAE, *Rapporto trimestrale*, no.12, 2003

cont.

their original returns. The amended return scheme makes it possible to rectify individual omissions of taxable income by paying the related tax, calculated by applying the ordinary rates for each year. Firms that have recourse to these schemes may adjust their accounting records for civil and tax law purposes.

Companies can regularize the assets they held abroad on 31 December 2001 and the income these earned up to the 2001 tax year by having recourse to the final-assessment conciliation scheme in the first case and to the amended return scheme in the second. In both cases the law provides for the payment of a sum related to the value of respectively the assets and the income brought into the open. For natural persons the time limit for benefiting from the corresponding scheme has been extended.

As regards disputes with the tax authorities, the Finance Law maintains the proposed scheme for settling those that are pending and now allows taxpayers to invoke the scheme for assessments and notifications whose time limits had not expired; it also introduces a scheme for the regularization of amounts entered in the tax rolls issued up until June 1999.

The other regularization schemes included in the Finance Law provide for the making good of omitted or incomplete payments, primarily in relation to some indirect taxes (the imputed capital gains tax on property – Invim, real-estate transfer taxes, and the tax on legacies and gifts), TV licence fees, and long-service pensions not cumulable with self-employment income. In addition, the competent authorities have been given the right to introduce incentives for the settlement of certain regional taxes.

The increase in revenues introduced by Parliament derives mainly from the change in the taxation of video games and the increase in excise duties on tobacco to be implemented by April 2003.

***Decrease in revenue.** – The reliefs for households and firms contained in the Finance Bill were confirmed in full. The new reliefs added by Parliament concern the extension of some measures adopted in earlier years; in particular, incentives for the renovation of buildings, the reduction in the excise duty on mineral oils and methane, and the partial deductibility of VAT for company cars.*

Expenditure

The measures included in the Finance Law are expected to produce savings of €8.1 billion and additional expenditure of €3.4 billion. Compared with the Finance Bill submitted by the Government, the savings were basically unchanged, whereas the additional expenditure rose by €1.3 billion.

***Reduction in expenditure.** – Parliament partially amended the provisions regarding the conversion of grants to firms into supported loans. The following are now excluded from this measure: interest rate support, grants under local development planning agreements, incentives for industrial research, and grants for productive activities referred to in Law 488/1992. The effect of these changes was a decrease in the expenditure savings estimated for 2003 from €1.4 billion to €0.8 billion. In order to ensure the fiscal neutrality of the amendments in 2003, disbursements of incentives for productive activities under Law 488/1992 have been rescheduled, with an expected saving of €0.6 billion this year.*

***Increase in expenditure.** – Compared with the Finance Bill, the increase in current expenditure was augmented by €0.6 billion and that in capital expenditure by €0.7 billion.*

Amendments introduced by Parliament resulted in an increase of €0.2 billion in expenditure on social assistance and pensions. This includes finance for ordinary wage supplementation in favour of firms supplying the automobile industry and an increase in the pensions of Italian citizens resident abroad.

The additional expenditure included an increase in financing for workfare programmes and the appropriations to cover extraordinary wage supplementation for Fiat group workers (about €0.4 billion in total).

In the 1990s, in a context characterized by rising international competition and an increasing tax burden, the Italian economy failed to maintain productivity growth rates that might have spared it progressive, substantial losses of market share.

The Italian economy has the necessary resources to grow more rapidly than in the last decade. Essential conditions for recouping productivity are: the full implementation of structural reforms that will increase both flexibility in the use of factors and competition in product markets; further progress in carrying out the plan, on which a start has already been made, to reduce the overall tax burden; greater investment in scientific and technological research and in human capital; and greater efficiency in general government. Implementing the infrastructure programme aimed at making good the current shortcomings will also contribute to the recovery of activity.

A prerequisite for effective action by the public sector is the completion of the budgetary adjustment process, to be carried out through structural measures in the main sectors of expenditure. If it is based, in a cooperative logic, on stringent budgetary rules for all the different levels of government, decentralization provides scope for measures to rationalize the supply of public services that will improve their quality while also yielding expenditure savings.

Based on information available at 13 March 2003. The Appendix is updated to 10 March.

Documents

Bank of Italy Regulation of 20 January 2003 concerning guaranteed managed portfolios (*)

On 20 January 2003 the Bank of Italy issued a regulation concerning guaranteed individual and collective portfolios (termed guaranteed managed portfolios).[1] These are contracts whereby the manager undertakes to repay the invested capital to the client or even to pay a minimum guaranteed return if the value of the managed portfolio is less than the guaranteed amount.

"Guaranteed managed portfolios" therefore differ from investment plans that use special management techniques to minimize the probability of loss of the invested capital (termed protected managed portfolios).

The undertaking to repay the capital and/or to pay a minimum return is of particular significance from a supervisory point of view, as it entails a risk for the party providing the guarantee.

Since the undertaking is essentially comparable to the writing of put options in favour of the client on the financial instruments under management, it has been decided that it can be entered into only by banks or investment firms authorized to trade on own account, subject to compliance with prudential regulations.

Asset management companies, as well as banks and investment firms not authorized to trade on own account, can offer guaranteed managed portfolios only if the commitment to repay the capital and/or pay a minimum return is undertaken by an authorized third party.

In order to ensure that the parties involved assume the market, operational, legal, reputational and other risks associated with guaranteed managed portfolios in an informed manner, the regulation lays down that the decision of the intermediary-manager to offer the product is taken by means of a resolution of the board of directors, even if the guarantee is provided by a third party.

If the manager itself provides the guarantee, it must ensure that there is constant communication between all the corporate departments involved in order to protect against and effectively manage the resulting risks; if, on the other hand, the commitment is undertaken by a bank or by an investment firm other than the manager, flows of information about the size and composition of the managed portfolio must be established between the two bodies so that the party providing the guarantee can continuously monitor the risks it has assumed.

In order to enable savers to make informed investment decisions, the regulation provides that, where investment funds or open-end investment companies offer guaranteed portfolios, their fund rules or bylaws must contain a clear and detailed description of the characteristics of the product, the terms of the guarantee, the cost of the guarantee and the criteria by which it is determined.

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

[1] The regulation was published in *Gazzetta Ufficiale*, No. 31, 7 February 2003.

New regulations for financial intermediaries entered in the special register established by Article 107 of the 1993 Banking Law (*)

The Bank of Italy has issued two regulations regarding financial intermediaries entered in the special register provided for in Article 107 of the 1993 Banking Law.

The regulation dated 15 October 2002[1] provides a framework of rules concerning administrative and accounting procedures and internal controls that, based on the principles of good organization now well-established for all the institutions supervised by the Bank of Italy, gives intermediaries leeway to adapt their structures to their actual operations.

The regulation consists of a general part applicable to all the intermediaries entered in the register and a second part consisting of provisions concerning specific activities (granting of loans in whatsoever form, acquisition of shareholdings, issue and management of credit and debit cards, foreign exchange trading for own account, and services in connection with the securitization of claims.

The general part specifies the tasks and responsibilities of an intermediary's governing bodies in defining the corporate organizational structure, the characteristics of the internal control system, the minimum requirements for the effective working of information systems, and the rules for outsourcing corporate functions and distributing products and services through third parties.

The second part indicates further safeguards against the risks related to specific activities.

* * *

The regulation dated 16 December 2002[2] introduces several changes in the procedure for entering financial intermediaries in the special register and in the composition of "own funds" considered in meeting the requirements for entry in the register.

In particular, the regulation:

a) establishes the procedures for registering special purpose vehicles and servicers set up in connection with the securitization of claims;

b) requires applicants for registration to supply more extensive information on their programme of operations, organizational structure and accounting procedures, which are aspects of increasing importance for supervision;

c) revises the provisions concerning the items of own funds taken into account for entry in the register. In particular, intangible fixed assets must now be deducted in determining total own funds.

A new section of the register has been created specifically for special purpose vehicles in order to keep these companies separate from the other intermediaries, in view of the particular nature of their activity. The latter consists in assuming ownership of the securitized claims for the sole purpose of preventing legal action in respect of the securitized assets by persons other than the holders of the asset-backed securities.

The particularity of special purpose vehicles, which delegate all operational activity to servicers and are exempted from the minimum capital requirements, is reflected in the adoption of an ad hoc supervisory procedure centred on verification of a few essential organizational elements (such as exclusive corporate purpose and requirements for shareholders and corporate officers).

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

[1] Published in *Gazzetta Ufficiale*, No. 260, 6 November 2002.

[2] Published in *Gazzetta Ufficiale*, No. 11, 15 January 2003.

Speeches

Culture and the development of Southern Italy

Lectio Doctoralis *by Antonio Fazio, Governor of the Bank of Italy, on the occasion of the award of an honorary degree in Philosophy,* Università degli Studi di Catania

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Economics is the discipline that studies the creation and distribution of material wealth within politically organized societies. Although its roots reach back far into history, only in the last three centuries has it been raised to the rank of a separate branch of the social sciences.

Philosophy satisfies man's eternal thirst for knowledge, his love of learning. It originated in Ionia and ancient Greece as the study of *archè*, the primal element, as meditation on the world and the principles that explain life and the reality around us. From the very beginning man has felt the need to look beyond the perceptible world about him; consciously or not, his mind and his thoughts lead him into the realm of eternal and universal laws.

Nowadays, the issues of globalization, bioethics, the nation-state and supranational law, poverty and wealth, peace and war challenge earlier explanations and interpretations, projections and plans, and established equilibria. Accordingly, they call for a resumption of efforts to discover more general principles, analyses and framework of interpretation that can shed light on the new situations and help solve the new problems.

Such an effort has always come in response to sudden changes in historical scenarios. It happened with the fall of the Roman Empire and the barbarian invasion; it happened again with the great geographical discoveries at the dawn of the modern age that disclosed new worlds to European civilization and prompted a profound reconsideration of anthropology, of the relationship between peoples and civilizations and, on a broader and deeper level, of the economy as well.

Great thinkers – like St. Augustine observing the sack of Rome by the Goths – have always striven to understand the ultimate significance of events; they draw up visions of the future. Theologians, moralists and philosophers were able to rethink some of the foundations of our Western civilization.

The idea of looking beyond physical reality certainly already existed among the "Pre-Platonists" here in Sicily. Ecphantus of Syracuse, a follower of Pythagoras, explained the unity of the cosmos not in mechanical terms but by reference to the rational operation of an ordering principle.

At Elea, a Greek colony in Southern Italy, Parmenides – the founder of metaphysics, whose thinking is the subject of renewed study and is discussed in the writings of Professor Manganaro – developed the theory of Being, likening the search for truth to a journey that lead him, after an arduous ascent, from the "Halls of Night" to the gates of the Temple.

Plato went beyond the naturalism of earlier philosophical doctrines. According to the Athenian philosopher, ideas pre-exist matter. There is a hiatus, a lack of communication, separating the empirical world from the ideal world that the Demiurge is unable to remedy completely. Perceptible things, the human body, needs, work and hence the economy are shadows that contaminate the soul's purity and divert reason away from truth. Only philosophy enables man to gain knowledge of the absolute. Politics must seek to create forms of government that are consistent with the ideal reality.

Moving beyond Plato, Aristotle developed the theory that physical things are actual beings but not the whole of reality; he worked upwards from them, by abstraction, to a transcendent reality, to the "unmoved mover", who is the unifying principle of the universe, who knows and directs all things.

Aristotle's method, which lead him from the observation of single phenomena, of actual and individual beings, to general ideas and hence to the highest causes was revived in the West during the Renaissance after the rediscovery of the Stagyrite and the dissemination of his doctrines by the mediaeval Scholastics through the Universities of Naples, Paris, Oxford, Bologna, Padua and Catania. That method is the foundation of the development of science.

1. The economy according to the ancient and mediaeval philosophers

Aristotle's teleological vision was the source of his belief that all of man's activities are directed not only towards an immediate objective that changes on each occasion but also towards a supreme goal, which is self-fulfillment, the good life, *eudaemonia*.

The concept of the common good of the city was elaborated in the *Politics* as something quite distinct from and superior to the good of the citizens. By nature man is suited to live in society: those who live alone are either a beast or a god. Man has needs but is unable to satisfy them on his own: he needs other people; man is a social animal who attains completeness through his relations with others.

Some of the elements that constitute the economy were analyzed; discussion bore upon the function of money. It was believed that commutative justice, in exchanges, and distributive justice should govern the orderly life of the community and strengthen the links between its citizens.

In the thirteenth century the resumption of trade after the waning of the manorial economy, the increase in the circulation of money, commercial enterprises, and the exchange of currencies gave rise to reflection on lending, interest and insurance. The one and only objective was to draw a distinction between the payment of a fair return on funds and usury.

At the beginning of the fourteenth century Duns Scotus evolved a theory of value based on production costs and the utilization of labour that was taken up in the nineteenth century by Ricardo and Marx and then again in the middle of last century, in a broader and more sophisticated form, in the models of Leontiev and Sraffa.

From the fourteenth to the sixteenth centuries the moralist philosophers developed theories of finance that remain impressive for their practical knowledge of the phenomena and the depth of their analysis. The discovery of America and the massive import of gold into Europe prompted analyses of the relationship between the money supply and prices.

Molina discussed the nature of the money markets, which in some cities were particularly flourishing, and the need to avoid collusion between participants and the exploitation of confidential information that might alter market conditions. Interest, when ethical, was considered fair only when it was paid at the rate obtaining in the money market.

The relationship between monetary interest and entrepreneurial profit derived from the use of borrowed sums was scrutinized more closely. The concept of the joint stock company developed, justifying the receipt of profits on the sums invested in an enterprise if they generated new wealth.

In the first half of last century, the great Keynes admitted in his *General Theory of Employment, Interest and Money* that the doctrines he himself had initially disdained as meaningless in fact represented a major step forward. He revived them and made them the cornerstone of his theory.

According to mediaeval Scholasticism, economics was a practical science that regulated the behaviour of individuals and communities, and, with politics, formed part of philosophy. The field of knowledge incorporates logic, which teaches us how to move from premises to consequences and thence to causes. At the summit we find the sciences dealing with reality, which cannot be influenced by human behaviour, natural philosophy, mathematics and metaphysics.

In the extraordinary and unique anthropological vision of St. Thomas Aquinas man is by no means just the expression of economic needs. His motives do not spring only from narrow considerations of usefulness but include, in a position that is far from marginal, such notions as duty to the community and service. Man achieves completeness through his relationships with others. Society has a profound ontological dimension and justice is one of the constituent elements on which it is founded.

Nominalism, and later on English naturalism, represented a step backward. The former rejected the ontological nature of society and justice; the latter disputed the teleological and anthropocentric visions of the world.

2. The modern age up to the "short century"

The creation of modern states in the form of absolute monarchies did not fail to have effects on the theories of the social body. Some theoretical visions, such as the Leviathan and later the social contract, postulated that an individual belonging to a political entity had no choice but to pass all power to interpret his will and foster his interests to the head of that entity. The idea of the common good of the society ceased to exist in modern contractualism; the social contract could justify any type of political system.

The concept of democracy professed in ancient Greece and in Rome, rediscovered and enriched by Scholasticism, tended to disappear. The economic doctrine that prevailed in Europe was that of mercantilism, which stressed the power of the sovereign state; economics was set to become the "dismal science".

In 1754 in Naples Antonio Genovesi was appointed to the first chair of Political Economy in Europe; economics was set within a broad framework of social and political analysis. Genovesi introduced the problem of what objectives should be adopted by the sovereign and by government; he advocated the aim of the greatest economic welfare for the greatest possible number of citizens.

In his *Wealth of Nations* of 1776, Adam Smith laid the theoretical foundations of what is now called the modern market economy. However, he did not theorize an abstract economic vision.

Only in recent decades have his followers begun to teach abstract economics that make no reference to actual societies, to men forming part of a complex reality.

As a moral philosopher, Adam Smith considered production and commerce always within the framework of civil society. The members of the community, who are bound together by a sentiment of "sympathy", set up a system of collaboration based on the division of labour, production and exchange that achieves the good of the community. It is essential that exchange be ruled by standards of proper conduct; in this way, individuals and the whole community benefit.

The enormous development of technology, the industrial revolution and mass production, together with the doctrines of positivism, emphasized the distance between science and man; economics, by then a separate discipline, concentrated on the concept of *homo oeconomicus*, studied him and virtually dissected him with the aid of increasingly sophisticated models.

The philosophers of society returned to the analysis of economic phenomena as part of a real social and political context.

Utilitarianism was superseded by Kant's moral philosophy in what amounted to an intellectual revolution, giving rise to philosophical idealism. This was later reduced to Hegel's interpretation of reality and history based on dialectical principles.

Among the left-wing Hegelians, Marx saw society as dominated by the evolution of the structure of production, of economic relations; spiritual life as well as political life are *superstructure*. His labour theory of value hinged on the concept of surplus value, which is the basis for the accumulation of capital, the exploitation and alienation of the workers. The consequences he draws from the decline in the trend rate of profit point to the triumph of the proletariat, whose emergence will in the end annul society's division into classes. The temporary assignment of ownership of capital to the State gives rise to a new social equilibrium, the self-government of producers and finally the withering of the State itself.

Max Weber overturned Marx's paradigm regarding the causal link between structure and superstructure. Taking European history as an example, he stated that modern capitalism was not so much the cause as an effect of the religious ideas that had spread throughout the continent.

The twentieth century saw the rise of fascism, nazism and communism as the product of the degeneration of left-wing and right-wing Hegelianism and as a reaction to the grave economic and social imbalances.

Although it was not until the end of the "short century" that these doctrines finally collapsed, in 1936 Maritain already foresaw that communism, as actually implemented in Russia on the basis of the model of Marxist-Leninist theory, would break down because it was unlivable, contrary to man's deepest nature. Drawing in part on the American tradition and following lines of thought that were to be found in Rosmini and Newman, and in Toniolo and Sturzo in Italy, he demonstrated the fundamental concord between democracy, liberty and Christianity. He considered the sovereignty of the State as lying in the people: *"The People is above the State, the People is not for the State, the State is for the People"*. In this context, the economy could not be other than at the service of man.

After the terrible experience of the Great Depression, in England Keynes formulated the *General Theory* not only from the standpoint of an economist but also from that of an economic and social policy-maker. He abandoned microeconomics to some extent, despite his mastery of that field, reverting to a classical approach hinged on the major macroeconomic aggregates, the overall equilibria of the economic system. He became the prophet of economic policy in the middle decades of the twentieth century. His vision also formed the basis of the new international monetary order founded with the Bretton Woods Agreements.

Economics resumed the role it had played for eighteenth century writers as the science that studies the prerequisites for making the best use of available resources and ensuring the welfare of states and peoples.

Popper's "open society" rested on the notion of human fallibility, on the need for tolerance and the education of individuals. In this vision, the market is more efficient and productive than a centrally planned system, which is bound to degenerate into totalitarianism.

Although Hayek initially based his reasoning on premises similar to those adopted by Popper, criticizing dictatorship and socialism, his final positions were in many respects opposed and paradoxically contained elements of historical materialism, which set the economic dimension above the philosophical and spiritual dimensions. In fact, in his system of thought freedom is important not as a value in itself but principally for its economic consequences.

The Nobel Laureate Amartya Sen has replaced the utilitarian concept of welfare with a vision based on Aristotelian philosophy. Sen also believes that man strives to achieve *eudaemonia*.

A deeper appreciation of the insights into the present world that these schools of thought can offer is possible if we examine some aspects of the Italian economy, notably the performance and characteristics of the economy of Southern Italy in the second half of the last century.

Interest in the South is part of a noble tradition that developed gradually after the unification of Italy and then expanded forcefully in the first half of the last century.

The economy is an integral part of the life of a community; the abundance of material goods and, above all, their equitable distribution are an important aspect of the society's welfare.

It is not a matter of setting having against being, but of assessing how far having can contribute to being in a real context.

Participation in civil life mainly finds expression through labour.

This principle is clearly present in our legislation. Labour, which enables people to achieve self-fulfillment and earn a decent living for themselves and their families is the cornerstone of the Constitution.

3. The uneven development of Southern Italy

In the 1950s the policy of pre-industrialization pursued in the South laid the basis for the progress of the subsequent decade. Output growth was nearly 5 per cent a year, slightly slower than in the rest of the country. Between 1952 and 1961 nearly a million southerners emigrated to the Centre and North of Italy and some 2 million went abroad.

In the 1960s the South kept pace with economic growth in the rest of Italy. State intervention with major public works and a contribution to the creation of industrial centres, mainly in steel and petro-chemicals, powered the expansion of output at an annual rate of 5.6 per cent, as well as consumption and employment. Nevertheless, emigration to the Centre and North of Italy and to Northern Europe continued. Per capita GDP rose to 60 per cent of that of the rest of the country.

The oil crisis of the 1970s resulted in a slowdown in the world economy and in Italy, where GDP growth fell below 3.6 per cent. Conflicts over income distribution and the exceptional rise in the cost of labour caused difficulties for Italy's large firms. Above all, the crisis affected energy-intensive heavy industry, which in the South accounted for a considerable part of the entire industrial sector. Smaller firms kept the economy going, taking advantage of their greater organizational flexibility and their ability to adapt to the demand for personalized products. They benefited from the depreciation of the lira. Especially in the North-East and the Centre, the organization of small firms in industrial districts gained ground.

The ability of southern firms to grow came to depend increasingly on public intervention.

The abolition of regionally compartmentalized labour contracts detached wages from the productivity of firms. The fragility of the South's model of development emerged.

The area's relative gain in per capita GDP came to an abrupt halt. Emigration slowed owing to the economic slowdown in the North of Italy and Europe.

During the 1970s the policy of reducing geographical disparities became less effective. The greater attention paid to small and medium-sized enterprises had beneficial effects, but did not come up to expectations.

From the mid-1980s onwards, as a consequence of the restructuring of large firms that had begun in the previous decade, the Centre and North of Italy profited from the international economic upswing that followed the sharp decline in oil prices and recouped competitiveness. In the South the restructuring of public enterprises was postponed in order to save jobs.

In the 1990s the Italian economy slowed down further, to an average annual rate of growth of 1.4 per cent, compared with 2.4 per cent in the 1980s. The slowdown was common to other industrial countries as well, but it was more pronounced in Italy. Once the effects of the devaluation of the lira in 1992 had been exhausted, there was a gradual loss of world market shares. The rate of increase in labour productivity diminished sharply.

The less export-oriented southern economy benefited less from the devaluation. The termination of the extraordinary Southern Italy development programme decided on at the end of 1992 meant a halt to investment grants for three years and the gradual phasing out of social contribution relief. It resulted in a fall in public investment. The tax burden increased, with a consequent expansion of the underground economy. The cyclical slowdown culminating in the recession of 1993, and the decline in public investment in connection with judicial action against grave episodes of corruption worsened the crisis. Many companies failed, with severe repercussions for the southern banking system.

Between 1992 and 1996 GDP in the South of Italy increased by no more than 2 per cent, 5 points less than in the Centre and North. Employment in the South contracted by more than 8 per cent.

The ability of the leading southern banks and other local credit institutions to cope with the recession was hampered by their low degree of risk diversification, modest operational efficiency and largely inadequate credit management procedures. From 1993 to 1995, an average of 8.6 per cent of all loans to firms in the South had to be classed as new bad debts each year, and in Sicily 10.9 per cent. By comparison, in the regions of the Centre and North the figure was 3 per cent. During these years, southern banks' loan losses far exceeded their profit on ordinary operations. Overall, the losses recorded during those three years consumed two-thirds of the capital and reserves that the banks had had in 1992.

Intervention by the supervisory authorities and public support, at a moderate cost by comparison with those of banking crises in other advanced countries, succeeded in safeguarding the operations of southern banks and avoided a break in the flow of finance to firms and households.

Since the middle of the 1990s the rate of growth in GDP in the South of Italy has exceeded that in the Centre and North by just 0.3 percentage points; it has been less than the EU average. The resumption of emigration has helped to narrow the gap in per capita output compared with the rest of Italy.

From 1995 to 2001 the exports of the southern regions expanded at an annual rate of 8.2 per cent, compared with 5 per cent in the Centre and North. Nevertheless, the export growth was slower than the expansion of world trade, and Southern Italy's share of world trade declined.

Employment turned upwards again in 1997 and by July 2002 had risen above the level recorded at the start of the 1990s, although only just. Since 1996 the number of jobs in industry excluding construction has increased by 1.7 per cent per year in the South, while remaining unchanged in the rest of the country.

The renewed widening of the gap between the South and the rest of Italy in the last quarter-century has been accompanied by the differentiation of growth paths between individual regions. Whereas in the early 1970s per capita output was very nearly the same in all the southern regions (with the exception of Sardinia), they have since diverged.

Abruzzo and Molise, and more recently Basilicata, have gained ground by comparison with the four most populous regions of Sicily, Campania, Puglia and Calabria.

The three largest regions, Sicily, Campania and Puglia, have all suffered, to a varying extent, the consequences of the slowness with which public enterprises restructured and reorganized production. Unemployment, concentrated mainly in the capitals of the largest regions, caused problems of law and order and urban decay virtually unknown in the other regions.

However, these regions have also given birth to nuclei of successful firms that resemble the district networks of the North-East. Productive establishments in innovative sectors have grown in number.

Per capita GDP in the South is currently about what it was in the rest of the country thirty years ago; it is equal to 58 per cent of that in the Centre and North, as it was in the mid-1960s.

The employment rate for the population aged 15 to 64 is just over 44 per cent, about 17 percentage points lower than in the rest of Italy. For southern women it is only just over 27 per cent.

Although the unemployment rate has declined from 22 to 18 per cent in the last three years, it is still four times as high as in the rest of the country.

The difference in the cost of housing is an impediment to the geographical mobility of the labour force and the reduction of disparities. The Bank of Italy survey of household income and wealth has found that, taking building quality, location and local population density into account, the cost of housing services in the Centre and North was 40 per cent higher on average than in the South between 1993 and 2000.

The South's lower per capita income is also more unequally distributed. According to the Bank of Italy survey, the concentration of household income is greater in the regions of the South than in those of the Centre and North. The level of concentration in Sicily is the highest of all the southern regions.

4. The causes of the gap

According to the regional economic accounts, which include irregular economic activity, labour productivity in manufacturing industry in the South is nearly 20 per cent lower than in the Centre and North. The differential in labour costs is of about the same magnitude, owing to lower wages, greater social contribution relief, and the more extensive underground economy.

