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SYMBOLS AND CONVENTIONS

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

In the following tables:

— the phenomenon in question does not occur;

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

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

( ) provisional;

( ) estimated.

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Economic Developments and Policies

THE WORLD ECONOMY AND INTERNATIONAL FINANCE

In 2004 world output expanded by 5 per cent, the highest value since 1976; world trade in goods and services increased by nearly 10 per cent. The rise in the price of oil was steeper and more protracted than expected, but it had only a limited impact on economic activity.

The large growth gaps between the main regions of the world showed little change from the previous year. Output expanded at a robust pace in the United States and in the emerging Asian economies; in China it increased by 9.5 per cent. By contrast, growth in the euro area has remained halting; in Japan the economic expansion under way since 2003 came to a stop.

After expanding at a rapid pace in the first half of the year, world output slowed in the second. Considering only the G7 countries, the increase in trade fell from an annualized rate of 9.8 per cent in the first six months to 7.9 per cent in the rest of the year.

In the United States, despite the waning of the expansionary impetus of economic policies, GDP growth was strong, amounting to about 4 per cent in the last two quarters of the year; it was 4.4 per cent for the year as a whole. The recovery in investment strengthened; the improvement in labour market conditions drove consumption.

The deficit in the US balance of payments on current account amounted to about $650 billion for the year, equal to 5.5 per cent of GDP. The imbalance has been worsening since the mid-1990s and the US net foreign debtor position has risen from 4.6 per cent of GDP in 1996 to an estimated 25 per cent now. Although the Federal Reserve pointed out that so far there has been no difficulty financing the deficit, it did stress that international investors cannot continue indefinitely acquiring new dollar assets at the same rate as in the past few years.

In response to concerns about the deterioration in the US external accounts, the dollar, which had been weakening since February 2002, depreciated more rapidly in the last quarter of 2004. It then picked up somewhat, settling at $1.33 to the euro and at ¥104.2 to the dollar at the start of the second week in March (Figure 1).

Since June of last year the Federal Reserve has been taking steps to make monetary conditions progressively less accommodating. With no major increases in either current or expected inflation, the target for the federal funds rate has been gradually raised from 1 to 2.5 per cent.

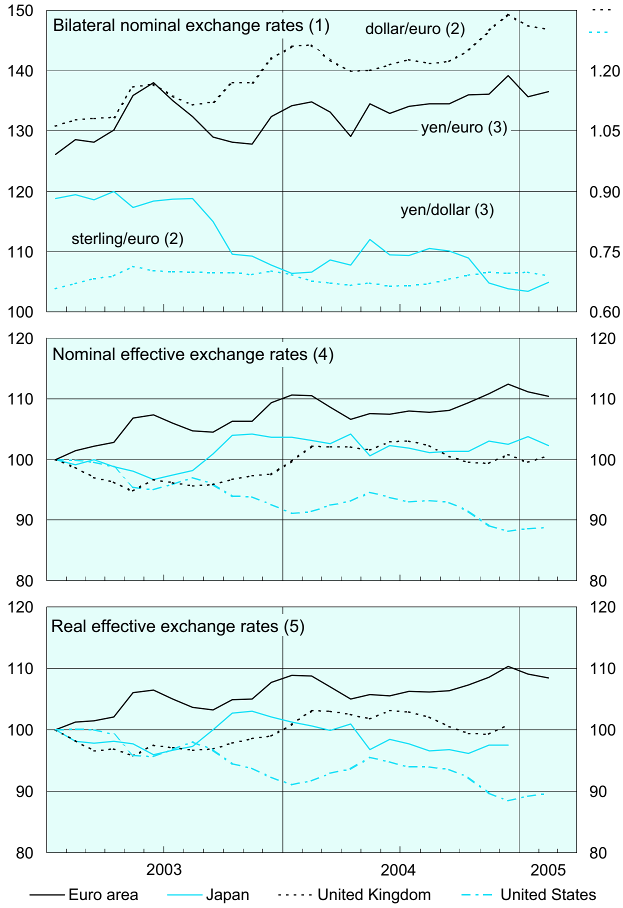
In Japan, as the impetus from exports and investments waned, output declined from the second quarter on. Consumption, which had grown at a fast pace in the first quarter, fell in the third and fourth. There was greater uncertainty regarding a rapid recovery of the economy.

In the euro area economic activity slackened in the second half of 2004. The substantial contribution made by foreign trade in the first two quarters turned negative in the third and fourth. For the year as a whole output growth was 2 per cent. Italy and Germany, whose economies are hampered by considerable structural rigidities, continued to post slower growth than the other countries of the area.

Figure 1

Exchange rates of the leading currencies and indicators of competitiveness

(monthly averages)



Sources: ECB, Federal Reserve and Bank of Italy calculations.

(1) Units of the first currency per unit of the second. – (2) Right-hand scale. – (3) Left-hand scale. – (4) Indices, January 2003=100. A rise indicates an appreciation. – (5) Indices, January 2003=100. Based on producer prices of manufactured goods for the euro area, Japan and the United Kingdom and consumer prices for the United States. A rise indicates a loss of competitiveness.

In the United Kingdom economic activity slackened in the third quarter but picked up in the fourth. In 2004 GDP growth was 3.1 per cent. The rise in house prices, which had averaged more than 17 per cent a year in real terms from 2000 to the middle of 2004, decelerated brusquely, accompanied by a slowdown in the growth of private consumption. The real-estate boom was dampened, among other things, by the action of the Bank of England, which raised the repo rate from 3.75 to 4.75 per cent between February and August.

The pace of economic growth was sustained in the emerging countries. For the first time in three years all the main Latin American economies recorded robust expansion. In Brazil, after the stagnation of 2003, output grew by 5.2 per cent; in Argentina the recovery under way since 2003 continued, with growth of 8.8 per cent.

Given the rise in the reference rates in the United States, in the second half of 2004 share and bond prices in the industrial and the emerging countries remained virtually stable at the high levels recorded at the beginning of the year. They were buoyed by persistent conditions of abundant liquidity, by the increase in corporate profits and, in some emerging countries, by the improvement in the underlying economic variables. Bond yields also reflect expectations of low inflation in the industrial countries.

Financial conditions in the leading countries remained extremely stable, and this was reflected in modest risk premiums. The financial position of firms improved; in the six main industrial countries the net wealth of households rose from 700 per cent of disposable income in 2001, when it had been affected by the generalized fall in share prices, to 763 per cent in 2003.

In the second half of 2004 the authorities of several Asian countries continued to buy dollars on a massive scale. The pegging of their currencies to the dollar has allowed some of them to improve their competitiveness in recent years, thus helping to widen their balance of payments surplus on current account (Table 1). The surplus for Japan and the main emerging economies of the region is around $360 billion, just over half the US external deficit.

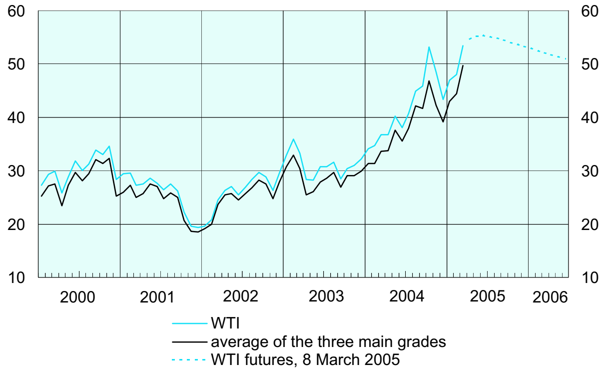
At the close of the summit meeting in London on 4-5 February 2005, the finance ministers and central bank governors of the G7 countries reiterated that excessive variability of exchange rates curtails growth, and in order to facilitate the adjustment of the international financial system they urged greater flexibility for excessively rigid currencies.

After easing in the last two months of 2004, the strains in the oil market worsened at the beginning of this year. The average price of the three main grades rose from just over $39 a barrel in December last year to almost $50 a barrel in the first week of March (Figure 2). These resurgent tensions can be ascribed in part to a larger than expected increase in demand in the United States and China and to a reduction, as of 1 January 2005, in effective production by the OPEC countries that was not offset by other producers. Futures prices on WTI grade contracts (on 8 March) indicate that the price of oil will reach $54.60 in April 2005, which is not far above the current level, before falling to $53.30 in December. In the year to December 2004 the price of oil rose by 30 per cent (23 per cent in real terms). The negative effect on global economic growth of an increase of that magnitude can be estimated at between 0.2 and 0.3 per cent of world GDP.

Figure 2

Crude oil: spot prices and futures (1)

(dollars per barrel)



Sources: IMF and Thomson Financial Datastream.

(1) For the spot price, average monthly data; for March 2005, the latest available data relate to 8 March. The three main grades are Dubai, Brent and WTI.

Table 1

Balance of payments on current account of the main Asian countries

(average annual data)

	1980-89		1990-97		1998-2003		2004 (1)		*Memorandum items* Reserve assets 2004 (2)		Net external position 2003 (2) (3)
	billion dollars	% of GDP	billion dollars	% of GDP	billion dollars	% of GDP	billion dollars	% of GDP	billion dollars	% of GDP	% of GDP
Hong Kong	1.9	3.7	-0.6	0.6	9.9	6.1	14.9	9.0	123.6	74.9	254.1
Singapore	..	-1.5	9.2	13.1	18.4	21.1	27.4	26.4	112.6	108.7	83.2
South Korea	1.9	..	-7.2	-1.6	17.1	4.0	27.6	4.1	199.1	29.8	-14.2
Taiwan	7.8	9.4	8.6	4.0	15.6	5.5	19.0	6.2	241.7	79.1	107.6
Total NIEs	11.7	3.2	10.1	1.5	61.0	6.0	88.9	7.2	677.0	54.4	61.1
Indonesia	-2.5	-2.7	-4.2	-2.5	6.6	4.4	7.3	2.8	36.3	14.1	-60.2
Malaysia	-0.8	-2.9	-4.4	-5.8	9.9	11.4	15.2	13.5	66.7	56.6	-28.0
Phlippines	-0.7	-1.9	-2.6	-4.0	4.1	5.5	3.9	4.6	16.1	18.6	-53.7
Thailand	-1.6	-3.9	-8.1	-6.2	9.5	7.8	7.3	4.4	49.8	30.5	-38.4
Total Asean-4	-5.6	-2.8	-19.3	-4.4	30.1	7.0	26.4	5.6	168.9	27.0	-46.2
China	-1.2	-0.3	9.2	1.5	27.7	2.4	70.0	4.2	609.9	37.0	15.3
India	-4.3	-1.8	-4.2	-1.3	-0.8	-0.3	1.7	0.3	131.2	20.0	-13.8
Total	**0.6**	**-0.1**	**-4.2**	**-0.1**	**118.1**	**3.8**	**187.0**	**4.7**	**1587.0**	**38.0**	**17.3**
Japan	42.1	2.1	95.1	2.2	115.0	2.7	171.9	3.7	844.5	18.1	37.6

Sources: National statistics and IMF.

(1) IMF estimates for Philippines, Hong Kong, India, Indonesia and Malaysia. – (2) End-of-period data. – (3) For India and Indonesia the data refer to 2002.

The deceleration in the dollar prices of non-energy raw materials in the middle of 2004 anticipated the slowdown in global industrial production. In the fourth quarter the prices of metals, those most cyclically sensitive, rose by 30 per cent from the year-earlier period (22 per cent in real terms).

Economic developments in the United States

In the fourth quarter of 2004 US economic activity continued to expand at a fast pace, rising by 3.8 per cent on an annual basis, compared with 4 per cent in the third quarter (Table 2). Growth was sustained

Table 2

Economic indicators for the main industrial countries

(at constant prices; annualized percentage change on previous period, except as indicated)

	GDP	Household consumption (1)	Government consumption	Investment (2)	Changes in stocks (3) (4)	National demand	Net exports (3) (5)
United States							
2003	3.0	3.3	2.8	5.1	-0.1	3.3	-0.4
2004	4.4	3.8	2.0	10.2	0.5	4.8	-0.6
H1	4.1	3.3	2.2	8.3	0.9	4.7	-0.9
H2	3.8	4.0	1.2	10.2	-0.1	4.3	-0.7
H3	4.0	5.1	0.7	8.8	-1.0	3.9	-0.1
Q4	3.8	4.2	1.2	9.7	0.6	5.0	-1.4
Japan							
2003	1.4	0.2	1.2	0.9	0.2	0.7	0.6
2004	2.6	1.5	2.6	1.8	0.1	1.9	0.8
H1	4.1	2.8	3.3	1.7	0.4	3.0	1.2
H2	-0.9	-0.7	1.9	-0.8	-0.3	-0.6	-0.2
H3	-1.1	-0.8	1.2	0.2	-0.1	-0.4	-0.6
Q4	-0.5	-1.3	1.7	2.1	0.1	0.2	-0.6
Euro area							
2003	0.5	1.0	1.6	-0.5	0.4	1.2	-0.6
2004	2.0	1.2	1.6	1.3	0.7	2.0	0.1
H1	2.4	1.6	1.3	-4.5	1.7	2.0	0.4
H2	1.1	0.6	1.3	0.8	1.6	2.5	-1.3
H3	1.0	0.3	1.5	0.8	3.0	3.8	-2.6
Q4	0.6	1.8	0.7	3.9	-0.6	1.3	-0.7
United Kingdom							
2003	2.2	2.3	3.5	2.2	..	2.5	-0.3
2004	3.1	3.1	4.6	5.9	-0.2	3.7	-0.9
H1	3.2	3.5	4.3	7.3	-0.4	3.8	-1.0
H2	2.8	2.3	3.9	5.1	0.1	3.1	-0.5
H3	2.1	2.3	4.7	3.7	..	3.0	-1.1
Q4	2.9	1.5	3.4	5.6	0.7	3.2	-0.5
Canada							
2003	2.0	3.1	3.8	4.9	0.9	3.6	-2.4
2004	2.8	3.5	2.5	6.2	..	3.8	-1.1
H1	3.4	3.7	2.9	5.6	-0.9	3.9	0.4
H2	3.0	3.3	1.8	5.5	3.1	3.4	-3.7
H3	2.9	3.6	1.5	5.2	5.8	3.5	-6.6
Q4	1.7	4.1	2.2	7.4	1.3	4.4	-4.6

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. For the United Kingdom and Canada, our estimates. – (4) Includes statistical discrepancies and, for the euro area and the United Kingdom, also includes changes in valuables. – (5) Goods and services.

by robust domestic demand, while the contribution of the foreign sector deteriorated significantly. For the year as a whole output grew by 4.4 per cent (3 per cent in 2003) under the continued stimulus of expansionary economic policies.

Labour productivity in the non-farm business sector rose by 4 per cent in 2004, compared with annual rates of 4.4 per cent in the two previous years and 2.5 per cent in the second half of the 1990s; it slowed sharply in the second half of the year, to an annualized rate of 2.1 per cent. However, the slowdown did not involve manufacturing, where productivity gains rose from 4.2 per cent in the first half-year to 5.5 per cent in the second.

The investment upswing strengthened, with growth rising from 13 per cent on an annual basis in the third quarter to 14 per cent in the fourth; the increase for the year was 10.6 per cent. Investment in digital capital decelerated in the third quarter, but subsequently rose by 17 per cent, driving aggregate capital expenditure in the fourth quarter. As a whole the other sectors recorded a slowdown in investment.

Investment expenditure was sustained as before by high corporate profits. However, these ceased to improve in the second half of 2004 as a result of the rise in unit labour costs caused by the slowdown in labour productivity (Figure 3).

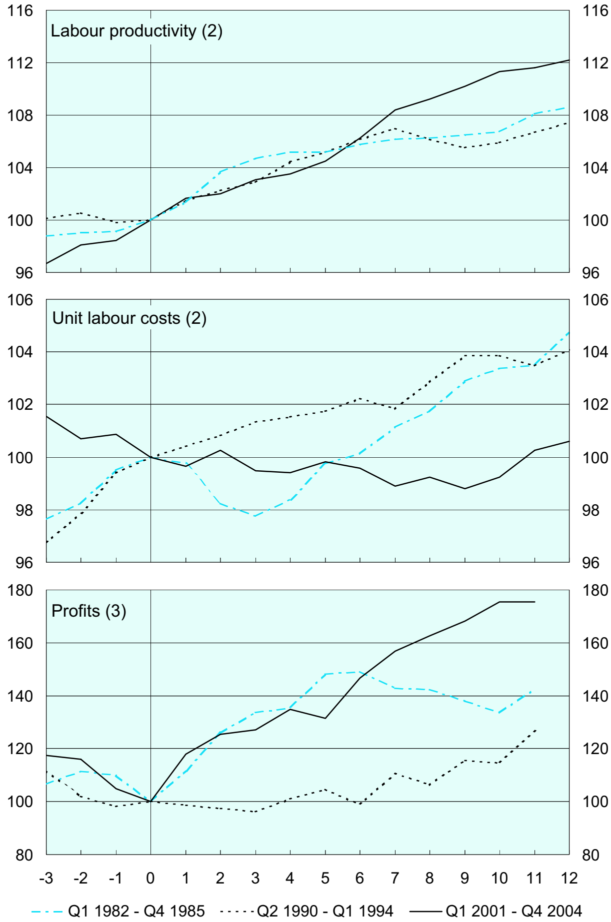
Consumption continued to grow rapidly in the fourth quarter, rising at an annualized rate of 4.2 per cent. The exceptionally large increase in households' disposable income (8.1 per cent) can be ascribed largely (40 per cent) to the distribution of a very large dividend ($3 a share, or 12 per cent) by Microsoft, whose capitalization accounts for 12 per cent of that of the Nasdaq 100 index. Over the year as a whole consumption growth was 3.8 per cent, compared with 3.3 per cent in 2003.

Non-farm payroll employment resumed rapid growth after a slowdown in the summer. The average monthly increase in employment rose from 130,000 in the third quarter to 190,000 in the fourth and 200,000 in the first two months of 2005. The rise was again concentrated in the service sector, where the total increase since May 2003 came to 2,800,000, or an average of 130,000 a month. Manufacturing employment continued to stagnate.

Figure 3

United States: labour productivity, unit labour costs and profits before and after the last three cyclical upturns (1)

(quarterly data; index, trough of each cycle=100)



Sources: Bureau of Economic Analysis and Bureau of Labor Statistics.

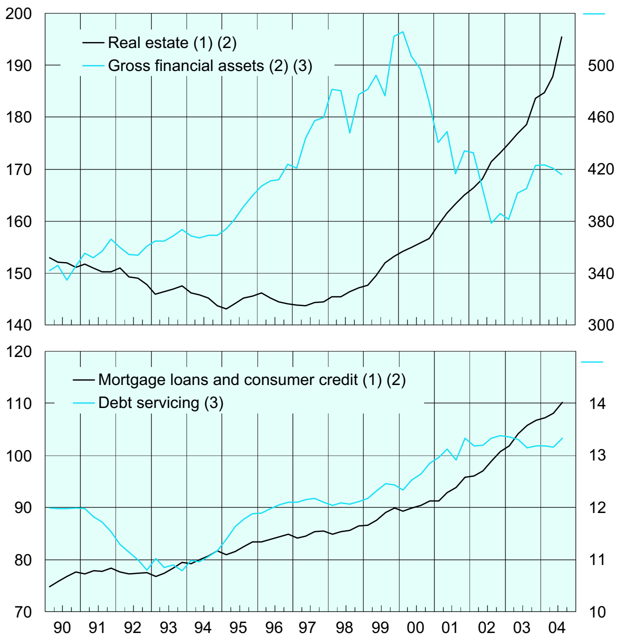
(1) The horizontal axis shows the number of quarters before and after the troughs. The latter, denoted by the vertical line, are calculated by the National Bureau of Economic Research. – (2) Non-farm business sector. – (3) Ratio to value added of the sector (non-financial corporations).

The ratio of households' net wealth to disposable income in the third quarter of 2004 remained at the high level recorded at the end of 2003 (550 per cent). In the same period the value of real-estate assets increased from 184 to 195 per cent, offsetting the large rise in households' debt to 110 per cent of disposable income (Figure 4).

Figure 4

United States: 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, moving average for the 4 quarters ending in the one indicated. – (3) Right-hand scale.

House prices, net of the change in consumer prices, rose at an average annual rate of 4.6 per cent between 1999 and 2003; in 2004 they rose by 7.9 per cent. In recent years the rise in property values, combined with low interest rates, has encouraged households to renegotiate their mortgage loans, driving up consumption and reducing the saving rate from some 4 per cent in 1998 to 1.2 per cent in 2004.

As a consequence of the strong growth in domestic demand and the rise in the price of energy imports, the deficit in the US balance of payments on current account widened from 4.8 per cent of GDP in 2003 to 5.4 per cent in the first half of 2004 and 5.6 per cent in the third quarter; the fourth quarter saw a further deterioration in the trade deficit. In 2004, while exports of goods rose by 9 per cent, virtually in line with the expansion in world trade, imports grew by 11.5 per cent, compared with 5.2 per cent in 2003. The depreciation of the dollar under way since the beginning of 2002, had little impact on import volumes, partly because exporters to the US adapted prices in order to hold their market shares. Between February 2002 and January of this year, while the dollar depreciated by 16 per cent in nominal effective terms, the dollar prices of imported goods, excluding oil products rose by just 6 per cent. Moreover, the large gap (70 per cent) between import and export volumes makes it difficult to adjust the US current deficit through changes in relative prices alone.

In 2004 the US fiscal policy became less expansionary. In the fiscal year to 30 September the budget deficit was virtually unchanged at 3.6 per cent of GDP, and according to the Congressional Budget Office's latest estimates it should fall slightly to 3.2 per cent in 2005. The Administration has recently announced its intention to reduce the deficit to 1.3 per cent of GDP by 2010, principally by putting a strong curb on discretionary expenditure.

The price strains recorded in the early months of 2004 subsequently eased. The twelve-month rate of increase in the consumer price deflator, excluding food and energy products, which rose to 1.5 per cent in March 2004 partly owing to the robust expansion of demand, remained close to that value thereafter. However, price tensions may resurface in the future as a result of the slowdown in labour productivity and the predicted shrinkage in idle capacity.

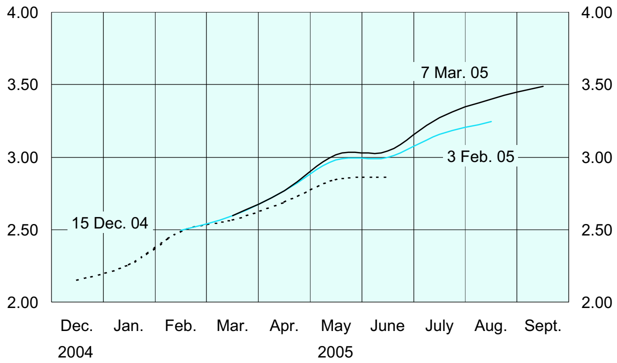
US monetary policy and developments in the financial and foreign exchange markets

From 30 June 2004 on, at each meeting of the Federal Open Market Committee the target for the federal funds rate was raised by 0.25 percentage points, bringing it from 1 per cent to the current 2.5 per cent. The US central bank has assessed that the risk of inflation and the risks associated with the performance of the economy remain balanced. Despite those increases, monetary conditions continue to be accommodating. The prices of futures contracts on federal funds indicate that the markets expect reference rates to be raised by a further 0.25 percentage points at each of the next three Open Market Committee meetings on 22 March, 3 May and 29-30 June (Figure 5).

Figure 5

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

(percentages)



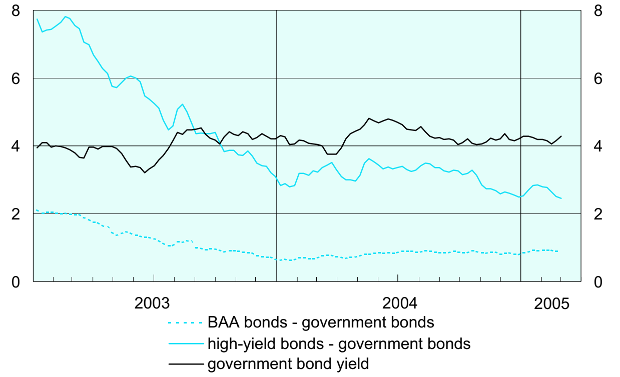
Source: Thomson Financial Datastream.

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

Figure 6

United States: bond yields and risk premiums (1)

(average weekly data; percentages and percentage points)



Sources: Lehman Brothers and Thomson Financial Datastream.

(1) Risk premiums are calculated as yield differentials between corporate bonds and 10-year government bonds.

Monetary policy action was reflected in short-term yields; despite an increase, real 3-month interest rates remained negative in the fourth quarter.

Longer-term yields declined between the end of June and the end of September, partly reflecting the firm stance of monetary policy; yields on 10-year Treasury bonds fell by 0.6 percentage points before edging up to stabilize at 4.3 per cent (Figure 6). The decline in long-term interest rates may be due in part to spreading expectations of low inflation. Deflated with the inflation expectations reported by Consensus Forecasts, long-term yields dropped below 2 per cent, one of the lowest levels in the last decade. Rates on mortgage loans moved in step with those on long-term Treasury bonds, stabilizing at around 5.7 per cent from September on.

In a situation of abundant liquidity and few cases of insolvency, the risk premium on US corporate bonds stabilized close to the low point registered at the end of 2003.

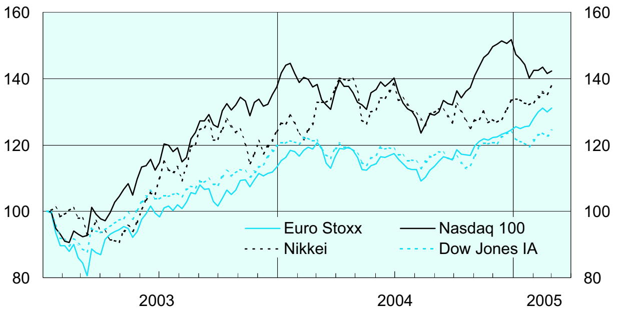
The main stock exchange indices remained virtually unchanged from March to September, then rose in the last quarter of 2004. In the early months of 2005 they stabilized just below the levels recorded at the beginning of 2004 (Figure 7). At the start of the second week in March the Dow Jones Industrial Average and the Nasdaq showed substantial gains of 45 and 60 per cent respectively above the lows recorded two years earlier.

In the second week in March the average price/earnings ratio, which had been declining since 2002, stood at around 20:1, slightly higher than the average recorded over the past thirty years (16:1).

Figure 7

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

(average weekly data; indices, 1st week of January 2003=100)



Source: Thomson Financial Datastream.

The cost of financing remained favourable, partly thanks to the good earnings and strong financial position of firms. Profits of non-financial corporations rose by 19 per cent between the third quarter of 2003 and the third quarter of 2004. Indebtedness, which had been declining since 2002, fell further to 84.2 per cent of value added; leverage (defined as the ratio of debt to the sum of debt and own equity at market value) was unchanged at 34 per cent.

In the fourth quarter of 2004 the dollar began to depreciate more rapidly; between mid-October and the end of the year the exchange rate dropped by 10 per cent against the euro, to a low of $1.36, and by 7 per cent against the yen, to ¥103. The partial recovery at the beginning of 2005 can be ascribed in part to the good prospects of the US economy.

The Japanese economy

In Japan, after very fast growth at annualized rates of 5.7 and 5.8 per cent in the fourth quarter of 2003 and the first quarter of 2004, GDP declined over the next three quarters (Table 1). The fall in activity was caused initially by a decrease in stock-building and a sharp cut-back in public investment; in the second half of the year it was the result of the negative contribution of consumption and net exports.

Thanks to the extremely large expansion in output in the first quarter, growth for 2004 as a whole nonetheless came to 2.6 per cent. This is considerably lower than the estimates issued last autumn by the main international bodies and partly reflects the adoption in December of a new method of calculating national accounts aggregates based on chained prices, which for given performances of nominal variables yields a higher increase in prices and an accordingly lower rise in the real aggregates.

Consumption, which had shown encouraging signs of recovery in the fourth quarter of 2003 and the first quarter of 2004, weakened considerably in the second quarter and actually contracted in the third and fourth. The downturn depended in part on the even more markedly negative trend in households' disposable income.

The expansion in exports, which had lent considerable impetus to economic growth in the first half of the year, rising by 19 per cent on an annual basis, slowed to 6.2 per cent in the second half, reflecting the poor performance of digital goods and sales to Asia and the United States.

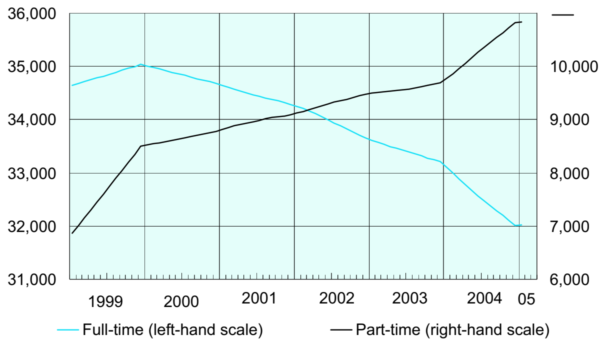
The sharp rise in corporate profits, partly fostered by the strong performance of exports, provided a substantial boost to investment, which had been picking up since 2003. From the middle of 2004 investment activity also weakened, however. Private non-residential investment growth slowed from a rate of 16.1 per cent in the second quarter to 1.7 and 2.8 per cent in the third and fourth respectively. While residential investment recovered slowly from the beginning of 2004 on, public investment continued to decline.

After falling sharply for two years, in 2003 employment stabilized. However, in 2004 firms continued to replace full-time positions with part-time jobs, which cost relatively less and are more flexible (Figure 8). This substitution process continued to affect workers' earnings, which kept falling even in nominal terms.

Figure 8

Japan: payroll employment by status (1)

(12-month moving averages ending in the month indicated; thousands of employees)



Source: Ministry of Labour.
(1) Does not include temporary workers and similar.

The weak performance of labour earnings was reflected in consumer prices; excluding the most volatile items, they continued to contract, albeit very slowly, falling by 0.3 per cent on a twelve-month basis in January this year.

The Bank of Japan recently reiterated that it would maintain its current policy of increasing the supply of liquidity, with short-term interest rates close to zero, until consumer prices begin once again to move consistently upwards. The target for the current account balance of financial institutions with the central bank, which was introduced in March 2001, was kept at the range set in January 2004. According to the central bank uncertainty has increased regarding the resumption of positive core inflation in fiscal 2005.

Despite the weakening of economic activity, the financial markets were generally stable. At the beginning of the second week in March the Nikkei index was 12 per cent higher than at the beginning of 2004; the index for the banking sector, which benefited from an improvement in banks' balance sheets, rose by 28 per cent. Yields on government bonds are currently around 1.5 per cent, slightly higher than at the beginning of 2004.

The banks continued to restructure their balance sheets. The Financial Services Agency (FSA) announced that in September 2004 the total non-performing loans of the banking system had decreased by 25 per cent with respect to a year earlier, and stood at 4.7 per cent of GDP. Among the largest banks the ratio of bad debts to loans outstanding fell by 1.8 percentage points to 4.7 per cent, which is not far off the FSA's target for March 2005 of 4.3 per cent. The restructuring of the regional banks progressed at a slower pace, the non-performing loan ratio falling by 1.2 percentage points to 6.3 per cent in September of last year. On 1 April 2005 the blanket insurance on bank deposits will be lifted; the measure, which will introduce limits on guarantees for tied deposits, was supposed to come into force on 1 April 2003 but was postponed for fear of repercussions on the deposit-taking activity of weaker banks.

According to government forecasts the budget deficit (excluding the social security sector) for fiscal 2004 ending on 31 March 2005 should be around 6.9 per cent of GDP, down 0.8 percentage points from the previous year. According to OECD estimates the gross public sector debt has widened to 163.5 per cent at the end of 2004, from 157.5 per cent of GDP a year earlier.

Against the background of a large deficit and rapidly accumulating debt, in December 2004 the government presented its budget for fiscal 2005. The objective is to maintain the same level of aggregate expenditure in nominal terms as in the previous year; the higher cost of social security and debt servicing, which will rise overall from 45.5 to 47.2 per cent of total expenditure, will be offset by a reduction, for the third year running, in expenditure on education and public investment. A 5.4 per cent nominal increase in budget revenues is called for, to come principally from higher pension contributions following the reform enacted in October last year and a reduction in the tax reliefs for households and enterprises that had been introduced in 1999 to sustain demand.

The main emerging economies

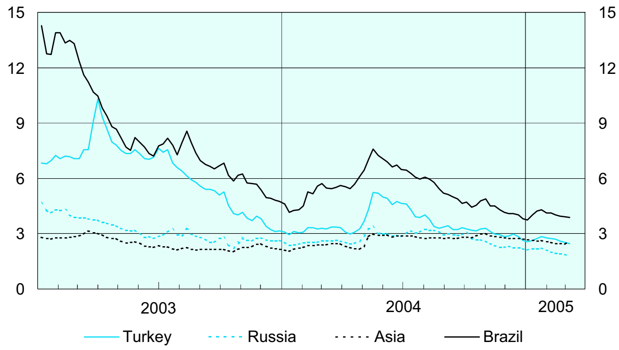
Economic activity in the emerging countries gained strength in the first half of 2004 and continued to expand at a rapid pace throughout the rest of the year despite the rise in oil prices and the slowdown in world trade.

The financial markets, benefiting from the upturn in production and exports as well as plentiful liquidity world-wide, enjoyed generally unstained conditions; the foreign exchange and share markets were virtually stable in the closing months of 2004, and risk premiums declined to historically low levels. Since November of last year the yield differential with respect to US Treasury bonds has narrowed to 1.8 percentage points in Russia and to 2.6 points in the main Asian economies; it has continued to fall from its previously higher levels in Turkey and Brazil (Figure 9).

Figure 9

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

(average weekly data; percentage points)



Source: J.P. Morgan Chase.

In Asia, output expanded on average by 7.8 per cent in 2004, sustained by the strong performance of domestic demand and exports. However, in the second half of the year some countries in the region that are relatively specialized in the production of high-tech goods were affected by the slowdown in demand in that sector (Table 3).

In China, growth proceeded rapidly, at 9.5 per cent in 2004, continuing to lend a strong impetus to world trade, to which Chinese imports contributed around 1.5 percentage points. After weakening briefly in the middle of 2004, output accelerated again in the fourth quarter. Although the authorities introduced administrative provisions and credit-restriction measures in the spring to curb capital formation in some branches with excess productive capacity and low profitability, investment growth slowed less than expected, from a nominal rate of 27.7 per cent in 2003 to 25.8 per cent in 2004. Some 7.2 per cent of investment expenditure was financed, directly or indirectly, through inflows of direct foreign investment, which increased to $61 billion. Exports continued to expand strongly, rising by 35.4 per cent in nominal terms, helping to widen the trade surplus to $32 billion (1.9 per cent of GDP). The surplus on current account jumped from $46 billion to $70 billion, or 4.2 per cent of GDP.

At around 35 per cent of disposable income, the saving rate of Chinese households is extremely high by international standards. This may be due not only to the rapid increase in per capita income but also to precautionary motives, given the lack of government social spending, such as on housing, education, health and pensions.

Table 3

Economic indicators for selected emerging countries

(at constant prices; percentage change on year-earlier period, except where indicated)

	% of world GDP in 2003 (1)	GDP				Domestic demand (2)				Net exports (3)			
		2003	2004	2004 H1	2004 H2	2003	2004	2004 H1	2004 H2	2003	2004	2004 H1	2004 H2
Latin America													
Argentina	0.8	8.8	….	9.1	8.3 (4)	11.2	….	13.0	10.7 (4)	-1.5	….	-3.1	-1.9 (4)
Brazil	2.8	0.5	5.2	4.9	5.5	-1.8	4.0	….	….	1.5	0.1	….	….
Mexico	1.8	1.4	4.4	4.0	4.7	0.6	….	3.3	4.3 (4)	0.7	….	0.7	0.1 (4)
Asia													
China	12.6	9.3	9.5	9.7	9.3	….	….	….	….	….	….	….	….
India (5)	5.7	7.0	….	7.8	6.6 (4)	6.5	….	….	….	0.8	….	….	….
Indonesia	1.4	4.9	5.1	4.4	5.9	2.8	9.8	10.5	9.1	2.3	-3.6	-4.8	-2.3
Malaysia	0.5	5.3	7.1	8.0	6.2	3.7	10.7	12.6	9.0	2.0	-2.4	-3.0	-1.9
Philippines	0.7	4.7	6.1	6.5	5.8	7.4	3.2	3.6	2.8	-3.4	2.6	2.5	2.8
South Korea	1.7	3.1	….	5.4	4.6 (4)	0.3	….	-0.1	1.4 (4)	2.8	….	5.5	3.2 (4)
Taiwan	1.1	3.3	5.7	7.3	4.2	0.6	6.4	6.3	6.4	2.8	..	1.6	-1.5
Thailand	0.9	6.9	6.1	6.6	5.5	7.2	8.3	10.6	6.1	0.7	-1.1	-2.5	0.4
Europe													
Poland	0.8	3.8	….	6.5	4.8 (4)	2.4	….	….	….	1.3	….	….	….
Russia	2.6	7.3	7.1	7.4	6.9	8.2	10.2	9.9	10.4	0.5	-1.5	-0.7	-2.1
Turkey	0.9	5.8	….	11.8	4.5 (4)	9.3	….	20.2	7.3 (4)	-3.1	….	-8.8	-2.3 (4)

Sources: National statistics and IMF.

(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.

The rise in the prices of raw materials and the high activity rates in industry pushed up the twelve-month increase in producer prices from 3 per cent at the end of 2003 to 5.8 per cent in January this year. The performance of consumer prices, on the other hand, mainly reflected that of the prices of agricultural products: inflation fell back to 1.9 per cent from a peak of 5.3 per cent in July last year.

The Chinese authorities are continuing their efforts to lead the country's economic growth back onto a sustainable path, taking care to avoid brusque contractions. Monetary policy measures designed to contain the expansion in domestic liquidity were hindered by continuing large inflows of capital from abroad. The twelve-month increase in the broad measure of the money supply (M2), which was around 20 per cent in December 2003, fell into line with the target of 17 per cent for the end of the year and then from July on stabilized at around 14 per cent. The authorities have lowered the growth target for M2 in 2005 to 15 per cent, showing their intention to proceed with the policy of gradual monetary tightening. In October 2004, for the first time in a decade, the central bank raised the two main short-term reference rates by 0.27 percentage points, bringing the rate on deposits with the central bank to 2.25 per cent and that on one-year loans to 5.58 per cent. Although the increase is a small one it testifies to the authorities' determination to rely more on market instruments to achieve their objectives.

Latin America recorded strong growth of around 5.5 per cent in 2004, compared with 2.1 per cent in 2003. With net domestic demand picking up rapidly, economic policies, which generally tend to be strict, helped to contain inflationary pressures. The large rise in exports ensured that external accounts remained in balance.

In Brazil economic activity, which had been gaining strength since the end of 2003, expanded further, still benefiting from the upturn in investment and consumption. GDP growth was 5.2 per cent in 2004, compared with 0.5 per cent in 2003. Thanks to the good performance of exports, the balance of payments surplus on current account rose to 1.9 per cent of GDP. In response to signs of growing inflationary pressures, between June 2004 and February of this year the monetary authorities raised the base rate by a total of 2.75 percentage points to 18.75 per cent, favouring an appreciation of the real by about 15 per cent against the dollar. Larger fiscal revenues are estimated to have widened the primary budget surplus to 4.6 per cent of GDP in 2004. A small reduction in interest expense helped to reduce the net public debt further, to 51.9 per cent of GDP at the end of 2004. The ratio of foreign debt to GDP, which had peaked at 45 per cent in 2002, fell sharply in 2004 to just above 30 per cent; the ratio to exports also decreased considerably.

In Argentina the recovery under way since 2003 lost impetus in the spring of last year; subsequently output growth picked up, following an acceleration in domestic demand and exports to Brazil, averaging an estimated 8.8 per cent for 2004, the same value as in 2003. Economic activity returned to the same level as at the beginning of 2001, before the brusque economic downturn that culminated in the December financial crisis. The primary budget surplus was higher than expected, benefiting from the increase in fiscal revenues as economic activity strengthened; it rose to 3.6 per cent of GDP in the first nine months of 2004, compared with 2.8 per cent in the year-earlier period. The target set in the programme agreed with the IMF in September 2003 was consequently achieved.

On 14 January of this year the Argentinean authorities launched a tender offer to exchange defaulted sovereign debt with a face value of $81.8 billion. When the terms of the offer expired at the end of February, creditors' acceptances represented 76 per cent of the debt. The conditions included an extension of the terms of payment and a 70 per cent reduction in the present value of the debt; the discount is much larger than on other occasions in the past decade when the sovereign debt of emerging countries has been restructured.

In the main new EU Member States the pace of growth was rapid in the first half of 2004, but weakened in the third quarter. The inflationary pressures recorded in the first half of the year subsequently waned, partly as a result of the appreciation of some currencies against the euro. On average for the first three quarters of 2004 GDP growth surged to 5.9 per cent in Poland and 4.1 per cent in Hungary compared with the year-earlier period; in the Czech Republic growth was 3.7 per cent. In Russia the substantial revenues from oil exports drove economic activity, which expanded at a rate of 7.1 per cent during the year. At the beginning of February this year the Russian authorities used part of the reserves built up in 2004 for early repayment of a $3.3 billion dollar loan from the IMF.

In mid-December the European Council decided to open negotiations for Turkish membership of the EU. The talks are expected to last at least ten years and will probably begin in October 2005, once the Turkish Parliament has ratified the agreement with the EU. After accelerating sharply in the first half of 2004, economic activity in Turkey slowed in the third quarter; according to the latest IMF estimates, output growth in 2004 was around 8 per cent, compared with 5.8 per cent in 2003; since the recession that followed the 2001 financial crisis the pace of growth has averaged 7.2 per cent. With inflation declining to a twelve-month rate of 9.2 per cent in January, compared with a government target of 12 per cent, the central bank continued to relax monetary conditions gradually, lowering the overnight deposit rate from 26 per cent at the beginning of 2004 to 15.5 per cent. According to Government estimates in 2004 the primary budget surplus overshot the target of 6.5 per cent of GDP set in the programme agreed with the IMF. While the situation as regards the public finances has improved, there are concerns about the deterioration in the external current account deficit, which averaged 4.9 per cent of GDP in the first three quarters of 2004, mainly as a consequence of the widening trade deficit. Since November, the end of the uncertainty about the start of talks with the EU and progress towards agreement on the renewal of a stand-by loan with the IMF have led to an improvement in the country's financial conditions: the spread between yields on dollar-denominated Turkish bonds and the equivalent US Treasury bonds has narrowed to 2.5 per cent; the Turkish lira has appreciated 17 per cent against the dollar.

ECONOMIC DEVELOPMENTS IN THE EURO AREA AND ITALY

Production, demand and the balance of payments

Euro-area GDP began to expand again in 2004. However, the growth gap vis-à-vis the United States remained substantial at more than 2 percentage points, as in 2003.

GDP growth in Germany and Italy continued to fall short of that in the rest of the euro area by about 1 percentage point. The German economy is still affected by the large imbalances produced by unification and the uncertainty associated with the reforms aimed at reducing the burden of the welfare system. In Italy the main factor is the erosion of competitiveness by inadequate productivity growth, which is in turn primarily a consequence of the high degree of fragmentation of the country's productive system.

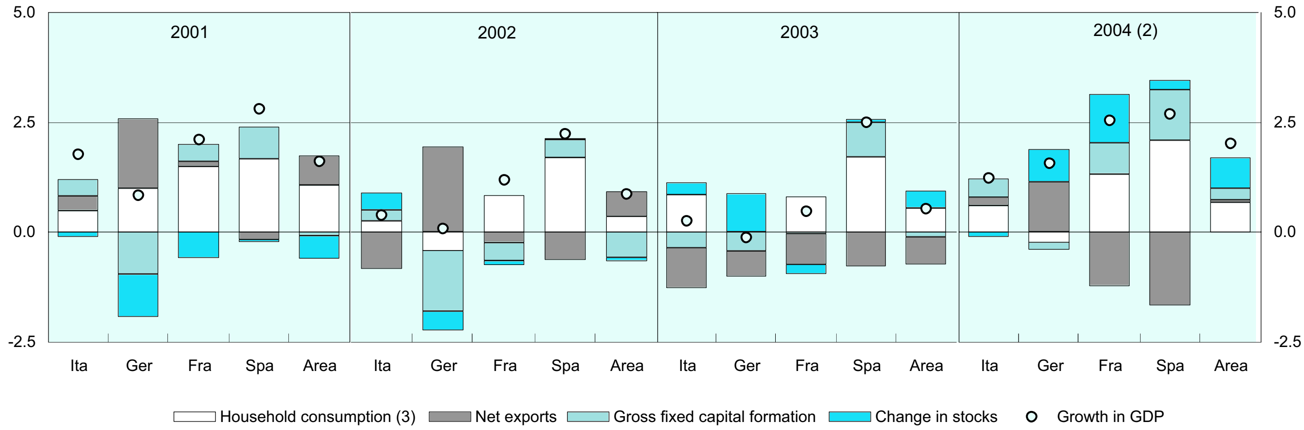
Economic activity expanded rapidly in Spain and, for the first time in the last three years, in France. Area-wide growth was buoyed by the favourable performance of domestic demand, except in Germany, where the prolonged decline in capital formation was accompanied by a fall in household consumption (Figure 10 and Table 4). Foreign trade made no contribution to euro-area GDP growth: the further appreciation of the euro against the main currencies limited the benefits deriving from the strong growth in international trade.

In the second half of the year growth slowed in the euro area as a whole and in all the main economies, reflecting the weaker impulse of world economic activity. The EuroCOIN coincident cyclical indicator

Figure 10

GDP growth and contributions of the main components of demand to growth in the euro area and the major euro-area countries (1)

(at constant prices; percentage changes on previous year and percentage points)



Source: Based on national statistics.