Company accounts show that regular industrial and private service enterprises in the South face labour costs that are unwarranted in view of their lower productivity. Labour productivity is more than 30 per cent lower than in the North-West and 20 per cent lower than in the North-East and the Centre of Italy. Especially among the smallest firms, southern productivity is far lower. Higher unit labour costs undermine the competitiveness of these firms.

Productivity is affected by the atomization of the southern productive fabric. The size gap in industry was appreciably reduced between 1961 and 1981 but has since widened again. Southern firms are now 20 per cent smaller than the Italian average, which is itself small by international standards.

The smallness of firms and the widespread practice of off-the-books work are the economy's response to the rigidity of the official labour market, the tax burden, the complexity of the rules governing economic activity and to the difficulties of the economic and social environment.

Underground or unreported labour now accounts for 22.6 per cent of total standard labour units in the South, nearly twice the proportion found in the Centre and North. In construction the proportion is equal to 30 per cent and in agriculture to nearly 40 per cent. The lowest rates of irregularity are found in Abruzzo and Molise, where growth has been fastest; the highest are in Campania, Calabria and Sicily.

Productivity and living conditions are weighed down by lack of infrastructure, inadequate security and inefficiency in government.

Setting Italian infrastructural endowment equal to 100, that of the South is 78. The shortfall is greatest for airports, energy and environmental systems, telephone and electronic information networks. The worst indicators are found in Molise, Basilicata and Sardinia. The highest levels of infrastructure endowment in the South are those of Campania and Abruzzo.

The overall index of infrastructure endowment is higher in Sicily than in the South as a whole, but this reflects the region's wealth of port facilities. Excluding these, Sicily is more or less on a par with the rest of the South, with infrastructure indicators about a third lower than in the Centre and North. The serious shortcomings of the road and rail networks produce severe congestion of the links between the main cities. For an island that lies distant from large outlet markets, it is essential that ports and airports be equipped with logistical systems that can handle ever-growing movements of people and goods.

Even more harmful, especially for living conditions and the development of agriculture, industry and tourism, is the insufficient supply of water.

The discrepancy found in the past between the infrastructure put in place in the South and the costs sustained calls for an improvement in the quality of the procedures for evaluating investment projects.

Detailed analysis of the costs and benefits of public investments, transparency in the allocation of resources, efficiency in carrying out works and correctness on the part of administrators are all essential to the success of projects. If these conditions are satisfied, the impact on productivity and the quality of life will certainly be positive.

In the past decade foreign direct investment in the South has been extremely modest. In the last two years it has amounted to scarcely 3.5 per cent of foreign direct investment in Italy, itself scanty by international standards.

Recent statistics show a higher rate of serious crime in the South than in the Centre and North. In 2000 there were 14.6 violent crimes for every 10,000 inhabitants in the South, 11.9 in the rest of the country. The regions most severely affected are Campania and Sicily, while Abruzzo and Molise have lower crime rates than the Centre and North.

Over the last decade the gap has been narrowed. Since 1990 the number of crimes reported has fallen by 22 per cent in the South and 9 per cent in the other regions of Italy. The number of homicides has fallen by 70 per cent in the South and 30 per cent in the Centre and North. Even larger reductions have been recorded for crimes committed by the Mafia and other criminal organizations. Criminal activity nonetheless remains one of the main factors impeding direct inward investment in the southern regions.

Success in combating crime is first and foremost a matter of civil living, which can have significant positive repercussions on the prospects for economic growth in the South.

5. Economic opportunities and governmental institutions

The unsatisfied needs of the South are vast and varied, but the region also has at its disposal unutilized resources and emerging entrepreneurial capabilities.

It is important to close the infrastructure gap with the rest of the country, so as to guarantee adequate living conditions for the population, heighten the productiveness of the economy and of individual firms, avoid being excluded from the process of European integration, and attract capital from other parts of Italy and from abroad.

Businessmen in the Centre and North of Italy, when polled on the factors determining the location of investments, have often complained of southern infrastructure shortcomings, which are even worse than those of their highly congested home regions, especially in the North-East.

Istat surveys have also revealed unserved needs and difficulty of access to public services as well. Waiting lists for health care services are longer in the South than in the Centre and North. Severe inadequacy in the supply of drinking water is reported by 29 per cent of southern households, compared with 7 per cent in the North and 11 per cent in the Centre. The problem is especially acute in Calabria, Sicily and Sardinia.

Human capital in the South is young and well-trained. In 2001 the population over 65 was smaller than that under 15, while in the Centre and North it was 50 per cent larger. Nonetheless, the fertility rate in the South, though higher than in the rest of Italy, is well below its equilibrium level. A younger population has a better chance, through investment in education, of successful entry into the emerging knowledge-based society.

In the South, 8 per cent of people aged 25-64 have university degrees and 36 per cent have high school diplomas, values not dissimilar to those of the Centre and North. The number of university students has increased sharply in the past decade.

Many of these well-educated people are ready and willing to work immediately. Many others have left the South for lack of jobs. The drain of skilled labour from the southern regions remains substantial. Male university graduates show an unemployment rate of 7.4 per cent and university-trained women of 14.3 per cent, values about twice as high as in the rest of Italy.

The South is rich in environmental and cultural resources. But the provision of tourist services is fragmented and undersized compared with the region's potential. The South accounts for only 20 per cent of all tourist overnight stays in Italy. Seasonal variations in tourism are more marked than elsewhere. Better travel links with the rest of the country and abroad could mitigate the adverse consequences of the market trend towards shorter stays.

Developing the South's environmental and cultural resources requires more vigorous information and promotional campaigns, especially abroad, together with action designed to overcome the current limits of the supply of tourist services and widen the range of products.

Opportunities are opening up for the South to capitalize on quality food production. In the past few years southern producers have entered a market dominated until now by the large producers of the Centre and North. The importance that Italian consumers have traditionally attributed to food products of a high standard has led our productive system to concentrate on variety and quality, and this has ended up by giving Italian firms a comparative advantage in Europe. Economic benefits have been obtained by the producers readiest to grasp the new market opportunities, with vertical integration allowing them to capture a larger share of the value added in processing and marketing products.

Medium and high-tech firms are established in the South, *inter alia* in the sector of information and communication technology. Such firms are highly concentrated in Italy. In 1996 the first three regions – Lombardy, Lazio and Piedmont – accounted for 53 per cent of the sector's employment, the South for only 17.7 per cent. Partial data suggest that the growth of this sector in the South has outpaced that in the rest of Italy in the past few years.

As recent international experience shows, the ICT sector tends to concentrate in more developed areas but also where human capital is abundant and labour costs are lower. The availability of the professional resources required or to be trained, under conditions ensuring appropriate flexibility and costs, together with the presence of research centres, constitutes an important location advantage. The success stories of Naples, Cagliari and Catania attest to this.

These initiatives benefited from support policies keyed to financing research and creating specialized skills. Innovative local entrepreneurs favoured the local diffusion of activities connected with the technologically advanced sectors. The process of imitation, stimulated by the positive results achieved by the first plants, led to the formation of important agglomerative externalities.

For these success stories to be more than isolated cases, it is necessary to make the policies in support of scientific and technological research more effective and strengthen cooperation between the education system, especially at university level, and industry.

The reorganization of the banking system in the South has been particularly rapid and extensive. In the last ten years more than 200 mergers and acquisitions have been carried out involving banks accounting for two thirds of the assets of the southern banking system. In Sicily, there has been a radical restructuring of the banking system. Today, southern households and firms can turn to the same banks that serve the Centre and North; they have corporate finance and professional asset management services available to them that could not be supplied on a limited scale.

Consolidation has been accompanied by an expansion of banks' branch networks. The number of bank branches in the South has grown by 70 per cent over the past ten years, in line with the national trend.

Between 1998 and 2001, during the most intense phase of restructuring, the net flow of credit granted by banks resident in the South continued to expand at an annual rate of nearly 8 per cent, outpacing GDP. Thanks in part to low interest rates, even during the current general slowdown in bank lending borrowing conditions for firms in the South have generally remained non-restrictive, for small businesses as well.

The rate on medium and long-term loans is 0.6 percentage points higher for firms in the South than for those in the Centre and North. The differential between the short-term lending rate has narrowed steadily since 1996, from 2.3 to 1.3 points. Considering the same sectoral composition and size of borrower firms, the differential between the two areas narrows to 0.9 per cent. It reflects differences in the riskiness of firms and the fragility of the economic environment in which they operate. The complexity of civil law procedures is a factor: lesser protection for creditors, together with the greater difficulty of recovery, raises the cost of bank credit.

The new setup of local government will have to be able to give further impetus to the improvement of public action in the economic field. The institutional arrangements must be consistent with the values that unite civil society. Opportunities for growth will come from a more rational distribution of tasks among the different levels of government in accordance with the rules of subsidiarity.

Bringing the management of public services closer to the area in which the benefits they produce are enjoyed can make it possible to achieve a closer fit between supply and users' preferences, make administrators more responsible and allow new approaches to producing and financing such services to be tried out.

In a country with pronounced geographical disparities of income, substantial elements of solidarity are necessary to ensure social cohesion. The amount of redistribution must be decided *ex ante*. The transfers must not constitute a channel for eluding the budget constraint.

The positive effects of self-government depend first of all on local authorities' efficiency, which is still extremely uneven.

According to a recent Bank of Italy survey, the percentage of clerical staff with computerized workstations in southern local authorities was about half that recorded in the regions of the North.

The effectiveness of governmental administration plays an essential role in promoting growth, at least equal to that of the quality of investment in education and infrastructure. Minimization of direct and compliance costs is crucial. Local authorities in the South must make a qualitative leap, proceeding more speedily with the organizational and technological innovations that other regions are introducing.

Some measures in favour of the economy can be the focus of policies designed and managed by the regional governments, within the scope of their exclusive or concurrent powers and in accordance with the structure of the local economy. The priorities could be conservation of natural resources in tourist areas, or perhaps in supplying business services and support for firms' internationalization. Other priorities for local action, agreed with the national government, can regard action to solve the problems of the declining industrial areas. Finally, local government can concentrate on supporting action to enhance the quality of food and agricultural production or the attractiveness of research centres.

Cooperation between the different levels of government and the prompt resolution of any conflicts of competence are necessary in order to ensure the availability of adequate infrastructure and the production of services of nationwide interest.

During the 1990s the process of European integration was accompanied by a reduction in inequality between the member states. It was not matched by an equivalent reduction in the economic disparities between the regions within each country.

The enlargement of the European Union constitutes an opportunity; it involves risks.

The economic integration of countries that differ in their level of welfare, productive structure, and the endowment and cost of factors generates positive effects in the long run for the countries concerned as a group through the operation of comparative advantages.

However, the benefits can be distributed unevenly among the different areas. The weaker and peripheral areas of Europe, such as Italy's Mezzogiorno, must put themselves in a position to grasp the opportunities offered by the globalization of markets and the intensification of international trade.

Economic policy must remove the obstacles to the location of productive activities in the territory and the constraints on growth.

6. A culture for growth

In *The Elusive Quest for Growth*, a valuable volume published in 2001 by the MIT Press, William Easterly, drawing on his long experience with the World Bank, conducts a wide-ranging, careful empirical inquiry into the factors explaining the degree of development in different areas and countries of the world over the last twenty years.

The economic, social and institutional factors are systematically reviewed.

Many of the variables examined are those I mentioned earlier in examining the growth of the Italian economy and that of the Mezzogiorno.

Still, these factors do not provide a complete and satisfactory explanation of the wellbeing or backwardness of the different countries of the world.

There is something that both empirical analysis and institutional analysis fail to capture. An unexplained "residual", a concept well known to theorists of economic growth.

I should like to suggest the hypothesis that the level of culture in the most noble and concrete sense of the concept, high values, cohesion may contribute to determine the unexplained residual.

Rereading the pages of the ancients and the masters of economics, one finds repeated reference to social harmony and good government; to what we might nowadays call a fully-developed democracy in which, albeit amidst lively, deeply felt, sometimes heated debate on the organization of political and social life and the means, paths and instruments with which to spread progress, an agreement is nonetheless reached on the goals of development and the common good - material, but not only material.

Our western culture teaches us that the good of a community is based on a scientific and professional knowledge of material things, of technical matters, of the laws of the economy; but this knowledge must but be animated and guided by a higher speculation, a higher wisdom.

In the Italian Constitution men of different creeds agreed to found our society upon the dignity of man and the substantial equality of all in terms of rights and duties.

Work – all work, whether spiritual, intellectual or physical – completes the personality of the worker and realizes the condition for effective equality, to give every man and woman what they deserve and at the same time what they need for their own material life and their family.

Access to work for all according to each individual's ability and capacity for commitment realizes distributive justice, which reinforces the ties of society and creates a fundamental condition for growth.

Deviant behaviour, especially when so widespread that it permeates the life of the community, is among the most serious obstacles to prosperous economy activity.

Every effort must be made especially in these regions to eradicate criminal behaviour that gravely disturbs civil life. This is up to the organs of the State first and foremost, but the conscience of the entire citizenry must contribute on both the individual and the political plane.

The market economy, correctly interpreted and appropriately regulated, and private enterprise are fundamentally in harmony with democracy.

The market, governed by behaviour that is ethical and informed by commutative justice, is indispensable to a thriving economy.

But the market alone is not sufficient; there are public goods that must be made available by central and local government.

Responsible for supplying them to the community are the people's democratically elected representatives, chosen, to use an expression of the Schoolmen, for their *virtus*, for their dedication to the common good.

We know from Keynes that in a financial economy there can be periods in which resources are less than fully utilized, which may be caused by international disequilibria, as in the current circumstances.

In addition, there can be backwardness and structural inefficiency connected with the legacy of the past or with geographical location.

Ultimately, both of these types of disequilibria manifest themselves in an insufficient level of employment, in unemployment, which in the modern economy is becoming the leading and most serious cause of social exclusion and inequality.

It is up to a modern economic policy, correctly conceived and formulated, to remove these grave impediments to an orderly society.

Overcoming these structural factors of backwardness may require a number of years of constant effort.

Some phases of the programme of special support for development in the South, animated, as I have recalled, by high political ideals, are a good example.

In recent years there has perhaps been a rekindling of hope in this direction after decades of oblivion.

The elements of public intervention are the time-honoured ones I have already mentioned: good administration, justice, transport infrastructure, water supply, telecommunications. The imbalances and disparities are still large. Some lines of public intervention are now again positively reoriented in this direction.

The inevitable difficulties must be overcome and confidence in the results fostered.

Investment in human capital, education and culture is an indispensable factor of progress everywhere, in every part of the globe.

Schools and especially universities have a mission to carry out in this regard.

In these months we are distressed by cyclical difficulties that are rooted, however, in structural difficulties and that are affecting unemployment and the standard of living of many families in Sicily.

The Bank has followed and will continue to follow the evolution of the situation with attention, by virtue of its constitutional and statutory mandate to protect savings. We have intervened in order to foster adequate solutions to the problems.

We are doing so also obeying the promptings of civil conscience.

We know that the social partners, albeit with necessarily different positions on individual actions and solutions, are working to the same end.

The firm, every firm, is an indispensable, potent factor of economic progress. The entrepreneur does not seek only profit, as a superficial view often suggests, but is well aware of the social importance of his activity.

The social partners and public authorities must converge on the same objectives.

I am aware of the difficulties, the tensions, the influences that run counter to their attainment.

The analysis and surmounting of these difficulties and constraints are part of my daily institutional and intellectual commitment. They are part of the day-in, day-out, reasoned, professionally qualified commitment of my collaborators, of those who work in the Institution that I am honoured to head, of its staff at every level and in every part of Italy, in Rome and the provinces.

The Bible teaches us that the multitude of the wise is the welfare of the world, that all good things come from the spirit of Wisdom, and innumerable riches are in her hands.

Philosophers are the friends of wisdom. Wisdom presides over science, which is born from the knowledge of perceptible things and phenomena. Universities are where this synthesis is achieved through study, teaching, cultural debate. Wisdom and knowledge radiate from the universities and flow together into the culture of the community.

A crucial passage for the global economy and for the Italian economy

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

Agrigento, 25 January 2003

After the events of September 2001 and the swift monetary and budgetary policy reaction, 2002 brought positive results in the United States. Demand and output were prevented from spiraling downwards; the growth rate of GDP rose from 0.3 per cent in 2001 to 2.4 per cent.

The performance of output in Europe was disappointing; within the European Union GDP grew by 1 per cent, compared with 1.5 per cent the year before. The economy is encumbered by structural rigidities and there is little scope for counter-cyclical economic policies.

In Asia economic activity expanded at a fast pace; in Japan it showed signs of recovery.

World output increased by around 2.5 per cent in 2002, but in recent months the recovery has been restrained by a sharpening of international tensions.

The international financial system has successfully absorbed the effects of the cyclical slowdown, the discovery of serious irregularities in the accounts of major corporations, the terrorist attacks, and the deep crisis of some Latin American countries.

Stability has been preserved thanks not only to the policies to support the economy, but also to the development of the markets and more efficient means of distributing risk, the progress made in reorganizing banking systems, and the advances in crisis prevention and banking and financial supervision.

1. Developments in 2002

The long expansion under way in the United States since the early 1990s came to an end in 2000. The cyclical weakness in 2001 grew more pronounced and spread rapidly to the other industrial countries and to the emerging economies. The easing of monetary policy and the programme of tax cuts approved by Congress in the spring prepared the ground for a turnaround in the cycle.

The September 2001 attacks could have had serious repercussions on consumption, investment and the outlook for growth. The further reduction in interest rates by the Federal Reserve, together with the additional measures to provide tax relief and boost public spending, led to 2.7 per cent annualized growth in GDP as early as the fourth quarter of 2001. Household consumption increased by 6 per cent. After falling sharply in the wake of the terrorist attacks, share prices began to rise rapidly.

In the first quarter of 2002 the rate of growth in output rose to 5 per cent. Consumption increased by 3 per cent and the decline in investment virtually came to a halt. At the time, the main forecasters predicted that economic activity would expand in the fourth quarter of 2002 by about 3.5 per cent compared with a year earlier.

In the spring the dollar began to weaken; the price correction of technology stocks continued; the decline in the prices of traditional shares gathered pace; the downward movement of long-term interest rates became more marked.

Fears of new terrorist attacks and tensions with Iraq acted as a brake on the economic recovery. In the second quarter GDP grew by 1.3 per cent; the slowdown was due to a let-up in household expenditure. In the third quarter output increased by 4 per cent, buoyed by purchases of consumer durables; total investment continued to stagnate, but spending on advanced technology, which had been recovering since the beginning of the year, rose by almost 14 per cent.

In the autumn the international political tensions grew stronger. Industrial production fell by 0.8 per cent between July and October before stabilizing in November. Non-farm payroll employment, which had begun to rise again in May, decreased by 84,000 jobs in September and by a further 88,000 in November.

The deterioration in economic conditions prompted the Federal Reserve to cut the reference rate by another 0.5 percentage points to 1.25 per cent, the lowest level since 1948. Real short-term interest rates are estimated to have turned negative by 1 percentage point.

In December a further 100,000 jobs were lost.

The latest estimates by the main private forecasters indicate that GDP will have remained virtually flat in the fourth quarter; the increase with respect to a year earlier is put at just over 2 per cent, which is less than the figure forecast at the beginning of the year. In 2002 as a whole GDP is estimated to have grown by 2.4 per cent; the trade deficit continued to widen; the economic situation still appears uncertain.

The performance of the US economy in 2002 affected economic activity in Europe and Japan.

In the United Kingdom the average of the annualized GDP growth rates in the first three quarters was 2.5 per cent, thanks to the resilience of consumption.

In the euro area output rose by only a little more than 0.5 per cent in the first nine months of 2002 compared with a year earlier; this reflected the weakness of economic activity in Germany and Italy. Consumption stagnated; investment declined; from the second quarter onwards a contribution to GDP growth came from the recovery in exports. For the year as a whole GDP is estimated to have grown by 0.7 per cent, compared with 1.4 per cent in 2001.

In view of the inflationary tensions that developed during 2001, the Governing Council of the European Central Bank lowered interest rates by only 1.5 percentage points. In December 2002 they were lowered by half a percentage point in response to the slowdown in economic activity and the improved outlook for inflation.

The public finances sustained economic activity through the operation of the automatic stabilizers. The tax cuts introduced in previous years had an expansionary effect; they were not matched by structural measures to curb expenditure.

France recorded a slight increase in investment last year. In Germany, the economy grew by 0.2 per cent over the year as a whole; consumption declined. On the investment front, the crisis in the construction sector was accompanied by a sharp downturn in the other components.

The performance of the Italian economy was unsatisfactory. Exports fell in the first quarter of 2002, continuing the negative trend under way since the middle of the previous year. In the second and third quarters they picked up strongly, leading to an acceleration in economic activity. Investment began to increase again in the third quarter under the stimulus of tax relief measures.

In the first nine months of 2002 Italian exports fell by 1.1 per cent compared with a year earlier, despite having increased at an annualized rate of 14 per cent in the second and third quarters. In Germany exports rose by 1.6 per cent and in France they remained stationary.

Among the other main industrial countries, Canada achieved better results than the United States. In Japan, after the collapse in output in 2001, the economy showed signs of recovery in the second and third quarters, sustained by buoyant exports. It began to weaken again towards the end of the summer as exports slowed down and confidence waned.

In the newly industrialized Asian countries, economic activity, which is already structurally expanding at a fast pace, was further boosted by exports. The growth in GDP in 2002 is estimated to have been 4.7 per cent. In China, the rate of growth of GDP remained high at around 8 per cent in the first three quarters; in India, the estimated growth rate of output for the year just ended is 5 per cent. The increases in GDP were also pronounced in the transition economies of Central and Eastern Europe.

In Latin America, countries in crisis exist alongside others where economic activity continues at a fairly satisfactory pace.

2. Financial markets

Share prices continued to fall in 2002 in the high-tech sectors; the decline in those of companies in traditional sectors became more pronounced from the spring onwards. In the United States the Dow Jones Industrial Average fell 17 per cent and the Nasdaq 100 index 38 per cent; in Japan the Nikkei 225 index was down 19 per cent; the Euro Stoxx index lost 35 per cent.

In three years, from the end of 1999 to last December, stock market capitalization fell by 36 per cent in North America and Europe, 42 per cent in Latin America and 51 per cent in Asia. In the seven leading industrial countries the markets' value fell by 37 per cent, a figure comparable to that recorded in the 1970s at the time of the first hike in oil prices.

The economic slowdown that began in mid-2000 has revealed the inconsistency between share prices and corporate profits in the leading countries.

The overvaluation that built up in the second half of the 1990s has been largely reabsorbed.

In the leading industrial countries the dividend yield is below the figure prevailing in the years between 1975 and 1994. The earnings/price ratio is closer to the average for the period. The payout ratio has fallen.

In the United States share prices are higher in relation to both earnings and dividends than the average levels for the years between 1975 and 1994. The earnings/price ratio is now in line with the theoretical value obtained, on the basis of current long-term real interest rates, assuming economic growth of close to 3.5 per cent and a risk premium reflecting the greater depth of the markets.

In the last three years the fall in the stock markets and the perception of higher risks associated with finance to emerging countries have led to a shift of funds into the government bond market, most notably that of the United States.

Notwithstanding the growth in supply produced by the deterioration in the public finances, the greater demand for bonds has caused a fall in interest rates, reinforced by the dimming prospects of growth. The yield on ten-year securities in the United States has come down from 5.1 per cent at the end of 2001 to 4 per cent in the last few days. In Europe the decline has been less pronounced. The fall in rates has been smaller for corporate bonds, particularly those with lower credit ratings.

The yield differential between the securities of the emerging countries and US government securities has widened sharply. In 2002 lending to these countries declined further from the already low levels of the two preceding years. Net private flows are estimated to have contracted from $126 billion in 2001 to $113 billion last year, mainly owing to a reduction in lending to Latin American countries. Foreign direct investment, which had held up well in earlier years, also fell sharply, from around $170 billion in 2001 to $145 billion last year.

3. Banking systems

The slowing of the world economy and stock market turbulence have generated strong pressures in financial systems, both in the advanced countries and in the emerging economies and the developing countries.

Compared with similar phases in the past, banks have shown a high capacity to absorb the effects of the downturn; there have been no serious episodes of instability.

The greater resilience of the banking systems is related above all to the reorganization and capital strengthening carried out in many countries in the second half of the 1990s at the prompting of the supervisory authorities.

Substantial direct fund-raising by firms has limited the volume of bank intermediation; investment in shares by savers has spread.

In the past four years there has been rapid growth in bond issues, which carry higher yields and greater risks than those typical of bank fund-raising instruments. In the United States the volume of issues rose by 30 per cent with respect to the four preceding years, to more than $2 trillion; in the euro area they doubled, rising to $1.2 trillion.

All the major countries have seen an increase in corporate defaults. According to Moody's, in the international markets 171 companies with low credit ratings, most of them large firms, were unable to meet their commitments to bondholders in 2002. The defaults amounted to more than $170 billion, 50 per cent more than in 2001; the defaulted bonds were largely concentrated in the telecommunications sector. The proportion of companies that defaulted, equal to about one tenth of the total, was similar to that recorded in the cyclical downturn of the early 1990s.

The development of derivatives markets has expanded the opportunities for hedging financial risk by distributing it over a great many investors and to institutions better able to manage it. In the last two years credit derivatives have spread; at the end of 2002 the volume outstanding is estimated to have been nearly $2 trillion. Investment companies and institutional investors now figure among the holders of risk, which was previously concentrated on banks' balance sheets.

The impact of insolvencies on banks' balance sheets has been less severe than in past downturns. In the United States banks' net loan charge-offs in the first three quarters of 2002 were equal on an annual basis to 1.1 per cent of total lending, one third lower than the ratio recorded during the recession of the early 1990s.

In Germany banks' net provisions on loans were equal to 0.7 per cent of total lending, a figure not unlike that of the early 1990s. In Italy the comparable indicator was equal to 0.7 per cent in 2001 and the first half of 2002, whereas in 1993 it had exceeded 1.5 per cent.