(1) Excludes consumption of general government. – (2) For France and Spain, estimated on the basis of the quarterly national accounts. – (3) 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)

	2002	2003	2004 (1)	2003 (2)		2004 (2)			
	Year	Year	Year	Q3	Q4	Q1	Q2	Q3	Q4
					GDP				
Germany	0.1	-0.1	1.6	1.1	1.2	2.0	1.4	0.1	-0.9
France	1.2	0.5	2.5	4.3	2.4	3.0	2.8	-0.1	3.1
Italy	0.4	0.3	1.2	1.5	0.2	2.2	1.4	1.7	-1.2
Spain	2.2	2.5	2.7	2.4	3.0	3.3	1.9	2.4	3.4
Euro area	0.9	0.5	2.0	2.3	1.7	3.0	1.9	1.0	0.6
					Imports				
Germany	-1.6	4.0	6.4	4.0	10.9	2.0	8.7	12.3	-0.7
France	2.9	-0.1	8.4	-0.7	11.7	4.6	15.6	9.6	4.5
Italy	-0.5	1.3	2.5	11.2	-6.9	0.9	7.9	4.9	....
Spain	3.1	4.8	9.0	16.3	1.7	5.0	10.4	22.1	4.2
Euro area	0.5	2.0	6.3	5.5	7.0	1.5	10.1	13.1	3.9
					Exports				
Germany	4.1	1.8	8.6	16.2	2.7	15.4	14.1	-6.1	4.4
France	1.9	-2.5	3.8	3.6	5.9	2.5	4.2	2.2	5.3
Italy	-3.2	-1.9	3.2	30.1	-15.1	-5.0	16.2	20.7	....
Spain	1.2	2.6	4.5	11.8	-7.2	-3.4	13.6	15.3	-3.3
Euro area	1.9	0.2	6.0	11.5	0.5	5.7	11.4	5.2	1.9
					Household consumption (3)				
Germany	-0.7	..	-0.4	-1.4	-2.2	0.4	-1.7	0.3	1.0
France	1.5	1.5	2.4	4.1	1.3	4.3	1.7	-0.8	4.9
Italy	0.4	1.4	1.0	2.3	-1.1	4.8	-1.8	0.9	....
Spain	2.9	2.9	3.5	2.2	4.0	4.2	3.8	1.9	4.1
Euro area	0.6	1.0	1.2	1.5	..	3.1	0.2	0.3	1.8
					Gross fixed capital formation				
Germany	-6.4	-2.2	-0.9	-0.9	5.1	-11.9	-0.5	2.8	0.8
France	-2.0	-0.2	3.6	4.7	5.9	1.8	5.9	-2.0	3.8
Italy	1.2	-1.8	2.1	-0.9	-1.1	9.8	4.2	-3.0	....
Spain	1.7	3.2	4.6	4.4	7.6	0.3	3.7	12.1	8.3
Euro area	-2.7	-0.5	1.3	1.8	4.3	-0.4	1.9	2.6	2.4
					National demand				
Germany	-1.9	0.5	0.4	-3.3	3.9	-3.0	-1.1	7.2	-3.0
France	1.5	1.2	3.8	3.1	3.9	3.6	5.9	1.9	2.9
Italy	1.2	1.2	1.0	-2.8	2.7	3.9	-0.6	-2.4	....
Spain	2.8	3.2	4.2	4.0	5.8	5.9	1.4	5.0	5.7
Euro area	0.3	1.2	2.0	..	4.1	1.3	1.2	3.8	1.3

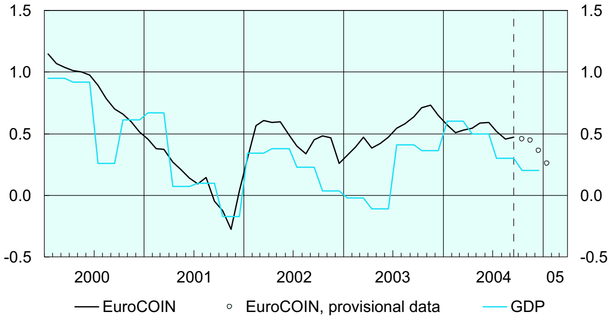
Sources: Based on national statistics for countries; Eurostat estimates for the euro area prepared before release of Italy's national accounts.
(1) For France and Spain, estimated on the basis of the quarterly national accounts. – (2) Seasonally adjusted and corrected for differences in the number of working days. For Italy, the quarterly accounts, which are still incomplete, will be revised to ensure consistency with the annual accounts. – (3) Comprises consumption of resident households and non-profit institutions serving households.

recorded its fourth consecutive decline in January 2005 (Figure 11). Confidence of industrial firms ceased to improve in September (Figure 12).

Figure 11

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 2003 in Italian. For each month the change in GDP is the average variation for the relevant quarter.

In Italy GDP increased by 1.2 per cent in 2004. After expanding slowly in the first nine months of the year, output contracted in the fourth quarter (Table 4). Economic activity was sustained by household consumption and by investment. Exports grew by just 3.2 per cent, despite an increase of nearly 10 per cent in world trade. Provisional quarterly figures indicate that after declining in the first quarter, exports recovered in the middle part of the year. According to preliminary estimates based on foreign trade data, exports fell in the fourth quarter.

Production and demand in the euro area

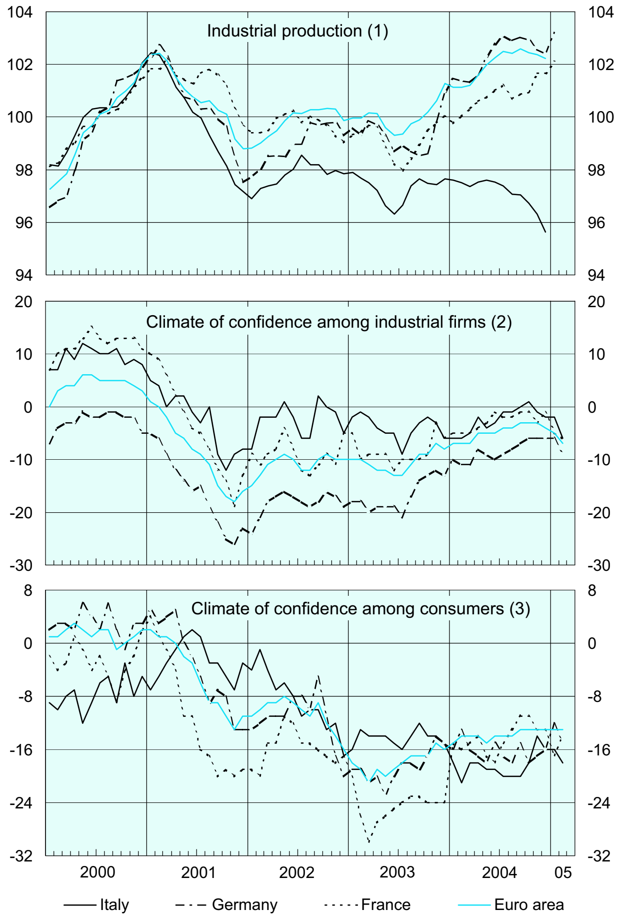
In 2004 euro-area GDP grew by 2 per cent, compared with 0.5 per cent the previous year; the recovery involved every sector, although it was modest in construction. After a significant increase in the first quarter, the expansion in GDP slowed as a consequence of developments in foreign trade, whose contribution turned negative in the second half of the year (Table 4).

After two years of stagnation, output in Germany began to grow again (1.6 per cent), fueled by foreign demand and slower destocking. However, the growth differential with respect to the rest of the area remained wide at 0.7 percentage points, 0.2 points less than in 2003. Despite a temporary halt in the third quarter, France recorded appreciable output growth of 2.5 per cent, driven by domestic demand. The contribution of net exports was negative, owing to the large increase in imports.

Figure 12

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

(monthly data)



Sources: Based on national statistics and European Commission data.

(1) Index, 2000=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 production expectations. – (3) Climate of confidence calculated by the European Commission as the weighted average of the seasonally adjusted percentage balances of the responses to questions on consumers' expectations regarding the economic situation, their personal financial situation, unemployment and the possibility of saving.

Industrial production, adjusted for the number of working days, grew by an average of 1.9 per cent in the euro area, 2.9 per cent in Germany and 1.7 per cent in France. In Italy, it contracted by 0.4 per cent; the gap vis-à-vis the other main economies continued to widen (Figure 12).

Household consumption. – Household spending grew slowly in the euro area as a whole (1.2 per cent) and in Italy, and contracted in Germany. By contrast, it expanded rapidly in France. After rising sharply in the first quarter of the year, euro-area consumption stagnated in the next six months before reviving in the fourth quarter (Table 4).

Household expenditure in Germany shows no sign of recovering: in the last three years it has contracted at an annual average rate of 0.4 per cent. Consumption continues to be held back by unfavourable labour market conditions and uncertainty about the procedures and timetable for implementing economic and social reforms. The fluctuation of the climate of confidence at low levels confirms the persistence of a cautious attitude among households (Figure 12); after reaching a post-1996 peak in May 2003, expectations of an increase in unemployment subsided but remained historically high. Despite tax relief measures, in 2004 households' gross disposable income was broadly unchanged in real terms, in connection with a low rate of growth in both employment and incomes.

In France, household expenditure increased by 2.4 per cent in 2004, again making the largest contribution to GDP growth (1.3 percentage points). According to preliminary INSEE estimates, gross real disposable income turned upwards (growth of 1.3 per cent, compared with 0.5 per cent in 2003), mainly reflecting the acceleration in gross compensation of employees. Spending received an additional boost in the second half of the year with the government's introduction of temporary measures to support consumption. In the course of 2004 household confidence overcame its abrupt deterioration of the previous year, reflecting improved expectations about the general economic situation and conditions in the labour market; nevertheless, the amelioration appears to have weakened since November (Figure 12).

Investment and stocks. – After three years of decline, gross fixed capital formation in the euro area returned to growth in 2004, albeit at a modest pace (1.3 per cent; Table 4). With interest rates remaining low, the increase was partly attributable to the improvement in firms' profit margins.

In France, after two years of decline capital spending outpaced the euro-area average and rose by 3.6 per cent, contributing 0.7 percentage points to GDP growth. The expansion involved construction and capital equipment; however, in the second half of the year both components slowed as domestic demand moderated.

In Germany, investment declined for the fourth consecutive year (0.9 per cent). The increase in spending on capital equipment was offset by a further contraction in construction, which was only interrupted in the fourth quarter thanks to good weather. Among the euro area's main economies, Germany was the only country to register a deterioration in the confidence of construction firms and a decline in real residential property values. In manufacturing, capacity utilization, although increasing over the year, remained low. According to Germany's six leading economic research institutes, firms again allocated a part of their profits to reducing debt rather than to financing new investment.

In the euro area as a whole, the change in stocks (an item that includes statistical discrepancies) contributed 0.7 percentage points to GDP growth, reflecting considerable stockbuilding in Germany and France (0.7 and 1.1 points respectively).

Exports and imports. – After stagnating in 2003, the euro area's exports expanded rapidly (6 per cent), although more slowly than world trade. The concomitant acceleration in imports (from 2 to 6.3 per cent), stimulated by the appreciation of the euro, annulled net exports' contribution to GDP growth (Table 4).

In Germany, the rate of export growth increased to 8.6 per cent, compared with 1.8 per cent in 2003, while that in imports rose from 4 to 6.4 per cent.

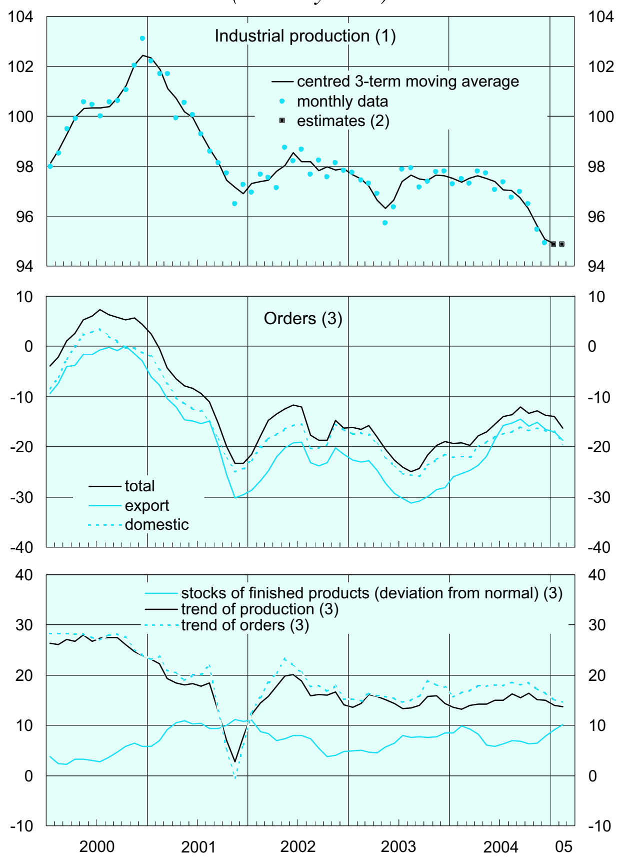
As a result, net exports contributed more than 1 percentage point to the expansion of GDP. Exports were fueled by the pick-up in demand for capital goods, especially in the emerging economies, towards which Germany's model of product specialization is oriented. However, exports appear to have slowed in the second half of the year owing to weaker demand in the United States and Asia.

In France, exports and imports began to expand again, rising by 3.8 and 8.4 per cent respectively. For the third consecutive year net exports made a negative contribution to output growth (1.2 percentage points). The pace of imports reflected the rapid growth in consumption and investment, while exports were dampened by the protracted weakness of domestic demand in Germany, France's main outlet market.

Figure 13

Italy: industrial production, orders and stocks

(monthly data)



Sources: Based on Istat and ISAE data.

(1) Index, 2000=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, weighted by size, sector and location of firm. The trend figures refer to the responses for 3 months ahead. Seasonally adjusted data.

Production and demand in Italy

Italy's GDP grew by 1.2 per cent last year, more slowly than that of the other main European economies. Output was sustained mainly by consumption and investment, while stocks were a slight drag on growth (Figure 10). In the fourth quarter GDP contracted by 1.2 per cent on an annualized basis (Table 4).

Growth in value added picked up slightly in services (from 0.9 in 2003 to 1.2 per cent) and in construction (from 2.3 to 2.7 per cent). Activity in the manufacturing sector stagnated.

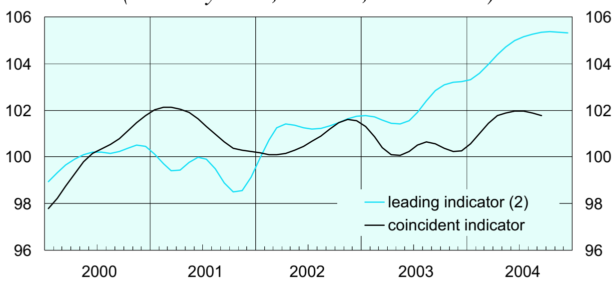
The index of industrial production, adjusted for the number of working days, declined for the fourth year in a row (0.4 per cent; Figure 13). The gap between Italy and the other main economies widened further: at the end of 2004 the level of Italian industrial output was about 5 percentage points lower than its average in 2000; that of France and Germany was more than 2 points higher. The adverse trend in Italy worsened during the year. In 2004 the decline involved non-durable consumer goods and capital equipment; production of consumer durables and intermediate goods remained broadly unchanged.

The performance of the Italian economy continues to be affected by its scant presence in high-tech sectors, where international demand is growing rapidly, and by a lag in the adoption of technological innovations by most firms. Economic activity contracted most markedly in traditional industries, where Italian firms are concentrated and which are most exposed to competition from the emerging economies: in December 2004 the output of the textiles, clothing, hides and footwear sector, which has declined steadily since the end of 2000, fell below the lows registered in previous cycles.

The Bank of Italy's turning point indicator and the ISAE cyclical surveys of industrial firms suggest that industrial production continued to fall in early 2005. The improvement in business confidence under way since the start of 2004 stalled in September; confidence dropped sharply in February of this year (Figure 12). The leading cyclical indicator, which tracks the performance of the Italian economy with a lead of five to six months, showed slower growth in the summer and remained unchanged in the last two months of the year (Figure 14).

Figure 14

Indicators of the Italian business cycle (1)
(monthly data; indices, 2000=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 2003 in Italian. – (2) The performance of the indicator leads that of the economy by an average of 5-6 months.

Household consumption. – Household expenditure increased by 1 per cent at constant prices in 2004, compared with 1.4 per cent the previous year (Table 5). Preliminary data for the first nine months indicate that the increase reflects the rise in spending on consumer durables (8.8 per cent with respect to the year-earlier period); demand for high-tech goods in particular continued to increase, spurred in part by the expansion of consumer credit and the further decline in prices. New car registrations were virtually unchanged; after shrinking by 2 percentage points in 2003, the national manufacturer's market share held steady at 28 per cent. By comparison with the first nine months of 2003, the growth in household spending on services slowed slightly to 0.6 per cent, while spending on non-durable goods declined by 0.2 per cent.

According to highly provisional data, in 2004 households' disposable income at constant prices increased by about 1.5 per cent. The rise in per capita earnings (3 per cent in nominal terms) was accompanied by a slight increase in payroll employment. Self-employment income continued to grow rapidly. A further decline in households' net interest income curbed the growth of disposable income. In the first nine months of 2004, for which sufficiently reliable information is available, households' net wealth rose further in both the real-estate and the financial components.

After reaching its lowest level since November 1993 in May, the ISAE consumer confidence indicator gradually rose to its end-2003 level in October; in the subsequent three months it fell back again, reflecting the deterioration in expectations about the general economic outlook and employment (Figure 12).

Investment and stocks. – In 2004 fixed capital formation recouped the ground lost in the previous year, contributing 0.4 percentage points to GDP growth (Table 5). However, the positive performance in the first half of the year was followed by a contraction in the third quarter.

Construction investment expanded for the sixth consecutive year (3.1 per cent), reflecting the acceleration in both residential building and the other segments (up by 2.8 and 2.3 per cent respectively in the first nine months of 2004 compared with the year-earlier period).

Residential building benefited from continued robust demand in the real estate market, which was supported by low mortgage rates, and the extension of tax incentives for renovations. Investment decelerated over the course of 2004, however, and ISAE's indicator of construction firms' confidence, which in June had reached its highest level since March 1991, gradually declined in the second half of the year. Another sign of a possible slowdown emerges from ISAE's survey of households' intentions to purchase housing, which in the last two years have fallen significantly from their previous high levels. According to the Bank of Italy branches' survey of firms that operate mainly in the public construction sector, activity in public works was flat in the first half of the year and weakened in the second half.

Table 5

Italy: resources and uses of income

(seasonally adjusted at constant prices; annualized percentage changes on the previous period unless otherwise indicated)

	As a percentage of GDP in 2004	2001	2002	2003	2004	Contribution to GDP growth in 2004 (1)
Resources						
GDP	-	1.8	0.4	0.3	1.2	-
Imports of goods and services	28.3	0.5	- 0.5	1.3	2.5	- 0.7
Total resources	-	1.5	0.2	0.5	1.5	-
Uses						
Gross fixed capital formation	20.6	1.9	1.2	- 1.8	2.1	0.4
Construction	9.0	3.0	3.2	1.7	3.1	0.3
Machinery, equipment and sundry products	9.2	- 0.1	- 0.1	- 3.7	2.4	0.2
Transport equipment	2.3	5.8	- 0.4	- 6.1	- 2.9	- 0.1
Consumption of resident households	60.2	0.8	0.4	1.4	1.0	0.6
Non-durable goods (2)	….	0.1	..	0.5	….	….
Durable goods (2)	….	- 0.7	- 1.8	1.8	….	….
Services (2)	….	1.6	0.6	1.3	….	….
Consumption of general government and non-profit institutions serving households	18.3	3.8	1.9	2.3	0.7	0.1
Changes in stocks and valuables (3)	0.5	- 0.1	0.4	0.3	- 0.1	- 0.1
Total national demand	99.6	1.4	1.2	1.2	1.0	1.0
Exports of goods and services	28.7	1.6	- 3.2	- 1.9	3.2	0.9
Net exports (3)	0.4	0.3	- 0.8	- 0.9	0.2	0.2

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

Investment in capital equipment recovered from a steep decline in 2003 to grow by 1.3 per cent last year. Ample spare capacity remains, as industrial firms are showing caution in their assessment of developments in orders and production. According to ISAE surveys and Bank of Italy indicators, in 2004 the average capacity utilization rate remained at the low levels recorded in the previous year. Unused capacity is increasing among firms that sell a high proportion of their output abroad and manufacturers of capital equipment (Figure 15).

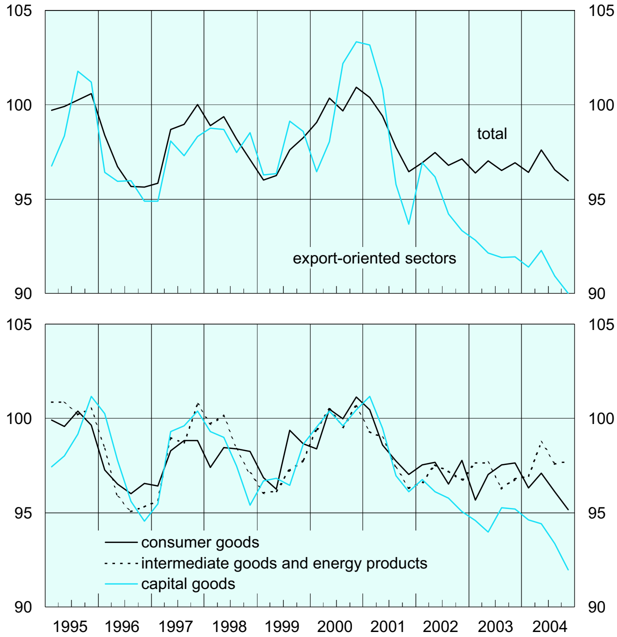
The manufacturing firms surveyed by ISAE indicated that 33 per cent of their capital expenditure went to expanding capacity, 29 per cent to replacing obsolete equipment and 22 per cent to rationalizing production processes, in line with the findings of the two previous years.

The change in stocks, which had made a positive contribution to GDP growth in the previous two years, subtracted 0.1 percentage points from the increase of GDP in 2004 (Table 5); the drag on growth intensified in the third quarter. According to ISAE surveys of industrial firms, however, the reduction in stocks of finished goods came to an end in the final part of the year (Figure 13).

Figure 15

Composite indicator of capacity utilization in Italian industry (1)

(quarterly data; index, 2000=100)



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

Exports and imports. – According to the national accounts, in 2004 Italian exports of goods and services began to grow again (3.2 per cent at constant prices), albeit considerably more slowly than the expansion in world trade. Imports also increased, by 2.5 per cent. Overall, net exports contributed 0.2 points to GDP growth (Table 5). Exports contracted in the last quarter of the year in connection with an acceleration in Italian firms' export prices.

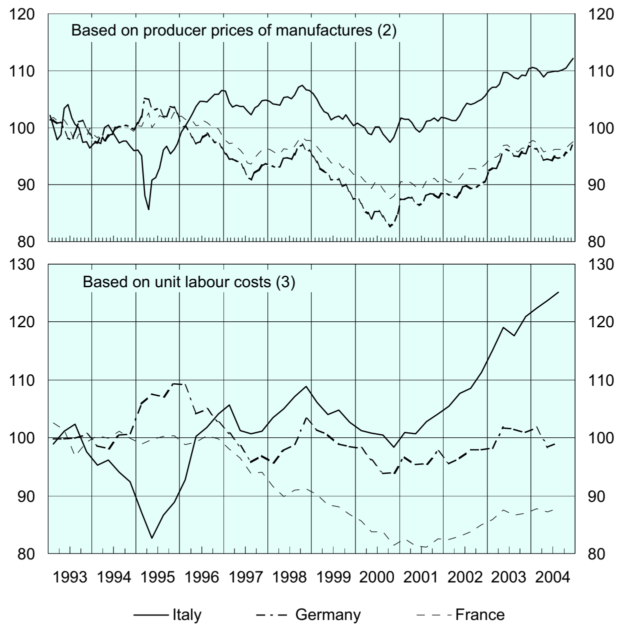
In 2004 Italy's share of world trade at constant prices fell from 3.1 to 2.9 per cent. The loss of price competitiveness continues to be faster in Italy than in the other main economies, basically because of the faster rise in unit variable costs, which is in turn a consequence of the unfavourable performance of productivity.

Measured on the basis of unit labour costs, the loss of competitiveness for Italian products since 2000 was more than 25 per cent, compared with losses of less than 10 per cent for French and German goods. In the same period the cumulative rise in unit labour costs was approximately 15 per cent in Italy. In the first nine months of 2004 competitiveness deteriorated by 3.5 per cent in Italy with respect to the end of 2003, compared with a deterioration of 0.9 per cent in France and an improvement of 1.8 per cent in Germany. According to the most recent indicators, which are based on the producer prices of manufactures, between December 2003 and December 2004 Italy's competitiveness worsened by 1.6 per cent while profit margins held constant; competitiveness was virtually unchanged in Germany and France (Figure 16).

Figure 16

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

(indices, 1993=100)



Source: Based on national statistics.
(1) In relation to all competitor countries. An increase in the index indicates a loss of competitiveness. – (2) Monthly data. – (3) Quarterly data.

According to provisional foreign trade data, in the first eleven months of 2004 Italian goods exports at constant prices grew by 2.6 per cent year-on-year. The volume of exports to the European Union increased less than exports to the rest of the world (1.3 and 4.5 per cent respectively; Table 6).