The fall in the stock markets has had a limited effect on US banks, whose shareholdings amount to 0.3 per cent of their total assets. The return on equity, which was equal to 13.6 per cent in 2001, appears to have risen further in the first nine months of last year, benefiting from the low cost of borrowed funds and capital gains on bond portfolios. The decline in lending to industrial and commercial firms has been offset by the sharp increase in credit to households, largely to finance the purchase of housing at a time of very rapidly rising property prices.

US banks' capital adequacy ratios have risen to 13 per cent, a value well above the required minimum.

The conditions of the Japanese banking system have worsened as a consequence of the fall in share prices and the long period of economic stagnation. Asset quality has continued to deteriorate; a part of the losses has yet to show up in banks' accounts. The interventions of the agency that was created in 1999 to take over bad debts have been limited. Last September the Bank of Japan announced its intention of buying shares held by banks, with the aim of curbing the effects of any further drop in equities; its purchases up to December amounted to around $2 billion. The action plan presented by the supervisory authority to deal with the problem of bad debts aims at halving them as a percentage of total assets by the end of the 2004 fiscal year.

In Europe the effects of the drop in share prices have been most pronounced in the banking systems, such as Germany's, where some institutions have large equity holdings. In several countries investments in insurance companies, whose profitability has fallen, have been a factor.

In the international market the yield spread of insurance companies' bonds over government securities widened to 100 basis points last October; a similar worsening was recorded in the credit derivatives market.

European insurance companies were affected by the low returns on their securities portfolios. The profit and loss accounts of casualty and reinsurance companies were weighed down by the substantial claims arising from acts of terrorism and natural disasters. Life insurance companies were affected by the costs incurred in connection with savings plans with guaranteed minimum returns.

European bank shares fell by about a quarter in 2002, compared with nearly 50 per cent for insurance companies. In the United States, the shares of the two industries lost respectively 11 and 16 per cent.

After falling in 2001, European banks' return on equity declined again last year, partly as a consequence of some major banks' high exposure to emerging countries in economic difficulty. In the second half of 2002 the risk indicators for some large international banks worsened, although they improved somewhat in November.

Bank lending slowed down in the euro area in 2002, with large differences between countries. In Germany, where the credit deceleration began earlier, lending was stagnant. Lending to non-financial firms contracted.

In Italy credit expanded by 6 per cent, basically in line with the trend in investment and corporate self-financing. Interest rates on short-term loans, which were stable until November, fell 20 basis points to 5.5 per cent in December, following the lowering of the official rates. Longer-term rates fell 30 basis points in December to 4.4 per cent for firms and 5.4 per cent for households. Undrawn current account overdraft facilities, which tend to diminish during periods of credit contraction, remained at high levels.

Banking profits declined from 11.6 per cent of equity in 2001 to 7.2 per cent in the first half of 2002. The fall reflects temporary factors, including very substantial value adjustments and allocations to provisions against the risks of the international business of the main banking groups.

The reorganization of the credit system proceeded apace last year. New medium-sized groups were formed; the largest groups adopted organizational models better able to serve household and corporate clients.

The need to continue to rationalize structures and curb costs remains.

The increase in banks' capitalization in the 1990s was encouraged by the Basel Capital Accord of 1988. The proposed revision of the Accord is intended to introduce more sophisticated and diversified methods of risk assessment. The capital charge against loans will be based on the assessment of the debtors made by credit rating agencies or by the banks themselves. A charge against operational risk will be introduced. In October the Basel Committee, at the behest of the Bank of Italy among others, revised the proposal in order to ensure that the new requirements would not have adverse effects on the availability and cost of credit, especially for small and medium-sized enterprises.

The EU Council of Finance Ministers has undertaken a series of initiatives to speed up the preparation of Community legislation on banking and finance and its transposition into national law. The Council has reaffirmed the national dimension of banking supervision, which is effective insofar as it is performed in proximity to the institutions supervised.

The International Monetary Fund is urging emerging countries to reinforce their supervisory structures and to adopt appropriate standards and codes of conduct in various areas of economic policy.

4. Finance and the world economy

Economic integration and technological progress offer new opportunities but also raise new challenges for firms and economic policy.

Economic and financial globalization has opened up prospects of profitable investment of savings in the emerging countries as well. However, the returns vary considerably. These countries' financial systems have displayed shortcomings in assessing the quality of investment projects; their regulations and supervisory arrangements have sometimes proved inadequate.

The profit opportunities offered by the new economy are accompanied by increased risks. Many firms active in innovative industries have made high profits, but not a few have been forced out of the market. Investors have become aware of the uncertain nature of results.

The development of markets, increased liquidity and innovation permit greater diversification than in the past of sources of funding for borrowers and greater diversification of risks for creditors.

Financial systems are well prepared to operate in this new and more complex environment.

The restructuring carried out in the United States and Europe in the 1990s improved the soundness of their banking systems.

The spread of risk in the various components of the financial system requires considerable professionalism on the part of operators, greater attention to the needs of savers and ethical rigour in conduct.

Supervision and international cooperation have been strengthened.

A vigorous expansion of the world economy remains necessary.

In recent years monetary policy in the industrial countries has ensured abundant liquidity, in connection with the recurrent strains in international markets. The ratio of money supply to gross domestic product in the seven largest industrial countries rose from 68 per cent at the end of 1994 to 74 per cent at the end of last year, while real short-term interest rates fell over the same period from 3.2 per cent to practically naught. The creation of liquidity and the low level of interest rates kept crises from becoming systemic and helped to support economic activity in the industrial countries and the still hesitant upturn of 2002.

Major opportunities for growth have been created by the integration of markets and technological innovation. The joint effect of these factors can produce synergies capable of increasing the rate of growth worldwide.

The fundamentals of the US economy remain good. Its strength lies in the ability to raise productivity very rapidly, spurring output and employment. So far new production methods have involved only a limited part of the economy. The process is bound to continue.

In the other industrial countries the new economy is struggling to take hold.

In Europe there is still a fundamental need to start on far-reaching structural reforms of public finances and the labour market, in order to enhance the flexibility of the economy, which is an essential condition for making effective use of new technology and increasing competitiveness and the potential growth rate. In the medium term the opening towards the countries of Central and Eastern Europe can provide support for the Union’s economic growth.

The Japanese economy also continues to be beset by rigidities and inefficiencies.

Both Europe and Japan are faced with the problem of an aging population. Demographic growth rates are falling; in some areas they have reached zero or turned negative.

This has important implications for the composition of aggregate demand and the outlook for the profitability of investments.

In the emerging Asian economies, marked by low production costs and great flexibility, GDP is expected to grow strongly in 2003. In India and China it is continuing to expand rapidly.

In Latin America economic activity should recover from the downturn of 2002 to increase by between 2 and 3 per cent in 2003. In Brazil the reduction in political and institutional uncertainty has already had positive effects on the exchange rate and long-term interest rates. The prospect of the central bank being made fully independent of the government is a contributory factor.

In Mexico output has begun to grow again following the recession in the fourth quarter of 2001 and the first quarter of 2002.

In Argentina the introduction of new institutional arrangements for the central bank can help to create a monetary equilibrium after the negative experience with a currency board. The sharp drop in capacity utilization has led, since the middle of last year, to a recovery in production with low inflation. The devaluation of the currency has restored international competitiveness. The new agreement with the IMF indicates that the most critical phase has been overcome.

In some other Latin American countries institutional and political arrangements remain not fully stabilized.

In the 1990s the main beneficiaries of the process of multilateral trade liberalization that culminated in the conclusion of the Uruguay Round were the countries able to produce medium and high-tech goods. The merchandise exports of the emerging countries, helped by low labour costs, grew over the decade at an average annual rate of nearly 9 per cent, compared with 6.5 per cent for the industrial countries. At the same time there was a large increase in foreign direct investment.

In the new decade it will be necessary to grasp the opportunities offered by a further vigorous expansion of international trade. The development agenda drawn up in 2001 at Doha, in Qatar, envisages the liberalization of direct investment and trade in agricultural products. It is a moral imperative for the leading industrial countries and the international organizations to increase the participation of the developing countries in global production and world trade, by eliminating tariffs and discriminatory practices. Subsidies to agriculture, which are especially large in Europe, Japan and the United States, must be reduced. The production of the advanced countries must be directed towards high-quality goods.

5. Prospects

Interpreting the economic situation has become difficult and complicated in the last few weeks.

The greater diversification and larger size of financial markets increase the scope for economies to grow, but as well as disseminating risk they affect investment and consumption, at the international level and within the leading countries, making them less predictable.

In the industrial countries the latest data point to persistent shortfalls in demand, which adversely affect investment. The situation appears to be dominated by the fear of military conflict and terrorist attacks.

In the United States the indicators have sent contradictory signals as to developments in the short term. In November orders for capital goods, excluding the most erratic items, declined by 2.6 per cent. In December retail sales rose by 1.2 per cent; the figures for large stores point to continuing uncertainty. The survey of manufacturing industry suggests an improvement, but industrial production showed a further small decline; investment in housing continues to grow.

If the geopolitical tensions abate, it is possible that global economic activity will accelerate in the first half of the year. In the United States private forecasters expect an increase in US output of around 2 per cent in the first quarter, possibly rising to 4 per cent in the fourth. There continue to be large disparities among forecasters regarding the strength of the recovery.

The Administration has announced a new multi-pronged fiscal stimulus: the bringing forward to 2003 of tax cuts and incentives enacted in May 2001; the abolition of personal income tax on dividends; tax deductions for small firms' capital expenditure; support for job seekers; and a lengthening of the duration of unemployment benefits.

The measures involve a total of $670 billion over ten years.

The programme is intended to sustain the economy's potential growth in the medium term; in order to absorb the impact on the public finances, there must be an acceleration in the actual rate of growth. The abolition of the tax on dividends avoids the double taxation of savings, thereby fostering the accumulation of capital.

The measures enacted in 2001 and 2002 and the highly expansionary stance of monetary policy have yet to produce their full effects on domestic demand. A substantial part of the new tax relief, corresponding to 1 per cent of GDP, will apply to this year's incomes.

The US economy accounts for 30 per cent of world GDP.

Signs of recovery were widespread in 2002: quite clear in Asia, excluding Japan, less certain in the industrial countries.

In Europe investment accelerated in the second half of the 1990s. It is necessary to proceed with structural reforms to increase the efficiency of the labour market and reduce the size of government budgets in relation to GDP.

The recovery in the world economy has suffered a setback in recent months. The dollar has depreciated further. Uncertainty has affected domestic demand in all the industrial economies.

At the end of December the US Administration's declarations that war might be avoided had an immediate positive effect on prices on all the main stock markets. Subsequent developments in the situation and the positions announced, however, have again had repercussions on stock markets and the price of oil.

The consequences of an armed conflict cannot be easily calculated, for it would affect raw material and energy prices, upset financial and commercial relations that have been the basis for the rapid development of the world economy over the past decade, and aggravate the risk of further terrorist attacks.

Reducing that risk would free the latent forces that can promote the further expansion of trade, the exploitation of comparative advantages, the dissemination of new technologies and the growth of world output.

The effort to prevent and combat terrorism must be strengthened and broadened at the international level.

Without guidance, globalization is a source of enrichment for some, less so for others; its allocation of benefits produces tensions and reactions by increasing inequalities. It needs to be governed.

It is the responsibility of the major countries and the emerging nations, aided by the international organizations, to promote more advanced forms of coordination based on political ideals and guidelines that take greater account of the needs of the poor countries.

The benefits of peaceful coexistence and constant striving for the international common good bring advantages to all: individuals, families, peoples.

In Italy economic growth recovered slowly in 2002.

Activity in the construction sector began to strengthen from the second quarter onwards. Productive investment increased substantially in the third quarter. Responding to the expansion in international trade, exports provided a strong stimulus to production from the second quarter onwards.

The changeover to the euro weighed on consumption.

In the twelve months to December 2002 Italian consumer prices rose by 2.8 per cent; rounding is estimated to have contributed a little over 0.5 percentage points. According to the official indices, the prices of some frequently purchased food products have risen by as much as 10 per cent; the prices of some consumer durables have decreased.

Empirical studies indicate that the inflation perceived by consumers has been much greater than that measured with rigorous, established methods by the National Institute of Statistics.

Now that the Finance Law has been passed, progress must continue with a firm economic policy. The labour market reforms rendered necessary by the new openness to international competition and the opportunities for broad and deep exploitation of new technology must be completed.

It is not in the interest of either firms or workers to extend the rigidities in labour relations. It would have serious implications for employment.

The social insurance system needs to be reformed so as to preserve this important conquest of the twentieth century for the protection of the weak in particular and to the benefit of the younger generations.

The reform, which must be comprehensive, is necessary in order to reduce the burden of the public debt; supplementary funded pension schemes will generate the resources to increase investment and employment.

Italy's forthcoming presidency of the European Union can offer the opportunity for coordinated action at the European level.

The ratio of current primary public expenditure to GDP, after remaining stable for several years, has begun to rise again. Lowering it will allow taxation to be reduced gradually over the medium to long term, which is a prerequisite for a more competitive economy.

In particular, the economy must benefit from an intensification of the effort already launched to provide more infrastructure. Spending on public works, both large and small, which declined during the 1990s causing large external diseconomies not only for the advanced regions but also for the South, will sustain domestic demand.

Expansion in the less favoured regions, investment in research, and the revival of major industrial groups are essential to prevent the economy from regressing and may offer opportunities for growth.

Sure and effective management of the economy, the modernization of the machinery of government, forms of decentralization that, within a framework of national unity and solidarity, capitalize on regional strengths and local initiatives do not impede – indeed require – institutional reforms, a new and more efficient configuration of important aspects of the legal order of the Republic as defined in the Constitution, a configuration better able to meet the need for representative local government and democratic legitimation.

The debate is under way, inevitably marked at the beginning by differences of opinion and different projects. We are following it carefully and with confidence, in view of the determination with which the question of reform has been posed by the highest authorities of the State, the Government, Parliament and the political parties.

A constitutional consensus can be sought and reached, in the tradition of the founding of the Republic.

Italy's Constitution, the fruit of the consensus reached after the war with a noble vision of the common good by men of different ideas and faiths, remains the foundation for national unity and development, for the effective participation of the whole population in the country's political, economic and social organization.

Article 1 lays down that the Republic is founded upon labour – the expression of the dignity of each citizen, the basis of popular sovereignty, the guarantee of everyone's full participation in organized civil life.

This objective, shared by all, is to be achieved through politics and the economy. These are different spheres, both of them essential: the first must safeguard the autonomous functioning of the second.

A fully-fledged democracy cannot do without either. It is a construction where work is always in progress. The rapidly changing world around us demands a greater commitment, to which everyone must make their contribution, for the good of Italy.

Two great economists and the challenges we face today

Address by the Governor of the Bank of Italy, Antonio Fazio,
on the occasion of the granting of the Keynes Sraffa Award

The Italian Chamber of Commerce and Industry for the U.K.

London, 25 February 2003

1. John Maynard Keynes was the most influential economist of the twentieth century, a century in which the world economy made greater advances than in any other historical period.

The world's population grew much faster than in the preceding centuries; per capita output also rose at an unprecedented pace.

The growth in population and per capita income accelerated in the second half of the century, not least owing to the absence of wars comparable to those fought in the first half.

The overall improvement in living conditions was accompanied by a widening of the gaps between the economic welfare of countries and geographical areas, and above all by an increase in the perception of the disparities.

I shall return to this point later.

2. As a subject in its own right, political economy acquired form and substance between the seventeenth and eighteenth centuries. In this respect it is worth recalling: the fundamental contributions of Cantillon and Hume; the Physiocrats and Quesnay with his *Tableau économique*, the precursor of Leontief's input-output analysis; Antonio Genovesi, who held the first chair of political economy in Europe at the University of Naples, with his *Lezioni di economia civile*, and Ferdinando Galiani, whose treatise *Della moneta* remains exemplary for its profundity and enduring relevance. Adam Smith's *The Wealth of Nations* marked a decisive turning point.

But economic analysis had already been developed, as a part of philosophy, by the Schoolmen. In the late Middle Ages, from the thirteenth century onwards, the great Italian, Spanish, French and Flemish moralists, in addressing the emergence of the urban economy and the growth in commerce and fairs after the manorial economy of the great Benedictine monasteries and the feudal estates, discussed the new developments with regard to trade, currencies, prices and the interest rate.

Not far from here, in Oxford, the light of the Franciscan order, John Duns Scotus, developed a theory of prices that is based strictly on the cost and hence on the quantities of labour employed in producing goods.

The underlying idea was constantly to search for and define the just price, in order to pursue commutative justice in exchanges, a concept that, together with distributive justice, was forcefully stressed by Thomas Aquinas as the basis of orderly life in the community.

Later, the doctors of the Sorbonne and the great Italian universities also addressed the question of insurance. Taking a premium to insure goods against the risks of shipwreck and piracy was acceptable, but the insurers had to possess adequate capital, what we would call actuarial reserves today, with which to indemnify the insured in the event of claims.

Fresh impetus was given to the study of economic phenomena by the monetary upheavals that followed the discovery of America.

In the 1500s and the early 1600s, Molina, Lessius and Lugo put forward elegant analyses of the distinction between interest, considered a merely monetary phenomenon in line with Thomas Aquinas, and profits.

In general it was censurable, usury, to charge interest on sums that were lent, because money was deemed unproductive; however, it was morally acceptable to receive compensation, a return or a share of the profits where the money lent gave rise, through commerce, to the creation of new wealth.

The distinction between monetary interest and profits, the fruit of the use of money in commercial and productive enterprises, was lost for several centuries. After Wicksell it was rediscovered by Keynes, who made it a cornerstone of his *General Theory.*

In the nineteenth century Ricardo and Malthus in England observed and theorized the expansion of industry and international trade, the growth of the population and its relationship with resources. Malthus also perceived the problem of effective demand.

Marx, reinterpreting Hegel and Ricardo, drew on the development of mass production and capitalism and the tensions between workers and capitalists to form his palingenetic vision of the end of private property, the triumph of the proletariat, and communism.

In continental Europe and Italy, Christian sociologists and economists – Ozanam, von Ketteler and Toniolo – analyzed the social and political consequences of the industrial revolution and the spread of mass production. They prepared the way for the social doctrine of the Catholic Church and Pope Leo XIII's encyclical *Rerum Novarum*.

In Germany the principles of the welfare state were outlined.

3. In every epoch, the great economists understand the economic and social changes and upheavals of their times. They put forward new views of the forces that dominate the evolution of the economy. They study stylized facts, theorize them and reduce them to logical relationships and to models of how economic systems work, from which they draw indications for the conduct of business and for the action of the public authorities.

Towards the end of the nineteenth century the role of credit and banking and, more generally, of finance emerged in all its importance.

The separation, the real and logical distinction, between economic agents who save and those who use savings or make investments by borrowing capital has enormous implications not only for the expansion of economic activity but also for the stability of the growth process, both within individual economies and across economic systems.

Keynes fully understood these changes and derived revolutionary economic theories from them, as well as setting out their far-reaching implications for policy.

His genius is to be seen in the *Economic Consequences of the Peace*, which, it gives me pleasure to recall, was immediately translated into Italian by the Milanese publisher Treves.

Keynes foresaw the devastating effects of the Treaty of Versailles on the European economy.

He envisaged the losses suffered by Germany and Russia being a source of major political instability in Europe.

He made a fierce attack on the work of President Wilson, the French president and the British prime minister.

He examined the advisability of partially or completely cancelling war debts that had become unbearable for the smaller countries, and analyzed the dire consequences that application of the peace treaty would have for international trade and the prosperity of some regions.

In the background, there seems to emerge a positive vision of economic relations among European countries along the general lines of what would take shape in the design of the European Community.

In *A Tract on Monetary Reform*, which was also promptly translated into Italian by Piero Sraffa, Keynes delineated a new and different role for monetary policy.

The objective of the banks of issue, which had developed predominantly in the nineteenth century and the early decades of the twentieth, was basically reduced to maintaining the gold parity.

Stressing the powerful repercussions of inflation and deflation on the orderly working of the economy, prosperity, growth and employment, Keynes indicated the stabilization of the price level in terms of fiduciary money as the objective of monetary policy.

He advocated the abandonment of the gold standard, which he called a “barbarous relic”.

Several years later, in his criticism of Britain’s return to the gold standard, he reiterated his objections to restoring the pre-war parity, or at any rate to setting an exchange rate well above the one then obtaining.

In *The Economic Consequences of Mr. Churchill*, a pamphlet he wrote in 1925, Keynes argued that restoring the pre-war parity would generate deflation, with adverse effects on income, a contraction in the volume of business and economic crisis. The only way to avoid these effects was to reduce wages and prices.

His warning went unheeded. In the opinion of many scholars, the return of all the major countries to the gold standard with a marked revaluation of their currencies was the underlying cause of the Great Depression of the 1930s.

In Italy, Mussolini’s “quota 90” policy for the lira, implemented in an authoritarian fashion in 1926 by the Finance Minister, Giuseppe Volpi, despite the misgivings of the Governor of the Bank of Italy, Bonaldo Stringher, appears to have been influenced by Keynes’s suggestions. In order to mitigate the deflationary effects, the revaluation of the lira to 90 against sterling, from a market rate that had reached nearly 150, was accompanied by an overall reduction in wages of 20 per cent. In the 1930s the Fascist regime also began a large programme of major public works that supported domestic demand.

The Great Depression and the economic crisis that gripped Germany were the main cause, together with the country’s severe institutional difficulties, of the advent of Nazism.

The hyperinflation of the early 1920s had been the consequence of the impossibility for the German economy to expand again under the heavy burden imposed by the peace treaty.

The Second World War was not unrelated to the First, partly owing to the serious errors committed in the 1920s in international relations and monetary policies.

The problem of unemployment emerged in all its drama.

In the United States economic policy reacted with the New Deal and with a monetary policy appropriate to the new conditions. Economists laboriously rediscovered the problem of effective demand. The Polish economist Michael Kalecki is among those to be recalled in this regard.

But it was Keynes who fully developed a new paradigm with which to grasp reality and make economic policy prescriptions.

In his *General Theory of Employment, Interest and Money*, the classical vision in which supply generates demand in accordance with Say’s Law is criticized and the causal relationship is reversed: the level of economic activity depends on the demand for consumption and investment.

The separation between the units where savings are formed and those where investment is decided, through banking and financial intermediation, renders investment independent of the availability of savings. In the absence of full employment, the expansion of public and private investment generates an increase in employment, consumption, production and, ultimately, savings that is sufficient to cover the new investment.

The rediscovery of the distinction between the interest rate and the marginal rate of return on investment gave Keynes the theoretical model for determining the demand for capital goods on the part of firms. The equilibrium between saving and investment is re-established through changes in income, while the interest rate is determined in the money market.

The model’s originality, the theoretical revolution, was grasped by economists. John Hicks offered an elegant interpretation of it in *Mr. Keynes and the Classics.*

In 1944 Franco Modigliani extended the analysis of Keynesian theory and formalized it in *Liquidity Preference and the Theory of Interest and Money.*

In the United States the new theory's implications for the public finances were worked out by Alvin Hansen.

The great effort to rebuild an international monetary order towards the end of the Second World War, culminating in the Bretton Woods agreements of 1944, again saw Keynes among its protagonists.

Instead of his proposal based on the creation of an international currency, the bancor, the agreements mainly adopted the plan formulated by Harry Dexter White of the United States, based on the dollar, which was in turn linked to gold.

America and the Federal Reserve came to play a role akin to that of a world central bank. The ascendancy of the dollar as the most important currency in international trade had major consequences for the US economy.

4. Like all great thinkers, Keynes interpreted his times. His theories have had an immense influence on the economic policies of all the major countries up to today; they have also been subjected to stretched interpretations and used for shortsighted policies in the field of public finances.

That public works could be used to alleviate unemployment was something rulers had always known. It will suffice to recall the examples of public spending in the Papal States and the Kingdom of Naples in Italy before national unification.

One example of a programme designed to increase the level of effective demand was Roosevelt's New Deal in the United States. In England, the Beveridge plan was influenced by the same philosophy. Post-war Italy's on-the-job public works training scheme, the Vanoni plan and the programme of special measures for Southern Italy are other examples.

Keynes's original idea was to concentrate on public works and infrastructure, on expenditure intended to orient production and not on unproductive expenditure, although he later used the paradox of digging holes in the ground and then filling them in to explain the principle of effective demand.

On the theoretical level, the Keynesian model is definitively established as an explanation of how an economy works.

I was brought up on Keynesian theory by Modigliani and Samuelson at the Massachusetts Institute of Technology in the 1960s. Solow's classes introduced me to the theory of growth. Those were the years of Kennedy's New Frontier and the new economic policy. Keynesian theory was taught and applied, but Modigliani also encouraged me to look into the work of Friedman, who was refocusing attention on classical monetary theory.

Friedman had restated the quantity theory of money in 1956. In his Presidential address to the American Economic Association in December 1967 he prefigured the explanation of the stagflation of the 1970s. He reasserted the need to control the quantity of money and not only interest rates. His ideas formed the basis for the monetary policies of the leading industrial countries in the 1980s and 1990s after the period of inflation that followed the cutting of the link with gold and the oil crises.

An elegant and insightful synthesis of these two theories, the classical and the Keynesian, was developed by Patinkin in *Money, Interest and Prices*.

In the Bank of Italy's econometric model, which we began to build in 1963 and which is continuously updated and used to analyze the evolution of the Italian economy, the starting point is a Keynesian approach to the operation of the real sector of the economy; this is then integrated with an analysis of financial flows, à la Tobin.

The stabilization of Italy's economy in 1974 after the first oil shock, which involved limiting the volume of bank lending in order to control domestic demand, capital outflows and the exchange rate, was planned and estimated using the model. The outcome was more than satisfactory.

The same model was the basis for deciding the massive fiscal adjustment undertaken in 1977 to improve the balance of payments and curb inflation. In both cases the measures were set out in agreements with the International Monetary Fund.

For the stabilization programme of 1994-96 we relied on a stringent monetary policy.

The objective was to subdue inflation, and the rate was rapidly reduced from almost double digits to around 2 per cent. Following the drastic monetary restriction, in roughly two years the lira appreciated by more than 25 per cent against the German mark.

The growth in the money supply was virtually nil in the two years 1995-96. Initially, short-term interest rates had to be raised to an exceptionally high level by rationing central bank credit to banks. Inflationary expectations were stamped out; the lira appreciated and long-term interest rates fell from almost 14 per cent in early 1995 to 6 per cent within the space of two years.

Although a Keynesian model was employed in order to analyze demand, output and employment, the monetary tightening proved effective in disinflating the economy.

In some respects even the supply-side economics of the Reagan Administration in the 1980s, which was also a major factor in the strong performance of the US economy in the 1990s, can be interpreted as a stimulus to domestic demand based on a reduction of taxation and an increase in the budget deficit.

The economic policy pursued by the United States in 2001 and 2002, consisting in large interest-rate reductions, tax cuts and increased public spending, also displays pronounced Keynesian traits. It was made possible by the existence of a budget surplus, the relatively low level of public debt, the strength of the dollar and the growth in productivity, itself ascribable to the flexibility of the labour market, which prevented inflationary repercussions.

In several cyclical phases in recent decades, and to some extent at present as well, the interpretation of international economic developments has indicated an insufficient level of effective demand, especially of investment expenditure in the leading economies.

5. Piero Sraffa developed his ideas largely in the intellectual milieu of Cambridge, to which Keynes brought him in 1927. The year before, the *Economic Journal* had published an essay of Sraffa's that shook the foundations of Marshall's model of perfect competition.

Sraffa was a student of Einaudi's. For many years he kept up an intellectual correspondence with such philosophers and political thinkers as Wittgenstein and Gramsci. But he was a scholar open to practical problems. We see this in his writings on money and banks in Italy in the stormy aftermath of the First World War, from which he drew some principles concerning the advisability of public involvement in banking supervision in periods of instability, in economies where finance was still developing.

Until 1950 he worked on the critical edition of the works of Ricardo.

Exhuming an approach that had been "submerged and forgotten since the advent of the 'marginal' theory", Sraffa formulated a theory of prices and distribution on rigorous analytical foundations.

The result was a critique of the neoclassical theory of value, which was the consensus doctrine of the day. His analysis contradicts the Marxian labour theory of value. Like Keynes, Sraffa distinguishes the share of output that remunerates capital from the interest rate. He mentions the possible influence of the rate set by the central bank on the rate of profit.

Sraffa's *Production of Commodities by Means of Commodities* was not published until 1960, after more than three decades of intense work to make sure of the logical and mathematical consistency of his theory. It was published in English and an Italian version was brought out almost simultaneously.

The new theory triggered lively debate. One of Sraffa's students, Luigi Pasinetti, crossed swords, successfully, with two eminent representatives of neoclassical economics, Solow and Samuelson, my own professors. Another of his students, Pierangelo Garegnani, continued to elaborate Sraffian capital theory. He is now working on the complete edition of Sraffa's papers, still largely unpublished, with support from the Bank of Italy.

In 1965-66, in his course on "Advanced Economic Theory", Samuelson described Sraffa's work with the greatest respect and linked it to the great school of thought beginning with Quesnay's *Tableau économique* and continuing, three centuries later, with Leontief's input-output tables and linear programming.

Professor Samuelson reaffirmed this judgment in an article in the *Corriere della Sera* of 6 September 1983 on the occasion of Sraffa's death, with the statement that if his work had been published a decade or two earlier it would have exerted a powerful influence on the subsequent development of economic theory by Leontief, von Neumann, Knight and Koopmans.

Professor Pasinetti has extended Sraffa's theoretical vision to the analysis of economic development. So far, to my knowledge, this has had limited application to current economic events.

I should like, instead, to put forward the hypothesis that it can be of considerable help in understanding several important phenomena of our age.

Sraffa's model is an analytical interpretation of subsistence, of the conditions for the existence and survival of an economic system. The relationships between the quantities of commodities produced and used for production and prices must correspond to certain conditions connected with technical relationships.

The model offers a new view, which also differs from classical economics, of the relative importance of different goods in the functioning of the economy. Some goods are essential for the production of the others; their disappearance would derail the economy. On the contrary, luxury goods only satisfy the needs of certain groups of consumers; their disappearance would have no significant repercussions on the economy, nor would it affect the distribution of income between wages and profits.

The model shows very clearly that the value of non-reproducible goods of which a given amount is found in nature, such as land, depends on all the other relationships existing between the goods that are produced, which in turn are means of production.

In the same way as for luxury goods, taxes on rents have no effect on prices or the distribution of income.

The meaning of Sraffa's laconic remark on the possible dependence of the rate of profit on the rate of interest may be less elusive today. With the globalization of financial markets, the rate of profit must be correlated with and is certainly powerfully influenced by the level of interest rates established in the international money market.

Classical models can be extended along the lines developed by von Neumann to the link between the interest rate and the rate of growth. In a global economy with unrestricted international financial transactions, this has implications for the sustainability of growth in economies with a large foreign debt, the interest rate on which is determined exogenously by the level prevailing in international markets. It also has implications for the distribution of income between wages and profits within such economies.

Finally, I would like to read Sraffa's work in the light of an ideal connection with the profound thought of the medieval Schoolmen in their search for the just price.

Given the rate of profit, commutative justice is established in the exchange of goods within the economy, based on the quantity of labour directly or indirectly embodied in them.

Every worker's purchasing power is determined exactly as a function of the structure of production, as defined by technical ratios. In other words, every worker's purchasing power reflects the values of the goods that remunerate the effort required to produce them.

In addition to commutative justice this also results in a sort of distributive justice as the foundation of society.

6. Considerable progress has been made over the past two decades in the economic and institutional situation of the advanced and the developing countries, in global economic interdependence and in international economic cooperation.

Observers and politicians are fully aware of the need to take up the challenge of a globalization process that, while greatly improving living conditions throughout the world, has also aggravated and above all highlighted the disparities between the supply of essential goods and the level of economic development in different countries and geographical areas.

Financial globalization has progressed at a very fast pace in the past twenty years, thanks in part to the use of information technology. Today it can be said there is a single, worldwide money and financial market.

The growth in world trade has mainly concerned industrial products.

These developments in the exchange of goods, services and capital are a source of wealth for all who take part in them. Yet the liberalization and globalization of financial flows can be accompanied by outbreaks of instability that harm the weakest economies.

In a system that rests basically on fiduciary money, the principles of free trade and comparative advantage typical of trade in manufactures have sometimes been extended unquestioningly to movements of financial capital. Past errors in fixing exchange rates and instituting specific monetary regimes have been repeated in new ways.

Reflection on the mistakes made and the need to limit and rectify the adverse effects on the stability of intermediaries, to protect savings and to restore conditions for a recovery in output have prompted the monetary authorities of the industrial countries to establish more extensive and closer cooperation among themselves and with the developing countries.

The Governor of the Bank of England, Sir Edward George, plays a leading role in this new phase of international monetary cooperation that we could say began with the meeting of the Group of Seven leading industrial countries in Toronto in February 1995, shortly after the Mexican crisis erupted.

The international financial system’s ability to cope with the repercussions of the uncertainty that followed 11 September 2001, the difficulties created by the cyclical slowdown in the leading economies and the consequences of the discovery of serious irregularities in the management of major international economic and financial groups, without suffering serious damage, testifies to the positive results.

To date, agricultural commodities and textiles have been excluded from the liberalization of trade.

The leading industrial countries must make an effort to reduce the enormous subsidies to their agricultural sectors and remove the regulatory and tariff barriers to imports of agricultural products and textiles from the developing countries.

By concentrating on the production of high-quality goods and opening up to imports of widely-consumed goods from the developing countries, the wealthiest economies can make an important contribution to increasing world output and, above all, to ensuring it is more equitably distributed.

The great economists are men of their times, but they also have the ability to shed light on the future.

The twentieth century gave us examples of instability and of economic and political upheaval of extraordinary magnitude.

At some crucial moments people feared for the very survival of our civilization, owing to the wide-scale use of weapons of mass destruction.

The experience of the two world wars, with their legacy of death and destruction, must impel us to relegate war to the past as a means of solving international disputes. Great philosophers have taught us that peace lies at the core of the future of humanity. Closer cooperation between the advanced countries and the emerging economies can contribute to the progress of the world economy.

It is necessary to rely on the decision-making power of the United Nations. It is necessary to oppose all the forms of violence that offend the dignity of the person, such as terrorism. It is necessary to strengthen, also in the light of ethical principles, the foundations of international law and institutions.

For its part economic theory has made major advances.

There is room to refine the analytical instruments that the great thinkers of the distant and recent past have handed down to us and adapt them to today’s situations.

This is a task for universities, but also for the institutions that are continuously faced with new phenomena and problems. Further intellectual revolutions may not be indispensable; if they are, enlightened minds will put them forward.

Fruitful results can still come from the analogical application of existing theories, formulated for essentially closed economies, to increasingly open and integrated economies.

The institutional orders and policies adopted for national financial systems can provide guidance, taking account of the differences, for world finance.

Theoretical models developed in the age of free banking can be applied to the analysis of international finance, in which the national monetary systems of individual countries play a role similar to that played by banks in national economies in the early decades of the 1900s.

There exists a problem of controlling global liquidity, in addition to the stability of intermediaries.

As rightly pointed out by Fausto Vicarelli, an economist who died prematurely some ten years ago, the basic characteristic of capitalism in the age of finance is instability. He considered the analysis of this phenomenon, and the consequent proposals for economic policy, to be one of Keynes's most important contributions.

Sraffa's theory and the exhumation of classical doctrine, from Smith to Ricardo, not to mention the neoclassical models of growth, provide us with interpretations of the underlying relationships that link the variables of the economy.

We know the mechanisms, but our grasp of what sets them in motion is often tenuous.

Investment remains a fundamental variable for comprehending the evolution of an economy. Our knowledge remains incomplete, however, our forecasting power fragile. The current difficulties of the European economy and the uncertain outlook in Japan suffice to demonstrate this.

The links between economics and the other social sciences must be rediscovered, beginning with the adjacent and most closely interrelated disciplines, such as demography.

There remains the wider realm of the moral sciences. Economics is part of philosophy and politics.

In his writings Professor Dahrendorf compels us to re-examine critically the relationship that has developed between freedom and society, between the market and regulation, between democracy and self-determination. Raising the issue of a new international order, he has affirmed that "democratizing international decision-making is the greatest challenge posed to our political imagination".

There is a need for a "strong philosophy" of which economic theory must be an organic part. Adam Smith was a professor of moral philosophy; *The Wealth of Nations* springs from a social and political vision.

The development of marginal analysis and the theory of markets and the study of general equilibrium have made fundamental contributions to our understanding of the economic behaviour and facts that surround us and in which we are immersed.

They are not sufficient. We must investigate the underlying determinants of economic phenomena.

The advances by Keynes and Sraffa beyond microeconomic analysis, with one considering aggregate quantities and the other the value relationships between wages and goods, directly seek to understand the variables of greatest importance for the welfare of society.

The ancient themes of commutative justice and distributive justice maintain all their relevance.

Economic analysis must go back to investigating first principles, rediscovering the links with the other dimensions of society of which the economy is part. This can come about in empirical fashion, as often happens. But that is not sufficient. It is up to social scientists, to philosophers, to return to a more systematic study that will set our understanding and action in the field of economics on a firmer foundation.

The century that has just begun, with society marked by uncertainty and based on knowledge, demands an even greater capacity for government and participation, nurtured by a higher cultural level. It is the way to invest in the future, preparing a better tomorrow for the younger generations.

The cash changeover: one year on

Address by Antonio Finocchiaro, Deputy Director General of the Bank of Italy, Val Ticino di Novara Rotary Club

Novara, 10 February 2003

Since the first of January 1999 the euro has been the currency of eleven European Union member countries (twelve since January 2001). The new currency is another crucial step in the construction of the European Union, following the creation of the Single Market in 1992. The circulation of euro banknotes and coins at the start of 2002 marked the completion of stage three of Economic and Monetary Union. Now, four years since the adoption of the single currency and a year since the cash changeover, we can begin to take stock of the results of this experiment in three respects: the circulation of the new currency; the price effects of replacing the national currency; and the international role of the euro.

1. The circulation of the euro

1.1 *The distribution of euros and the withdrawal of lira notes*

On 31 December 2001, Italy had 3.074 billion banknotes in circulation, for a value of 126.157 trillion lire.

As in the other countries of the Eurosystem, the volume of national notes had been reduced in the last few months of 2001. Probably many holders of cash as a store of value or for use in the underground economy anticipated the changeover, depositing their lire in bank accounts or converting them into non-Eurosystem currencies (dollars, Swiss francs, yen, etc.), which reduced the volume of cash in circulation.

At the same date there were also about 15 billion coins in circulation, worth 2.3 trillion lire, in all the denominations issued in the last 50 years, from 1 to 1,000 lire.

From 1945 to 2000 no Italian coin was ever withdrawn. All remained legal tender. The ministerial decree of 16 October 2000 removed the legal-tender status of the "micro" 50-lira and 100-lira coins. By 31 December 2001, of the 800 million issued, only about 125 million had been withdrawn. A year later, the "micro" coins returned to the Bank of Italy or the Mint still numbered only about 185 million.

By 31 December 2002 the Bank of Italy had made net issues of nearly 1.536 billion euro notes worth more than €66 billion. This was slightly above the amount in circulation at the end of 2001, which had been the equivalent of €65.2 billion.

The end-2002 amount might not be equal to the real volume of notes in circulation in Italy, as notes can move about throughout the euro area and residents in one country can hold currency produced in other member countries. Comparison of the net issues of the individual national central banks with the volume assigned to each by the ESCB may be used to create an "implicit indicator of migration". For 2002, it emerges that banknotes "emigrated" from Austria, Germany, Ireland, Luxembourg and Spain to other countries; Belgium, Finland, France, the Netherlands and Portugal received net "immigration"; and Greece and Italy registered rough equilibrium.

In the first few months after the changeover, it seemed as if there had been a structural reduction in Italy's need for cash, as the public took more quickly to credit and debit cards. Later, the growth in the number and value of non-cash transactions slowed down.

In all the countries of the Eurosystem the first five months of 2002 saw a decline in the demand for banknotes. There was a slow but steady growth in the months following, as residents rebuilt their customary stocks of cash and the demand for euros in non-Eurosystem countries increased. By the end of the year more than 8 billion banknotes worth about €360 billion had been put into circulation. This was 32.8 per cent more than the stock of national banknotes outstanding at the end of 2001 (equivalent to €270 billion).

By denomination, the bulk of the notes in Italy are small-to-medium value. At the end of 2002 the first four denominations (5 to 50 euros) accounted for 87 per cent of the notes in circulation (61 per cent by value). The 50-euro denomination alone accounted for over 41 per cent of the volume and 48 per cent of the value of all banknotes in the hands of the public. The larger denominations (100, 200 and 500 euros) have only begun to come somewhat more into use in the last few months.

At the end of the year the public still apparently held 494 million old Italian banknotes, worth 4.216 trillion lire; 70 per cent of these were 1,000-lira notes.

The remainder consisted of 34.3 million 2,000-lira notes, 33.5 million 5,000-lira notes, 45.9 million 10,000-lira notes, 15.4 million 50,000-lira notes, 21.2 million 100,000-lira notes and 0.6 million 500,000-lira notes.

Like the coins, these notes can be exchanged at the branches of the Bank of Italy until 29 February 2012, when they will be made over to the Treasury.

The Finance Law for 2003 provides that the Bank of Italy and the Ministry for the Economy must estimate the amount of banknotes that will not be presented for exchange, and that the Bank shall pay 65 per cent of the amount to the Treasury by the end of February 2003, a further 25 per cent by January 2008 and the remaining 10 per cent on 31 March 2012.

As for euro coins produced by the State Mint, at the end of December the Ministry for the Economy had put 6.8 billion coins worth about €2.2 billion into circulation.

The Mint has also produced the euro coins for the Republic of San Marino and Vatican City. About 40 billion coins worth over €12 billion are now in circulation in the euro area.

The value of the new coins in Italy is about twice as great as that of the coins withdrawn, largely because of the substitution of 50-cent and 1- and 2-euro coins for the 1,000- , 2,000- and 5,000-lira banknotes.

The substantial frontloading of coins, especially in the months of the changeover, created some problems of geographically uneven distribution. The Bank of Italy acted to compensate deficit with surplus situations.

By the end of 2002 a total of 6.4 billion lira coins worth 1.607 billion lire had been deposited with the Mint or were being held at the Bank of Italy.

Until the end of June lira-denominated coins were paid into the 15 regional centres operated by Poste Italiane S.p.A. on behalf of the Ministry for the Economy. Three of these continued operating until September. Since then the Bank of Italy has channeled the withdrawal of coins through a single deposit at the Mint. The volume of lira coins exchanged for euros is equal to about 40 per cent of the total struck over half a century, including the old coins with face values of 1, 2, 5, 10 and 20 lire, which as a practical matter were no longer to be found. Presumably only a few of these coins will be presented for exchange in the future.

By 31 January the designated units of the Bank of Italy had completed the shredding both of the 2.5 billion lira banknotes withdrawn and the over 600 million notes still held in the Bank's vaults when the cash changeover began.

Naturally the replacement of lira with euro notes and coins took place mostly during the period of dual circulation (1 January to 28 February 2002). By the end of February the Bank of Italy had taken in 1.943 billion notes (of the total of 3.074 billion in the hands of the public at the end of 2001) for a value of 108.34 trillion lire (out of a total of 126.157 trillion in circulation). The re-entry continued at a strong pace for the next three months, beginning to tail off in June, while the return of lira-denominated coins peaked in the summer months. Even now, thousands of notes and coins worth several billion lire are presented daily to the Bank's branches.

The lira coins withdrawn are melted down.

1.2 *Counterfeiting*

The introduction of new notes not only improves the quality of the currency in circulation but also, initially, attenuates the problem of counterfeiting. In the first six months, the number of counterfeit euro notes was insignificant, just 22,000 in all the countries of the Eurosystem, and they were of poor quality as well. Except for a few 50-euro notes, all the cases discovered were photocopies or reproductions taken from publicity material.

In the second half the number of counterfeit notes detected and withdrawn increased, bringing the total to 167,000 at the end of the year (when more than 8 billion banknotes were in circulation). Their quality made them more insidious. Counterfeiting on this scale must still be considered quite modest: proportionally, it is less than one fourth the number of national counterfeits found within the Eurosystem before the cash changeover. The most commonly forged note is the 50-euro bill.

In Italy, a total of 13,000 false banknotes had been identified by 31 December.

The European Central Bank and the national central banks are engaged in the fight against counterfeiting. The analytical tools of the ESCB make it possible to monitor the quality and quantity of false notes at national and international level.

Often, paying little attention to the notes they are handed, citizens serve as the involuntary means for the diffusion of counterfeits, which are picked up only later by "cash pros" or automatic banknote sorters. It has been shown that even high-quality counterfeits can be easily detected by the public without any special equipment but simply applying the rules: look, feel, move the banknote.

1.3 *The idea of one-euro and two-euro banknotes*

In the last few months, notably in Greece, Austria and Italy, which prior to the changeover all had national banknotes worth less than 5 euros, there has been discussion of the possibility of printing one-euro and two-euro notes.

Before the cash changeover the value of the smallest notes in circulation in Belgium, Germany, Luxembourg and Portugal was around 2.5 euros. France and Finland had notes worth between 3 and 3.5 euros; the smallest notes in Spain, Ireland and the Netherlands were worth just over or under 5 euros.

The request for smaller denominations, first raised by the Italian Minister for the Economy and recently supported by a resolution of the Chamber of Deputies addressed to the Italian Government, is justified, according to its proponents, by the need to prevent the public from getting a mistaken perception of the value of the euro. Coins, it is argued, create the illusion that we can do without notes of the same denomination. Another reason cited is that nearly all the Eurosystem candidate nations now have national notes smaller than 5 euros, so one- and two-euro paper notes would facilitate their adoption of the single currency. Moreover, in non-Eurosystem countries small-denomination euro notes could be quite widely used and represent an alternative to the one- and two-dollar notes that circulate there.

Reservations over the proposal to extend the range of denominations stem from the observation that not all of the Eurosystem feels the need for notes smaller than 5 euros. Nor should we ignore the additional cost of adapting vending machines for alternative use of either notes or coins.

At present the problem is under study in technical terms by the European Central Bank and the national central banks.

2. The effects of the cash changeover on prices

In the course of 2002 European citizens became convinced that the cash changeover had played a role in raising the general level of prices. The view is that the increase went well beyond the mere rounding of decimals and cents. Surveys coordinated by the European Commission have confirmed that this perception is widespread among consumers. The surveys also indicated that the increase was temporary and found expectations of a gradual diminution of inflation.

This perception is in contrast to official measures of inflation using rigorous traditional methods. The twelve-month rise in Eurostat's harmonized index of consumer prices eased from 2.7 per cent in January to 1.8 per cent in June 2002 on average in the area, while in Italy, it abated from 2.4 to 2.2 per cent; the rates subsequently rose to 2.3 and 3.0 per cent, respectively, in December.

The discrepancy between inflation as perceived by consumers and as measured by the official statistics is wider than in the past, triggering lively debate on the quality of the consumer price indices of the statistical institutes of the Union, their adequacy to gauge inflation at least for certain population groups, and the possible usefulness of alternatives.

To comprehend the debate, let us recall the way in which the official indices are compiled. Consumer price indicators, using methods harmonized under Eurostat, measure changes in the prices of a basket of goods and services that can be purchased in the market for the final consumption of households within each country. They are calculated with reference to the structure of consumption of the entire population. In Italy the index thus refers to the consumption of a "typical" household representing the "average" of all Italian households. The indices are calculated on the basis of hundreds of items monitored by hundreds of observers. The set of products in the basket is modified periodically.

While we cannot discuss technical questions here, such as the treatment of "new" products, it is not evident, a priori, whether a possible distortion in the measurement of price changes will be upward or downward. In any case, there is no concrete basis for doubting the correctness of the method used and the results obtained.

The frequency with which goods and services are purchased is one of the prime factors in the difference between perceived inflation and the official measurements. Empirical studies for the euro area and for Italy suggest that the prices of the goods purchased most frequently – foods and beverages, newspapers, some services – are those that contribute most to shaping consumers' perceptions of inflation, regardless of their weight in overall spending. With the cash changeover consumers went through a process of learning prices posted in euros. Comprehension of the new prices may have been faster for the frequently purchased goods and services, which were those that rose most sharply in 2002.[1]

In theory one could design diversified indices targeted to specific types of household based, say, on income.

In practice, calculating such indices would present considerable technical difficulties, not so much in defining the consumption basket (surveys of household consumption are available in many countries) as in the enormous number of elementary price quotes that would have to be gathered every month. Presumably purchasing choices vary between types of consumer owing to many factors, such as distribution channel (hard discount, supermarket, traditional shops, etc.), location (city centre, outskirts, suburbs, nearby towns) or product characteristics (brands, first prices, etc.). These factors can cause differentials both in levels and in trends of prices.

The idea of collecting and above all releasing to the general public official consumer price statistics differentiated according to population groups must be weighed taking account both of their degree of approximation and of the significance they could have for the evaluations of economic agents and for industrial relations.

In a word, one certainly cannot maintain that subjective impressions are not real; yet they might not accurately indicate the general price trend.

As to the actual impact of the introduction of the euro on prices last year, it is worth recalling that in 2001 the central banks and statistics institutes of the Eurosystem countries produced ex ante estimates. The exercises considered three main possible types of conduct by firms.

First, as they had in any case to produce new price lists at the end of 2001 in euros, many could use the changeover to adjust their prices either earlier or later than usual, which would produce increases that are bunched in time but not actually caused by the changeover.

Secondly, firms could try to transfer to prices the extraordinary costs sustained for the changeover (adapting cash registers and computers, staff training).

Third, and most important, was the risk that the cash changeover might lead operators to round their euro prices upwards more than was allowed under Community rules. Theoretically, of course, prices could be rounded down as well.

Based on these advance analyses, the ECB judged that the risk of a powerful impact of the cash changeover on consumer prices was limited. This conclusion was strengthened by the fact that in the participating countries self-regulatory codes had been instituted, subscribed by business and retail associations, restaurant operators and the like, other market participants and consumer organizations to keep prices under control. For regulated prices, Governments undertook to convert prices neutrally or to consumers' advantage.

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[1] Banca d'Italia, *Economic Bulletin* No. 35, November 2002.

For the first quarter of 2002 Eurostat estimated that the changeover had had an impact of no more than 0.2 percentage points on the area-wide harmonized index of consumer prices. The European Central Bank, as President Duisenberg recently stated, has also judged the price impact of the introduction of the new currency to be modest.

Estimates of the euro's impact on price indices, using the statistical institutes' observations for 2002, are available for only a few countries so far. They confirm that the overall effect, while limited, has been larger than anticipated. The studies are incomplete, however, because they use aggregated data and refer only to a part of the year. We cannot rule out revisions based on studies covering a longer period of time and based on elementary price quotes.

For Italy, a recent study covering the period from January to October 2002 estimates the impact of the cash changeover at a bit more than half a percentage point out of the overall rise of 2.4 per cent in the general consumer price index. According to these estimates, the protraction of the effects of the changeover into the autumn months, when price lists are traditionally revised, shows in any case a slower adjustment than had been expected.

However, it is hard to distinguish adjustments in euro prices due to rounding from those due to changes in costs and demand, which would have taken place anyway.

By type of good, the estimates show a slightly stronger impact on the prices of services than of goods. The effect on goods came mainly in traditional distribution channels, while the impact of rounding by mass retailers was negligible.

Empirical studies for other area countries indicate a lesser impact of the cash changeover than that observed in Italy. This might be due to the shorter time period covered in those analyses or to the different structure of retailing, which in Italy is still dominated by traditional small stores.

3. The international role of the euro

The euro's potential international role could bring important benefits to the countries belonging to the Eurosystem. The experience of the United States shows that a country issuing an internationally accepted currency enjoys some long-run advantages. First of all, in some instances capital inflows from abroad, often stable and at low cost, permit the financing of investment – and hence growth – even exceeding domestic saving. Furthermore residents, and in particular firms, can carry out international trade and financial transactions in their own currency, avoiding exchange rate risk and reducing transaction costs.

How and to what extent is the euro being used today outside the Eurosystem in relation to the three traditional functions of reserve currency, means of payment in transactions and unit of account for prices and contracts? In addressing this question, let us first evaluate the utilization of the euro in third countries by the private sector (households, firms and financial institutions) and then its use by monetary authorities, with the caveat that the data available are incomplete and not perfectly comparable across countries, partly owing to the difficulty of collecting information on the utilization of a currency outside of its area of issue.