Table 6

Italian exports and imports *cif-fob* by main countries and areas, January-November 2004: values, indices of average unit values and volumes (1)

(percentage changes on corresponding period of 2003, except as indicated)

	Exports				Imports			
	% composition of values in 2003	Change			% composition of values in 2003	Change		
		Values	Average unit values	Volumes (2)		Values	Average unit values	Volumes (2)
EU countries	**60.6**	**6.1**	**4.6**	**1.3**	**61.4**	**6.0**	**3.7**	**2.2**
EU-15	**54.7**	**6.8**	**4.5**	**2.2**	**57.9**	**5.9**	**3.8**	**1.9**
of which: France	*12.5*	*7.2*	*4.7*	*2.4*	*11.4*	*4.6*	*4.6*	*0.1*
Germany	*14.1*	*4.9*	*4.0*	*0.7*	*18.1*	*9.1*	*3.8*	*5.0*
United Kingdom	*7.1*	*6.3*	*5.8*	*0.6*	*4.9*	*-5.1*	*1.2*	*-5.8*
Spain	*7.1*	*10.1*	*5.8*	*3.9*	*4.8*	*5.1*	*3.8*	*1.3*
New EU countries (3)	**5.9**	**-1.6**	**5.5**	**-7.1**	**3.5**	**13.1**	**2.1**	**10.8**
Non-EU countries	**39.4**	**8.7**	**4.0**	**4.5**	**38.6**	**10.7**	**5.6**	**4.9**
of which: China	*1.5*	*16.0*	*2.4*	*13.1*	*3.6*	*22.9*	*0.7*	*21.8*
Japan	*1.6*	*-1.7*	*6.9*	*-7.8*	*2.0*	*6.2*	*0.6*	*5.7*
DAE (4)	*3.2*	*3.1*	*1.6*	*1.2*	*2.4*	*16.1*	*4.6*	*11.0*
Russia	*1.5*	*26.6*	*2.4*	*23.4*	*3.1*	*18.8*	*6.1*	*12.6*
United States	*8.3*	*1.0*	*0.4*	*0.6*	*3.9*	*-6.4*	*2.3*	*-8.6*
Total	**100.0**	**7.1**	**4.3**	**2.6**	**100.0**	**7.9**	**4.4**	**3.2**

Source: Based on Istat data.

(1) The change in values for the EU countries and for the total is calculated on data corrected for the estimate of some transactions that starting with 2003 have been observed on an annual rather than monthly basis following changes in the reporting threshold and taking account, based on past experience, of reporting delays. – (2) For the EU 15 countries, the changes in volumes are calculated on the basis of deflated average unit values. – (3) Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic and Slovenia. – (4) Dynamic Asian economies: Hong Kong, Malaysia, Singapore, South Korea, Taiwan and Thailand.

There were significant increases in Italian exports to France and Spain (2.4 and 3.9 per cent respectively), and smaller gains in those to Germany (0.7 per cent) and the United Kingdom (0.6 per cent). Exports to the new EU member states contracted.

Large contributions came from exports to Russia and China, which rose by 23.4 and 13.1 per cent respectively; after the temporary decline in sales to China in 2003, the latter figure marks a resumption of the rapid growth under way since the start of the decade. Exports to Japan fell by 7.8 per cent, while those to the United States remained stable.

Positive contributions to the growth in export volumes came from basic metals and metal products, in connection with strong world demand for steel, from mechanical machinery and equipment, and from transport equipment, especially the items “motor vehicle spare parts and accessories and motor vehicle engines” and “ships and boats”. By contrast, exports of textiles and clothing, leather and leather products and “other manufactures”, which include furniture, continued to decline (Table 7).

In the first eleven months of 2004 the euro prices of exports (proxied by average unit values) were 4.3 per cent higher than in the year-earlier period; the increase in the prices of exports to EU countries was slightly larger. The large increase in the euro prices of exports to the UK market (5.8 per cent) was fostered in part by the depreciation of the euro against the pound (2 per cent on average in the first eleven months with respect to the corresponding period of 2003). In Japan, Italian exports’ average unit values increased by 6.9 per cent despite the

Table 7

Italian exports and imports *cif-fob* by branch of economic activity and balances, January-November 2004: values, indices of average unit values and volumes (1)

(*percentage changes on corresponding period of 2003, except as indicated)*

	Exports				Imports				Change in balance (millions of euros)
	% composition of values in 2003 (2)	Change			% composition of values in 2003 (2)	Change			
		Values	Average unit values	Volumes (3)		Values	Average unit values	Volumes (3)	
Total	**100.0**	**7.1**	**4.3**	**2.6**	**100.0**	**7.9**	**4.4**	**3.2**	**-1,662**
Products of agriculture, forestry and fishing	1.6	-8.5	-0.9	-7.1	3.5	-0.8	2.5	-3.3	-256
Energy and non-energy minerals (4)	0.3				10.4	16.0	8.7	7.3	-3,917
of which: crude petroleum and natural gas (2)	*0.1*				*9.4*	*13.1*	*7.6*	*5.7*	*-2,924*
Manufactures	96.2	6.9	4.5	2.2	82.9	7.4	4.0	3.2	1,419
Food products, beverages and tobacco	5.6	4.8	2.5	2.3	7.1	4.6	1.7	2.8	-139
Textile products and clothing	9.9	-1.2	4.6	-5.7	5.3	5.0	1.7	3.2	-940
Leather and leather products	4.8	-1.7	4.1	-5.5	2.4	-2.4	-3.5	1.1	-62
Wood and wood products	0.5	3.3	5.1	-1.8	1.3	2.5	1.4	0.9	-37
Paper and paper products, printing and publishing	2.3	2.1	0.6	1.5	2.4	-0.1	-1.7	1.8	118
Refined petroleum products	2.0	18.3	17.8	0.9	1.8	-2.6	11.9	-12.7	1,019
Chemical products and man-made fibres	9.8	4.3	2.1	2.2	13.6	5.9	3.5	2.4	-932
Rubber and plastic products	3.7	6.5	2.1	4.5	2.1	6.7	0.7	6.0	252
Non-metallic mineral products	3.3	3.4	0.8	2.7	1.1	4.9	-0.4	5.6	149
Basic metals and metal products	8.3	23.8	11.9	10.3	9.1	21.1	17.0	3.4	102
Mechanical machinery and equipment	20.2	8.3	4.0	4.2	7.6	6.9	4.5	2.3	2,789
Electrical equipment and precision instruments	9.0	7.8	6.1	1.4	12.8	11.2	2.9	8.0	-1,718
Transport equipment	11.0	9.4	2.2	6.9	14.8	3.4	1.7	1.6	1,312
Other manufactures (including furniture)	5.7	-0.2	3.2	-3.2	1.6	11.9	0.3	11.5	-493
Electricity, gas and water (4)	..				0.7	-0.1	8.4	-8.4	46

Source: Based on Istat data.

(1) The change in values for the EU countries and for the total is calculated on data corrected for the estimate of some transactions that starting with 2003 have been observed on an annual rather than monthly basis following changes in the reporting threshold and taking account, based on past experience, of reporting delays. – (2) The values do not sum to 100 owing to the presence of unclassified products. – (3) For the EU 15 countries, the changes in volumes are calculated on the basis of deflated average unit values. – (4) Owing to the highly erratic nature of the time series and the small value of the aggregates, changes in exports are not shown.

modest appreciation of the euro against the yen. In the United States, Italian exporters kept their euro prices stable, partly offsetting the impact of the euro's appreciation against the dollar.

Italian imports of goods rose by 3.2 per cent in volume terms in the first eleven months of 2004 compared with the year-earlier period, primarily as a consequence of the increase in imports from non-EU countries (4.9 per cent; Table 6). The increase in the volume of imports was largely attributable to electrical precision instruments and energy and non-energy minerals, above all oil (Table 7).

Imports from China and Russia showed the highest rates of growth (21.8 and 12.6 per cent respectively). Imports from China, which in 2003 accounted for 3.6 per cent of Italy's total imports in value terms, continued the rapid growth under way since 1997, when their share amounted to 2.1 per cent; in 2004 the largest contributions came from mechanical engineering and electronics, metal products and textiles and clothing. The first two sectors, along with transport equipment, were also those in which Italian exports to China were concentrated.

In 2004 imports from the "dynamic Asian economies" and Japan also increased rapidly (11 and 5.7 per cent respectively). Imports from the United States fell by 8.6 per cent, with more than two-thirds of the decrease accounted for by the contraction in the aircraft sector, where Italy had made a number of major purchases in 2003. Among the EU economies, imports from the United Kingdom dropped by 5.8 per cent, owing to the depreciation of the euro against the pound; imports from the new EU member states rose by 10.8 per cent.

The balance of payments

The euro area. – The euro area's balance-of-payments surplus on current account rose from €21.8 billion in 2003 to €41.6 billion in 2004 (from 0.3 to 0.5 per cent of GDP). The trade surplus was unchanged despite the increase in the prices of imported energy raw materials. Much of the improvement in the current account balance is attributable to the reduction of about €12.6 billion in the deficit on the income account and the rise of €3.7 billion in the surplus on services (Table 8).

The trade surplus amounted to €105.8 billion. Exports increased by 8.7 per cent in value terms for the year as a whole; in volume terms, they grew by 7.9 per cent in the first ten months of the year, as the negative impact of the appreciation of the euro was more than offset by increased demand. The average unit values in euros of exports declined by 0.2 per cent in the first ten months, while the euro strengthened by 4 per cent in nominal effective terms; in the same period of 2003, the reduction was 3.2 per cent, with a euro appreciation of 12 per cent. The value of imports rose by 9.7 per cent. Their average unit values increased by 1.8 per cent, against an increase of 5.8 per cent in terms of the exporting countries' currencies, mainly owing to the surge in the price of oil. The increase in the volume of imports is connected with the recovery in domestic activity and the continuation of the transfer abroad of the manufacture of certain intermediate goods, which are exported and reimported after partial processing. The terms of trade deteriorated by 2 per cent.

The improvement in the deficit on income account was the result of a sharp increase in inflows and a small decline in outflows. Against the background of an appreciation of the euro, the only explanation for the rise in these inflows is a substantial increase in income from equity investments. The surplus on current account and capital account amounted to €57.3 billion in 2004, while the financial account registered a small deficit (€4.2 billion, compared with €17.9 billion in 2003), including a decline of €12.4 billion in reserve assets (€29.9 billion a year earlier). Although the data are still provisional, the errors and omissions item was exceptionally large, -€53.1 billion, compared with -€17.1 billion in 2003.

On the financial account, the surplus on direct and portfolio investment diminished: net inflows rose by €18.3 billion, compared with €38.3 billion a year earlier. The decrease is attributable to a rise in net outflows of direct investment (from €3.4 billion to €36.4 billion), only partly offset by an increase in inflows of portfolio investment (from €41.7 billion to €54.7 billion), which became more pronounced in the final part of the year. Direct investment outside the euro area remained at the low levels recorded in 2003. Direct investment inflows fell by almost one half, reflecting the progressive decline in merger and acquisition activity from the high levels reached between 1999 and 2001. Outflows of portfolio investment decreased slightly (especially due to a reduction in purchases of shares), while only the equity securities component of inflows increased.

Net outflows of "Other investment" amounted to €32.1 billion, compared with €73.7 billion in 2003.

In 2004 the current account balance improved in Germany and Italy and worsened in France and Spain. Germany's surplus grew in connection with the further, sharp rise in the surplus on goods. For France and Spain, the deterioration in current account involved both goods and services.

Table 8

Balance of payments of the euro area
(millions of euros)

	2003			2004		
	H1	H2	Year	H1	H2	Year
Current account	**-5,593**	**27,425**	**21,832**	**19,476**	**22,087**	**41,563**
Goods	**38,550**	**66,728**	**105,278**	**60,143**	**45,607**	**105,750**
exports	*510,120*	*530,106*	*1,040,226*	*551,624*	*579,457*	*1,131,081*
imports	*471,569*	*463,376*	*934,945*	*491,482*	*533,849*	*1,025,331*
Services	**8,424**	**9,462**	**17,886**	**9,660**	**11,898**	**21,558**
Income	**-28,579**	**-16,251**	**-44,830**	**-26,912**	**-5,280**	**-32,192**
Current transfers	**-23,987**	**-32,515**	**-56,502**	**-23,414**	**-30,141**	**-53,555**
Capital account	**3,044**	**10,126**	**13,170**	**7,607**	**8,107**	**15,714**
Financial account	**2,153**	**-20,078**	**-17,925**	**-12,396**	**8,231**	**-4,165**
Direct investment	**27,369**	**-30,757**	**-3,388**	**-36,536**	**87**	**-36,449**
outward	*-62,624*	*-67,667*	*-130,291*	*-56,353*	*-47,115*	*-103,468*
inward	*89,992*	*36,909*	*126,901*	*19,818*	*47,202*	*67,020*
Portfolio investment	**92,619**	**-50,941**	**41,678**	**18,660**	**36,089**	**54,749**
Equity securities	**21,216**	**28,704**	**49,920**	**-27,263**	**89,169**	**61,906**
assets	*-23,533*	*-44,071*	*-67,604*	*-46,913*	*-18,465*	*-65,378*
liabilities	*44,749*	*72,775*	*117,524*	*19,650*	*107,634*	*127,284*
Debt instruments	**71,404**	**-79,645**	**-8,241**	**45,927**	**-53,078**	**-7,151**
assets	*-123,288*	*-86,066*	*-209,354*	*-98,019*	*-110,564*	*-208,583*
liabilities	*194,692*	*6,421*	*201,113*	*143,946*	*57,486*	*201,432*
Financial derivatives	**-4,055**	**-8,316**	**-12,371**	**6,129**	**-8,901**	**-2,772**
Other investment	**-128,007**	**54,283**	**-73,724**	**-7,191**	**-24,922**	**-32,113**
Reserve assets	**14,228**	**15,652**	**29,880**	**6,542**	**5,877**	**12,419**
Errors and omissions	**397**	**-17,473**	**-17,076**	**-14,688**	**-38,425**	**-53,113**

Source*:* ECB.

Germany, France and Spain recorded a marked rise in net outflows of direct investment. In Germany and above all France, where inflows of portfolio investment in debt instruments contracted sharply, the surplus on portfolio investment turned negative; by contrast, in Spain the balance improved significantly.

Italy. – In 2004 Italy's current account deficit decreased with respect to the previous year, falling from €16.9 billion to €11 billion, or 0.8 per cent of GDP (Table 9). With the trade surplus narrowing from €9.9 billion to €8 billion, the improvement in the deficit is attributable to the balance on services, which went from a deficit of €2.7 billion to a surplus of €2.3 billion, and a decline in the deficit on the income account from €17 billion to €13.7 billion. The deficit on transfers edged up from €7.1 billion to €7.7 billion.

The decline in the trade surplus on a fob-fob basis is attributable to the slower growth in the value of exports (7.6 per cent) than in imports (8.7 per cent). The larger increase in import volumes (3.2 per cent on average for the first 11 months of 2004) than in export volumes (2.6 per cent) was not associated with significant changes in the terms of trade.

Table 9

Italy's balance of payments (1)

(millions of euros)

	2003			2004		
	H1	H2	Year	H1	H2	Year
Current account	**-15,283**	**-1,598**	**-16,881**	**-10,086**	**-919**	**-11,005**
Goods	173	9,755	9,928	852	7,189	8,040
exports	*131,196*	*132,406*	*263,602*	*136,914*	*146,845*	*283,759*
imports	*131,023*	*122,651*	*253,674*	*136,063*	*139,656*	*275,719*
Services	-2,976	263	-2,712	637	1,662	2,299
Income	-9,504	-7,498	-17,002	-8,527	-5,139	-13,666
Current transfers	-2,976	-4,118	-7,094	-3,048	-4,631	-7,679
Capital account	**46**	**2,453**	**2,499**	**486**	**1,565**	**2,051**
Financial account	**18,715**	**-1,940**	**16,775**	**10,468**	**-1,075**	**9,393**
Direct investment	-886	7,393	6,507	-3,917	2,332	-1,585
outward	*-10,781*	*2,744*	*-8,037*	*-11,361*	*-3,228*	*-14,589*
inward	*9,895*	*4,649*	*14,544*	*7,444*	*5,560*	*13,004*
Portfolio investment	25,271	-21,898	3,373	22,394	2,932	25,326
Equity securities	-13,466	-2,531	-15,997	-11,634	11,505	-128
assets	*-2,198*	*-11,608*	*-13,806*	*-5,359*	*-7,959*	*-13,317*
liabilities	*-11,268*	*9,077*	*-2,191*	*-6,275*	*19,464*	*13,189*
Debt instruments	38,737	-19,367	19,370	34,028	-8,573	25,454
assets	*-25,261*	*-11,997*	*-37,258*	*-2,709*	*-4,074*	*-6,784*
liabilities	*63,998*	*-7,370*	*56,628*	*36,737*	*-4,499*	*32,238*
Financial derivatives	-3,661	-1,170	-4,831	660	1,026	1,686
Other investment	2,366	10,766	13,132	-7,066	-11,020	-18,086
Reserve assets	-4,375	2,969	-1,406	-1,603	3,655	2,052
Errors and omissions	**-3,478**	**1,085**	**-2,393**	**-868**	**429**	**-439**

(1) Provisional data for November and December 2004.

Responding to developments in demand, exports to countries outside the euro area grew fastest. The worsening of the balance on energy minerals and energy products (€3.8 billion) contributed to the deterioration in the trade surplus. The deficit on energy would have been even larger except for the strong performance of Italian exports of refined petroleum products.

The improvement in the balance on services derived from the rapid growth in receipts and the decline in expenditure abroad. In the first ten months of the year, the rise in receipts was driven by foreign travel in Italy and transport, as well as "Other business services" (mainly telecommunications and technical, professional and commercial services), which expanded by 10 per cent (Table 10). Spending abroad on such services declined by 2.5 per cent. The balance in this segment, which accounts for about 30 per cent of Italy's total trade in services, improved markedly.

According to the UIC's tourism survey, in the first 11 months of 2004 the surplus in the tourism sector increased from €9.1 billion to €11.6 billion with respect to the year-earlier period. The rise is

Table 10

Italy's trade in services
(millions of euros)

	January-October 2003			2003			January- October 2004		
	Credits	Debits	Balance	Credits	Debits	Balance	Credits	Debits	Balance
Total	54,286	55,663	-1,377	63,417	66,129	-2,712	57,260	54,122	3,138
of which: travel	*24,762*	*16,016*	*8,745*	*27,621*	*18,236*	*9,386*	*25,631*	*14,403*	*11,228*
transport	*7,917*	*12,026*	*-4,109*	*9,362*	*14,333*	*-4,971*	*8,800*	*12,416*	*-3,617*
construction	*1,474*	*1,542*	*-68*	*1,847*	*2,156*	*-309*	*1,327*	*1,739*	*-412*
other business services	*15,070*	*17,887*	*-2,817*	*18,532*	*21,787*	*-3,256*	*16,556*	*17,447*	*-891*

primarily attributable to the contraction in both the expenditure and number of Italian visitors abroad (10.2 and 19.8 per cent respectively) and an increase of 2.9 per cent in foreign tourists' expenditure in Italy. The rise in receipts on travel can be ascribed entirely to the increase in spending by travelers from non-EU countries (24.2 per cent, despite a reduction of 1.6 per cent in their number), especially visitors from the United States, whose per capita spending is higher than average. The number of US visitors rose despite the depreciation of the dollar, lifting receipts from these travelers back to the level recorded in 2001. By contrast, receipts from travel in Italy by EU citizens, which account for about two thirds of all spending in the sector, decreased by 5.7 per cent, while the number of visitors fell by 15.1 per cent. The expenditure and number of Italian visitors abroad diminished significantly both in the EU countries (by 6.8 and 15.2 per cent respectively) and elsewhere (13.4 and 23.7 per cent respectively). The decline in spending in non-EU destinations mainly involved the United States, where the number of Italian visitors fell by 12.9 per cent despite the favourable exchange rate.

In 2004 the deficit on the income account fell by €2.7 billion to €14.3 billion, as outflows fell more steeply than inflows. In the first ten months of the year (the period for which disaggregated data on instruments are available) the improvement in the balance with respect to the year-earlier period was mainly due to the reduction of the deficit on "Other investment". The deficit on income from portfolio investment (mainly interest on debt instruments and dividends) also narrowed: inflows grew as a consequence both of the increase in foreign assets held by Italian investors at the end of 2003 and of the reallocation of investments towards riskier, higher-yielding instruments; the pace of outflows slowed.

Among outflows of private transfers, immigrants' remittances increased further, rising from €0.9 billion in the first 10 months of 2003 to €1.6 billion in the same period of 2004. The balance on this account, which has been in deficit since 1998, deteriorated further, to €1.5 billion.

In 2004 the overall deficit on current account and capital account was €9 billion, €5.4 billion less than in the previous year. The surplus on the financial account came to €9.4 billion, a decrease of €7.4 billion. Net inflows were composed of portfolio investment, derivatives and a decrease of €2.1 billion in reserve assets. Transactions associated with direct investment and "Other investment" produced net outflows. Errors and omissions remained modest.

After two years of decline, Italy's direct investment abroad turned upwards in 2004: outflows rose from €8 billion to €14.6 billion (1.1 per cent of GDP). Net inflows of foreign direct investment in Italy decreased from €14.5 billion to €13 billion.

By contrast with direct investment, outward portfolio contracted sharply, falling from €51.1 billion to €20.1 billion. While investment in shares

Table 11

Portfolio investment in Italy
(millions of euros)

	2003			2004	
	H1	January- October	Year	H1	January- October
Government securities	58,814	64,639	61,942	26,287	23,401
BOTs	*16,058*	*18,704*	*13,949*	*-2,133*	*-6,614*
BTPs	*28,803*	*37,141*	*49,545*	*5,483*	*10,401*
CCTs	*798*	*-1,308*	*-1,834*	*14,486*	*10,562*
CTZs	*3,463*	*2,216*	*-4,461*	*2,946*	*4,764*
Republic of Italy issues	*9,730*	*8,012*	*2,990*	*5,470*	*3,956*
Other government securities	*-37*	*-126*	*1,752*	*35*	*332*
Bonds	5,184	-2,168	-5,314	10,450	16,509
Equity securities (1)	-11,268	-4,176	-2,191	-6,275	7,337
Total	**52,730**	**58,295**	**54,437**	**30,462**	**47,247**

(1) Including investment fund units.

was broadly unchanged (edging down from €13.8 billion to €13.3 billion), that in debt securities plunged from €37.3 billion to €6.8 billion. In a context characterized by a low propensity to invest abroad, Italian investment flows are therefore directed towards relative riskier assets.

Net inflows of portfolio investment in Italy declined from €54.4 billion to €45.4 billion, reflecting the decrease in investment in debt securities from €56.6 billion to €32.3 billion. In the first ten months of the year foreign investment in private bonds recovered after the pronounced contraction in 2003, partly owing to an increase in non-residents' purchases of bank securities (Table 11). After having grown rapidly since 2001, investment in government securities fell to €23.4 billion, compared with €64.6 billion in the first ten months of 2003. Net disinvestment in BOTs amounted to €6.6 billion, compared with net purchases of €18.7 billion in the year-earlier period. Investment in BTPs fell from €37.1 billion to €10.4 billion and that in Republic of Italy issues from €8 billion to €4 billion. The decline was only partially offset by an increase in purchases of CCTs (from net disinvestment of €1.3 billion to net investment of €10.6 billion). Investment in shares issued by Italian companies recovered, with net purchases of €13.2 billion in 2004, compared with net disposals of €2.2 billion in the previous year (Table 9).

The item "Other investment", which records residents' financial transactions abroad, mainly in the form of deposits and loans, went from net inflows of €13.1 billion in 2003 to net outflows of €18.1 billion last year. With funding expanding more rapidly than lending in the domestic market, net lending to non-residents by the Italian banking system amounted to €12.5 billion. This was the combined result of a reduction in external funding and, above all, new loans to non-residents (in 2003 net funding from non-residents amounted to €39.4 billion).

The labour market

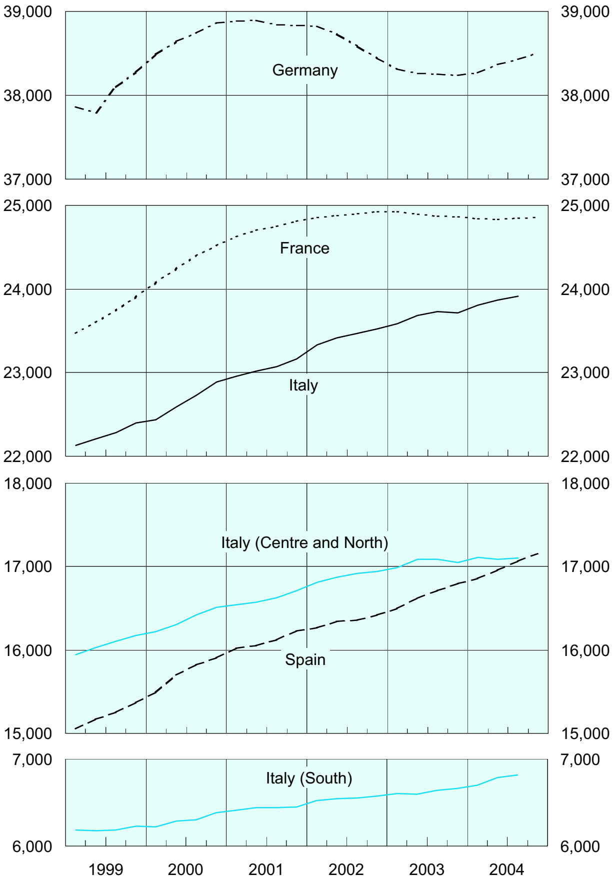
The euro area

The number of persons employed in the euro area is estimated to have risen by about 0.5 per cent in 2004 (0.2 per cent in 2003), as a result of the upturn in economic activity. However, employment trends in the main economies were not uniform (Figure 17). Employment expanded at a faster pace in Spain, returned to at least moderate growth in Germany after two years of contraction, and diminished slightly in France after stagnating in 2003. In these countries, in any event, there were signs of more rapid growth in the second half of 2004.

Figure 17

Employment in the main euro-area countries

(seasonally adjusted quarterly data; thousands of persons)



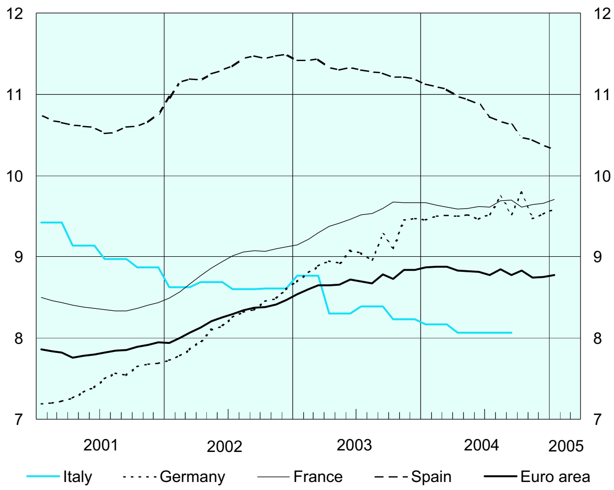
Sources: For Italy, Istat, national accounts and regional estimates; the quarterly segments are partly estimated. For the other countries, Eurostat, national accounts.

The average unemployment rate in the euro area remained broadly stable for the year at 8.8 per cent (Figure 18). In Spain the rate came down from 11.3 to 10.8 per cent, while rising slightly in France and more sharply in Germany. Germany's broad reform of unemployment benefits known as Hartz IV went into effect in January 2005. The new rules significantly reduce benefits and restrict eligibility. They also provide for cancelling the welfare entitlement of persons who are deemed to be employable. This provision entailed the reclassification of some welfare recipients, previously considered non-participants in the labour force, as unemployed and is estimated to have accounted for about half the sharp increase in the number of unemployed enrolled with the federal labour office, from 4.5 million in December to 5.2 million in February, not seasonally adjusted.

Figure 18

Unemployment rates in the main euro-area countries

(seasonally adjusted data; percentages)



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

Unit labour costs declined in Germany by 1.4 per cent in 2004, reflecting a rise in productivity and flat per capita earnings, and slowed significantly in Italy, France and Spain (Table 12). In France the slowdown was due to the fact that productivity growth outpaced per capita compensation, while in Italy and Spain it reflected above all a deceleration in per capita labour costs.

The further sharp reduction in industrial unit labour costs in Germany was due exclusively to an exceptional pick-up in productivity while the number of persons employed again contracted. One contributory factor is thought to have been the greater flexibility introduced with last year's collective bargaining agreements, which permitted decentralized renegotiation of the work rules laid down in nationwide contracts. In the service sector, by contrast, the decline in unit labour costs, which was less pronounced than in industry, depended on a slight decline in per capita earnings, while output per worker stagnated.

In France too labour productivity advanced considerably in industry, reducing unit labour costs. In the service sector, however, although the trend in per capita labour costs was similar, unit labour costs increased.

Table 12

Unit labour costs, per capita earnings, productivity and its components

(percentage changes on corresponding period)

	Cost of labour per employee (1)		Productivity						Unit labour costs	
			2003	2004	Value added (2)		Employment (1)			
	2003	2004			2003	2004	2003	2004	2003	2004
					Industry excluding construction					
Germany	1.9	2.0	3.2	6.0	0.5	4.3	-2.6	-1.6	-1.2	-3.7
France	2.2	3.2	2.4	4.4	-0.1	1.9	-2.4	-2.4	-0.2	-1.2
Italy	2.9	3.3	0.2	0.5	-0.2	0.1	-0.3	-0.4	2.7	2.7
Spain	4.3	3.7	3.2	3.0	1.3	2.1	-1.9	-0.9	1.1	0.7
Euro 4 (3)	2.2	2.6	2.0	3.9	0.2	2.6	-1.8	-1.3	0.2	-1.3
					Services (4)					
Germany	1.5	-0.5	0.4	0.1	0.4	1.3	-0.1	1.2	1.1	-0.6
France	2.3	3.0	0.6	1.8	1.1	2.1	0.5	0.3	1.7	1.1
Italy	4.0	2.8	0.1	0.3	0.9	1.2	0.8	0.9	3.9	2.5
Spain	4.4	4.1	-0.8	-0.4	2.1	2.6	2.8	3.0	5.1	4.5
Euro 4 (3)	2.3	1.7	-0.1	0.4	0.8	1.6	0.9	1.2	2.4	1.3
					Total economy					
Germany	1.6	0.1	1.1	1.5	0.1	1.9	-1.0	0.3	0.4	-1.4
France	2.4	3.0	0.5	2.4	0.5	2.2	-0.1	-0.2	1.9	0.6
Italy	3.8	2.9	0.1	0.5	0.5	1.3	0.4	0.8	3.6	2.4
Spain	4.3	4.0	0.2	0.3	1.9	2.5	1.7	2.1	4.1	3.7
Euro 4 (3)	2.3	1.9	0.3	1.3	0.4	1.9	0.2	0.6	2.0	0.6

Sources: Based on Istat and Eurostat data.

(1) For Italy, France and Spain, standard labour units. – (2) At 1995 base prices; for Italy, value added at 1995 market prices. – (3) Weighted average for France, Germany, Italy and Spain; for 2004, partly estimated. – (4) Comprises wholesale and retail trade, transport and telecomunications, financial and real estate intermediation, and "other sectors".

In Spain unit labour costs increased again in the service sector, and much faster than the area-wide average, owing to a further fall in productivity and the continuing rapid rise in per capita labour costs. In industry, while per capita labour costs rose at about the same pace as in services, unit labour costs increased only slightly thanks to substantial productivity gains.

Italy

Employment. – For 2004 as a whole, the annual national accounts show an increase in employment of 0.8 per cent in terms of standard labour units, compared with 0.4 per cent in 2003. For the first time in three years value added grew by more than labour input, with productivity rising by 0.5 per cent. According to the quarterly accounts, which are still provisional and only available for the first three quarters, employment growth slowed progressively; presumably, the intensification of labour use induced by the greater flexibility introduced in the last decade had run its course. Over the first three quarters the average number of persons employed rose by 0.8 per cent on a twelve-month basis, compared with 1.2 per cent for 2003 as a whole.

Based on the new labour force survey (see *Economic Bulletin* No. 39, October 2004), 22,485,000 persons were working in the third quarter of 2004, 0.4 per cent more than a year earlier. For the first nine months the increase on the corresponding period of 2003 came to 0.7 per cent, or 162,000 persons (Table 13). This was the smallest rise since 1997. In the same period the employment rate for persons of working age (15-64) held at the same level as the previous year, 57.3 per cent, about 5 points below the euro-area average.

The increase in employment was located entirely in the Centre and North of Italy (177,000 persons, or 1.1 per cent), and outside industry excluding construction (244,000 persons, or 1.4 per cent). It was larger for women (91,000 or 1 per cent). The employment rate for women aged 15-64 remained unchanged at 45 per cent, as in the first three quarters of 2003; this is about 9 percentage points below the EU average.

During the first three quarters, the recovery in employment in industry excluding construction that had been under way for two years came to an end. Declining steadily in the course of the year, the number of workers fell by 1.6 per cent compared with the same period of 2003, or by 82,000 persons (Table 14), the sharpest contraction in a decade. Also, the number of hours of Wage Supplementation benefits increased (Figure 19). The contraction in the demand for labour affected both the northern part of the country, where it fell by 50,000 (1.5 per cent), and the South, with a decline of 36,000 (3.9 per cent).

In construction, employment rose in all parts of the country, gaining 90,000 or 5.2 per cent compared with the first nine months of 2003 thanks to the buoyant real estate market. Most of the increase was accounted for by the rise of 55,000 or 8.1 per cent in the number of self-employed workers.

In the service sector the number of persons employed rose by 127,000, or 0.9 per cent. However, employment increased only in the Centre and North (by 143,000); in the South it declined by 16,000 persons or 0.4 per cent, due entirely to a drop of 25,000 in the number of self-employed workers.

The expansion in payroll employment (by an average of 0.5 per cent for the first nine months) was accounted for entirely by a 1 per cent increase in the number of open-ended contracts. The number of workers on fixed-term contracts fell by 3.6 per cent, further diminishing their share of total payroll employment from 12.3 to 11.8 per cent (Table 15); both full-time and part-time positions were affected. The incidence of part-time work increased among permanent employees, among women, and in the Centre and North.

Unemployment and the supply of labour. – In the third quarter of 2004 the seasonally adjusted unemployment rate was unchanged at 8.1 per cent. On average for the first three quarters job seekers made up 8 per cent of the labour force, on an unadjusted basis, about half a percentage point less than in the same period of 2003. The largest diminution came in the South (from 16.4 to 15 per cent), where it was sharpest among women and young people aged 15 to 24.

Table 13

Labour force status of the Italian population

(thousands of persons and percentages)

	2003 average		Q1-Q3 2003 average		Q1-Q3 2004 average	
	Number	Percentage share	Number	Percentage share	Number	Percentage share
Employees	**16,040**	**72.1**	**15,983**	**72.1**	**16,060**	**71.9**
open-ended contracts	....	....	14,022	63.3	14,169	63.5
full-time	....	....	12,496	56.4	12,601	56.4
part-time	....	....	1,526	6.9	1,568	7.0
fixed-term contract	....	....	1,961	8.8	1,891	8.5
full-time	....	....	1,529	6.9	1,475	6.6
part-time	....	....	432	2.0	415	1.9
Self-employed	**6,202**	**27.9**	**6,184**	**27.9**	**6,270**	**28.1**
full-time	....	....	5,303	23.9	5,433	24.3
part-time	....	....	882	4.0	837	3.7
Total persons in work	**22,241**	**100.0**	**22,167**	**100.0**	**22,329**	**100.0**
men	13,544	60.9	13,523	61.0	13,594	60.9
women	8,697	39.1	8,645	39.0	8,735	39.1
Unemployed	**2,048**	**–**	**2,057**	**–**	**1,941**	**–**
Labour force	**24,289**	**100.0**	**24,224**	**100.0**	**24,270**	**100.0**
men	14,480	59.6	14,459	59.7	14,506	59.8
women	9,809	40.4	9,765	40.3	9,764	40.2
Unemployment rate	**8.5**	**–**	**8.5**	**–**	**8.0**	**–**
men	6.5	–	6.5	–	6.3	–
women	11.4	–	11.5	–	10.5	–
Participation rate (ages 15-64)	**62.9**	**–**	**62.8**	**–**	**62.3**	**–**
men	74.9	–	74.8	–	74.4	–
women	51.0	–	50.8	–	50.4	–
Employment rate (ages 15-64)	**57.5**	**–**	**57.4**	**–**	**57.3**	**–**
men	70.0	–	69.9	–	69.7	–
women	45.1	–	44.9	–	45.0	–

Source: Istat, labour force surveys.

Table 14

Employment by sector and geographical area in Italy, 2004

	Q3 2004	Average for Q1-Q3 2004 on average for Q1-Q3 2003			Q3 2004 on Q2 2004 (1)
	Percent-age share of national total	Absolute change	Percent-age change	Contribu-tion, percent-age points	Percent-age change
			Sector		
Agriculture	4.8	25,652	2.7	0.1	-0.9
Industry excl. construction ..	22.3	-81,552	-1.6	-0.4	-0.7
Construction	8.4	90,495	5.2	0.4	2.7
Services	64.5	127,393	0.9	0.6	0.1
			Geographical area		
North	50.9	54,149	0.5	0.2	..
Centre	20.2	122,860	2.8	0.6	-0.2
South..............	28.9	-15,021	-0.2	-0.1	0.3
Italy	**100.0**	**161,988**	**0.7**	**0.7**	**0.1**

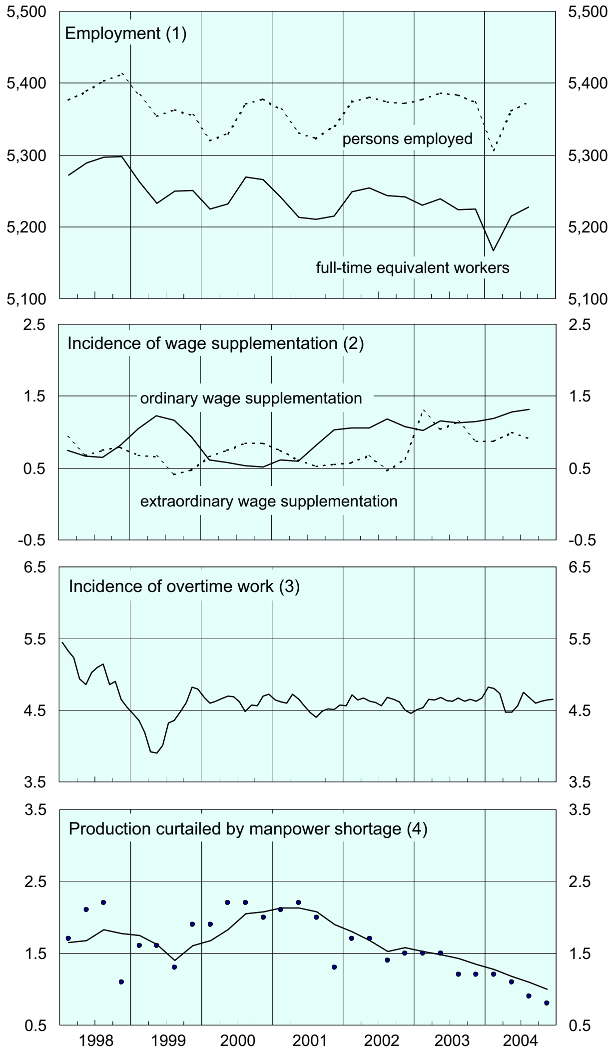
Source: Istat, labour force surveys.
(1) Seasonally adjusted.

The reduction in the southern unemployment rate was due exclusively to the significant contraction in the supply of labour (149,000 fewer job seekers than in the first nine months of 2003). The sharpest fall in a decade, it involved mainly women and young people. In fact, the labour market participation rate of the southern population aged 15 to 64 fell to an average of 54.2 per cent, 1.3 points lower than in the first nine months of 2003 and on a par with the low levels of the mid-1990s. For the country as a whole the participation rate in this age group declined by 0.4 points for men and women alike (to 74.4 and 50.4 per cent respectively).

Labour costs and industrial relations. – Gross employee compensation per full-time equivalent worker increased by 2.9 per cent in 2004, according to the national accounts, compared with 3.8 per cent in 2003. Actual per capita earnings, not including employers' social security contributions, rose by 3 per cent, in line with contractual wages and 0.8 percentage points more than the general consumer price index.

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, national accounts and *Indagine sulle grandi imprese*, and on data from INPS and ISAE, *Inchiesta sulle imprese manifatturiere ed estrattive* (revised).

(1) Respectively, total number of persons employed and standard labour units as defined in the national acounts. Quarterly data. – (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 according to national accounts. – (3) Total number of overtime hours as a percentage of total number of regular hours in industrial companies with at least 500 employees. Monthly data; moving averages of the three months ending in the reference month. – (4) Companies so reporting as percentage share of total. Quarterly data; moving averages of the four quarters ending in the reference quarter.

Table 15

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

(percentages)

	Fixed-term		Part-time	
	Average Q1-Q3 2003	Average Q1-Q3 2004	Average Q1-Q3 2003	Average Q1-Q3 2004
Men	10.6	9.9	3.9	3.7
Women	14.6	14.3	23.8	24.2
North	9.9	9.4	12.6	12.8
Centre	12.2	11.6	13.2	13.6
South	16.4	16.2	11.0	10.7
Agriculture	47.7	46.9	11.7	9.4
Industry	9.2	8.8	5.3	5.4
Services	12.5	11.9	15.9	16.0
Total economy ..	**12.3**	**11.8**	**12.2**	**12.4**

Source: Istat, labour force surveys.

In industry excluding construction the cost of labour per standard labour unit increased by 3.3 per cent (2.9 per cent in 2003) and actual per capita earnings by 3.2 per cent, or 0.2 points more than contractual wages (Figure 20). Given the slight pick-up in productivity growth from 0.2 to 0.5 per cent, unit labour costs rose by 2.7 per cent, the same as in 2003.

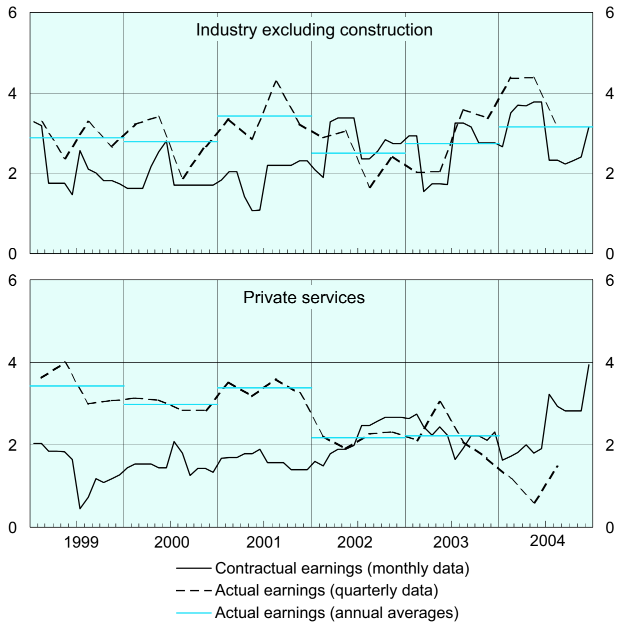
In the service sector the increase in unit labour costs slowed sharply from 3.9 to 2.5 per cent, above all because of the substantial deceleration in per capita labour costs from growth of 4 to 2.8 per cent. According to the provisional quarterly national accounts, the rise in per capita compensation and earnings in the private service sector was much smaller, registering a sharp slowdown despite the payment in the third quarter of back wages and the first tranche of the raise under the renewed collective bargaining agreement for workers in wholesale and retail trade, signed a year and a half late. With productivity diminishing further, the increase in unit labour costs was contained by the very small rise in per capita compensation.

Contracts representing about 20 per cent of the entire gross wage bill expired in December, including those for metalworkers, railway workers and postal and telecommunications workers. Some lapsed contracts in transport and communications still await renewal. Moreover, the public sector contracts for 2002-03 were not renewed until between the end of 2003 and August 2004, and so have already expired. Overall, in February 2005 some 40 per cent of Italy's collective bargaining agreements had expired, about half of them involving the private sector. The joint bargaining platform of the major trade unions for the metalworkers contract, approved by a large majority of workers in a referendum in February, sets wage demands of 8 per cent (€130 net a month) for 2005-06; most of this (€105, or 6.5 per cent) will go to recoup the differential between past actual and target inflation and to maintain purchasing power for the next two years. The employers' association has countered with an offer of just €60 a month.

Figure 20

Italy: per capita contractual and actual earnings

(seasonally adjusted data; percentage change on corresponding period)



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

The contract for bank workers, signed in February 2005 thirteen months after the old contract lapsed, provides for an increase of 6.4 per cent in 2004-05, of which 6 points to recoup losses due to inflation between 2002 and 2005. The portion of the agreement on employment conditions introduced rules governing only a few of the types instituted by the so-called Biagi Law (Law 30/2003, implemented by Legislative Decree 276/2003).

Prices and costs

Overview

In 2004 the harmonized index of consumer prices rose by 2.1 per cent in the euro area, as in 2003 (in Italy it rose by 2.3 per cent, down from 2.8 per cent; Figure 21). The effects of the rise in the prices of energy products were partly offset by the appreciation of the euro against the dollar. The sharp slowdown in unit labour costs, fostered by wage moderation and faster productivity growth, helped contain inflation, as did firms' caution in raising prices in view of the uncertain strength of the recovery. Consumer price inflation was also curbed by the pronounced deceleration in the prices of unprocessed food products.

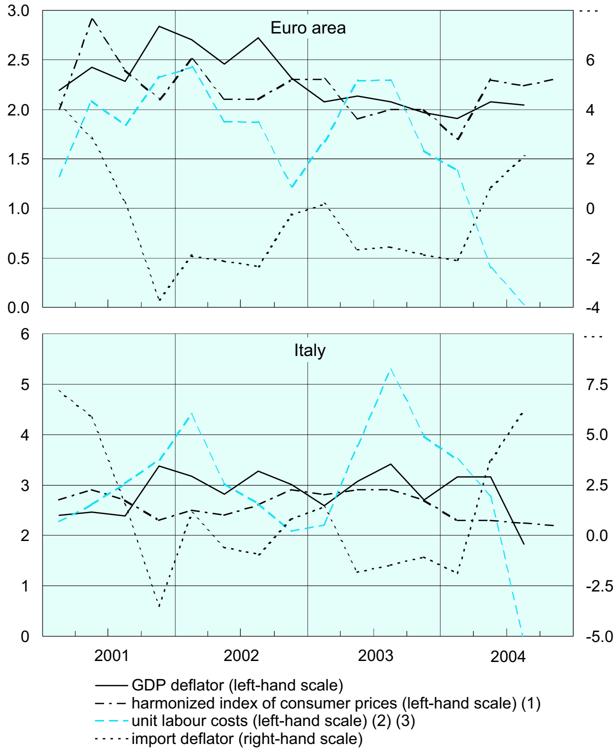
In 2004 oil prices were 20 per cent higher on average than in the previous year. The increase in the energy component of the euro-area consumer price index accelerated to 4.5 per cent, from 3 per cent in 2003. In Italy, by contrast, it slowed from 3.2 to 2.4 per cent as a result of the lag with which changes in international prices between 2003 and 2004 were reflected in gas and electricity prices.