3.1 *The international utilization of the euro by the private sector*

The euro's share of the international market in debt securities, that is to say money market instruments and bonds offered beyond the issuer's national borders, has increased significantly. At the end of June 2002 around 29 per cent of the stock of these debt securities was denominated in euros, about 10 percentage points more than the market share of the legacy currencies of the euro, compared with 44 per cent denominated in dollars and 14 per cent in yen.

The substantial increase in the euro's share in the supply of bonds by non-residents has been accompanied by stable or slightly declining demand for such securities on the part of non-residents. In other words, outside the area the euro has been used more by those desiring to borrow than by those desiring to invest their savings, signaling expectations of depreciation. As a consequence, a large and growing share of international bond issues in euros has been taken up by investors resident in the Eurosystem countries. Available information indicates that it is multinational firms and financial institutions specializing in mortgage lending, operating in the United States and the United Kingdom, that typically issue euro bonds in order to diversify risk; these securities are also bought by euro-area individual and institutional investors (for example, mutual funds).

With regard to commercial and financial transactions, the surveys carried out by the Bank for International Settlements show that the euro's role in the foreign exchange markets is close to being on a par with that played in the past by the German mark. In 2001 around one fifth of spot transactions in the markets involved the euro, a share similar to that of the mark in 1998. However, the dollar generally remains the currency most commonly used for foreign exchange transactions. There are exceptions: in the case of several Scandinavian and East European currencies, the euro now appears to be the leading counterpart currency.

Data on the currencies in which international trade in goods and services are billed are important for gauging the international role of a currency. The scanty data available do not permit a comparison to be made with the situation preceding the launch of the euro; they only provide information on developments in the period 2000-2002. There was a significant increase in the utilization of the euro in trade with third countries during that period. Approximately one half of the European Union's foreign trade is currently reckoned to be billed in euros. For example, between the second half of 2000 and the first half of 2002 the euro-denominated share of EU imports from Japan rose from 40 to 52 per cent and that of EU exports to Japan from 18 to 29 per cent.

In the future, the billing in euros of a good part of energy and raw material imports, which represent around 20 per cent of the Eurosystem countries' total imports and which are priced in dollars in the international markets, would reduce the impact on the euro-area economy of fluctuations in the dollar.

A particular case of the utilization of the euro by the private sector, over and above the three classical functions, is that of "parallel currency".

In many countries outside the Eurosystem, especially in Central and Eastern Europe, the Balkans and the Mediterranean, the euro functions as a means of payment, store of value, unit of account and, in some countries, transaction unit "in parallel" with the domestic currency. The data collected on the occasion of the cash changeover allowed quantification of the amount of euro banknotes circulating outside the area; they confirm that the single currency has had no trouble replacing the old currencies of the Eurosystem countries, particularly the German mark. The European Central Bank estimates that the Eurosystem banks have distributed around €27 billion worth of cash in euros outside the area. This amount is underestimated, since it does not include transfers effected by tourists, emigrants and other agents.

It is worth noting that the current value of euros circulating outside the area is at least €10 billion less than that of the banknotes it replaced (primarily in German marks, French francs and Austrian schillings). In theory there are three possible explanations for this difference: the old banknotes have not yet been converted into euros; they were converted into other currencies, such as the dollar, especially in the period immediately preceding the cash changeover; or the holders of banknotes in the legacy currencies have changed the instruments composing their portfolio, replacing the banknotes with deposits in euros.

On this last point, a survey conducted by the European Central Bank with the monetary authorities of countries outside the area shows that the stock of euro-denominated bank deposits expanded very substantially in the months preceding the cash changeover. This suggests that the difference is basically attributable to substitution between financial assets, which benefited all parties concerned: the authorities of the interested countries, who welcomed the growth in intermediation by the national banking systems; the banks, which broadened their fund-raising base; and households, which were able to change their money at low risk and moderate costs.

3.2 *The "official" utilization of the euro by the monetary authorities of third countries*

Utilization of the euro by the monetary authorities of non-area countries has been significant. Currently some 50 countries outside the Eurosystem use the euro for exchange rate policy purposes or as a reference currency for monetary policy strategies. Most of these countries are in Europe or border on it; however, by and large their economies are relatively small and account for around 4 per cent of world GDP in all.

The euro's share in world foreign exchange reserves was close to 13 per cent in 2001, a level not unlike that of the German mark in 1998. Among the international uses of the euro, its role as a reserve currency is that which has developed least both by comparison with its legacy currencies and vis-à-vis the dollar, which makes up around 68 per cent of the world's foreign exchange reserves.

Among the factors explaining the still limited weight of the euro is the fact that the countries where it is most widely used, such as those that will enter the European Union beginning in 2004, hold a much smaller volume of reserves than, say, the countries of Asia, which have closer economic relations with the United States and therefore hold proportionately more dollars.

Several important Asian countries, China among them, have recently announced that they intend to increase the share of euros in their foreign exchange reserves. A similar orientation has been expressed by the Russian monetary authorities.

4. Conclusion

Looking back after more than a year, we can see how smoothly the introduction of the euro and the withdrawal of the old lira notes actually went. Thanks to solid information that was already very widely disseminated prior to 1 January 2002, the public's confidence made the use of the single currency easy. The problems reported in the first few days of the lack of some denominations of banknotes were circumscribed and often reflected accelerated replacement of the old notes in some parts of the country.

Replacing Italy's currency with the euro was a major undertaking not only for the central bank but for all those involved: government administration, the banking system, the post office, large and small retailers. The entire nation took part with a massive production, distribution and logistical drive that had no precedent to guide it.

The price rises in some segments during 2002, in Italy and other euro-area countries, were due only in part to the introduction of the new currency. The empirical evidence available to date indicates that the impact of the changeover was modest. For Italy, examination of disaggregated data suggests that the effect was greater, probably because mass retailing plays a smaller role here than in other countries.

However, an evaluation of the consequences of the adoption of the new currency cannot be limited to considerations of the impact of the cash changeover on consumer prices. From a broader perspective we must also weigh the benefits of greater price transparency, more competition in markets within the euro area and the end of exchange rate variations between area countries.

As to the international role of the new currency, it is still early for an assessment. So far, the euro's international use is confined mainly to neighbouring countries. This is likely to change with time, but it is hard to say how long the process will take. Some of the benefits of the euro for the citizens of Europe are still to come. If the countries of the Eurosystem move well, above all in making a number of indispensable structural reforms, I am sure that these positive results will not be lacking.

Appendix

Statistical tables

The world economy

The Italian economy

Money, credit and interest rates

SYMBOLS AND CONVENTIONS

In the following tables:

— the phenomenon in question does not occur;

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

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

( ) provisional;

( ) estimated.

Table a1

GDP at constant prices

	Percentage of world GNP in 2000 (1)	1998	1999	2000	2001	2002	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4
	(percentage changes on previous period on an annual basis; seasonally adjusted quarterly data)										
Industrial countries											
United States	21.6	4.3	4.1	3.8	0.3	2.4	2.7	5.0	1.3	4.0	1.4
Japan	7.7	–1.1	0.1	2.8	0.4	0.3	–1.7	0.2	5.3	2.9	2.0
Euro area	15.9	2.9	2.8	3.5	1.4	0.8	–0.9	1.6	1.3	1.6	0.7
Germany	*4.6*	*2.0*	*2.0*	*2.9*	*0.6*	*0.2*	*–1.2*	*1.2*	*0.6*	*1.2*	*–0.1*
France	*3.2*	*3.4*	*3.2*	*3.8*	*1.8*	*1.1*	*–1.1*	*2.8*	*1.8*	*1.2*	*0.9*
Italy	*3.0*	*1.8*	*1.7*	*3.1*	*1.8*	*0.4*	*–0.5*	*0.3*	*0.8*	*1.3*	*1.5*
United Kingdom	3.2	2.9	2.4	3.1	2.0	1.6	1.0	0.6	2.5	3.8	1.5
Canada	1.9	4.1	5.4	4.5	1.5	3.4	2.9	6.0	4.4	3.6	1.6
	(percentage changes on year-earlier period)										
Emerging countries											
Latin America											
Argentina	1.0	3.9	–3.4	–0.8	–4.4	. . . .	–10.5	–16.3	–13.5	–10.1	. . . .
Brazil	2.8	0.1	0.8	4.4	1.4	1.5	–0.8	–0.8	1.0	2.5	3.4
Mexico	1.9	4.9	3.7	6.6	–0.3	. . . .	–1.6	–2.0	2.1	1.8	. . . .
Asia											
China	11.1	7.8	7.1	8.0	7.3	8.0	6.6	7.6	8.0	8.1	8.1
India	5.3	6.5	6.1	4.4	5.6	. . . .	6.3	6.0	5.8	. . . .	. . . .
Indonesia	1.3	–13.0	0.3	5.3	3.3	3.6	1.6	2.5	3.8	4.2	3.8
Malaysia	0.4	–7.4	6.1	8.3	0.4	4.2	–0.5	1.3	4.1	5.8	5.5
South Korea	1.8	–6.7	10.9	9.3	3.0	. . . .	3.7	5.8	6.4	5.8	. . . .
Taiwan	. . . .	4.6	5.4	5.9	–2.2	3.5	–1.6	1.2	4.0	4.8	4.2
Thailand	0.9	–10.5	4.5	4.6	1.9	. . . .	2.5	3.9	5.1	5.8	. . . .
Europe											
Poland	0.8	4.8	4.1	4.0	1.0	. . . .	0.3	0.5	0.8	1.6	. . . .
Russia	2.6	–4.9	5.4	9.0	5.0	. . . .	4.9	3.7	4.1	4.3	. . . .
Turkey	1.0	3.2	–4.7	7.3	–7.5	. . . .	–10.3	1.8	8.8	7.9	. . . .

(1) On the basis of purchasing power parities.

Table a2

Industrial production

	1999	2000	2001	2002	August 2002	September 2002	October 2002	November 2002	December 2002	January 2003
	(percentage changes on previous period; seasonally adjusted data)									
Industrial countries										
United States	4.3	4.7	–3.5	–0.7	–0.3	–0.1	–0.5	0.2	–0.5	0.7
Japan	0.9	5.4	–7.5	–1.6	1.4	–0.1	–0.2	–1.6	–0.4	1.5
Euro area	1.9	5.5	0.4	–0.8	0.1	–0.1	. .	0.6	–1.7	. . . .
Germany	*1.5*	*6.2*	*0.5*	*–1.4*	*1.4*	*–0.8*	*–1.4*	*2.3*	*–3.5*	. . . .
France	*2.0*	*3.5*	*0.9*	*–1.0*	*0.3*	*–0.3*	. .	*0.9*	*–1.7*	. . . .
Italy	*0.1*	*3.1*	*–0.7*	*–2.1*	*0.4*	*–0.5*	*–0.6*	*0.7*	*–0.5*	. . . .
United Kingdom	0.8	1.7	–2.2	–3.5	–0.1	–0.3	–0.1	–0.4	–0.2	. . . .
Canada	5.1	5.7	–3.4	. . . .	–0.1	0.3	0.1	–0.1	. . . .	. . . .
	(percentage changes on year-earlier period)									
Emerging countries										
Latin America										
Argentina	–5.8	–1.2	–5.3	–8.2	–9.4	–2.2	–4.4	–4.8	9.5	13.1
Brazil	–0.7	6.6	1.6	2.4	0.8	5.4	8.8	4.6	5.5	. . . .
Mexico	4.2	6.0	–3.5	. .	0.3	–0.5	1.5	–0.4	1.7	. . . .
Asia										
China	9.9	11.2	9.7	12.8	12.7	13.8	14.2	14.5	14.9	14.8
India	7.6	7.4	2.3	4.6	6.0	6.1	6.7	3.7	5.0	. . . .
Indonesia	18.9	–8.1	–1.1	. . . .	–	–	–	–	–	–
Malaysia	9.1	19.1	–4.1	4.2	6.0	8.5	7.4	5.4	8.0	. . . .
South Korea	24.2	16.8	1.3	7.3	6.8	. .	11.9	7.2	9.5	3.6
Taiwan	7.7	7.4	–7.3	6.4	5.8	11.8	6.8	7.6	11.2	8.5
Thailand	14.1	3.1	2.2	7.5	11.8	9.9	10.0	12.0	12.1	13.1
Europe										
Poland	4.8	7.5	0.4	1.4	–1.2	6.7	3.3	3.1	5.1	4.2
Russia	11.0	11.9	4.9	3.7	3.4	5.5	3.9	0.8	3.2	4.9
Turkey	–5.0	5.4	–8.8	9.1	7.0	10.8	12.0	8.2	13.5	. . . .

Table a3

Consumer prices

	1998	1999	2000	2001	2002	September 2002	October 2002	November 2002	December 2002	January 2003
	(percentage changes on year-earlier period)									
Industrial countries										
United States	1.6	2.2	3.4	2.8	1.6	1.5	2.0	2.2	2.4	2.6
Japan	0.7	–0.3	–0.7	–0.7	–0.9	–0.7	–0.9	–0.4	–0.3	–0.4
Euro area	1.1	1.1	2.3	2.6	2.2	2.1	2.2	2.3	2.3	2.2
Germany	*0.6*	*0.6*	*2.1*	*2.4*	*1.3*	*1.1*	*1.2*	*1.0*	*1.1*	*1.0*
France	*0.7*	*0.6*	*1.8*	*1.8*	*1.9*	*1.8*	*1.9*	*2.1*	*2.2*	*1.9*
Italy	*2.0*	*1.7*	*2.6*	*2.7*	*2.6*	*2.8*	*2.8*	*2.9*	*3.0*	*2.9*
United Kingdom	2.7	2.3	2.1	2.1	2.2	2.1	2.3	2.8	2.7	2.7
Canada	1.0	1.7	2.7	2.5	2.2	2.3	3.2	4.3	3.9	4.5
Emerging countries										
Latin America										
Argentina	0.9	–1.2	–0.9	–1.1	25.9	38.5	39.4	40.6	41.0	39.6
Brazil	3.2	4.9	7.0	6.8	8.5	7.9	8.4	10.9	12.5	14.5
Mexico	15.9	16.6	9.5	6.4	5.0	4.9	4.9	5.4	5.7	5.2
Asia										
China	–0.8	–1.4	0.3	0.7	–0.6	–0.7	–0.8	–0.7	–0.4	0.4
India	13.2	4.7	4.0	3.9	4.3	4.3	4.1	3.6	3.2	3.4
Indonesia	58.4	20.5	3.7	11.5	11.9	10.5	10.3	10.5	10.0	8.7
Malaysia	5.3	2.7	1.5	1.4	1.8	2.1	2.1	1.6	1.7	1.7
South Korea	7.5	0.8	2.3	4.3	2.8	3.1	2.8	3.5	3.7	3.8
Taiwan	1.7	0.2	1.3	. .	–0.2	–0.8	–1.7	–0.6	0.7	0.8
Thailand	8.1	0.3	1.5	1.7	0.6	0.4	1.4	1.2	1.6	2.2
Europe										
Poland	11.8	7.3	10.1	5.5	1.9	1.3	1.1	0.9	0.8	0.4
Russia	27.7	85.7	20.7	21.5	15.8	14.8	14.8	15.2	15.0	14.2
Turkey	84.6	64.9	54.9	54.4	45.0	37.1	33.5	31.8	29.8	26.3

Table a4

External current account

	1998	1999	2000	2001	2002	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4
	(billions of dollars; seasonally adjusted quarterly data)									
Industrial countries										
United States	–203.8	–292.9	–410.3	–393.4	....	–95.1	–112.5	–127.6	–127.0	....
Japan	119.2	114.7	119.6	87.8	113.7	24.7	29.4	29.7	28.7	25.7
Euro area	35.6	–20.6	–55.8	–12.5	60.3	4.2	12.7	9.3	20.5	17.7
Germany	*–6.2*	*–19.4*	*–20.6*	*3.7*	*50.1*	*5.0*	*10.0*	*8.7*	*17.7*	*16.7*
France	*38.7*	*42.3*	*16.7*	*21.3*	*28.4*	*6.9*	*3.9*	*9.3*	*7.7*	*8.7*
Italy	*22.6*	*8.1*	*–5.7*	*–0.4*	*–6.6*	*2.1*	*–1.5*	*–0.7*	*–1.2*	....
United Kingdom	–8.0	–31.9	–28.8	–23.5	....	–8.1	–3.8	–5.3	–3.4	....
Canada	–7.8	1.4	18.6	19.5	11.0	2.8	3.4	2.8	2.7	2.1
	(billions of dollars; quarterly data, not seasonally adjusted)									
Emerging countries										
Latin America										
Argentina	–14.5	–11.9	–8.8	–4.4	....	0.4	1.5	2.7	2.5	....
Brazil	–33.4	–25.3	–24.2	–23.2	–7.8	–5.8	–3.3	–5.1	1.0	–0.3
Mexico	–16.1	–14.0	–18.2	–18.0	–14.1	–6.2	–3.4	–2.8	–3.1	–4.7
Asia										
China	31.5	15.7	20.5	17.4	....	–	–	–	–	–
India	–6.9	–3.2	–4.3	..	....	0.8	2.0	0.3	1.3	....
Indonesia	4.1	5.8	8.0	6.9	....	1.1	1.7	....	....	....
Malaysia	9.5	12.6	8.4	7.2	....	1.5	1.8	1.6	1.8	....
South Korea	40.4	24.5	12.2	8.2	....	0.5	1.8	1.8	0.6	....
Taiwan	3.5	8.4	8.9	17.9	....	6.7	7.0	5.8	5.0	....
Thailand	14.3	12.5	9.3	6.2	7.6	2.2	1.9	0.9	2.0	2.9
Europe										
Poland	–6.9	–11.6	–9.9	–7.2	–6.7	–1.8	–2.3	–1.6	–0.9	–1.8
Russia	0.2	24.6	46.8	34.8	....	6.4	6.9	8.1	9.0	....
Turkey	2.0	–1.4	–9.8	3.4	....	0.6	–0.3	–0.6	0.9	....

Table a5

Short-term interest rates

(percentages)

	US	Japan	Euro area	UK	Canada
			Official reference rates *(end-of-period data)*		
1998	4.75	0.50	–	6.25	5.25
1999	5.50	"	3.00	5.50	5.00
2000	6.50	"	4.75	6.00	6.00
2001	1.75	0.10	3.25	4.00	2.50
2002 – Feb.	"	"	"	"	2.25
Mar.	"	"	"	"	"
Apr.	"	"	"	"	2.50
May	"	"	"	"	"
June	"	"	"	"	2.75
July	"	"	"	"	3.00
Aug.	"	"	"	"	"
Sept.	"	"	"	"	"
Oct.	"	"	"	"	"
Nov.	1.25	"	"	"	"
Dec.	"	"	2.75	"	"
2003 – Jan.	"	"	"	"	"
Feb.	"	"	"	3.75	"
			Money market rates *(period averages)*		
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
2002	1.73	0.09	3.32	3.99	2.63
2002 – 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
Nov.	1.39	0.08	3.12	3.91	2.84
Dec.	1.34	0.09	2.94	3.95	2.86
2003 – Jan.	1.29	0.09	2.83	3.91	2.87
Feb.	1.27	0.01	2.69	3.69	2.92

Table a6

Long-term interest rates and share price indexes

(period averages)

	US	Japan	Germany	France	Italy	UK	Canada
				Bond yields *(percentages)*			
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
2002	4.61	1.27	4.78	4.86	5.03	4.91	5.29
2002 – 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
Nov.	4.05	0.99	4.48	4.53	4.74	4.55	5.09
Dec.	4.03	0.97	4.33	4.38	4.55	4.49	4.97
2003 – Jan.	4.05	0.83	4.18	4.22	4.38	4.31	4.96
Feb.	3.90	0.83	3.95	4.01	4.16	4.29	5.01
				Share price indexes *(indices, 1995=100)*			
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
2002	183.90	70.92	165.23	202.59	205.25	135.17	158.68
2002 – 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	140.93
Nov.	168.25	62.05	128.02	170.58	182.02	119.60	148.18
Dec.	165.95	61.28	124.19	166.83	182.12	115.35	149.17
2003 – Jan.	165.31	61.34	118.07	162.51	176.66	111.12	148.16
Feb.	154.62	60.98	106.09	150.21	170.00	106.58	147.83

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	
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
2002	0.946	118.06	1.484	0.6288	7.431	7.509	9.161	1.467	342.75
2000 – 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
Q4	0.999	122.42	1.569	0.6361	7.428	7.319	9.095	1.467	342.75
2002 – 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
Nov.	1.001	121.65	1.574	0.6371	7.428	7.319	9.082	1.467	319.05
Dec.	1.018	124.20	1.587	0.6422	7.426	7.295	9.096	1.468	342.75
2003 – Jan	1.062	126.12	1.636	0.6571	7.432	7.333	9.173	1.462	367.50
Feb.	1.077	128.60	1.630	0.6698	7.432	7.544	9.146	1.467	347.45

Indicators of competitiveness (1)

(period averages; indices, 1993=100)

	US	Japan	Germany	France	Italy	UK	Canada	Switzerland
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
2002	114.9	81.1	88.7	92.1	102.1	123.1	94.9	97.0
2000 – 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	85.2	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	115.8	80.9	88.1	91.6	101.0	122.1	95.8	96.5
Q3	112.5	83.1	89.0	93.0	102.9	123.1	94.6	98.0
Q4	113.9	80.2	89.6	93.2	103.7	123.4	93.8	97.8
2001 – 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	115.7	81.2	88.0	91.5	100.9	122.2	95.9	97.0
June	113.7	81.8	89.1	92.2	102.1	120.6	96.4	97.1
July	111.5	83.9	89.3	93.0	103.0	122.8	95.1	98.5
Aug.	112.7	83.6	88.8	92.9	102.8	122.6	94.2	97.9
Sept.	113.2	82.0	88.8	93.0	102.9	123.8	94.4	97.6
Oct.	114.9	79.8	89.1	92.9	103.1	124.1	93.8	97.4
Nov.	114.0	80.8	89.6	93.0	103.7	123.2	93.6	97.8
Dec.	112.8	80.0	90.2	93.8	104.3	122.9	94.0	98.2

(1) Based on the producer prices of manufactures. A rise in the index corresponds to a decrease in competitiveness.

Table a9

Sources and uses of income

(percentage changes on previous period)

	Sources			Uses					
				Gross fixed capital formation			Consumption of resident households	Other domestic uses	Exports
	GDP	Imports	Total	Building	Machinery and equipment, sundry products and vehicles	Total			
				At 1995 prices					
1992	0.8	7.4	1.9	–1.4	–1.5	–1.4	1.9	0.1	7.3
1993	–0.9	–10.9	–2.7	–6.7	–14.9	–10.9	–3.7	–3.8	9.0
1994	2.2	8.1	3.2	–6.3	6.7	0.1	1.5	3.4	9.8
1995	2.9	9.7	4.1	0.9	10.6	6.0	1.7	–0.8	12.6
1996	1.1	–0.3	0.8	3.6	3.7	3.6	1.2	–2.8	0.6
1997	2.0	10.1	3.5	–2.0	5.5	2.1	3.2	1.7	6.4
1998	1.8	8.9	3.2	–0.2	7.2	4.0	3.2	2.0	3.4
1999	1.7	5.6	2.5	2.6	6.8	5.0	2.6	3.1	0.1
2000	3.1	8.9	4.4	5.9	8.0	7.1	2.7	–4.4	11.7
2001	1.8	1.0	1.6	3.2	2.2	2.6	1.0	3.3	1.1
2002	0.4	1.5	0.6	0.3	0.6	0.5	0.4	4.1	–1.0
				Implicit prices					
1992	4.5	1.1	3.8	5.1	2.8	4.0	5.5	2.4	0.9
1993	3.9	14.8	5.8	3.2	4.9	4.1	5.5	4.5	10.4
1994	3.5	4.8	3.6	3.5	3.1	3.2	5.0	1.0	3.3
1995	5.0	11.1	6.1	2.5	5.3	3.9	6.0	4.8	8.8
1996	5.3	–2.9	3.8	2.5	2.9	2.7	4.4	6.9	1.0
1997	2.4	1.4	2.1	2.6	1.3	1.9	2.2	4.8	0.3
1998	2.7	–1.3	1.8	1.7	1.9	1.8	2.1	2.2	1.0
1999	1.6	0.2	1.2	1.5	0.9	1.1	2.2	–0.1	. .
2000	2.1	12.4	4.0	3.2	1.8	2.3	2.9	10.2	4.3
2001	2.7	2.0	2.6	2.6	1.2	1.8	2.7	1.4	3.7
2002	2.7	–2.4	1.6	3.9	0.9	2.2	3.0	0.4	–1.0

Industrial production and ISAE business opinion indicators

(seasonally adjustment data)

	Industrial production				ISAE business opinion indicators				
	General index	Consumer goods	Investment goods	Intermediate goods	Level of orders			Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal
					domestic	foreign	total		
	(indices, 1995=100)				*(average balance of monthly responses; percentage points)*				
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	–15.1	–13.3	–13.9	16.0	1.8
2002	104.7	104.3	102.9	105.4	–15.4	–17.5	–14.8	19.7	–2.4
1995 – Q1	98.9	98.9	94.6	99.3	–2.6	24.6	6.2	23.6	–4.7
Q2	99.2	99.4	97.8	99.0	–1.4	21.8	5.0	21.6	0.3
Q3	100.3	100.5	100.1	100.7	–4.8	13.1	1.4	24.0	–1.7
Q4	101.6	101.1	107.5	101.0	–13.9	6.7	–7.3	18.6	1.3
1996 – Q1	101.1	99.4	103.8	100.7	–24.7	–8.4	–17.8	9.9	5.0
Q2	98.7	99.6	103.7	97.2	–31.4	–19.8	–24.3	5.4	6.3
Q3	98.7	99.2	100.8	97.7	–31.5	–19.5	–22.9	6.2	5.7
Q4	98.0	100.1	100.6	96.6	–30.8	–19.9	–26.0	8.9	–2.0
1997 – Q1	99.0	102.4	101.1	98.6	–20.8	–14.7	–16.1	15.7	–5.0
Q2	102.2	103.2	103.4	101.5	–14.8	–7.5	–12.3	16.1	. .
Q3	103.5	103.1	102.4	102.3	–12.6	–2.2	–3.6	23.7	–4.3
Q4	104.9	104.1	105.1	105.2	–10.5	0.4	–2.0	26.8	–3.0
1998 – Q1	104.3	103.7	103.7	106.0	–7.7	–0.4	–2.1	25.5	–1.7
Q2	105.2	104.2	104.7	105.6	–14.8	–3.5	–8.3	16.8	1.7
Q3	104.5	104.2	103.0	104.0	–18.0	–9.9	–14.2	10.2	. .
Q4	103.3	103.6	99.6	104.1	–22.3	–18.9	–20.6	10.3	1.3
1999 – Q1	103.5	105.2	102.7	104.1	–28.7	–28.1	–27.1	10.2	1.7
Q2	103.1	103.3	101.4	102.8	–23.8	–21.8	–21.3	14.8	–1.0
Q3	104.9	106.1	102.1	105.4	–12.0	–10.9	–10.6	24.8	–0.7
Q4	106.2	105.9	103.5	106.7	–4.6	–3.6	–0.3	29.7	–5.3
2000 – Q1	106.2	103.1	103.6	106.9	4.3	6.9	7.5	30.0	–9.3
Q2	107.9	106.1	106.5	108.4	6.9	6.9	10.3	29.4	–7.3
Q3	107.5	105.7	107.6	108.4	7.2	7.1	10.4	29.9	–7.3
Q4	109.2	109.6	111.5	110.0	2.1	5.1	6.0	24.2	–6.3
2001 – Q1	108.8	107.7	109.8	108.4	–7.4	–2.1	–5.1	20.2	0.3
Q2	107.4	107.6	108.4	106.9	–12.4	–10.1	–10.3	22.3	4.7
Q3	106.7	107.9	106.5	107.2	–16.6	–17.2	–15.9	14.1	0.3
Q4	105.0	106.2	104.2	104.6	–23.8	–23.9	–24.3	7.4	2.0
2002 – Q1	105.2	105.5	103.7	105.3	–17.5	–21.4	–15.8	20.4	1.3
Q2	104.4	104.8	101.2	105.7	–13.8	–14.8	–12.0	23.8	–1.3
Q3	105.0	103.1	103.2	105.5	–16.5	–17.5	–16.6	18.9	–4.3
Q4	104.4	103.9	103.7	105.1	–13.8	–16.3	–15.0	15.7	–5.3

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				
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
2002	1,096	5,184	1,748	13,802	21,829	2,164	23,993	9.0	61.0
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
Q4	1,122	5,216	1,789	13,806	21,932	2,152	24,084	8.9	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)	*31.9*	*28.2*	*30.3*	*9.8*	*6.9*	*16.7*	*3.1*	*82.0*	*2.9*	*12.0*	*14.9*	*3.1*	*10..0*	*62.2*	*100.0*
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	1.7
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	2.5
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
2002	2.2	2.1	3.9	2.4	5.3	3.6	–1.9	2.9	–3.4	1.3	0.3	2.3	2.5	3.0	2.4
2000 – 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
Oct.	2.2	2.1	4.0	2.3	4.6	3.2	2.3	3.1	–1.4	1.3	0.8	2.5	2.7	3.1	2.6
Nov.	2.3	2.2	4.2	2.2	4.8	3.3	3.5	3.2	–2.8	1.2	0.4	2.5	2.8	3.2	2.7
Dec.	2.2	2.1	4.0	2.2	4.8	3.3	4.3	3.2	–2.9	1.9	0.9	2.5	2.8	3.1	2.7
2003 – Jan.	2.2	2.1	3.8	2.1	3.1	2.5	7.2	3.0	1.5	1.3	1.3	2.7	2.8	3.0	2.7

Source: Based on Istat data.