Core inflation (excluding unprocessed food and energy products) was 2.1 per cent in the euro area, in line with the figure for 2003. In some countries core inflation rose owing to sharp increases in some items with regulated prices; in Italy it fell from 2.7 to 2.3 per cent, owing to the substantial reduction in the prices of certain durable goods. The differential between consumer price inflation in Italy and the rest of the euro area virtually disappeared for the general index, while that for core inflation remained slightly positive.

Figure 21

Inflation indicators in the euro area and Italy

(quarterly data; percentage changes on year-earlier period)



Sources: Based on Istat and Eurostat data.

(1) For Italy, for 2001 the percentage changes are calculated with reference to indices that exclude price reductions for special offers. – (2) For the euro area, weighted average of France, Germany, Italy and Spain. – (3) For France, Italy and Spain, unit labour costs are based on standard labour units.

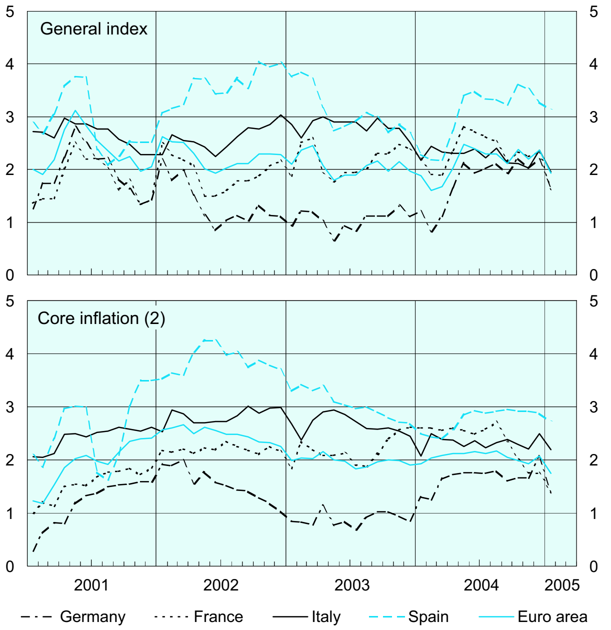
Prices and costs in the euro area

Consumer prices. – After falling to 1.7 per cent year-on-year in the first quarter, consumer price inflation in the euro area rose to 2.3 per cent in the second quarter and fluctuated around that level over the rest of the year (Figure 22). The rise reflected the progressive acceleration in the prices of energy products (Table 16). The prices of unprocessed food rose by an average of 0.7 per cent in 2004, slowing sharply over the course of the year (from a year-on-year increase of 2.2 per cent in the first quarter to a decrease of 0.7 per cent in the fourth). Core inflation, which excludes these two components, remained stable at around 2 per cent. The moderate rise in domestic costs and the appreciation of the euro in nominal effective terms were factors in curbing inflation. The prices of services continued to rise rapidly (2.6 per cent), reflecting increases in some regulated prices (notably hospital services in Germany) and in urban transport charges in the major countries, partly owing to the rise in energy prices.

Figure 22

Harmonized index of consumer prices (1)

(monthly data; twelve-month percentage changes)



Source: Based on Eurostat data.

(1) For Italy, for 2001 the percentage changes are calculated with reference to indices that exclude price reductions for special offers. – (2) General index excluding energy and unprocessed food products.

The difference between the inflation rate for services and that for non-food and non-energy goods (equal to 1.8 percentage points in 2004, as in 2003) continued to reflect the gap between the rates of change in unit labour costs in industry and services (Table 16), which is attributable to much slower productivity growth in the latter sector.

In January of this year the euro-area inflation rate was 1.9 per cent on a twelve-month basis, down from 2.4 per cent in December. The decline, common to all the main euro-area countries, was largest in France and Germany owing to the termination of the effects of the sharp rise in some regulated prices in January 2004. According to Eurostat's preliminary estimates, inflation in the euro area was 2 per cent in February.

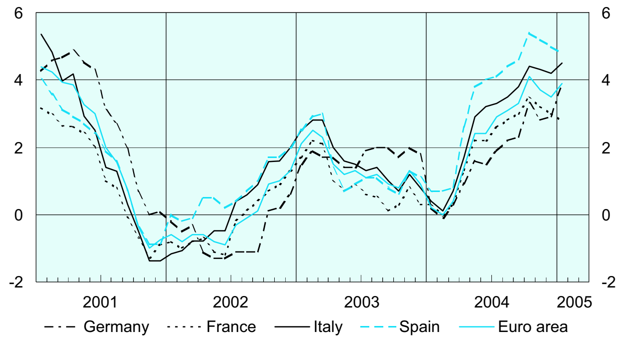
The dispersion of inflation rates in the euro area (measured by the standard deviation) diminished slightly in 2004 to an average of 0.8 percentage points, from an average of 1 point in 2003, mainly as a result of the substantial increase in inflation in Germany, which approached the euro-area average.

Producer prices and export prices. – The index of the producer prices of manufactures sold within the euro area rose by an average of 2.3 per cent in 2004, compared with 1.4 per cent in 2003 (Table 16). The increase was very slow in the first quarter but accelerated over the year, driven by the rise in the prices of basic energy and non-energy materials (metals and food products), which account for about 50 per cent of the index. The acceleration with respect to 2003 and over the course of the year was most pronounced in Spain and in Italy (where the year-on-year increase rose from 0.4 per cent in the first quarter to 4.3 per cent in the fourth; Figure 23).

Figure 23

Index of producer prices (1)

(twelve-month percentage changes)



Source: Eurostat.

(1) The index refers to the prices of manufactured goods. The indices of the various countries are not strictly comparable, owing to differences between the methods used to compile them.

Net of food and energy products, the rate of producer price inflation rose from 05. to 1.8 per cent in 2004. Among the core components, the prices of non-energy intermediate goods were affected by the increase in raw materials prices over the year. Positive developments in unit labour costs in industry contained the rise in the prices of non-food and non-energy consumer goods, which are less directly influenced by changes in the prices of basic materials (0.6 per cent year-on-year in the fourth

Table 16

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

	Italy							Euro area						
	2002	2003	2004	2004				2002	2003	2004	2004			
				Q1	Q2	Q3	Q4				Q1	Q2	Q3	Q4
Harmonized consumer prices														
General index	2.6	2.8	2.3	2.3	2.3	2.2	2.2	2.3	2.1	2.1	1.7	2.3	2.2	2.3
Excluding unprocessed food and energy products	2.8	2.7	2.3	2.3	2.3	2.3	2.3	2.5	2.0	2.1	2.0	2.1	2.1	2.0
of which: non-food and non-energy products	*2.4*	*1.9*	*1.6*	*1.5*	*1.7*	*1.4*	*1.7*	*1.5*	*0.8*	*0.8*	*0.7*	*0.9*	*0.8*	*0.8*
services	*3.4*	*3.2*	*2.6*	*2.4*	*2.5*	*2.7*	*2.7*	*3.1*	*2.5*	*2.6*	*2.6*	*2.6*	*2.6*	*2.7*
Unprocessed food products	4.9	3.9	1.9	5.0	3.6	1.1	-1.8	3.1	2.1	0.7	2.2	1.5	-0.3	-0.7
Energy products	-2.6	3.2	2.4	-0.9	1.5	3.3	5.8	-0.6	3.0	4.5	-1.5	4.8	6.3	8.5
Producer prices														
General index	0.2	1.6	2.7	0.4	2.6	3.5	4.3	-0.1	1.4	2.3	0.2	2.0	3.1	3.8
Excluding food and energy products	1.1	1.2	3.0	1.2	2.7	3.8	4.4	0.3	0.5	1.8	0.4	1.2	2.3	3.1
of which: final consumption goods	*2.5*	*1.1*	*0.6*	*0.2*	*. .*	*0.7*	*1.6*	*0.8*	*0.4*	*-0.6*	*-1.0*	*-1.3*	*-0.7*	*0.6*
intermediate goods	*0.4*	*1.5*	*4.9*	*1.8*	*4.6*	*6.4*	*6.9*	*-0.3*	*0.8*	*3.5*	*1.0*	*2.8*	*4.7*	*5.5*
Energy products	-4.0	2.5	2.4	-5.0	2.3	4.6	8.3	-2.3	3.8	3.7	-2.6	3.7	5.8	8.1
Unit labour costs (1)														
Total economy	3.3	3.6	2.4	3.6	2.8	. .	. . . .	1.9	2.0	0.6	1.4	0.4	. .	. . . .
of which: industry excluding construction	*3.8*	*2.7*	*2.7*	*2.5*	*1.2*	*2.6*	. . . .	*0.9*	*0.2*	*-1.3*	*. .*	*-2.3*	*-1.6*	. . . .
services	*3.3*	*3.9*	*2.5*	*4.0*	*3.2*	*-1.1*	. . . .	*2.5*	*2.4*	*1.3*	*1.8*	*1.2*	*0.5*	. . . .

Sources: Based on Eurostat and Istat data.
(1) For the euro area, weighted average of France, Germany, taly and Spain; figures partially estimated for 2004. For Italy, annual figures area based on value added at market prices.

quarter of 2004, compared with a contraction of 1 per cent in the first).

Against a background of uncertainty about the strength of the recovery, the European Commission's indicator of pricing intentions rose over the year but remained at low levels.

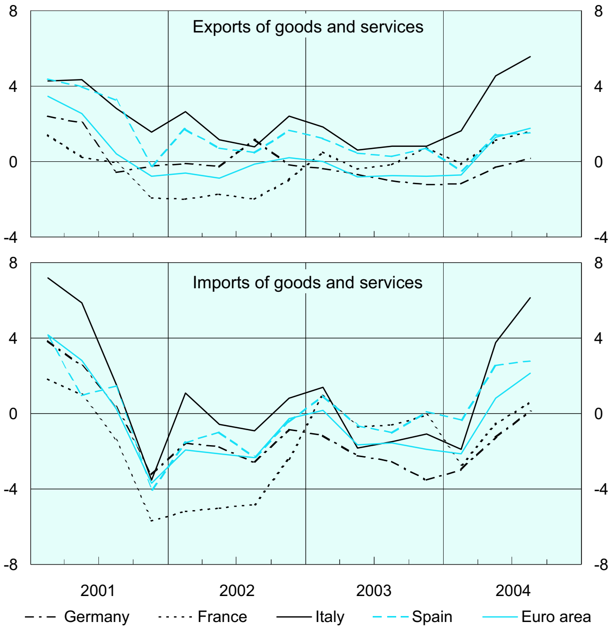
The appreciation of the euro in nominal effective terms prompted European firms to contain their export prices in euros. Exporters in the leading euro-area countries adopted different pricing policies in foreign markets. According to national accounts data, the implicit deflator of exported goods and services fell by 0.4 per cent in Germany in the first nine months of the year compared with the year-earlier period. It increased slightly in France but rose by 3.9 per cent in Italy, reflecting the rapid increase in domestic costs.

Costs. – In the first nine months of 2004 the implicit deflator of imported goods and services in the euro area rose by an average of 1.1 per cent with respect to a year earlier. It accelerated over the period, swinging from a year-on-year decrease of 2.1 per cent in the first quarter to an increase of 2.1 per cent in the third, in conjunction with the rise in energy prices (Figure 24). A similar pattern was recorded in the main euro-area countries. In Italy, the deflator was about 4 percentage points higher than in France and Germany from the second quarter onwards.

Figure 24

Export and import deflators

(percentage changes on year-earlier quarter)



Sources: Based on Eurostat and Istat data.

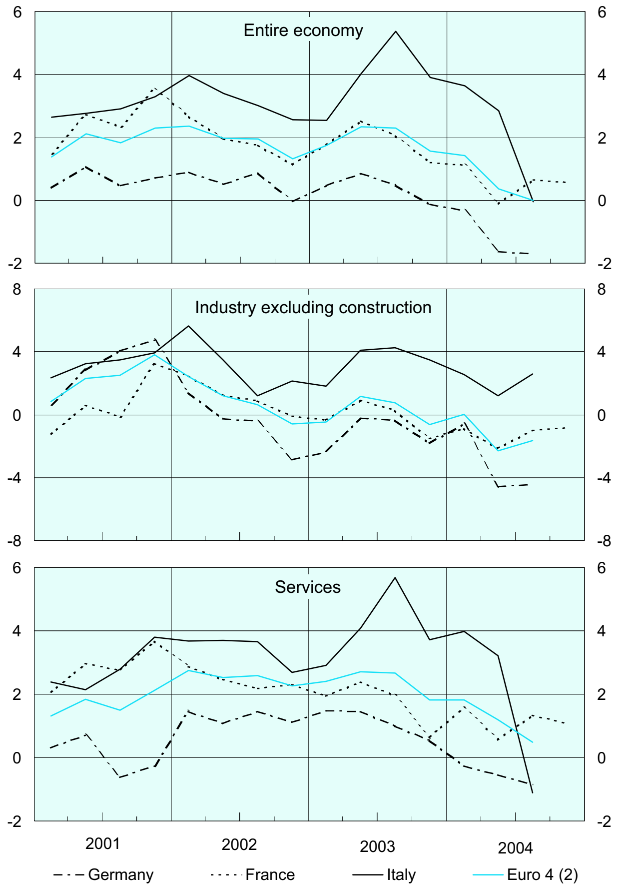
Internal inflationary pressures diminished in 2004. With employment broadly stable, even the modest recovery in economic activity produced productivity gains, causing the year-on-year rate of increase in unit labour costs to fall from 2 to 0.6 per cent (Figure 25).

In industry excluding construction the increase in value added in the euro area was associated with a fall of 1.3 per cent in employment, boosting productivity by 3.9 per cent, compared with a rise of 2 per cent in 2003. The result was a 1.3 per cent reduction in unit labour costs in 2004 , compared with an increase of 0.2 per cent in 2003, with Germany recording the largest decline (3.7 per cent). In the service sector unit labour costs increased by 1.3 per cent, half as much as in 2003, reflecting more the deceleration in wage growth than the still moderate rise in productivity.

Figure 25

Unit labour costs (1)

(percentage changes on year-earlier quarter)



Source: Based on Eurostat data.

(1) For France and Italy, unit labour costs are based on standard labour units. – (2) Weighted average of France, Germany, Italy and Spain.

Prices and costs in Italy

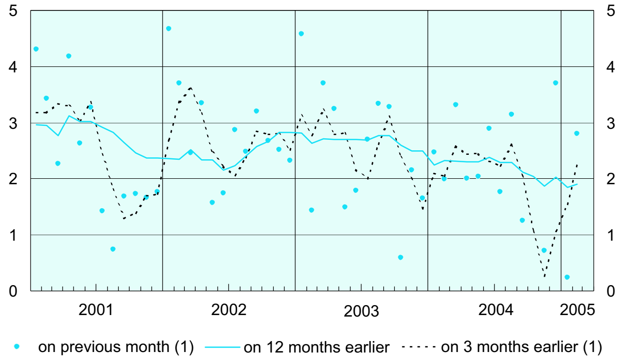
Consumer prices. – In 2004 the year-on-year increase in the general index of consumer prices decreased to 2.2 per cent, from 2.7 per cent in 2003. Inflation gradually declined over the course of the year, to 2 per cent in the fourth quarter (Figure 26). Preliminary Istat estimates put the twelve-month rate at 1.9 per cent in February, the same as in January.

Excluding the more volatile components and items whose prices are regulated, year-on-year consumer price inflation fell even more steeply in 2004: to 2.1 per cent, from 2.7 per cent in 2003. The main factors in the decrease were the prices of goods that benefited from the moderation of domestic costs and the appreciation of the euro in nominal effective terms (Table 17). Among high-technology goods, the prices of cellular telephones decreased by an exceptional 23.3 per cent, greater

Figure 26

Italy: general consumer price index

(percentage changes)



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

Table 17

Consumer prices in Italy (1)

	Percentage changes on year-earlier period		Percentage weights	Contibutions to average inflation (percentage points)
	2003	2004	2003	first 9 months of 2004
GENERAL INDEX	**2.7**	**2.2**	**100**	**-**
Unregulated goods and services	**2.8**	**2.3**	**82.0**	**1.86**
Unprocessed food products	4.2	2.0	6.9	0.14
of which: fruit	*6.0*	*3.7*	*1.0*	*0.04*
vegetables	*4.8*	*1.5*	*1.7*	*0.02*
Processed food products	2.4	2.3	9.9	0.23
Non-food and non-energy products	1.9	0.8	30.7	0.25
of which: telephones	*-3.9*	*-23.3*	*0.8*	*-0.18*
computers	*-14.5*	*-9.4*	*0.2*	*-0.02*
Unregulated services	3.5	3.4	31.6	1.09
of which: air transport	*2.7*	*11.6*	*0.6*	*0.07*
professional services	*1.2*	*7.5*	*0.7*	*0.05*
banking services	*8.9*	*6.6*	*0.7*	*0.04*
Energy products	2.3	5.8	2.9	0.17
Regulated goods and services	**2.2**	**1.9**	**18.0**	**0.34**
Medical products	-3.8	-1.0	2.9	-0.03
Tobacco products	8.3	9.8	2.0	0.20
Rents	2.8	2.8	3.1	0.09
Public services and utilities	2.7	0.9	9.9	0.09
of which: electricity and gas	*4.1*	*-1.2*	*2.7*	*-0.03*
water, waste disposal and urban transport	*4.0*	*5.0*	*1.6*	*0.08*

Source*:* Based on Istat data.
(1) General price index for the whole population.

than the declines over the same period in Germany (9.7 per cent) and France (14.7 per cent).

Although subsiding slightly, at approximately 3.5 per cent inflation for services whose prices are not regulated remained well above the rate for goods. In addition to higher prices for air transport, which rose by 11.6 per cent in connection with increased fuel costs, a significant factor was the increase of 6.6 per cent in bank charges, as measured and defined for the national consumer price index, and that of 7.5 per cent in the prices of professional services.

The contribution of regulated prices to the year-on-year increase in the general index in 2004 amounted to 0.3 percentage points, largely attributable to the increase in the prices of tobacco products (about 10 per cent) and some local services (water, waste disposal and public transport). By contrast, the prices of regulated energy products (gas and electricity) helped slow the rise in the general index owing to the lag with which they are adjusted to changes in the prices of energy sources.

Costs and profit margins. – In 2004 unit labour costs in manufacturing rose by a further 2.7 per cent in Italy, more than 3 percentage points more than in Germany and France (Figure 25). The differential is mainly attributable to the very small productivity gains achieved in Italy.

In the service sector, the rate of increase in unit labour costs fell significantly, to an average of 2.5 per cent (3.9 per cent in 2003), as a result of the pronounced drop in labour costs per employee in the third quarter.

More detailed information on Italian firms' costs and profit margins is provided by the input and output price indicators prepared by Istat for the national accounts (Table 18). On average in the first nine months of the year, the decline in the cost of labour and domestic materials dampened the rise in unit variable costs in the service sector (2 per cent, compared with 3.1 per cent in 2003). With output prices rising by about 3 per cent, profit margins widened by about 1 percentage point. In manufacturing, profit margins remained

Table 18

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

	Manufacturing (2)			Market services		
	Percentage weights in 1995	2003	2004 Jan.-Sept.	Percentage weights in 1995	2003	2004 Jan.-Sept.
Unit variable costs	**100.0**	**2.3**	**3.3**	**100.0**	**3.1**	**2.0**
Labour inputs	35.9	4.1	2.5	73.6	3.7	2.8
Other inputs	64.1	1.2	3.9	26.4	1.8	0.3
Domestic	*38.3*	*2.2*	*2.8*	*19.9*	*3.3*	*-1.4*
Imported	*25.8*	*0.1*	*5.1*	*6.5*	*-2.4*	*5.4*
Output prices	**100.0**	**1.4**	**3.2**	**100.0**	**2.7**	**3.0**
On the domestic market	*58.3*	*2.2*	*1.4*	*91.3*	*2.7*	*3.0*
On export markets	*41.7*	*0.4*	*5.1*	*8.7*	*1.9*	*2.9*

Source*:* Istat.
(1) Indicators excluding intrasectoral transactions. – (2) Manufacturing does not include the sub-sectors "Manufacture of coke, refined petroleum products and nuclear fuel" and "Mining and quarrying except energy producing materials".

virtually unchanged after narrowing by about 1 point in 2003. The sharp acceleration in the costs of imported and domestic inputs caused unit variable costs to accelerate. The rise in output prices, which averaged 3.2 per cent, was greatest for exports (5.1 per cent).

During 2004 Italian firms raised their export prices by more than their European competitors in connection with the strong recovery in world demand and the mounting pressure of the cost of imported inputs. The year-on-year increase in the average unit values in euros of manufactures exported to EU countries rose from 2.2 per cent in the first quarter to 5 per cent in the third. Despite the appreciation of the euro, the corresponding increase in those of goods exported to non-EU markets rose to 6.3 per cent in the third quarter.

Inflation expectations

According to the consumer surveys coordinated by the European Commission, euro-area consumers' inflation expectations for the subsequent twelve months remained stable in Italy and in the area as a whole in 2004.

Table 19

Professional forecasters' inflation expectations for 2005 and 2006 in the euro area (1)

	Forecasts for 2005		Forecasts for 2006	
	January 2005 survey	February 2005 survey	January 2005 survey	February 2005 survey
Italy	2.1	2.0	1.9	1.9
France	1.7	1.8	1.7	1.7
Germany	1.3	1.3	1.2	1.2
Spain	2.8	2.8	2.6	2.6
Euro area	1.8	1.8	1.7	1.7

Source: Consensus Economics.
(1) Monthly survey.

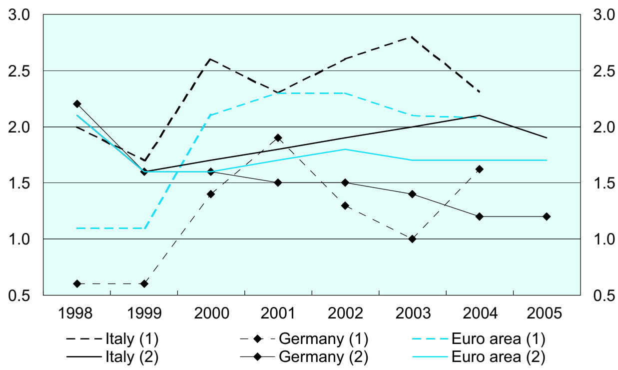
Professional forecasters surveyed by Consensus Economics in February expected inflation in 2005 to average 2 per cent in Italy and 1.8 per cent in the euro area (Table 19). On the basis of these expectations, Italy's inflation differential is expected to widen from 0.5 to 0.7 percentage points vis-à-vis Germany and from nil to 0.2 points vis-à-vis France. In 2006, consumer inflation is expected to decline slightly again. These expectations reflect favourable developments in domestic costs in the leading euro-area countries and a gradual decline in oil prices, as signaled in the prices of oil futures contracts.

In January 2004 inflation expected for Italy in 2005 was 0.4 percentage points higher than for Germany and 0.9 points higher than for France. In January 2005 the corresponding differentials for 2006 were 0.2 and 0.7 points (Figure 27).

Figure 27

Actual inflation and inflation expectations of professional forecasters

(percentage changes)



Sources: Eurostat for inflation, Consensus Economics monthly survey for inflation expectations.

(1) Harmonized index of consumer prices; percentage change on previous year. – (2) Expectations of professional forecasters in January of the year indicated for average inflation in the coming year.

According to 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, respondents expected to raise prices by an average of 1.8 per cent over the next twelve months, less than the expected increase in consumer prices over the same period (2.1 per cent). The difference between the expected change in the general index of consumer prices and that in the prices of the firms surveyed gradually narrowed in the course of 2004. Among the factors that might generate inflationary pressures in the future, firms mentioned strains in raw materials markets most frequently.

For the euro area, the longer-term expectations that can be derived from the prices of index-linked government securities indicate inflation holding broadly steady at about 2 per cent. Professional forecasters' expectations are also close to this level.

THE PUBLIC FINANCES IN THE EURO AREA AND ITALY

Overview

General government net borrowing in the euro area amounted to 2.7 per cent of GDP in 2004, compared with 2.8 per cent in 2003. According to the Stability Programmes submitted late in 2003 and early in 2004, it should have fallen by 0.4 percentage points of GDP.

The deficit exceeded 3 per cent of GDP in Germany, France and Greece; it was brought below this threshold in the Netherlands.

In Italy, the data published by Istat on 1 March 2005 show general government net borrowing to have risen from 2.9 to 3 per cent of GDP (Table 20). At the same time Istat published upward revisions averaging 0.4 percentage points of GDP for net borrowing in the years 2001-03. According to the new figures, net borrowing averaged 2.9 per cent of GDP in the period 2001-04.

Table 20

Italy: general government net borrowing, borrowing requirement and debt (1)

(as a percentage of GDP)

	2001	2002	2003	2004
Net borrowing	3.0	2.6	2.9	3.0
Primary surplus	3.6	3.2	2.4	2.0
Interest payments	6.5	5.8	5.3	5.0
Gross borrowing requirement	4.1	3.3	2.8	3.4
Borrowing requirement net of privatization receipts	4.5	3.5	4.1	3.7
Borrowing requirement net of settlements and privatization receipts	3.7	3.0	3.4	3.6
Debt	110.7	108.0	106.3	105.8

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

The objective for net borrowing in 2004 was gradually raised from 1.8 per cent of GDP in July 2003 to 2.9 per cent in May last year, primarily in connection with the worsening in the outlook for economic growth.

In the first half of 2004 the risk of an overshoot of the 3 per cent threshold for net borrowing emerged. In July corrective measures were approved, which were officially estimated to amount to 0.6 per cent of GDP. In the last part of the year the public finances benefited from the good performance of lotto receipts and from sales of property.

The primary surplus fell from 2.4 to 2 per cent, prolonging the downward trend under way since 1998 (Figure 28). The ratio of primary expenditure fell by 0.5 percentage points. The ratio of tax revenue and social security contributions fell from 42.8 to 41.8 per cent, primarily as a consequence of the reduction in receipts from tax amnesties.

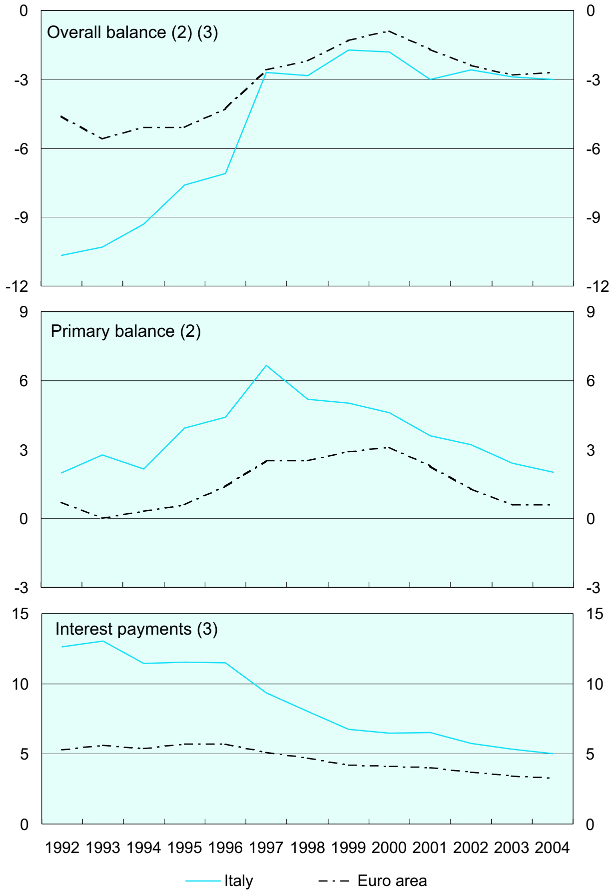
The reduction in net borrowing produced by one-off measures decreased from 2 to approximately 1.5 percentage points of GDP. Excluding the effects of these measures, the primary surplus was of the order of 0.5 per cent of GDP for the second successive year.

Net of privatization receipts and the effects of the transformation of SACE into a limited company at the beginning of the year, the general government borrowing requirement fell by 0.4 percentage points to 3.7 per cent of GDP. The gap between the borrowing requirement and net borrowing narrowed from 1.2 to 0.6 percentage points; excluding the effects of one-off measures, which had a stronger impact on the borrowing requirement, the gap remained virtually unchanged.

Figure 28

Italy and the euro area: general government overall balance, primary balance and interest payments (1)

(as a percentage of GDP)



Sources: Based on Istat and EU Commission data.
(1) Following the switch to ESA95, there is a break in the euro-area series between 1994 and 1995. As regards the 2003 and 2004 euro-area data, see footnote 3 to Table 21. – (2) Excludes the proceeds of sales of UMTS licences. – (3) Includes the effects of swaps and forward rate agreements.

General government debt declined from 106.3 to 105.8 per cent of GDP. Privatizations and sales of property reduced the debt by 0.8 percentage points.

Objectives and results in the euro area

General government net borrowing in the euro area amounted to 2.7 per cent of GDP, compared with 2.8 per cent in 2003 (Table 21). According to the Stability Programmes submitted late in 2003 and early in 2004, the deficit should have fallen by 0.4 percentage points. The growth in GDP was in line with the average of the indications contained in the programmes.

Deficits in excess of the 3 per cent threshold were recorded in Germany, France and Greece. In the Netherlands the deficit was reduced from 3.2 to 2.5 per cent of GDP.

In both Germany and France net borrowing was equal to 3.7 per cent of GDP, in excess of the 3 per cent threshold for the third successive year. In Greece, following last year's revisions of the statistics for the years 1997-2003, the deficit exceeded 3 per cent throughout the period; in 2004 the overshoot was particularly large.

The ratio of debt to GDP in the euro area is estimated to have risen from 70.8 to 71.3 per cent, primarily as a consequence of the performances of France and Germany.

Among the EU countries that do not belong to the euro area, the United Kingdom recorded a deficit equal to 3.1 per cent of GDP, compared with 3.3 per cent in 2003.

The excessive deficit procedure is still open in respect of France and Germany (see *Economic Bulletin*, No. 37, 2003 and Nos. 38 and 39, 2004). In 2004 the procedure was also initiated against Greece and the Netherlands.

In July 2004 the European Court of Justice annulled the Council's decision to suspend the two procedures involving France and Germany. In the light of the Court's decision, in December the European Commission informed the European Council of its assessment of the state of the public finances in the two countries: it noted that the steps taken by France and Germany were basically consistent with the objective of putting an end to the excessive deficit situation by 2005; it therefore deemed further initiatives under the procedures not to be necessary.

In July 2004 the European Council responded to the excessive deficit in Greece by recommending that the country should adopt adjustment measures to bring the deficit below the threshold of 3 per cent of GDP by 2005. At the beginning of this year

Table 21

Euro area and EU: general government net borrowing, expenditure, revenue and debt (1)
(as a percentage of GDP)

	Euro area				European Union (2)			
	2003	2004	2005	2006	2003	2004	2005	2006
Net borrowing								
Outturn for 2003 and preliminary outturn for 2004 (3) ...	2.8	2.7	-	-	2.9	2.6	-	-
Objectives set in stability and convergence programmes (4) ..	2.7	2.3	1.8	1.2	-	-	-	-
European Commission (October 2004)	2.7	2.9	2.5	2.5	2.8	2.8	2.4	2.3
OECD (December 2004)	2.8	2.9	2.6	2.4	-	-	-	-
Cyclically-adjusted net borrowing								
European Commission (October 2004)	2.1	2.4	2.0	2.0	-	-	-	-
OECD (December 2004)	2.0	2.1	1.8	1.8	-	-	-	-
Expenditure and revenue (European Commission, October 2004)								
Expenditure	49.0	48.5	48.0	47.7	48.4	48.0	47.5	47.2
of which: interest payments	*3.5*	*3.4*	*3.3*	*3.3*	*3.1*	*3.0*	*3.0*	*3.0*
Revenue	46.2	45.6	45.5	45.2	45.6	45.1	45.1	44.9
Debt								
Outturn for 2003 and preliminary outturn for 2004 (3) ...	70.8	71.3	-	-	63.5	63.8	-	-
Objectives set in stability and convergence programmes (4) ..	70.2	70.1	69.4	68.3	-	-	-	-
European Commission (October 2004)	70.7	71.1	71.1	70.9	63.2	63.5	63.5	63.3
OECD (December 2004)	70.6	71.5	72.2	72.1	-	-	-	-

Sources: Based on: European Commission, Autumn Forecasts, October 2004; OECD, Economic Outlook, December 2004; and the updates to stability and convergence programmes submitted in late 2003 and early 2004.
(1) GDP-weighted averages. – (2) Includes the ten countries that joined the EU in May 2004. – (3) Preliminary, partly estimated figures based on data made public in the press releases of individual countries. – (4) Averages of the figures contained in the updates to stability and convergence programmes submitted in late 2003 and early 2004.

the Council judged the measures adopted to be insufficient to achieve the objective. The Council subsequently decided to extend the deadline for the correction of the excessive deficit to 2006; the decision takes account of the current estimate of net borrowing in 2004, which is significantly higher than the previous one, and of the substantial scale of the corrective measures already approved for this year.

The Council did not question the adequacy of the measures adopted by the Netherlands as a consequence of the recommendation issued last June, which called for a reduction in the deficit below the 3 per cent threshold by 2005.

Turning to the EU countries that do not belong to the euro area, excessive deficits were found in six of the accession states (Cyprus, the Czech Republic, Hungary, Malta, Poland and Slovakia). According to the Council, all these countries except Hungary have approved measures likely to reduce net borrowing in line with the timetable indicated in the Council’s recommendation.

On the basis of the latest updates of the Stability Programmes, net borrowing in the euro area should fall from 2.8 per cent of GDP in 2004 to 2.4 per cent in 2005 (Table 22). The ratio of debt to GDP is expected to decline to 70.7 per cent.

The objective of a balanced budget would not be achieved within the time horizon of the programmes, which for the majority of countries is 2008.

Germany and France expect to reduce their deficits below the 3 per cent threshold in 2005, with an objective for net borrowing of 2.9 per cent; subsequently, their deficits should come down gradually and in 2008 reach 1.5 per cent of GDP in Germany and 0.9 per cent in France. The improvement is intended to come mainly from reductions in the ratio of expenditure to GDP.

In February the European Council announced the results of its assessment of the Stability Programmes and confirmed that the corrective measures adopted by France and Germany should be sufficient to ensure compliance with the 3 per cent threshold in 2005. It nonetheless stressed the existence of risks for the public finances deriving from a lax implementation of the planned corrective measures and movements in the macroeconomic variables different from those expected. The Council accordingly pointed out that the budgetary policies outlined by France and Germany in their programmes for the period 2005-08 did not guarantee sufficient margins in some years against the risk of violating the 3 per cent threshold in the event of normal cyclical fluctuations.

Objectives and results in Italy

The July 2003 Economic and Financial Planning Document set the objective for net borrowing in 2004 at 1.8 per cent of GDP; the primary surplus was expected to be 3.1 per cent of GDP and the reduction in the debt ratio to be 1.4 percentage points. The economy was forecast to grow by 2 per cent (Table 23).

In the September 2003 update of the Economic and Financial Planning Document the Government revised the objective for net borrowing in 2004, raising it to 2.2 per cent as a consequence of the scaling back of the effects of the budget (0.8

Table 22

Objectives set for net borrowing and debt in the updates to stability and convergence programmes

(as a percentage of GDP)

	Net borrowing						Debt					
	2003	2004	2005	2006	2007	2008	2003	2004	2005	2006	2007	2008
Germany	3.8	3.8	2.9	2.5	2.0	1.5	64.2	65.5	66.0	66.0	65.5	65.0
France	4.1	3.6	2.9	2.2	1.6	0.9	63.7	64.8	65.0	64.6	63.6	62.0
Italy	2.4	2.9	2.7	2.0	1.4	0.9	106.2	106.0	104.1	101.9	99.2	98.0
Spain	-0.4	0.8	-0.1	-0.2	-0.4	-0.4	50.7	49.1	46.7	44.3	42.0	40.0
Netherlands	3.2	3.0	2.6	2.1	1.9	-	54.1	56.3	58.1	58.6	58.3	-
Belgium	-0.4	0.0	0.0	0.0	-0.3	-0.6	100.0	96.6	95.5	91.7	88.0	84.2
Austria	1.1	1.3	1.9	1.7	0.8	0.0	64.5	64.2	63.6	63.1	61.6	59.1
Greece	4.6	5.3	2.8	2.6	2.5	-	109.9	112.1	109.5	106.0	102.5	-
Finland	-2.1	-2.0	-1.8	-2.1	-2.2	-2.0	45.6	44.6	43.4	42.5	41.7	41.1
Ireland	-0.1	-0.9	0.8	0.6	0.6	-	32.1	30.5	30.1	30.1	30.0	-
Portugal	2.8	2.9	2.8	2.5	1.8	-	60.3	62.0	63.1	62.7	61.4	-
Luxembourg	-0.8	1.4	1.0	0.9	1.0	-	5.3	5.0	5.0	4.6	4.5	-
Euro area	2.9	2.8	2.4	1.9	1.3	-	70.7	71.1	70.7	69.6	68.2	-

Sources: Based on the updates to stability and convergence programmes submitted starting in the last few months of 2004.

Table 23

Italy: public finance objectives, estimates and outturns for the year 2004
(*billions of euros, except as indicated*)

	State sector borrowing requirement (1)	General government				*Memorandum items*	
		Net borrowing	Primary surplus	Interest payments	Debt	Real GDP growth rate	Nominal GDP
Objectives							
EFPD (July 2003)	....	....	....	....	....	2.0	1,354.1
as a percentage of GDP	*....*	*1.8*	*3.1*	*4.9*	*104.2*		
EFPD update (September 2003)	49.5	30.3	38.7	69.0	....	1.9	1,352.5
as a percentage of GDP	*3.7*	*2.2*	*2.9*	*5.1*	*105.0*		
Stability programme update (November 2003)	....	....	....	....	....	1.9	1,352.0
as a percentage of GDP	*....*	*2.2*	*2.9*	*5.1*	*105.0*		
Estimates released during the year							
QRBR and FPR update (May 2004)	62.0	39.7	59.5	69.2	....	1.2	1,351.5
as a percentage of GDP	*4.6*	*2.9*	*2.2*	*5.1*	*105.9*		
EFPD (July 2004)	62.0	39.6	32.1	71.7	....	1.2	1,350.1
as a percentage of GDP	*4.6*	*2.9*	*2.4*	*5.3*	*106.0*		
FPR and EFPD update (September 2004)	....	....	....	....	....	1.2	....
as a percentage of GDP	*....*	*2.9*	*....*	*....*	*....*		
Stability programme update (November 2004)	....	....	....	....	....	1.2	1,353.0
as a percentage of GDP	*....*	*2.9*	*2.4*	*5.3*	*106.0*		
Outturns (March 2005)	41.5	40.9	27.0	67.9	1,429.9	1.2	1,351.3
as a percentage of GDP	*3.1*	*3.0*	*2.0*	*5.0*	*105.8*		

Legend: EFPD = Economic and Financial Planning Document; QRBR = Quarterly Report on the Borrowing Requirement; FPR = Forecasting and Planning Report .
(1) Net of settlements of past debts and privatization receipts.

percentage points of GDP, instead of 1.2 points as indicated in July).

The adjustment provided for in the budget for 2004 was mostly of a temporary nature. In particular, receipts from sales of real estate were expected to amount to 0.4 percentage points of GDP and regularization schemes for tax and building offences to generate more than 0.4 points.

In April 2004 the European Commission forecast that Italy's deficit would be 3.2 per cent of GDP and proposed that the European Council serve an early warning on Italy.

In the Quarterly Report on the Borrowing Requirement published at the beginning of May, the Government further revised its estimates for the public finances. Taking also into account the reduction in the estimate for GDP growth from 1.9 to 1.2 per cent, the Government raised the objective for net borrowing to 2.9 per cent of GDP and lowered the figure for the primary surplus to 2.2 per cent. The ratio of debt to GDP was expected to be 105.9 per cent, a reduction of 0.3 percentage points compared with 2003. Keeping the deficit below the 3 per cent threshold depended on the occurrence of a series of contingencies, some of which were highly uncertain. The Government undertook to adopt any additional measures needed to keep the deficit below 3 per cent of GDP.

In the Council meeting of 5 July, the Government confirmed its commitment and outlined the corrective measures to be taken in the second half of 2004; the Council accordingly decided not to serve an early warning, but underscored the need for careful monitoring of the performance of the public finances.

Recent revisions of the general government accounts for 2001-03

In its reporting to the European Commission, on 1 March 2005 Istat revised the figures for net borrowing for the three years 2001-03.

According to the new estimates, the deficit was equal to 3 per cent of GDP in 2001, 2.6 per cent in 2002 and 2.9 per cent in 2003; the earlier figures were 2.6, 2.3 and 2.4 per cent respectively. Moreover, the figure for 2001 had already been revised upwards several times, starting from 1.4 per cent.

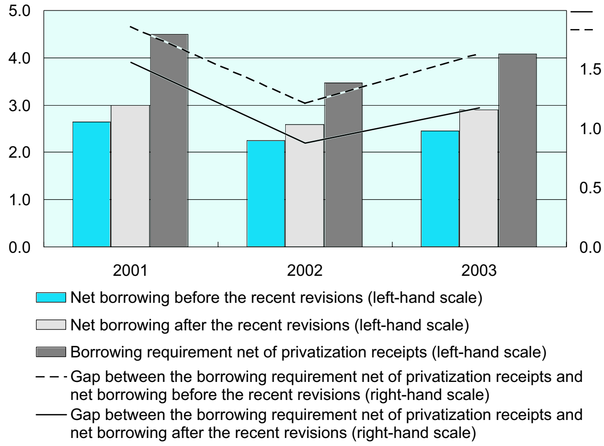
Following the revision, net borrowing averaged 2.9 per cent of GDP in the period 2001-04.

The revisions made by Istat, partly in response to objections raised by the European statistical authorities, mainly concerned contributions of capital to the State Railways: these had been included among the financial items, which do not affect net borrowing; they are now included among capital transfers. This change led to an increase in the deficit of 0.3 percentage points of GDP in each of the three years in question.

Other changes concerned the 2003 accounts: social benefits in kind and the intermediate consumption of the health sector and local authorities were reduced by a total of 0.1 percentage points of GDP; investment grants were increased by 0.1 points on the basis of new information on the grants the state paid to firms; social security contributions were reduced by 0.2 points; and tax revenue was increased by 0.1 points. In addition, the payments made by banks in relation to the taxes they collected, amounting to approximately 0.2 percentage points of GDP, were classified as capital taxes instead of indirect taxes.

As a consequence of the revisions of general government net borrowing, in the period 2001-03 the gap between this aggregate and the borrowing requirement net of privatization receipts narrowed by 0.3 percentage points of GDP on average to 1.2 per cent of GDP.

General government net borrowing: revisions for 2001-03 and gap with respect to the borrowing requirement net of privatization receipts
(as a percentage of GDP)



The measures announced by the Government were adopted in mid-July. According to official estimates the adjustment amounted to 0.6 per cent of GDP (€7.6 billion) and comprised: €4.2 billion of expenditure cuts, €1.3 billion of additional revenue and €2 billion to come from measures of an administrative nature to be specified subsequently.

In the first half of 2004 the borrowing requirement was much larger than that recorded in the first half of 2003; from July onwards the gap tended to narrow.

In the Economic and Financial Planning Document for 2005-08, approved in July, the Government confirmed the growth estimate for 2004 and the objective for net borrowing published in the Quarterly Report on the Borrowing Requirement and the update of the Forecasting and Planning Report. At the same time the primary surplus estimate was raised by 0.2 percentage points to 2.4 per cent. The September update of the Economic and Financial Planning Document and the Forecasting and Planning Report made no change to these figures.

At the end of November the Government approved the deferment until 2005 of payment of the second and third instalments of the building offences regularization scheme (€2.2 billion) and of the effects of the increase in the regional tax on productive activities (Irap) introduced for banks in July (€0.4 billion). The loss in revenue was made good by the introduction of payments on account for some indirect taxes (€1.4 billion) and the increase from 1 to 1.5 per cent of the payment introduced in 2003 that banks are required to make in relation to the taxes they collected in the previous year (€1.5 billion). Expenditure savings of the order of €0.2 billion were also envisaged.

In the November update of the Stability Programme the Government confirmed the estimate of 2.9 per cent of GDP for net borrowing in 2004.

In its reporting to the European Commission, on 1 March 2005 Istat published the outturn for 2004 together with statistical revisions and accounting reclassifications that increased net borrowing for the three years 2001-03. In particular, the outturn for 2003 rose from 2.4 to 2.9 per cent of GDP (see the box "The recent revisions of the Italian general government accounts for the three years 2001-03").

General government net borrowing in 2004 was equal to 3 per cent of GDP. The reduction in interest payments from 5.3 to 5 per cent of GDP was more than offset by the worsening of the primary balance from 2.4 to 2 per cent. This balance, which had been shrinking since 1998, returned close to its level in 1992.

Primary expenditure fell by 0.5 percentage points of GDP, revenue by 0.9 points (see the box "General government expenditure and revenue").

Primary current expenditure decreased by 0.1 percentage points to 39.2 per cent of GDP. Capital expenditure decreased by 0.3 points. Excluding the proceeds of real estate sales, which are included in the accounts with a negative sign under investments and remained unchanged in relation to GDP, capital expenditure amounted to 4.3 per cent of GDP.

The fall in total revenue reflected that of 1 percentage point in the ratio of tax revenue and social security contributions to GDP, which was primarily due to the reduction of 0.8 points in the receipts from regularization schemes included in the calculation of net borrowing.

As in the preceding years, one-off measures made a substantial contribution to curbing net borrowing (1.5 percentage points of GDP, compared with 2 points in 2003 and 1.5 points in 2002).

The borrowing requirement and the public debt in Italy

In 2004 the gross general government borrowing requirement amounted to 3.4 per cent of GDP, 0.6 percentage points more than in 2003 (Table 24). The increase was primarily due to the fall in privatization receipts (from 1.3 to 0.6 per cent of GDP), the effects of the transformation of SACE into a limited company (0.3 points in 2004) and the fall in settlements of past debts (from 0.7 points in 2003 to virtually nil in 2004).

Table 24

Italy: general government and state sector borrowing requirements
(millions of euros)

	2001	2002	2003	2004 (1)
General government gross borrowing requirement ...	50,287	41,715	36,192	45,564
as a percentage of GDP	*4.1*	*3.3*	*2.8*	*3.4*
General government borrowing requirement net of privatization receipts....	54,890	43,644	53,048	49,532
as a percentage of GDP	*4.5*	*3.5*	*4.1*	*3.7*
State sector borrowing requirement net of settlements and privatization receipts (2) ..	40,017	30,849	42,681	41,500
as a percentage of GDP	*3.3*	*2.4*	*3.3*	*3.1*
Memorandum items:				
Settlements of past debts	9,310	5,328	8,537	257
Privatization receipts (3)	4,603	1,929	16,855	3,968

(1) Provisional. – (2) Based on Ministry for the Economy and Finance data. – (3) The figure for 2003 includes the effects of the disposals in connection with the transformation of Cassa Depositi e Prestiti into a company limited by shares (€12,041 million) and that for 2004 the effects of the transformation, with effect from 1 January 2004, of SACE into a limited company (-€3,705 million).

Excluding privatization receipts and the effects of the transformation of SACE, the general government borrowing requirement fell by 0.4 percentage points to 3.7 per cent of GDP. The balance was reduced by one-off measures estimated to have amounted to approximately 2 per cent of GDP. In addition to those that had a positive impact on net borrowing, these included securitizations of INPS credits (0.2 points) and credits arising from support for the financing of scientific research (0.1 points), the transfer to SACE

General government expenditure and revenue

Expenditure

General government expenditure amounted to €653.2 billion in 2004, an increase of 2.2 per cent on 2003; in relation to GDP it decreased from 49.1 to 48.3 per cent.