(1) Indices, 1995=100. – (2) Consumer price index for worker and employee households, excluding tobacco products; 1995=100. – (3) As of January 1999 Istat changes the weights every year on the basis of estimates of households' final consumption in the previous year. The weigths shown in the table are those for January 2003. – (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*	*39.3*	*74.4*	*11.2*	*8.2*	*19.4*	*6.2*	*85.6*	*100.0*
1997	1.7	3.3	2.4	1.2	–0.7	0.3	1.9	2.3	1.9
1998	2.1	2.8	2.4	1.4	1.6	1.5	–1.4	2.3	2.0
1999	1.4	2.5	1.9	0.9	1.1	1.0	1.1	1.8	1.7
2000	1.7	2.3	2.0	1.3	1.8	1.5	11.6	1.9	2.6
2001	1.8	2.9	2.4	2.5	5.8	3.9	1.6	2.4	2.7
2002	2.4	3.4	2.9	2.2	4.9	3.4	–2.6	2.8	2.6
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	4.7	–5.3	2.5	2.3
Feb.	2.7	3.3	3.0	2.8	5.9	4.1	–4.9	2.9	2.7
Mar.	2.5	3.3	2.9	2.7	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	2.2	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
Oct.	2.4	3.5	3.0	2.2	4.3	3.1	0.5	2.9	2.8
Nov.	2.6	3.6	3.1	2.1	4.4	3.1	0.4	3.0	2.9
Dec.	2.7	3.5	3.1	2.3	4.3	3.1	0.7	3.0	3.0
2003 – Jan.	1.8	3.5	2.7	2.3	2.8	2.5	4.4	2.7	2.9

Source: Eurostat.
(1) Indices, 1996=100. 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 2003. – (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 index of consumer prices: 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	*31.6*	*40.9*	*72.5*	*11.7*	*7.6*	*19.3*	*8.2*	*84.2*	*100.0*
1998	0.9	1.9	1.4	1.4	1.9	1.6	–2.6	1.4	1.1
1999	0.7	1.5	1.1	0.9	. .	0.6	2.4	1.1	1.1
2000	0.8	1.7	1.3	1.1	1.7	1.4	13.3	1.2	2.3
2001	1.4	2.5	2.0	2.9	7.2	4.6	2.8	2.1	2.6
2002	1.5	3.2	2.4	3.0	3.0	3.0	–0.7	2.5	2.2
2000 – Apr.	0.7	1.8	1.2	0.9	0.2	0.6	10.3	1.2	1.9
May	0.7	1.6	1.1	1.0	0.5	0.8	12.0	1.1	1.9
June	0.8	1.7	1.2	1.0	1.5	1.2	14.6	1.2	2.4
July	0.6	1.7	1.2	1.0	2.5	1.6	13.4	1.2	2.3
Aug.	0.8	1.8	1.3	1.1	3.3	2.0	11.9	1.3	2.3
Sept.	1.0	1.8	1.4	1.3	3.3	2.1	15.6	1.4	2.8
Oct.	1.0	1.9	1.4	1.2	3.2	2.0	14.6	1.4	2.7
Nov.	1.0	1.9	1.5	1.4	3.5	2.2	15.2	1.5	2.9
Dec.	1.1	1.8	1.5	1.4	3.9	2.4	11.3	1.5	2.6
2001 – Jan.	1.0	2.2	1.7	1.6	4.5	2.7	7.8	1.7	2.4
Feb.	1.1	2.3	1.7	2.0	4.7	3.1	8.2	1.7	2.6
Mar.	1.3	2.3	1.8	2.2	6.7	3.9	5.6	1.8	2.6
Apr.	1.4	2.4	1.9	2.5	7.3	4.4	7.8	2.0	2.9
May	1.5	2.5	2.1	2.8	9.2	5.3	8.6	2.2	3.4
June	1.5	2.6	2.0	3.0	9.0	5.4	5.5	2.2	3.0
July	1.4	2.6	2.0	3.3	8.7	5.4	2.9	2.2	2.8
Aug.	1.4	2.6	2.0	3.4	7.7	5.1	2.1	2.3	2.7
Sept.	1.6	2.7	2.2	3.5	7.7	5.2	–1.3	2.4	2.5
Oct.	1.6	2.8	2.2	3.6	7.7	5.2	–2.7	2.4	2.4
Nov.	1.5	2.8	2.2	3.5	6.5	4.7	–5.0	2.4	2.1
Dec.	1.6	2.8	2.3	3.6	6.5	4.7	–4.5	2.5	2.1
2002 – Jan.	1.6	3.0	2.4	3.8	8.3	5.6	–1.9	2.6	2.6
Feb.	1.8	3.1	2.5	3.4	7.1	4.8	–2.9	2.6	2.5
Mar.	1.6	3.2	2.5	3.4	5.5	4.2	–1.6	2.6	2.5
Apr.	1.6	2.9	2.3	3.3	4.2	3.6	–0.6	2.5	2.3
May	1.5	3.2	2.5	3.2	2.0	2.7	–2.8	2.6	2.0
June	1.5	3.2	2.4	3.1	1.2	2.3	–3.6	2.5	1.8
July	1.3	3.2	2.4	3.0	0.9	2.2	–1.6	2.5	2.0
Aug.	1.2	3.3	2.4	3.0	1.4	2.4	–0.4	2.5	2.1
Sept.	1.3	3.2	2.4	2.9	1.8	2.4	–0.2	2.4	2.1
Oct.	1.2	3.2	2.3	2.7	1.6	2.3	2.5	2.4	2.2
Nov.	1.2	3.1	2.3	2.6	1.9	2.4	2.3	2.3	2.3
Dec.	1.2	3.0	2.2	2.7	1.4	2.2	3.8	2.2	2.3
2003 – Jan.	0.6	2.8	1.9	2.8	–0.6	1.4	6.0	2.0	2.2

Source: Eurostat.
(1) Weighted average of the harmonized indices of the euro-area countries. The weights shown in the table are those for January 2003. – (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
1998	2.0	2.3	0.6	1.1	0.7	0.9	1.8	2.2	1.1	1.4
1999	1.7	1.8	0.6	0.4	0.6	0.7	2.2	2.4	1.1	1.1
2000	2.6	1.9	2.1	0.7	1.8	0.7	3.5	2.5	2.3	1.2
2001	2.7	2.4	2.4	1.5	1.8	1.5	3.7	3.4	2.6	2.1
2002	2.6	2.8	1.3	1.5	1.9	2.2	3.6	3.9	2.2	2.5
2000 – 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	1.7
Mar. . . .	2.6	2.1	2.5	1.3	1.4	1.1	4.0	3.3	2.6	1.8
Apr. . . .	3.0	2.5	2.9	1.2	2.0	1.5	4.0	3.3	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	2.2
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	2.4
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. . . .	2.3	2.5	2.1	1.9	2.5	2.2	3.1	3.5	2.6	2.6
Feb. . . .	2.7	2.9	1.7	1.9	2.3	2.1	3.2	3.6	2.5	2.6
Mar. . . .	2.5	2.9	1.9	1.9	2.2	2.2	3.2	3.6	2.5	2.6
Apr. . . .	2.5	2.7	1.3	1.5	2.1	2.1	3.7	4.0	2.3	2.5
May . . .	2.4	2.7	1.0	1.7	1.5	2.2	3.7	4.2	2.0	2.6
June . .	2.2	2.7	0.7	1.5	1.5	2.2	3.4	4.2	1.8	2.5
July . . .	2.4	2.7	1.0	1.5	1.6	2.3	3.5	4.0	2.0	2.5
Aug. . . .	2.6	2.8	1.0	1.4	1.8	2.3	3.7	4.0	2.1	2.5
Sept. . .	2.8	3.0	1.1	1.4	1.8	2.2	3.5	3.7	2.1	2.4
Oct. . . .	2.8	2.9	1.2	1.3	1.9	2.1	4.0	3.9	2.2	2.4
Nov. . . .	2.9	3.0	1.0	1.1	2.1	2.3	3.9	3.8	2.3	2.3
Dec. . .	3.0	3.0	1.1	1.0	2.2	2.2	4.0	3.7	2.3	2.2
2003 – Jan. . . .	2.9	2.7	1.0	0.8	1.9	1.8	3.8	3.3	2.2	2.0

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*
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
2002	1.9	1.9	1.3	0.9	0.2	–5.3	0.8	–0.2
2000 – Apr.	1.6	1.6	1.5	1.0	4.6	21.1	3.2	5.4
May	2.0	1.9	2.0	1.1	5.2	25.3	3.6	6.4
June	2.1	2.1	1.8	1.2	5.5	27.5	3.8	6.9
July	2.2	2.3	1.1	1.2	5.5	26.6	3.9	6.7
Aug.	2.3	2.4	1.0	1.1	5.3	24.7	3.8	6.5
Sept.	2.2	2.2	1.4	1.2	5.3	26.2	3.8	6.7
Oct.	2.1	2.1	1.3	1.1	4.9	27.5	3.5	6.8
Nov.	2.2	2.2	1.4	1.2	4.8	26.3	3.5	6.7
Dec.	2.3	2.4	2.2	1.2	4.6	22.6	3.4	6.2
2001 – Jan.	2.3	2.4	2.1	1.2	3.9	18.4	3.1	5.4
Feb.	2.5	2.5	2.9	1.3	3.5	15.8	2.9	5.0
Mar.	2.5	2.6	2.4	1.2	3.2	11.9	2.8	4.2
Apr.	2.5	2.5	3.0	1.4	2.5	14.0	2.3	4.3
May	2.3	2.4	2.5	1.3	1.8	8.3	1.9	2.9
June	2.4	2.4	2.9	1.2	1.3	4.8	1.6	2.4
July	2.3	2.3	3.0	1.2	1.0	0.1	1.4	1.3
Aug.	2.1	2.1	3.1	1.2	0.7	–0.3	1.1	1.2
Sept.	2.1	2.1	3.1	1.2	0.3	–4.1	0.9	0.4
Oct.	2.1	2.1	3.1	1.3	–0.2	–8.0	0.7	–0.6
Nov.	1.8	1.8	3.0	1.1	–0.7	–10.7	0.3	–1.3
Dec.	1.9	1.8	2.2	1.2	–0.9	–10.1	0.2	–1.3
2002 – 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
Oct.	1.8	1.8	1.5	1.0	0.9	0.2	1.2	1.1
Nov.	1.8	1.7	1.6	0.9	1.2	0.2	1.3	1.2
Dec.	1.8	1.7	2.2	0.8	1.4	2.0	1.4	1.5

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 a17

Index of producer prices of manufactures sold in the domestic market: main euro-area countries

(percentage changes on year-earlier period)

	GERMANY					FRANCE				
	Consumer goods excl. food products (2)	Intermediate goods		Total excl. food and energy products	Overall index	Consumer goods excl. food products (2)	Intermediate goods		Total excl. food and energy products	Overall index
		Non-energy	Energy				Non-energy	Energy		
Weights (1)	*(15.2)*	*(31.2)*	*(18.1)*	*(69.7)*	*(100.0)*	*(15.7)*	*(28.5)*	*(16.3)*	*(65.0)*	*(100.0)*
2000	0.8	3.6	9.9	2.1	3.3	0.6	4.6	25.4	1.1	5.5
2001	1.6	0.7	9.0	1.3	3.0	1.4	2.0	–3.1	1.8	1.3
2002	1.5	–0.5	–3.3	0.3	–0.4	0.3	–0.3	–2.1	0.2	–0.3
2001 – June	2.0	1.0	14.2	1.7	4.3	1.5	2.1	1.8	1.6	2.3
July	1.7	0.2	9.9	1.1	3.1	1.4	1.4	–2.2	1.6	1.3
Aug.	1.6	–0.2	8.4	1.0	2.7	1.6	1.1	–4.2	1.6	1.0
Sept.	1.6	–0.7	5.9	0.5	1.9	1.2	0.8	–8.7	1.5	–0.3
Oct.	2.1	–1.0	–0.5	0.4	0.6	1.4	0.2	–13.8	1.8	–1.4
Nov.	1.8	–1.1	–2.3	0.3	0.1	1.0	–0.1	–16.9	1.7	–2.3
Dec.	1.7	–1.3	–1.1	0.1	0.1	1.0	–0.4	–13.0	1.3	–1.5
2002 – Jan.	2.5	–1.6	–2.2	0.1	–0.1	0.4	–1.0	–8.1	0.5	–1.0
Feb.	2.3	–1.8	–2.6	0.1	–0.3	0.1	–1.2	–7.9	0.1	–1.4
Mar.	1.8	–1.6	–1.4	0.1	–0.2	. .	–1.0	–3.9	. .	–0.9
Apr.	1.7	–1.1	–4.3	0.1	–0.8	0.1	–0.9	–2.3	. .	–0.7
May	1.6	–1.1	–5.0	0.2	–0.9	–0.2	–0.6	–5.9	0.3	–1.2
June	1.2	–0.7	–5.9	0.2	–1.1	. .	–0.5	–7.1	0.5	–1.4
July	1.3	–0.1	–5.4	0.3	–1.0	0.8	0.1	–3.2	0.5	–0.4
Aug.	1.4	. .	–5.6	0.3	–1.0	. .	0.2	–1.2	0.3	–0.1
Sept.	1.1	0.1	–5.7	0.5	–0.9	0.7	0.1	–0.2	0.5	0.3
Oct.	0.8	0.4	–0.9	0.7	0.3	0.4	0.2	3.4	. .	0.7
Nov.	0.9	0.4	–0.5	0.7	0.4	0.5	0.2	4.6	0.1	1.0
Dec.	1.0	0.6	1.0	0.9	0.9	0.5	0.4	8.9	–0.1	1.6

	SPAIN					EURO AREA (3)				
Weights (1)	*(18.6)*	*(33.8)*	*(14.1)*	*(67.6)*	*(100.0)*	*(15.9)*	*(31.7)*	*(16.8)*	*(66.8)*	*(100.0)*
2000	1.7	6.8	22.7	3.3	5.4	1.4	5.0	19.0	3.1	5.5
2001	3.1	1.4	–2.0	1.9	1.7	2.0	1.2	2.8	1.6	2.2
2002	2.0	0.2	–1.3	0.6	0.7	1.6	–0.3	–2.4	0.4	–0.1
2001 – June	3.6	1.6	2.2	1.9	2.4	2.4	1.5	6.7	1.8	3.1
July	3.7	1.0	–0.1	1.6	1.9	2.1	0.7	2.8	1.4	2.1
Aug.	3.2	0.4	–2.4	1.5	1.6	2.0	0.2	1.5	1.2	1.7
Sept.	2.9	–0.3	–7.0	1.4	0.7	1.9	–0.3	–2.0	0.9	0.7
Oct.	2.8	–1.1	–11.4	1.0	–0.4	1.6	–0.9	–6.9	0.5	–0.5
Nov.	2.5	–1.5	–13.3	0.7	–0.9	1.8	–1.3	–9.0	0.5	–1.1
Dec.	2.6	–2.0	–11.8	0.4	–0.9	1.9	–1.4	–6.8	0.3	–0.8
2002 – Jan.	2.3	–1.1	–4.5	–0.1	0.0	2.0	–1.5	–5.0	. .	–0.7
Feb.	1.9	–1.3	–4.3	–0.1	–0.2	1.9	–1.7	–5.3	–0.1	–0.9
Mar.	1.7	–1.1	–3.4	–0.1	–0.1	1.8	–1.4	–3.7	–0.1	–0.7
Apr.	1.9	–0.4	–1.9	0.4	0.5	1.6	–1.0	–3.9	. .	–0.7
May	1.7	–0.3	–2.9	0.5	0.5	1.4	–0.8	–4.9	0.2	–0.8
June	1.6	0.2	–5.1	0.7	0.2	1.4	–0.5	–5.6	0.3	–0.9
July	1.6	0.6	–4.1	0.8	0.4	1.5	0.1	–3.6	0.5	–0.3
Aug.	2.2	0.9	–1.7	0.9	0.7	1.5	0.3	–2.6	0.5	–0.1
Sept.	2.2	0.8	–0.3	1.0	1.0	1.5	0.4	–2.0	0.7	0.1
Oct.	2.1	1.1	3.8	1.1	1.7	1.4	0.7	2.0	0.7	0.9
Nov.	2.3	1.4	4.1	1.2	1.7	1.5	0.9	2.3	0.8	1.1
Dec.	2.3	1.9	6.2	1.3	2.0	1.5	1.0	4.2	0.9	1.5

Source: Based on Eurostat data.
(1) With reference to 1995=100. – (2) Excluding energy products. – (3) Weighted average (based on GDP) of data for the 12 euro-area countries. See the notes to the statistical tables.

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	14.2	3.8	7.6	5.4
Aug.	7.1	23.2	13.5	4.2	7.1	5.4
Sept.	7.2	21.9	13.2	4.5	7.6	5.9
Oct.	7.6	23.1	13.9	5.3	9.3	7.0
Nov.	7.8	26.4	15.3	4.4	10.3	6.9
Dec.	6.6	27.9	15.1	3.6	9.8	6.2
2001 – Jan.	5.7	23.9	12.7	2.7	8.6	5.2
Feb.	5.5	17.4	10.0	4.2	7.1	5.4
Mar.	4.9	11.5	7.3	5.0	6.3	5.5
Apr.	5.4	9.7	6.9	5.7	5.9	5.7
May	4.3	7.6	5.4	5.3	5.3	5.3
June	3.9	7.5	5.1	5.7	5.1	5.4
July	3.3	7.3	4.6	5.6	4.6	5.1
Aug.	2.6	5.6	3.4	4.8	4.1	4.4
Sept.	1.8	2.4	1.5	4.0	2.9	3.4
Oct.	0.9	–3.6	–1.6	3.7	1.6	2.7
Nov.	0.9	–8.4	–3.5	4.1	0.9	2.6
Dec.	1.1	–12.2	–5.0	5.1	0.3	2.8
2002 – Jan.	1.2	–11.7	–4.6	4.8	–0.3	2.5
Feb.	–0.9	–9.0	–4.5	2.8	–0.7	1.1
Mar.	–1.8	–6.9	–4.1	1.3	–0.6	0.4
Apr.	–2.8	–4.7	–3.6	–0.5	–1.1	–0.7
May	–2.8	–3.1	–2.9	–0.8	–1.6	–1.1
June	–3.9	–4.2	–4.0	–2.5	–3.2	–2.8
July	–4.9	–6.3	–5.5	–2.4	–3.4	–2.9
Aug.	–5.2	–6.9	–5.9	–1.5	–3.9	–2.6
Sept.	–4.8	–4.8	–4.8	–1.2	–3.3	–2.2
Oct.	–4.1	–1.1	–2.8	–1.8	–3.1	–2.4
Nov.	–4.3	0.1	–2.4	–2.4	–2.9	–2.6

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			
				Transfers					Transfers		
				Private		Public				Public	
	Goods	Services	Income		Emigrants' remittances		EU institutions	Intangible assets	Private		EU institutions
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	17,403	338	–11,575	–2,760	–390	–3,769	–5,634	–311	65	1,184	1,748
2002	(17,763)	(–4,374)	–(15,737)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
2000 – Q4	1,962	–379	–3,171	–233	–60	–1,452	–1,415	42	50	1,541	1,898
2001 – Q1	1,976	–1,832	–2,288	–669	–91	900	466	–46	87	438	550
Q2	3,048	1,632	–5,148	–566	–74	–1,589	–2,097	–24	–90	280	315
Q3	5,280	1,903	–3,431	–751	–111	–1,102	–1,579	–190	–27	270	285
Q4	7,099	–1,365	–707	–775	–113	–1,978	–2,423	–51	95	196	598
2002 – Q1	2,223	–3,042	–2,039	–556	–86	957	376	–8	144	537	661
Q2	4,621	–625	–6,237	–244	–97	–1,700	–2,467	–85	6	325	346
Q3	6,969	1,026	–2,962	–1,446	–153	–331	–2,021	–36	0	215	225
Q4	(3,950)	(–1,733)	(–4,499)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
2000 – Dec. . .	505	–435	–486	–222	–26	–543	–557	72	23	757	892
2001 – Jan. . . .	–279	–688	–485	–160	–51	34	–63	–12	11	258	293
Feb. . .	807	–424	–963	–237	–19	–3	–135	–6	14	199	236
Mar. . .	1,448	–721	–840	–272	–21	869	664	–28	62	–20	20
Apr. . . .	905	–88	–674	–243	–27	–241	–408	–16	–63	76	84
May . . .	860	370	–1,822	–197	–28	–281	–455	–6	3	86	98
June . .	1,283	1,351	–2,652	–125	–19	–1,067	–1,234	–1	–29	118	133
July . . .	3,465	1,399	–1,200	–249	–29	–203	–373	–173	–8	99	99
Aug. . .	1,670	–66	–1,200	–234	–49	–402	–558	–6	–5	75	75
Sept. . .	145	570	–1,031	–269	–33	–497	–648	–10	–14	96	111
Oct. . . .	3,078	–271	272	–188	–41	–121	–277	–11	–3	217	338
Nov. . .	1,925	–372	–236	–172	–36	–412	–568	–31	11	63	158
Dec. . .	2,096	–721	–743	–414	–36	–1,445	–1,577	–10	88	–84	102
2002 – Jan. . . .	–1,000	–1,134	–541	–32	–31	248	66	2	105	136	171
Feb. . .	1,104	–782	–503	–306	–29	234	52	5	11	153	191
Mar. . .	2,120	–1,127	–994	–218	–26	475	258	–15	28	248	299
Apr. . . .	499	–986	–1,264	5	–30	–469	–651	–12	1	83	94
May . . .	2,411	–338	–2,782	–82	–35	–486	–730	–29	2	89	99
June . .	1,711	699	–2,192	–167	–32	–746	–1,086	–44	2	153	153
July . . .	3,666	826	–1,062	–396	–42	172	–371	–5	–2	99	99
Aug. . .	2,043	–383	–672	–575	–72	2	–586	–24	0	93	93
Sept. . .	1,260	583	–1,228	–474	–40	–505	–1,064	–7	2	23	33
Oct. . . .	1,479	–398	–841	–512	–40	–344	–735	–45	–9	15	144
Nov. . .	(1,563)	(–683)	(–1,532)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
Dec. . .	(907)	(–652)	(–2,126)	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .

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
2002	(–20,882)	(16,872)	(–13,363)	(27,597)	(1,612)	(932)	(–2,542)	(–3,083)
2000 – Q1	–5,175	7,966	–16,355	4,348	1,691	1,956	789	1,202
2001 – Q1	–14,414	4,393	–22,326	22,710	–21,303	29,456	–262	–815
Q2	–4,685	4,716	–14,068	16,976	–97	4,138	176	–595
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
Q3	–5,025	2,917	–509	19,619	544	–15,588	–1,043	–2,099
Q4	(–6,064)	(5,505)	(1,651)	(4,174)	(–10,544)	(11,890)	(–1,593)	(–1,765)
2000 – Dec.	–1,534	3,675	–6,893	–1,182	883	2,416	–1,087	45
2001 – Jan.	–1,000	1,297	–6,276	2,542	2,489	7,213	–213	–3,001
Feb.	–2,680	1,389	–9,032	13,029	–9,997	5,489	7	1,937
Mar.	–10,734	1,707	–7,018	7,139	–13,795	16,754	–56	249
Apr.	–2,486	1,121	–5,083	1,411	5,433	2,992	–138	–321
May	–2,336	1,763	–3,341	5,090	10,546	–9,042	505	–523
June	137	1,832	–5,644	10,475	–16,076	10,188	–191	249
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	–1,963	1,624	3,690	13,990	–7,221	–12,415	–283	191
Aug.	–2,162	529	–4,145	–1,724	10,265	–2,436	–522	77
Sept.	–900	764	–54	7,353	–2,500	–737	–238	–2,367
Oct.	–1,077	812	–166	7,526	–10,158	5,630	–382	–651
Nov.	(–1,233)	(662)	(2,245)	(940)	(–7,437)	(6,802)	(–1,589)	(242)
Dec.	(–3,754)	(4,031)	(–428)	(–4,292)	(7,051)	(–542)	(378)	(–1,356)

Table a21

Formation of the general government borrowing requirement

	Budget			Other central government operations		BR of local gov. and social security institutions after consolida-tion	General government borrowing requirement (GGBR)	Privatiza-tion and other extraordi-nary receipts of the state sector	State sector debt settlement	GGBR net of debt settlements and privatization receipts	*Memoran-dum item:*
	Receipts (1)	Payments	Balance		*of which:* Collection account						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	32,937	–119	–6,026	–12,875	22,641	–6,259	–29,258	–16,012
2000	350,866	387,808	–36,942	18,081	–1,126	–6,167	–25,028	15,450	–4,599	–35,879	–25,472
2001	352,007	426,396	–74,389	32,612	432	–1,733	–43,510	4,329	–10,290	–37,550	–34,857
2002	353,000	407,737	–54,738	23,074	–400	–5,093	–36,756	2,031	–5,873	–32,914	–25,315
1998 – Q1	59,736	58,298	1,438	–14,561	–	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	–	–2,610	10,100	11,256
Q4	130,459	144,463	–14,004	38,099	–1,850	–3,337	20,758	22,235	–1,315	–162	7,511
2000 – Q1	73,190	81,696	–8,506	–2,779	–671	–1,515	–12,799	22	–3,095	–9,726	–7,206
Q2	70,049	88,282	–18,233	6,006	17,259	–766	–12,993	40	–329	–12,704	–9,028
Q3	88,533	77,471	11,062	–17,258	–14,625	208	–5,988	54	–152	–5,890	–7,555
Q4	119,094	140,359	–21,265	32,112	–3,089	–4,094	6,753	15,335	–1,023	–7,559	–1,684
2001 – Q1	73,661	97,057	–23,396	8,316	1,232	–238	–15,318	4,263	–2,289	–17,292	–17,355
Q2	68,753	83,893	–15,140	2,558	17,737	636	–11,946	57	–3,539	–8,463	–9,247
Q3	97,754	119,170	–21,416	15,433	–18,406	634	–5,349	1	–1,334	–4,016	–3,427
Q4	111,840	126,276	–14,437	6,304	–130	–2,766	–10,898	8	–3,128	–7,779	–4,829
2002 – Q1	63,905	78,188	–14,282	–6,404	–668	–1,792	–22,479	95	–522	–22,052	–21,048
Q2	75,128	85,128	–9,999	2,677	16,644	–777	–8,099	83	–388	–7,794	–7,604
Q3	88,577	107,588	–19,011	3,402	–16,377	538	–15,071	–	–2,362	–12,709	–12,700
Q4	125,389	136,834	–11,445	23,399	1	–3,062	8,893	1,854	–2,601	9,640	16,037
2002 – Jan. ...	24,387	24,030	357	–3,439	–624	–1,199	–4,281	77	–48	–4,311	–3,271
Feb. ...	18,935	30,016	–11,081	8,018	201	138	–2,926	18	–137	–2,806	–3,324
Mar. ...	20,583	24,141	–3,558	–10,983	–245	–731	–15,272	–	–337	–14,935	–14,453
Apr. ...	22,322	24,066	–1,745	–3,361	162	224	–4,881	77	–19	–4,939	–6,595
May ...	23,988	27,851	–3,863	–6,615	–11	–954	–11,432	6	–65	–11,373	–10,412
June ...	28,819	33,211	–4,392	12,653	16,493	–47	8,214	–	–304	8,518	9,403
July ...	44,659	50,518	–5,859	2,984	–16,322	612	–2,264	–	–400	–1,864	–2,500
Aug. ...	13,991	30,808	–16,816	13,619	18,124	251	–2,946	–	–520	–2,426	–3,002
Sept. ..	29,927	26,263	3,664	–13,201	–18,179	–324	–9,861	–	–1,442	–8,419	–7,198
Oct. ...	22,415	24,742	–2,327	–5,385	–207	–782	–8,494	–	–392	–8,103	–8,302
Nov. ...	29,898	27,606	2,292	–4,613	493	–260	–2,581	172	–70	–2,683	1,840
Dec. ...	73,077	84,486	–11,409	33,398	–286	–2,020	19,968	1,682	–2,139	20,425	22,500

(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	–	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	–2,531	–7,255	12,875
2000	34,930	16,078	–17,703	–237	4,660	–2,799	–3,560	9,501	9,708	25,028
2001	24,147	10,278	11,494	202	10,919	–2,442	–1,322	713	–2,119	43,510
2002	30,702	8,556	–180	–333	7,380	–1,806	–1,135	1,796	212	36,756
1998 – Q1	17,810	746	–8,664	–	437	–798	–2,014	6,013	6,012	12,784
Q2	18,420	626	–1,182	–	–96	404	–357	–869	–988	16,319
Q3	11,980	–2,071	–2,509	–	727	–2,512	–1,244	–8,106	–8,275	–1,664
Q4	–5,386	1,561	–5,912	–	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	4,948	316	–20,758
2000 – Q1	21,250	5,221	–4,339	272	1,991	–3,780	–1,622	–702	603	12,799
Q2	19,582	5,770	–300	2,787	235	–129	–488	–5,906	–5,822	12,993
Q3	2,515	4,495	–1,800	–3,008	430	–1,854	–166	6,863	6,934	5,988
Q4	–8,417	593	–11,264	–287	2,004	2,963	–1,284	9,246	7,992	–6,753
2001 – Q1	22,251	5,815	13,507	692	2,408	–1,211	–24	–21,613	–20,548	15,318
Q2	10,793	–1,049	6,028	502	965	–426	–449	–4,966	–5,073	11,945
Q3	–10,872	580	2,461	–330	2,146	–3,050	–205	14,869	14,197	5,349
Q4	1,975	4,932	–10,502	–663	5,400	2,245	–645	12,424	9,305	10,898
2002 – Q1	26,556	7,294	14,997	–222	2,557	606	–91	–22,146	–23,866	22,479
Q2	552	–4,544	8,162	1,392	–202	–1,450	–708	1,745	2,885	8,099
Q3	7,813	2,752	–3,461	99	1,135	–1,909	–31	11,525	10,507	15,071
Q4	–4,219	3,054	–19,878	–1,601	3,890	947	–305	10,672	10,686	–8,893
2002 – Jan. . . .	7,474	2,589	9,009	–57	1,488	27	–34	–13,683	–15,489	4,281
Feb. . . .	4,282	665	2,716	–199	1,200	20	–	–5,293	–5,313	2,926
Mar. . . .	14,800	4,040	3,272	34	–131	558	–57	–3,170	–3,064	15,272
Apr. . . .	641	787	2,516	–	76	–1,497	–96	3,241	3,377	4,881
May . . .	–2,029	–5,741	3,914	743	30	–591	–	10,108	10,988	11,432
June . . .	1,940	410	1,732	649	–308	638	–612	–11,604	–11,480	–8,214
July . . .	6,808	–20	–3,075	7	299	–2,345	–	576	–791	2,264
Aug. . . .	–578	285	–1,857	149	798	–592	–	5,175	5,423	2,946
Sept. . .	1,582	2,487	1,471	–57	38	1,027	–31	5,773	5,874	9,861
Oct. . . .	6,839	918	1,812	297	695	–753	–163	64	104	8,495
Nov. . . .	4,676	613	–866	–155	471	1,163	–67	–2,795	–5,339	2,581
Dec. . . .	–15,734	1,524	–20,823	–1,742	2,724	537	–75	13,403	15,921	–19,968

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 items:* Claims on central bank (1)			
									Treasury payments account	Sinking fund	Central government debt
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	910,612	119,777	103,300	73,114	59,400	7,016	1,273,219	29,151	29,047	5	1,240,185
2000	942,771	101,997	107,960	66,855	62,493	8,323	1,290,399	19,554	15,126	4,219	1,251,175
2001	962,997	113,570	118,879	63,396	64,326	13,085	1,336,253	23,550	21,287	176	1,295,244
2002	988,637	113,329	126,259	60,312	41,187	12,617	1,342,342	21,332	20,618	633	1,296,505
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. . .	925,868	130,133	100,858	70,564	61,402	2,346	1,291,170	29,430	28,916	453	1,261,474
Dec. . . .	910,612	119,777	103,300	73,114	59,400	7,016	1,273,219	29,151	29,047	5	1,240,185
2000 – Mar. . . .	930,914	115,437	105,291	67,789	61,995	7,061	1,288,487	28,491	28,407	42	1,253,915
June . . .	949,267	115,061	105,526	67,175	62,994	7,037	1,307,060	34,373	32,883	1,388	1,271,692
Sept. . .	954,706	113,261	105,956	65,230	62,934	6,969	1,309,056	27,442	25,290	2,046	1,273,881
Dec. . . .	942,771	101,997	107,960	66,855	62,493	8,323	1,290,399	19,554	15,126	4,219	1,251,175
2001 – Mar. . . .	965,100	115,505	110,368	65,628	61,899	7,220	1,325,720	40,076	28,260	11,632	1,286,235
June . . .	976,267	121,611	111,333	64,799	63,331	7,966	1,345,306	45,775	43,004	1,962	1,306,409
Sept. . .	963,492	124,071	113,480	61,529	63,235	7,929	1,333,735	30,873	29,642	1,126	1,295,500
Dec. . . .	962,997	113,570	118,879	63,396	64,326	13,085	1,336,253	23,550	21,287	176	1,295,244
2002 – Jan. . . .	973,438	122,700	120,367	63,402	62,219	12,917	1,355,044	37,087	36,748	205	1,312,832
Feb. . . .	977,655	125,416	121,567	63,418	62,435	12,895	1,363,387	42,358	42,061	205	1,321,315
Mar. . . .	991,579	128,690	121,436	63,913	63,014	12,791	1,381,424	45,423	45,124	205	1,338,625
Apr. . . .	991,708	131,206	121,512	62,309	63,293	12,823	1,382,851	42,215	41,747	205	1,340,288
May . . .	989,125	135,122	121,542	61,700	63,588	11,743	1,382,819	31,026	30,759	205	1,339,317
June . . .	989,672	136,854	121,234	61,621	64,020	11,632	1,385,032	42,518	42,239	205	1,341,504
July . . .	996,242	133,776	121,533	59,292	64,319	12,968	1,388,130	43,282	43,026	209	1,345,204
Aug. . . .	995,182	131,877	122,331	58,694	64,731	12,726	1,385,541	37,865	37,603	209	1,342,869
Sept. . .	995,990	133,283	122,369	59,687	65,016	12,625	1,388,970	31,998	31,728	209	1,345,973
Oct. . . .	1,002,320	135,054	123,064	58,766	65,241	12,619	1,397,065	31,931	31,624	209	1,353,259
Nov. . . .	1,006,484	134,160	123,535	59,854	65,318	15,112	1,404,464	37,223	36,963	209	1,360,407
Dec. . . .	988,637	113,329	126,259	60,312	41,187	12,617	1,342,342	21,332	20,618	633	1,296,505

(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. In December 1998 borrowing from the UIC is estimated to have amounted to around e1,200 million and claims on the UIC to e350 million.

ECB interest rates

Date announced	Standing facilities			Main refinancing operations			*Memorandum item*: official reference rate for instruments linked to the former official discount rate		
							Order issued by the Governor		
	Date effective	Deposit facility	Marginal lending facility	Date effective	Fixed rate *(fixed rate tenders)*	Minimum bid rate *(variable rate tenders)*	Date issued	Date effective	Rate
22.12.1998	1.1.1999	2.00	4.50	7.1.1999	3.00	–			
22.12.1998	4.1.1999	2.75	3.25	–	–	–			
22.12.1998	22.1.1999	2.00	4.50	–	–	–	23.12.1998	28.12.1998	3.00
8.4.1999	9.4.1999	1.50	3.50	14.4.1999	2.50	–	9.4.1999	14.4.1999	2.50
4.11.1999	5.11.1999	2.00	4.00	10.11.1999	3.00	–	6.11.1999	10.11.1999	3.00
3.2.2000	4.2.2000	2.25	4.25	9.2.2000	3.25	–	4.2.2000	9.2.2000	3.25
16.3.2000	17.3.2000	2.50	4.50	22.3.2000	3.50	–	18.3.2000	22.3.2000	3.50
27.4.2000	28.4.2000	2.75	4.75	4.5.2000	3.75	–	28.4.2000	4.5.2000	3.75
8.6.2000	9.6.2000	3.25	5.25	15.6.2000	4.25	–	10.6.2000	15.6.2000	4.25
8.6.2000	–	–	–	28.6.2000	–	4.25	–	–	–
31.8.2000	1.9.2000	3.50	5.50	6.9.2000	–	4.50	1.9.2000	6.9.2000	4.50
5.10.2000	6.10.2000	3.75	5.75	11.10.2000	–	4.75	6.10.2000	11.10.2000	4.75
10.5.2001	11.5.2001	3.50	5.50	15.5.2001	–	4.50	10.5.2001	15.5.2001	4.50
30.8.2001	31.8.2001	3.25	5.25	5.9.2001	–	4.25	30.8.2001	5.9.2001	4.25
17.9.2001	18.9.2001	2.75	4.75	19.9.2001	–	3.75	17.9.2001	19.9.2001	3.75
8.11.2001	9.11.2001	2.25	4.25	14.11.2001	–	3.25	9.11.2001	14.11.2001	3.25
5.12.2002	6.12.2002	1.75	3.75	11.12.2002	–	2.75	6.12.2002	11.12.2002	2.75
6.3.2003	7.3.2003	1.50	3.50	12.03.2003	–	2.50	7.3.2003	12.3.2003	2.50

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
2002	3.15	3.25	3.37	3.47	3.26	3.27	3.30	3.32	3.35	3.49
2001 – 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
Oct.	2.97	3.03	2.89	–	2.97	3.29	3.30	3.26	3.17	3.10
Nov.	2.88	2.87	2.87	–	2.87	3.29	3.22	3.11	3.04	2.99
Dec.	–	2.73	2.76	–	2.74	3.06	2.99	2.96	2.95	2.97
2003 – Jan.	2.59	2.61	2.42	2.54	2.54	2.79	2.85	2.84	2.75	2.73

(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
2002	1.25	1.30	3.13	2.72	2.32	2.59	3.90	3.38
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	3.54
Oct.	1.34	1.39	3.26	2.79	2.47	2.75	4.04	3.40
Nov.	1.35	1.39	3.25	2.75	2.43	2.69	3.98	3.30
Dec.	1.25	1.30	3.13	2.72	2.32	2.59	3.90	3.38
2003 – Jan.	1.15	1.20	2.96	2.66	2.15	2.40	3.81	3.23

Table a27

Bank interest rates: loans to resident customers in lire/euros

	Stocks				Disbursements		ABI prime rate
	Minimum for short-term loans	Average for short-term loans	Average for current account facilities	Average for medium and long-term loans	Average for medium and long-term loans to enterprises	Average for medium and long-term loans to consumer households	
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
2002	3.28	5.66	6.63	5.27	4.42	5.36	7.38
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	5.76	6.71	5.42	4.81	5.79	7.38
Oct.	3.47	5.79	6.75	5.37	4.67	5.71	7.38
Nov.	3.45	5.77	6.71	5.35	4.67	5.66	7.38
Dec.	3.28	5.66	6.63	5.27	4.42	5.36	7.38
2003 – Jan.	3.15	5.54	6.56	5.05	4.39	5.50	7.38

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 govern-ment	Other sectors	MFIs	General govern-ment	Other sectors		MFIs	General govern-ment	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	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	45,418	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. . .	7,421	226,512	55,165	943,326	71,627	115	12,602	60,278	46,654	154,690	12,292
Oct. . . .	7,084	237,307	54,344	948,231	71,992	116	12,454	70,945	46,959	154,637	12,284
Nov. . . .	6,989	252,786	55,528	950,676	74,464	115	12,387	67,864	47,456	151,392	12,123
Dec. . . .	9,566	285,834	56,363	979,584	72,827	110	13,876	71,406	48,040	145,094	13,127
2003 – Jan. . . .	6,799	295,607	56,635	990,458	76,340	111	15,194	66,953	49,040	163,587	15,297

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	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. . . .	225,096	7,325	644,071	113,342	9	9,925
Oct.	239,599	6,777	647,404	113,168	14	11,105
Nov.	255,832	6,788	648,580	114,837	30	9,836
Dec.	285,275	7,109	689,068	111,654	8	9,279
2003 – Jan.	283,330	7,357	662,436	122,007	808	11,696

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 govern-ment	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
4,039	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	165,584	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
5,346	8,012	7,390	11,902	46,769	34,580	6,331	11,020	7,940	48,008	161,999	1,939,977
4,757	7,984	7,409	12,015	47,156	35,660	6,343	11,545	8,738	48,757	156,458	1,963,177
4,802	6,661	7,290	12,035	46,516	40,867	6,350	11,615	8,816	48,887	172,427	1,998,046
4,456	5,692	8,333	11,354	42,179	38,105	6,692	11,073	6,818	49,992	185,600	2,066,123
5,767	13,771	9,551	13,611	41,892	38,389	6,611	10,649	7,673	49,575	200,088	2,133,598

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
171,121	26,164	334,672	133,633	260,372	1,878,155
165,597	27,891	336,453	136,123	280,848	1,883,897
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	1,924,808
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
141,453	39,200	362,980	146,216	250,360	1,939,977
145,017	40,376	364,077	147,720	247,920	1,963,177
147,219	41,387	364,817	147,019	261,700	1,998,046
146,026	41,966	367,969	146,172	261,601	2,066,129
147,042	88,060	367,584	148,098	295,734	2,134,152

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	438,230	44,577	5,818	57,148	76,075	12,481	317,688
2002	479,412	38,914	3,497	61,701	89,165	13,962	350,937
2001 – 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.	436,817	40,465	3,512	59,889	86,955	14,846	344,851
Oct.	438,558	40,006	3,475	59,989	88,908	13,917	346,886
Nov.	440,355	39,074	3,427	59,956	88,493	14,030	347,633
Dec.	479,412	38,914	3,497	61,701	89,165	13,962	350,937
2003 – Jan.	453,509	37,315	3,372	61,279	91,052	13,803	350,783

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	464,196	439,226	461,569	455,866	925,765	895,092	21,212	45,356	21,216
2002 – 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.	448,121	429,121	490,908	485,346	939,029	914,466	19,045	45,707	20,555
Sept.	446,333	427,433	495,747	490,203	942,079	917,636	19,689	46,151	20,927
Oct.	443,282	424,686	504,739	499,140	948,021	923,825	18,873	46,550	21,263
Nov.	444,243	426,255	506,176	500,636	950,419	926,891	18,437	46,629	21,532
Dec.	465,483	449,378	514,770	509,183	980,253	958,561	20,153	46,298	21,160

	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	116,933	12,010	3,459	60,934	38,225	40,827	36,113	157,760
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 – 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.	104,108	16,312	5,295	54,129	26,474	44,791	40,326	148,898
Sept.	106,500	17,373	5,377	54,233	27,661	45,276	40,787	151,776
Oct.	104,964	17,815	5,443	52,878	27,780	46,017	41,381	150,981
Nov.	99,939	17,949	5,350	50,149	25,491	46,876	41,825	146,816
Dec.	93,746	16,091	4,430	47,676	24,569	47,831	42,195	141,577

Table a31

Italian investment funds: securities portfolios and net assets (1)

(end-of-period market values; millions of euros)

	Residents							
	Government securities					Bonds	Shares	Total
		of which:						
		BOTs	CTZs	BTPs	CCTs			
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
2002 (2)	129,505	17,260	8,040	67,665	33,821	10,342	18,123	157,970
2000 – 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
Q3	125,071	16,716	7,784	62,146	35,545	10,101	17,756	152,929
Q4 (2) . . .	129,505	17,260	8,040	67,665	33,821	10,342	18,123	157,970
2001 – 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	26,206	150,859
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
Aug.	127,368	17,070	7,576	65,668	34,119	10,070	21,220	158,657
Sept.	125,071	16,716	7,784	62,146	35,545	10,101	17,756	152,929
Oct. (2) . .	129,797	20,189	8,491	63,761	34,546	9,893	18,761	158,451
Nov. (2) .	132,601	20,329	8,553	65,519	35,392	9,834	20,155	162,590
Dec. (2) .	129,505	17,260	8,040	67,665	33,821	10,342	18,123	157,970

(1) See the notes to the statistical tables. – (2) Provisional.

Table a31

Non-residents		Other financial assets	Total portfolio	Net assets	*Memorandum items:*		
	of which: shares				gross subscriptions	net subscriptions	
238,401	135,174	178	417,584	449,931	335,768	–6,895	 2000
210,577	102,854	151	369,881	403,689	218,576	–20,365	 2001
158,322	64,556	108	316,400	360,557	190,253	–12,339	.... (2) 2002
238,401	135,174	178	417,584	449,931	60,750	–1,355	.... Q4 – 2000
230,058	115,744	177	393,618	424,262	63,390	–9,548	.... Q1 – 2001
234,345	122,346	187	390,034	425,139	47,583	–4,099	.... Q2
196,040	89,663	89	348,995	386,634	51,299	–9,320	.... Q3
210,577	102,854	151	369,881	403,689	56,304	2,602	.... Q4
208,284	104,990	171	366,691	403,645	50,368	–1,065	.... Q1 – 2002
182,171	83,572	144	337,878	376,276	47,031	–7,376	.... Q2
162,545	64,681	111	315,585	387,475	46,198	–2,937	.... Q3
158,322	64,556	108	316,400	360,557	46,656	–962	...... (2) Q4
210,577	102,854	151	369,881	403,689	15,881	124	.... Dec. – 2001
210,392	100,788	156	367,724	402,125	15,652	–74	.... Jan. – 2002
206,086	99,860	159	364,961	400,421	16,080	–379	.... Feb.
208,284	104,990	171	366,691	403,645	18,636	–611	.... Mar.
194,027	97,460	164	345,051	397,012	16,196	–1,029	.... Apr.
196,195	93,966	155	352,229	389,915	15,324	–2,578	.... May
182,171	83,572	144	337,878	376,276	15,511	–3,768	.... June
171,125	76,040	137	326,850	366,145	17,357	–2,609	.... July
172,422	74,934	136	331,216	369,445	12,274	1,702	.... Aug.
162,545	64,681	111	315,585	387,475	16,567	–2,030	.... Sept.
164,008	68,226	112	322,571	361,973	19,004	–1,202	.... (2) Oct.
166,473	71,879	117	329,181	367,618	14,053	357	.... (2) Nov.
158,322	64,556	108	316,400	360,557	13,599	–117	.... (2) Dec.

Table 32

Italian investment funds: net purchases of securities (1)

(end-of-period market values; millions of euros)

	Residents					
	Government securities					Bonds
		of which:				
		BOTs	CTZs	BTPs	CCTs	
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
2002 (2)	6,314	3,036	4,079	–8,608	7,815	1,011
2000 – 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
Q3	1,730	–1,159	212	–437	3,226	244
Q4 (2)	4,425	507	240	5,357	–1,599	243
2001 – 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
Aug.	2,786	–2,152	–77	4,208	848	–43
Sept.	–2,785	–384	186	–3,950	1,423	62
Oct. (2)	5,120	3,442	711	1,956	–951	–168
Nov. (2)	2,743	123	57	1,714	830	–71
Dec. (2)	–3,439	–3,059	–528	1,688	–1,478	484

(1) See the notes to the statistical tables. – (2) Provisional.

Table a32

		Non-residents				
Shares	Total		*of which:* shares	Other financial assets	Total portfolio	
–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
–4,400	2,925	–15,916	–2,617	1,548	–11,443	. . . . (2) 2002
531	–2,088	6,663	9,433	6	4,581	. . . . Q4 – 2000
–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	–24	–2,854	. . . . Q1 – 2002
645	2,173	–4,106	614	547	–1,386	. . . . Q2
–3,528	–1,554	–4,759	–1,946	534	–5,779	. . . . Q3
–1,060	3,608	–5,525	–1,634	491	–1,426	. . . . (2) Q4
–572	–2,657	1,900	1,825	856	99	. . . . Dec.– 2001
46	–981	1,220	–195	133	372	. . . . Jan.– 2002
–198	855	–2,591	554	–320	–2,056	. . . . Feb.
–305	–1,177	–156	1,218	163	–1,170	. . . . Mar.
138	–1,392	386	–761	24	–982	. . . . Apr.
184	1,909	–1,134	371	289	1,064	. . . . May
323	1,656	–3,357	–224	234	–1,467	. . . . June
–18	1,937	–4,528	–359	484	–2,107	. . . . July
–47	2,696	798	–687	46	3,540	. . . . Aug.
–3,463	–6,186	–1,030	–900	4	–7,212	. . . . Sept.
–450	4,502	–3,110	–1,687	–76	1,316	. . . . (2) Oct.
–253	2,419	–1,255	–50	15	1,179	. . . . (2) Nov.
–357	–3,312	–1,158	103	552	–3,918	. . . . (2) Dec.

Table a33

Portfolio management services (1)

(end-of-period market values; millions of euros)

	Government securities				Bonds		Shares	
		of which:						
		BOTs	BTPs	CCTs	Italian	Foreign	Italian	Foreign
2000 - Q3								
Banks	48,328	1,598	24,693	16,977	5,093	12,362	9,107	5,205
Securities firms	8,911	151	5,525	2,504	1,062	2,614	2,548	1,420
Asset management cos	42,722	940	28,837	10,692	13,759	5,558	11,093	4,151
Total . . .	**99,961**	**2,689**	**59,055**	**30,173**	**19,914**	**20,534**	**22,748**	**10,776**
2000 - Q4								
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
Total . . .	**98,996**	**2,070**	**62,768**	**27,173**	**22,851**	**19,324**	**22,043**	**9,636**
2001 - Q1								
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
Total . . .	**105,819**	**2,046**	**71,093**	**26,402**	**27,704**	**19,593**	**23,735**	**9,878**
2001 - Q2								
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
Total . . .	**107,960**	**2,149**	**70,296**	**29,488**	**29,333**	**19,337**	**22,061**	**9,561**
2001- Q3								
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
Total . . .	**120,282**	**2,378**	**79,284**	**31,536**	**34,912**	**19,061**	**18,236**	**6,344**
2001 - Q4								
Banks	41,295	942	20,795	16,503	3,553	12,538	6,556	3,170
Securities firms	6,546	200	4,188	1,801	717	2,375	1,412	958
Asset management cos	76,310	1,250	59,429	12,437	29,201	3,124	13,030	3,757
Total . . .	**124,151**	**2,392**	**84,412**	**30,741**	**33,471**	**18,037**	**20,998**	**7,885**
2002 - Q1 (2)								
Banks	38,791	821	19,294	15,941	3,415	12,232	6,492	4,003
Securities firms	7,468	420	4,186	2,047	717	3,128	1,383	1,238
Asset management cos	79,758	1,272	59,137	15,863	30,255	3,248	12,859	3,586
Total . . .	**126,017**	**2,513**	**82,617**	**33,851**	**34,387**	**18,608**	**20,734**	**8,827**
2002 - Q2 (2)								
Banks	39,258	1,477	17,453	17,447	3,126	13,409	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
Total . . .	**132,130**	**4,182**	**84,982**	**35,506**	**35,186**	**20,740**	**17,051**	**7,304**
2002 - Q3 (2)								
Banks	40,797	1,885	17,322	18,463	3,266	14,017	3,263	2,620
Securities firms	7,318	536	3,659	2,106	776	4,413	885	803
Asset management cos	92,538	2,626	68,273	18,132	33,624	3,260	8,206	2,176
Total . . .	**140,653**	**5,047**	**89,254**	**38,701**	**37,666**	**21,690**	**12,354**	**5,599**

(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
2000- Q3							
. . . . Banks	118,385	19,676	1,524	219,681	226,072	15,644	–1,367
. . . . . . Securities firms	11,291	12,632	169	40,647	42,037	3,124	854
Asset management cos	49,362	2,129	1,668	130,442	134,825	10,296	4,848
. . . Total	**179,038**	**34,437**	**3,361**	**390,770**	**402,934**	**29,064**	**4,335**
2000- Q4							
. . . . Banks	110,419	21,535	2,032	207,654	213,367	16,347	–6,903
. . . . . . Securities firms	10,466	12,090	150	37,895	39,346	3,199	–1,186
Asset management cos	49,861	2,155	88	136,095	139,399	20,100	8,338
. . . Total	**170,746**	**35,780**	**2,270**	**381,644**	**392,112**	**39,646**	**249**
2001- Q1							
. . . . Banks	99,509	22,850	1,693	194,876	201,333	14,230	–7,746
. . . . . . Securities firms	9,588	13,175	818	36,569	37,533	3,902	–565
Asset management cos	48,670	1,859	94	153,539	157,989	37,493	20,371
. . . Total	**157,767**	**37,884**	**2,605**	**384,984**	**396,855**	**55,625**	**12,060**
2001- Q2							
. . . . Banks	95,471	25,445	1,597	194,076	199,261	13,457	–2,865
. . . . . . Securities firms	9,470	16,848	813	40,333	41,373	6,193	3,548
Asset management cos	50,107	2,034	112	155,740	159,843	9,577	955
. . . Total	**155,048**	**44,327**	**2,522**	**390,149**	**400,477**	**29,227**	**1,638**
2001- Q3							
. . . . Banks	81,797	24,510	1,170	174,842	184,069	9,315	–6,846
. . . . . . Securities firms	8,259	16,036	780	37,824	38,904	3,470	682
Asset management cos	50,351	1,709	92	170,871	175,915	31,998	22,298
. . . Total	**140,407**	**42,255**	**2,042**	**383,537**	**398,888**	**44,783**	**16,134**
2001- Q4							
. . . . Banks	79,060	30,064	1,793	178,027	184,076	27,431	–4,934
. . . . . . Securities firms	8,239	17,489	639	38,376	39,429	3,864	–812
Asset management cos	54,461	2,287	73	182,242	186,901	13,703	3,257
. . . Total	**141,760**	**49,840**	**2,505**	**398,645**	**410,406**	**44,998**	**–2,489**
2002 - Q1 (2)							
. . . . Banks	73,359	32,571	1,996	172,858	179,760	21,019	–5,126
. . . . . . Securities firms	8,339	18,372	97	40,741	41,925	5,532	2,472
Asset management cos	57,399	2,000	55	189,161	195,152	18,264	6,496
. . . Total	**139,097**	**52,943**	**2,148**	**402,760**	**416,837**	**44,815**	**3,842**
2002 - Q2 (2)							
. . . . Banks	62,701	35,230	1,485	163,549	170,761	17,232	–3,290
. . . . . . Securities firms	7,738	17,050	83	40,054	41,719	5,237	1,938
Asset management cos	55,828	1,722	54	190,699	196,226	17,852	6,054
. . . Total	**126,267**	**54,002**	**1,622**	**394,302**	**408,706**	**40,321**	**4,702**
2002- Q3 (2)							
. . . . Banks	56,164	32,353	1,967	154,449	161,448	21,787	–4,402
. . . . . . Securities firms	5,425	14,855	216	34,687	36,212	1,726	–3,870
Asset management cos	53,530	1,704	58	195,096	201,953	26,536	8,073
. . . Total	**115,119**	**48,912**	**2,241**	**384,232**	**399,613**	**50,049**	**–199**

Table a34

Italian components of euro-area monetary aggregates: residents of the euro area

(end-of-period stocks; millions of euros)

	Currency held by the public	Overnight 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						
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	55,383	144,821	692,882
Sept. . . .	55,448	449,462	504,910	54,198	144,576	703,684
Oct.	57,210	451,851	509,061	54,327	145,014	708,402
Nov.	58,265	453,651	511,916	52,874	144,967	709,757
Dec.	61,543	493,380	554,923	50,668	147,748	753,339
2003 – Jan.	(58,082)	(467,332)	(525,414)	(51,101)	(152,012)	(728,527)

Table a34

Repurchase agreements	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 held by the public)		
				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	9,991	802,089	438,361	637,684	759,007
88,435	30,684	9,983	815,289	439,998	639,193	768,295
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	10,829	833,196	437,842	638,046	778,360
87,139	39,008	11,213	841,044	449,462	648,236	785,596
89,080	40,161	10,172	847,815	451,851	651,192	790,605
88,709	41,147	9,659	849,271	453,651	651,492	791,006
89,309	41,690	9,814	894,152	493,380	691,796	832,609
(91,252)	(87,811)	(9,880)	(917,470)	(467,332)	(670,445)	(859,388)

Financial assets: residents of Italy

(end-of-period stocks; millions of euros)

	Total monetary assets	Other deposits	BOTs		Medium and long-term securities			
					Government securities		Other debt securities	
				held by non-money-market funds		held by non-money-market funds		held by non-money-market funds
1999	719,635	52,708	35,642	5,996	408,617	146,686	232,825	7,695
2000	748,965	48,150	31,167	2,979	413,739	113,326	260,835	8,764
2001 – Jan. . . .	729,182	47,278	39,049	2,268	426,209	109,958	263,327	7,892
Feb. . .	727,963	46,812	38,829	2,223	422,343	105,661	266,819	7,839
Mar. . .	738,655	46,001	41,347	1,867	422,018	103,424	272,891	7,929
Apr. . . .	746,290	45,485	40,937	2,706	426,654	102,570	277,790	7,778
May . . .	760,321	44,685	40,135	2,833	431,722	97,586	284,436	8,233
June . . .	759,158	44,310	38,542	3,797	429,135	96,036	289,826	8,041
July . . .	759,490	43,674	39,360	3,926	431,982	96,283	293,448	9,316
Aug. . . .	755,039	42,841	41,148	4,892	436,224	95,974	295,306	9,606
Sept. . . .	769,463	42,822	44,123	5,289	431,671	96,448	298,507	9,775
Oct. . . .	776,690	42,701	46,593	5,864	432,914	99,121	301,208	9,930
Nov. . . .	769,302	42,653	46,065	6,661	432,832	99,311	303,837	9,809
Dec. . .	805,761	43,370	36,929	5,772	424,772	96,807	311,047	10,836
2002 – Jan. . . .	791,245	*(41,157)*	47,236	6,365	441,483	95,235	313,857	10,051
Feb. . .	793,735	*(41,102)*	50,059	6,655	453,275	94,913	318,838	9,516
Mar. . .	806,684	*(41,018)*	54,585	7,900	462,802	92,801	322,893	9,774
Apr. . . .	811,987	*(40,964)*	52,652	9,475	464,054	85,873	323,503	9,308
May . . .	823,843	*(41,045)*	51,196	10,383	466,128	90,757	327,905	9,460
June . . .	828,159	*(40,830)*	50,526	10,293	459,284	90,543	332,604	9,595
July . . .	830,235	(41,034)	47,713	10,569	461,278	84,425	337,634	8,993
Aug. . . .	824,742	(41,170)	43,310	5,544	467,791	72,110	338,725	8,263
Sept. . . .	833,547	(41,037)	42,470	5,256	455,623	70,418	339,943	8,288

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 funds
44,642	905	1,494,975	678,654	231,718	2,173,629	475,301	462,243
44,280	937	1,548,074	722,514	239,260	2,270,588	449,931	439,891
44,833	950	1,550,827	736,608	255,367	2,287,435	453,793	443,401
40,143	950	1,543,861	727,185	240,319	2,271,046	433,916	422,510
37,259	963	1,559,136	736,397	234,523	2,295,533	424,262	411,649
39,191	964	1,577,312	754,219	243,357	2,331,531	433,291	418,843
36,750	968	1,599,016	759,341	242,939	2,358,358	432,961	417,970
34,917	961	1,596,849	755,382	239,364	2,352,231	425,139	409,376
33,680	986	1,602,711	737,114	229,339	2,339,824	417,640	400,849
31,147	1,008	1,602,712	718,129	217,938	2,320,841	408,625	390,733
25,102	1,003	1,612,691	701,953	200,622	2,314,644	386,634	364,752
25,526	1,001	1,626,632	714,772	205,639	2,341,404	396,166	372,666
26,258	1,004	1,621,951	729,311	212,828	2,351,262	402,451	378,095
26,053	984	1,648,916	732,995	216,010	2,381,911	403,689	377,586
26,071	(1,014)	*(1,662,062)*	735,593	215,511	*(2,397,654)*	402,125	374,303
25,696	(986)	*(1,683,690)*	719,054	211,802	*(2,402,744)*	400,421	371,311
26,866	(972)	*(1,715,820)*	721,864	213,650	*(2,437,683)*	403,645	372,961
24,397	(984)	*(1,718,541)*	714,084	207,170	*(2,432,625)*	397,012	364,823
24,747	(1,002)	*(1,735,868)*	700,866	201,019	*(2,46,734)*	389,915	356,203
23,307	(990)	*(1,735,700)*	670,919	186,530	*(2,406,619)*	376,276	341,194
21,267	(997)	*(1,740,158)*	641,062	158,341	*(2,381,220)*	366,145	330,106
21,220	(999)	*(1,737,957)*	658,717	171,942	*(2,396,674)*	369,445	331,362
17,756	(996)	*(1,731,372)*	642,896	161,667	*(2,374,268)*	387,475	348,467

Table a36

Credit: residents of Italy

(end-of-period stocks; millions of euros)

	Finance to other residents					
	Bank loans	Bonds placed domestically		Total domestic finance	External finance	Total
			held by Italian MFIs			
	A	B		C=A+B	D	E=C+D
1999	761,349	14,047	5,450	775,396	158,535	933,932
2000	862,250	17,579	7,995	879,829	180,508	1,060,338
2001 – Jan.	860,542	17,430	8,120	877,972	182,729	1,060,702
Feb.	859,900	16,146	8,018	876,045	185,083	1,061,128
Mar.	874,951	18,060	7,883	893,011	185,727	1,078,738
Apr.	881,074	18,473	8,314	899,547	187,218	1,086,765
May	873,099	22,678	9,627	895,776	193,268	1,089,044
June	887,530	25,680	9,608	913,209	192,233	1,105,442
July	896,686	27,095	9,594	923,781	191,812	1,115,593
Aug.	890,320	26,521	9,825	916,841	197,501	1,114,342
Sept. ...	896,353	27,860	9,932	924,213	198,924	1,123,136
Oct.	902,153	30,215	9,841	932,638	202,508	1,134,876
Nov.	917,127	30,340	10,444	947,467	200,744	1,148,211
Dec.	922,575	38,519	13,629	961,094	207,731	1,168,825
2002 – Jan.	922,274	38,176	12,639	960,450	208,922	1,169,372
Feb.	921,851	40,656	12,466	962,506	213,423	1,175,929
Mar.	925,028	40,671	12,564	965,699	217,805	1,183,504
Apr.	927,103	40,476	12,809	967,579	219,715	1,187,294
May	935,849	40,311	12,277	976,160	221,102	1,197,261
June	944,310	40,382	12,244	984,692	224,353	1,209,045
July	948,654	43,999	12,395	992,653	225,572	1,218,225
Aug.	940,650	44,217	12,155	984,867	226,796	1,211,663
Sept. ...	943,326	44,284	12,351	987,610	226,962	1,214,573

Table a36

	General government debt			Credit		
		held domestically		Total domestic	Total	*Memorandum item:* shares placed domestically, held by Italian MFIs
			held by Italian MFIs			
F	G			G+C	E+F	
1,273,219	1,202,485		300,126	1,977,882	2,207,150	28,559
1,290,399	1,206,019		269,893	2,085,849	2,350,737	34,641
1,302,809	1,215,517		270,992	2,093,490	2,363,510	34,704
1,313,409	1,223,140		272,882	2,099,186	2,374,537	34,425
1,325,720	1,234,472		271,796	2,127,482	2,404,458	35,759
1,332,697	1,238,549		276,350	2,138,096	2,419,463	38,646
1,341,587	1,244,032		273,901	2,139,808	2,430,631	39,585
1,345,306	1,253,271		275,830	2,166,481	2,450,758	39,482
1,337,667	1,243,890		269,912	2,167,672	2,453,260	36,737
1,331,061	1,238,545		267,402	2,155,386	2,445,403	35,312
1,333,735	1,243,357		273,205	2,167,570	2,456,871	32,516
1,343,420	1,248,861		276,231	2,181,229	2,478,296	33,929
1,345,467	1,249,585		274,933	2,197,052	2,493,678	35,781
1,336,253	1,242,203		272,208	2,203,298	2,505,078	36,882
(1,355,044)	(1,258,064)		277,561	(2,218,514)	(2,524,416)	37,262
(1,363,387)	(1,266,145)		279,092	(2,228,651)	(2,539,316)	37,011
(1,381,424)	(1,280,162)		286,792	(2,245,861)	(2,564,928)	39,628
(1,382,851)	(1,281,510)		283,183	(2,249,088)	(2,570,146)	45,340
(1,382,819)	(1,286,997)		285,488	(2,263,156)	(2,580,081)	46,403
(1,385,032)	(1,290,174)		282,172	(2,274,866)	(2,594,077)	49,418
(1,388,130)	(1,292,709)		273,825	(2,285,362)	(2,606,355)	41,189
(1,385,541)	(1,289,734)		270,955	(2,274,601)	(2,597,204)	40,693
(1,388,970)	(1,291,176)		275,813	(2,278,786)	(2,603,542)	39,265

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)
June 2000									
Banks in the Centre and North	87,459	27,536	23,303	110,068	10.4	25,995	5	627	0.8
Banks in the South	5,451	780	663	6,108	14.2	2,663	1	. .	. .
Total . . .	**92,910**	**28,316**	**23,965**	**116,176**	**1.,5**	**28,658**	**6**	**627**	**0.8**
December 2000									
Banks in the Centre and North	87,808	32,629	27,653	114,706	10.1	24,022	1	8	. .
Banks in the South	3,611	392	247	3,901	17.2	2,086	2	1	. .
Total . . .	**91,419**	**33,021**	**27,900**	**118,607**	**10.2**	**26,108**	**3**	**9**	. .
June 2001									
Banks in the Centre and North	94,420	35,598	30,821	123,366	10.4	29,631	1	19	. .
Banks in the South	3,723	378	230	3,973	18.1	2,212	–	–	–
Total . . .	**98,143**	**35,976**	**31,051**	**127,339**	**10.6**	**31,843**	**1**	**19**	. .
December 2001									
Banks in the Centre and North	94,472	38,907	34,104	125,996	10.5	31,671	3	482	0.5
Banks in the South	2,974	273	183	3,233	18.1	1,817	3	10	. .
Total . . .	**97,446**	**39,180**	**34,287**	**129,229**	**10.6**	**33,488**	**6**	**492**	**0.5**
June 2002									
Banks in the Centre and North	94,842	40,777	36,121	130,556	11.1	37,436	3	38	. .
Banks in the South	2,933	220	146	3,149	18.5	1,789	2	3	. .
Total . . .	**97,775**	**40,997**	**36,267**	**133,704**	**11.2**	**39,225**	**5**	**41**	. .

(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; 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 price indexes (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. 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.

Tables a21, a22 and a23

The figures for the general government borrowing requirement and debt take account of the decision adopted by Eurostat on 3 July 2002 concerning the accounting treatment of securitizations. Eurostat established that: a) the securitizations of future revenues are always to be considered loans; b) the securitizations of the proceeds of sales of real or financial assets are to be considered loans if the price initially paid by the special purpose vehicle is less than 85 per cent of the market value of the assets transferred.

The Eurostat rules were applied immediately to the securitizations carried out in December 2001 of lotto and enalotto receipts and of sales of property owned by the state and other public entities. Both transactions were accounted for as loans, the first because it involved future revenues and the second because the initial payment was less than 85 per cent of the market value of the buildings sold.

When Italy sent the European Commission its report under the excessive deficit procedure in February 2003, the Eurostat rules were applied to the other securitizations carried out in the period 1999-2002. These included three securitizations of INPS social security contributions (known as INPS1, INPS2 and INPS3), one of INAIL contributions, one of Cassa Depositi e Prestiti claims on bodies outside general government, one of the proceeds of sales of property owned by the state and other public entities, and one of state transfers to the Lazio Region drawing on the National Health Fund.

The last of these transactions was considered a loan because it involved future revenues.

The INPS1 and INAIL transactions were accounted for as loans since in both cases the price paid by the special purpose vehicle was less than 85 per cent of the value of the claims transferred.

The INPS2 and INPS3 transactions involved both social security contributions that had fallen due after the INPS1 transaction and the revaluation of claims that had already been securitized. In the case of INPS2 the securitization of the new claims was accounted for as a loan because the price paid by the special purpose vehicle was less than 85 per cent of the value of the claims transferred, while in the case of INPS3 it was accounted for as a sale. As regards the revaluation of claims that had already been securitized, it was deemed correct to classify as a loan only the part of the payment made by the special purpose vehicle that exceeded the balance on its account with the Treasury at the time of the transaction (the balance reflected the receipts from the recovery of the claims transferred in the INPS1 transaction; since this had been accounted for as a loan, these receipts belong to general government).

The securitization of Cassa Depositi e Prestiti claims on bodies outside general government and that of the sales of property owned by the state and other public entities, which were carried out late in 2002, were accounted for as sales.

Compared with the figures released previously, the revisions led to the following changes: a) the debt increased by €4.1 billion in 1999, €3.5 billion in 2000 and €0.8 billion in 2001; b) the borrowing requirement increased by €4.1 billion in 1999 and decreased by €0.6 billion in 2000 and €2.7 billion in 2001.

The securitizations classified as loans are included under “Other central government operations” in Table a21, “Other” in Table a22 and “Other domestic debt” in Table a23.

Table a21

The figures for the budget exclude 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.

The tax receipts of the State budget shown in this table do not correspond to the amounts actually paid. In fact the monthly flows are observed at the time they are included in the budget accounts, which, as of May 1998, does not coincide with the time they are paid. From that date, following the introduction of the single tax payment form (Legislative Decree 241/1997) and the single mandate procedure (Ministerial Decree 183/1998), the main taxes are paid without distinction into a “Collection account” at the Treasury, together with Irap and social security contributions, and subsequently allocated among the different budget items. Furthermore, owing to the new method of paying taxes the monthly figures of the “Receipts” and “Payments” series are affected by the leads and lags with which tax refunds and collection charges are entered in the accounts. The flows shown in the sub-item “Collection accounts” show the changes in receipts pending the allocation of central government taxes, Irap due to the regions and social security contributions paid using the single mandate procedure but due to INPS. A negative flow indicates that the amounts booked in the month exceeded the revenue received.

The 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 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.

Table a22

The sub-item “Lending by banks - Non-resident banks” does not include loans raised abroad indirectly via resident banks. The sub-item “Change in central bank current accounts” includes the Treasury payments account (Law 483/1993) and the sinking fund for the redemption of government securities (Laws 432/1993 and 110/1997). “Medium and long-term securities” and “Lending by banks” include the corresponding financial instruments related to operations entered into by the State Railways with the cost borne by the government.

Table a23

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 assigned to the Bank of Italy in 1994 in connection with the closure of the Treasury’s current account with the Bank and converted in December 2002 into other BTPs with a higher yield.

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 accounting supervisory reports; those of lending by non-resident banks are provided directly by the borrowers. In the same way as for the borrowing requirement, the figures for "Medium and long-term securities" and "Lending by banks" include the corresponding financial instruments related to operations entered into by the State Railways with the cost borne by the government. December 1998 saw the completion of the transfer of the reserves held by the UIC to the Bank of Italy in conformity with Legislative Decrees 43/1998 and 319/1998. 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. The items "gross inflow" and "net inflow" are calculated as the sum of monthly flows. For asset management companies the division between Italian and foreign securities refers to securities denominated in respectively euros and other currencies.

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 lira banknotes and Treasury lira 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. As of January 2003, the item "Currency in circulation" no longer includes notes and coins denominated in lire.

"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 coins 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, 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	—	*Associazione bancaria italiana* Italian Bankers' Association
BI	—	*Banca d'Italia* Bank of Italy
BOT	—	*Buoni ordinari del Tesoro* Treasury bills
BTP	—	*Buoni del Tesoro poliennali* Treasury bonds
CCT	—	*Certificati di credito del Tesoro* Treasury credit certificates
CIP	—	*Comitato interministeriale prezzi* Interministerial Committee on Prices
CIPE	—	*Comitato interministeriale per la programmazione economica* Interministerial Committee for Economic Planning
Confindustria	—	*Confederazione generale dell'industria italiana* Confederation of Italian Industry
Consob	—	*Commissione nazionale per le società e la borsa* Companies and Stock Exchange Commission
CTE	—	*Certificati del Tesoro in ECU* Treasury certificates in ecus
CTO	—	*Certificati del Tesoro con opzione* Treasury option certificates
CTZ	—	*Certificati del Tesoro* zero-coupon Zero coupon Treasury certificates
ICI	—	*Imposta comunale sugli immobili* Municipal property tax
Iciap	—	*Imposta comunale per l'esercizio di imprese e di arti e professioni* Municipal tax on businesses and the self-employed
Ilor	—	*Imposta locale sui redditi* Local income tax
INAIL	—	*Istituto nazionale per l'assicurazione contro gli infortuni sul lavoro* National Industrial Accidents Insurance Institute
INPS	—	*Istituto nazionale per la previdenza sociale* National Social Security Institute
Irap	—	*Imposta regionale sulle attività produttive* Regional tax on productive activities
Irpef	—	*Imposta sul reddito delle persone fisiche* Personal income tax
Irpeg	—	*Imposta sul reddito delle persone giuridiche* Corporate income tax
ISAE	—	*Istituto di studi e analisi economica* Institute for Economic Research and Analysis
Isco	—	*Istituto nazionale per lo studio della congiuntura* National Institute for the Study of the Economic Situation
Istat	—	*Istituto nazionale di statistica* National Institute of Statistics
MIF	—	*Mercato italiano dei* futures Italian Futures Market
MTS	—	*Mercato telematico dei titoli di Stato* Screen-based market in government securities
SACE	—	*Istituto per i servizi assicurativi del commercio estero* Export Credit Insurance Institute
UIC	—	*Ufficio italiano dei cambi* Italian Foreign Exchange Office

"ARTICLES" AND "DOCUMENTS" PUBLISHED IN EARLIER ISSUES OF THE ECONOMIC BULLETIN

TITLE	ISSUE
ARTICLES	
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Bank of Italy regulation on Italian securities firms	No. 31, October 2000
Regulatory changes concerning rules of open-end and closed-end investment funds	No. 33, October 2001
New regulation on capital requirements for asset management companies specializing in high-tech venture capital funds	No. 33, October 2001
Bank of Italy Regulation of 31 December 2001 concerning the marketing in Italy of units or shares of non-harmonized foreign collective investment undertakings	No. 34, March 2002
Survey on bank loan recoveries	No. 34, March 2002
Supervisory instructions governing markets and support structures	No. 34, March 2002
The Interbank Database on Irregular Cheques and Payment Cards	No. 35, November 2002
Memorandum of the Bank of Italy on the Consolidated Law on Financial Intermediation	No. 35, November 2002
Bank of Italy Regulation of 17 June 2002 concerning the possibility for Italian investment firms (SIMs) to use internal models for calculating capital requirements	No. 35, November 2002

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