Interest payments fell by 2 per cent to €67.9 billion, declining from 5.3 to 5 per cent of GDP. The decrease was primarily due to that in the average cost of the debt. Swaps reduced outlays by €1 billion, compared with €0.6 billion in 2003.

Primary current expenditure increased by 3.5 per cent; as a ratio to GDP it declined from 39.4 to 39.2 per cent.

Among the components of current expenditure, compensation of employees grew by 3 per cent, primarily as a consequence of the renewal of the labour contracts for 2002-03 covering local government employees and national health service personnel.

Intermediate consumption contracted by 0.3 per cent after growing by 5.6 per cent in 2003. The decline was partly due to the restrictions imposed on expenditure in the second half of the year.

Purchases of social benefits in kind, which are concentrated in the health sector, grew by 7.1 per cent. In order to limit the burden on the national health service, a decree law was issued in June requiring producers of pharmaceuticals to apply a discount.

The rate of increase in social benefits in cash slowed from 4.9 to 4.3 per cent, despite a larger automatic adjustment of pensions to inflation (2.5 per cent, as against 2.2 per cent in 2003). The gradual tightening of the requirements to qualify for long-service pensions continued in 2004.

Capital expenditure – excluding the proceeds of property securitizations and sales (€3.3 billion, as against €2.7 billion in 2003), which are accounted for as a reduction in public investment – decreased by approximately 3 per cent and declined from 4.6 to 4.3 per cent of GDP. In particular, investment grants decreased by 7.8 per cent and other capital expenditure fell by nearly one third, primarily as a consequence of the reduction in the State's contribution to the State Railways group. These results more than offset the increase in investment, which, excluding privatization receipts, increased by approximately 3.5 per cent.

Revenue

General government revenue grew by 1.9 per cent to €612.3 billion, while in relation to GDP it fell from 46.2 to 45.3 per cent.

Tax revenue and social security contributions fell by 1 percentage point of GDP to 41.8 per cent. This result reflected the decrease in capital taxes from 1.7 to 0.8 per cent of GDP. Direct and indirect taxes and social security contributions remained basically unchanged in relation to GDP, amounting to 13.6, 14.4 and 12.9 per cent respectively.

Capital taxes fell from €21.9 billion to €10.7 billion. The reduction was primarily due to the fall in receipts generated by the tax regularization schemes introduced in the budget for 2003 and extended in the budget for 2004; the amount that accrued in the latter year is estimated to have been of the order of €7 billion, as against €18.3 billion in 2003. In 2003 the remaining capital taxes included the payment made by banks in relation to the taxes they had collected, and in 2004 they included the first instalment of the building offences regularization scheme.

Direct taxes grew by €6.1 billion or 3.4 per cent. On the basis of the data on the cash receipts of the State budget,[1] the increase was primarily due to that of €5.7 billion or 6.2 per cent in withholdings from employee

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

	2003	2004	Percentage change on previous year 2003	Percentage change on previous year 2004
EXPENDITURE				
Final consumption expenditure	253,035	260,063	5.9	2.8
of which:				
compensation of employees	*143,870*	*148,248*	*5.5*	*3.0*
intermediate consumption	*66,978*	*66,755*	*5.6*	*-0.3*
purchases of social benefits in kind	*33,909*	*36,302*	*2.5*	*7.1*
Social benefits in cash	224,445	234,181	4.9	4.3
Interest payments	69,275	67,911	-4.5	-2.0
Other current expenditure	34,662	35,907	11.3	3.6
Current expenditure	**581,417**	**598,062**	**4.5**	**2.9**
as a percentage of GDP	*44.7*	*44.3*		
Current expenditure, net of interest payments	**512,142**	**530,151**	**5.8**	**3.5**
as a percentage of GDP	*39.4*	*39.2*		
Investment (1)	34,133	34,875	43.6	2.2
Investment grants	18,129	16,717	1.2	-7.8
Other capital expenditure	5,244	3,572	-10.4	-31.9
Capital expenditure (1)	**57,506**	**55,164**	**21.0**	**-4.1**
Total expenditure, net of interest payments (1)	**569,648**	**585,315**	**7.2**	**2.8**
as a percentage of GDP	*43.8*	*43.3*		
TOTAL EXPENDITURE (1)	**638,923**	**653,226**	**5.8**	**2.2**
as a percentage of GDP	*49.1*	*48.3*		
REVENUE				
Direct taxes	178,098	184,175	-0.5	3.4
Indirect taxes	187,345	195,207	1.2	4.2
Social security contributions	168,899	174,756	4.7	3.5
Other current revenue	40,617	44,055	0.0	8.5
Current revenue	**574,959**	**598,193**	**1.6**	**4.0**
as a percentage of GDP	*44.2*	*44.3*		
Capital revenue	**26,172**	**14,156**	**368.5**	**-45.9**
of which:				
capital taxes	*21,926*	*10,721*	*634.3*	*-51.1*
TOTAL REVENUE	**601,131**	**612,349**	**5.2**	**1.9**
as a percentage of GDP	*46.2*	*45.3*		
NET BORROWING	**37,792**	**40,877**	**15.7**	**8.2**
as a percentage of GDP	*2.9*	*3.0*		
Primary surplus	**31,483**	**27,034**	**-21.1**	**-14.1**
as a percentage of GDP	*2.4*	*2.0*		
Memorandum item:				
GDP	1,300,929	1,351,328	3.2	3.9

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

income and that of €2.3 billion in receipts of the special tax on the revaluation of company assets. Receipts of self-assessed income tax decreased: those in respect of personal income tax by €1.2 billion or 5.7 per cent and those in respect of corporate income tax by €1 billion or 3.3 per cent. The revenue generated by the flat-rate withholding tax on interest income and capital gains remained basically unchanged, despite the increase to €0.7 billion in receipts of the special tax on sales of businesses and equity investments.

Indirect taxes grew by €7.9 billion or 4.2 per cent. VAT receipts grew by €4.4 billion or 4.6 per cent. Lotto and state monopoly receipts increased substantially. Excise duties on oil products remained basically unchanged compared with 2003.

Social security contributions rose by €5.9 billion or 3.5 per cent, which was in line with the growth in gross earnings.

[1] *The changes in the various taxes are analyzed with reference to the cash data recorded in the State budget (receipts). In order to increase the significance of these data for the analysis of the general government consolidated accounts (prepared prevalently on an accrual basis), they have been adjusted to take account of the main timing differences between receipts on a cash and an accrual basis.*

The second step of the reform of personal income tax

January 2005 saw the entry into force of the changes to the structure of personal income tax introduced in the Finance Law for 2005. They represent the second step, following that taken in 2003, to implement the tax structure set out in the enabling legislation for the reform of the state tax system (see the box "The first step of the reform of personal income tax" in Economic Bulletin, No. 36, 2003).[1]

The tax rate curve. *– With the second stage of the reform the number of tax rates has been reduced from five to four, the income threshold in the first bracket raised from €15,000 to €26,000 and the rate for the last bracket reduced (see table).*

Deductions for dependents. *– The structure of the new deductions for dependents is similar to that for the basic deduction introduced in 2003. The law establishes a ceiling on deductions for each category of dependent, which, together with the basic deduction, implicitly sets a threshold below which tax is not due for each type of income.*[2] *Above this limit the deduction for dependents decreases linearly as income rises, falling to zero for incomes equal to the sum of the maximum deduction allowable on the basis of taxpayers' specific circumstances and €78,000.*[3]

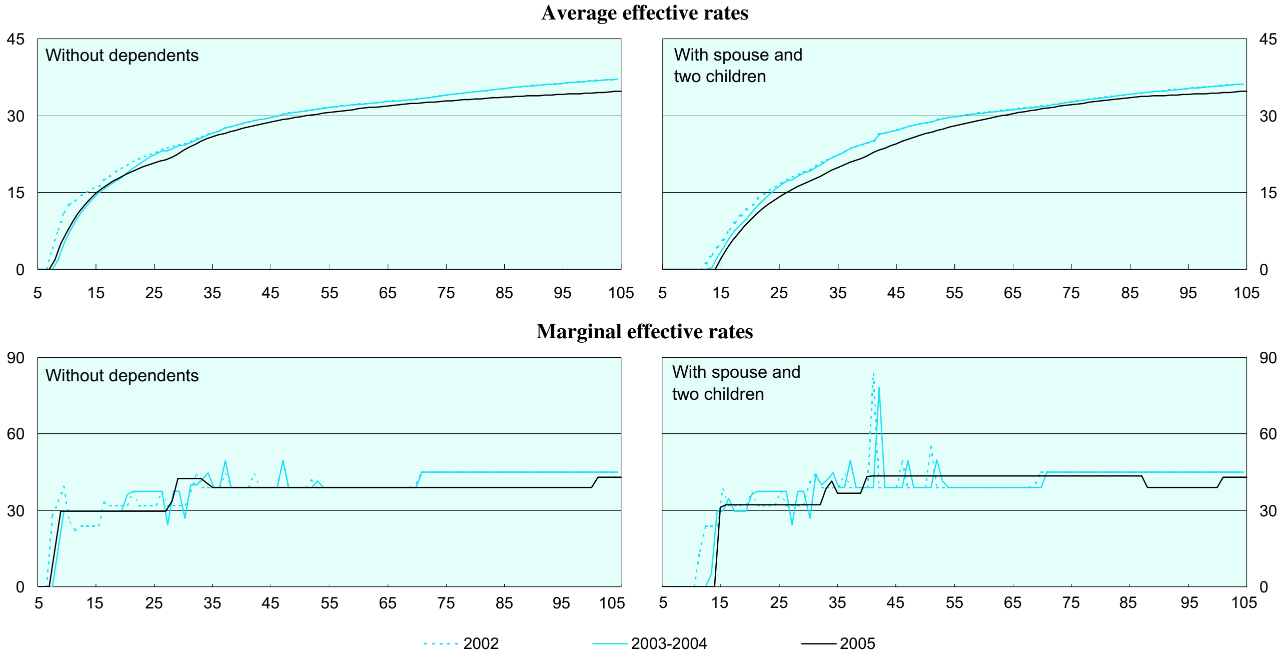
Average effective tax rates. *– The changes introduced in 2005 produce a general decrease in average effective tax rates, the size of which depends on taxpayers' level of income and the type of deductions for dependents they can claim (Figure 1).*

The change in statutory tax rates primarily benefits higher incomes, while the new structure of deductions benefits middle-income taxpayers: the average tax rate of employees with no dependents is more than 2 percentage points lower for incomes above €90,000; with a dependent

Figure 1

Comparison of the tax system in force in 2002, 2003-2004 and 2005 (1)

(percentages)



(1) The x-axis shows nominal income in thousands of euros. The average effective tax rate is the ratio of the tax liability to income received. The marginal effective rate is the ratio of the increase in the tax liability resulting from an increase in income of €1,000 to such increase in income. In both cases the tax is after tax credits and before deductions.

spouse and two children, the reduction is greatest (about 3 percentage points) for incomes around €45,000. In addition, the design of the deduction mechanism attenuates the decrease in the average tax rate at the upper end of the income scale for taxpayers with dependents: the reduction in the gross tax liability associated with the change in statutory tax rates is offset by the elimination of deductions for dependents, which higher income taxpayers could claim under the old system (Figure 2).

Income brackets and tax rates

(euros and percentages)

2003-2004 system		2005 system	
Income brackets	Tax rates	Income brackets	Tax rates
Up to 15,000	23	Up to 26,000	23
15,001 - 29,000	29	26,001 - 33,500	33
29,001 - 32,600	31	33,501 - 100,000	39
32,601 - 70,000	39	Over 100,000	43
Over 70,000	45		

The fall in the average income tax rate between 2004 and 2005 is smaller if the tax rates in force in the two years are applied to the same level of real income, owing to the effect of fiscal drag. This is greatest in the initial segment of the income scale, where taxation is most progressive as a consequence of the new structure of deductions.

Effective marginal tax rates. *– The second step of the reform modifies marginal tax rates. Under the system established in 2003, effective marginal tax rates were higher than the statutory rates for taxpayers who are eligible for the new deductions, while they were the same as the statutory rates for higher incomes.[4]*

Under the new system marginal effective rates are lower for incomes above €70,000, reflecting the reduction in statutory rates. For lower incomes, the variation in marginal effective rates changes sign and size depending on the level of income and the deductions applicable (Figure 1).

[1] The income tax envisaged in the enabling legislation (Law No. 80 of 7 April 2003) has two tax rates (23 per cent for incomes up to €100,000 and 33 per cent for the portion of income above that level) and a system of deductions from taxable income focused on lower and middle incomes.

[2] The maximum deductions for dependents are as follows: €3,200 for a dependent spouse, €2,900 for each dependent child (€3,450 if less than three years old and €3,700 if disabled) and €1,820 for caregiver expenses for persons unable to manage unassisted. The amount of the basic deduction introduced in 2003 depends on the type of income: €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.

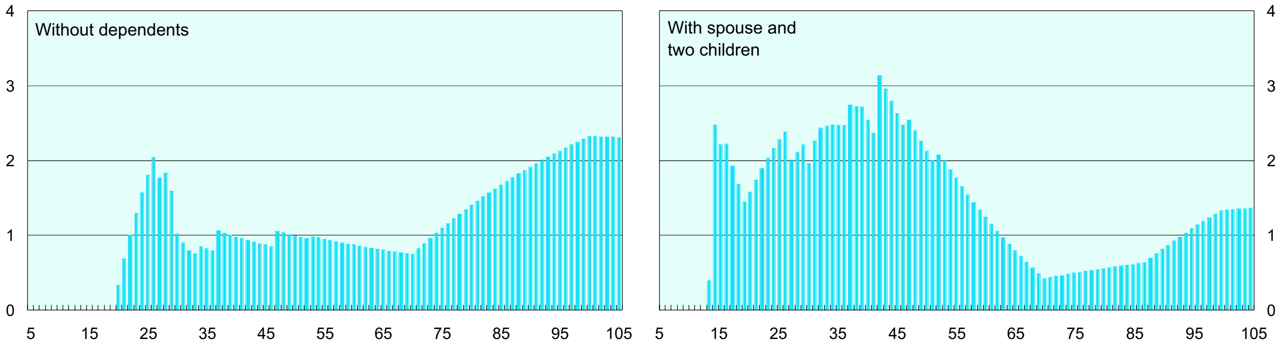
[3] In addition to the changes in tax rates and the introduction of new deductions for dependents, the Finance Law eliminates the tax credits introduced in 2003 for certain income brackets. It also extends the so-called "safeguard clause" under which taxpayers can opt for the most favourable tax regime among those in force in 2002, 2003-2004 and 2005.

[4] Under the system in force in 2002, marginal rates were the same as the statutory rates except at the point of transition from one income bracket to the next with different tax credits.

Figure 2

Reduction in average effective tax rates between the system in force in 2003-2004 and that introduced in 2005 (1)

(percentage points)



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

of government claims on Russia (0.1 points) and a part of the payments introduced in the November measures (0.2 points). Moreover, the receipts of the main regularization schemes introduced in 2003 and 2004 exceeded the amount included in the accounts on an accrual basis by 0.1 percentage points of GDP.

In 2004 the borrowing requirement net of privatization receipts and the effects of the transformation of SACE exceeded net borrowing by 0.6 percentage points of GDP, compared with 1.2 points in 2003; excluding the impact of one-off measures, the gap remained virtually unchanged.

Table 25

Italy: change in the general government debt and its components

(*millions of euros*)

	2003	2004 (1)
Change in the debt	**21,014**	**46,830**
General government gross borrowing requirement	36,192	45,564
of which: settlements of past debts	*8,537*	*257*
privatization receipts (2)	*16,855*	*3,968*
Change in the credit balances on the Treasury's accounts with the Bank of Italy	-8,022	2,578
Issue premiums and discounts	-3,871	-359
Change in the euro equivalent of liabilities denominated in foreign currencies	-3,285	-954

(1) Provisional. – (2) The figure for 2003 includes the effects of the disposals in connection with the transformation of Cassa Depositi e Prestiti into a company limited by shares (€12,041 million) and that for 2004 the effects of the transformation, with effect from 1 January 2004, of SACE into a limited company (-€3,705 million).

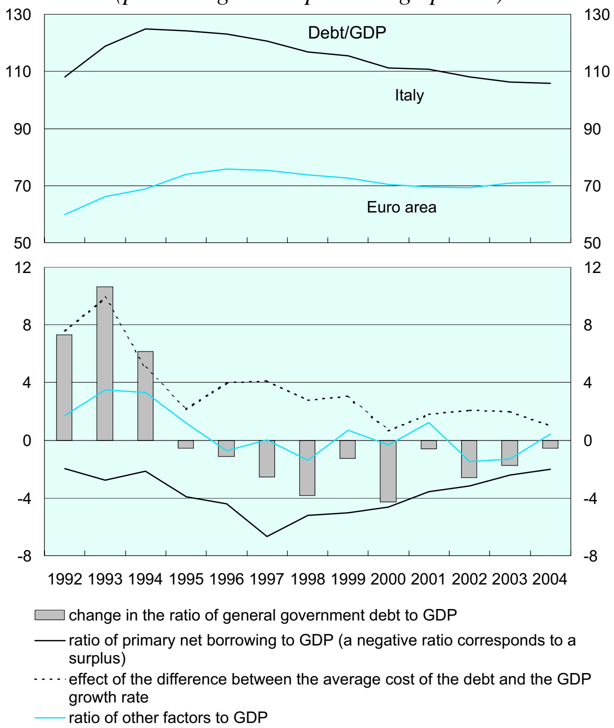
General government debt grew by €46.8 billion in 2004, compared with €21 billion in 2003 (Table 25). Of the total, the increase in the gross borrowing requirement contributed €45.6 billion, compared with €36.2 billion in 2003, and that in the Treasury's liquid balances held with the Bank of Italy another €2.6 billion, compared with a decrease of €8 billion in 2003. The appreciation of the euro diminished the value of liabilities denominated in foreign cur-rencies by €1 billion (€3.3 billion in 2003). Issues of securities at a premium, which cause an increase in the nominal value of liabilities that is smaller than that in the borrowing requirement, produced a marginal impact: €0.4 billion, compared with €3.9 billion in 2003.

The average residual maturity of outstanding government securities lengthened from 6 to 6.5 years.

Figure 29

Italy: breakdown of the change in the ratio of public debt to GDP (1)

(percentages and percentage points)



(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 ratio of the debt to GDP fell by 0.5 percentage points, compared with 1.7 points in 2003 and 2.6 points in 2002, to stand at 105.8 per cent at the end of the year (Figure 29). The favourable effect of the primary surplus, equal to 2 per cent of GDP, compared with 2.4 per cent in 2003, was offset for 1 percentage point by the gap between the average cost of the debt and the rate of growth in nominal GDP (1.9 percentage points in 2003) and for 0.4 points by the residual item, which consists of the difference between the change in the debt and net borrowing (-1.3 points in 2003).

MONETARY POLICY IN THE EURO AREA, FINANCIAL INTERMEDIARIES AND MARKETS

Overview

The gradual deterioration in the forecasts for growth together with the appreciation of the euro helped to moderate the behaviour of prices in the euro area beginning in the summer of 2004. Inflation expectations remained in line with the objective of price stability.

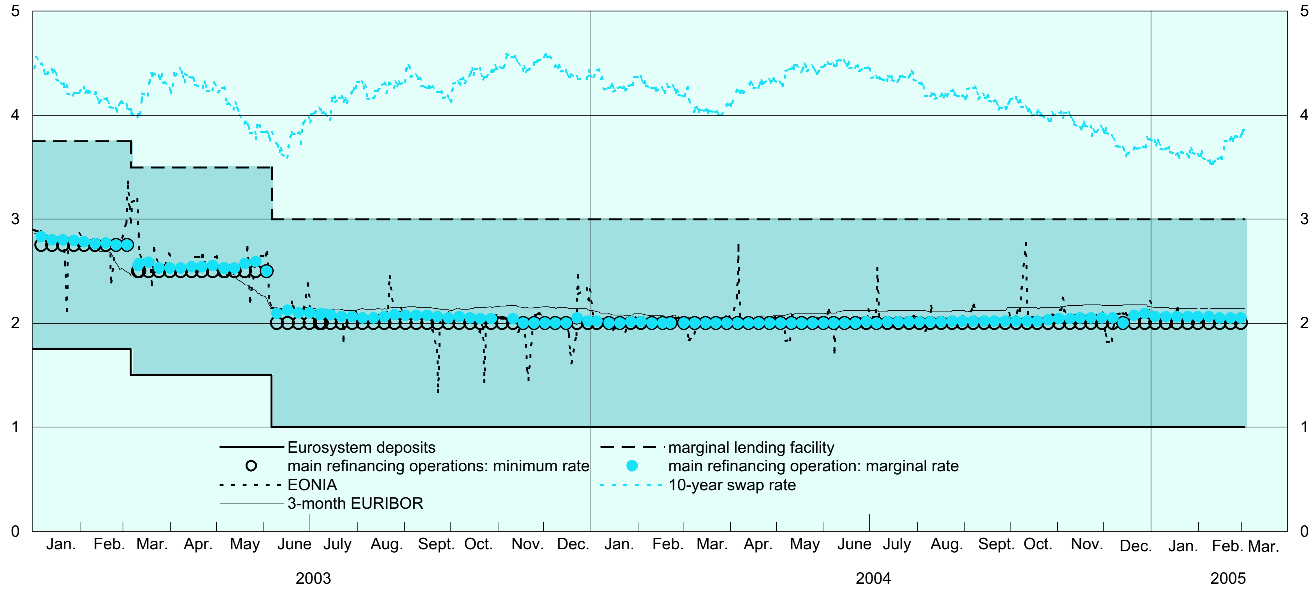
The Governing Council of the European Central Bank kept Eurosystem official rates unchanged: the minimum bid rate on main financing operations is currently 2 per cent (Figure 30). Net of inflation, short-term yields are close to zero in the euro area and in Italy.

Long-term interest rates continued to come down until mid-February and then turned upwards; the negative differential vis-à-vis yields in dollars widened. The low level of interest rates stimulated the demand for loans, particularly by households for house purchases, and for liquid assets. The M3 money supply grew by 6.6 per cent in the twelve months to January.

International bond issues by banks were very substantial, those by firms more limited. Borrowing conditions are expansive. The yield spreads between euro-denominated bonds and government securities have reached very low levels across the rating spectrum. This reflects the steady reduction in defaults and the emergence of more optimistic assessments of firms' riskiness. The prevalence in the main currency areas of extremely accommodating monetary conditions, which have spurred the demand

Figure 30

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



Sources: ECB, Reuters and Telerate.

for relatively high-yielding assets, has presumably contributed to the decline in spreads.

In Italy, more than three quarters of the rapid growth in bank credit was connected with the property market. The low level of interest rates continued to fuel robust demand by households for mortgage loans. The corporate sector's demand for credit decreased; its financial borrowing requirement fell almost to nil, reflecting the increase in self-financing deriving from the decline in interest expense and the slackness of economic activity. Leverage diminished slightly.

According to the Italian banks that participate in the Eurosystem survey of bank lending, credit supply conditions in Italy remained broadly unchanged in the last quarter of 2004; the slowdown in credit demand on the part of firms, especially large corporations, stands confirmed.

In Italy, banks and some large service corporations made substantial bond issues; issuance by smaller or low-rated companies was limited.

Preliminary data for 2004 indicate a reduction in Italian banks' operating profitability, owing to a decline in the second half. The quality of loan portfolios was not significantly affected by the weakness of the economy.

Share prices trended upwards from the summer in both the euro area and Italy. The rise was fostered by the fall in long-term interest rates and by a generalized reduction in risk aversion, shown by the indicators based on options prices. Short-term expectations for the earnings of listed companies remained virtually unchanged.

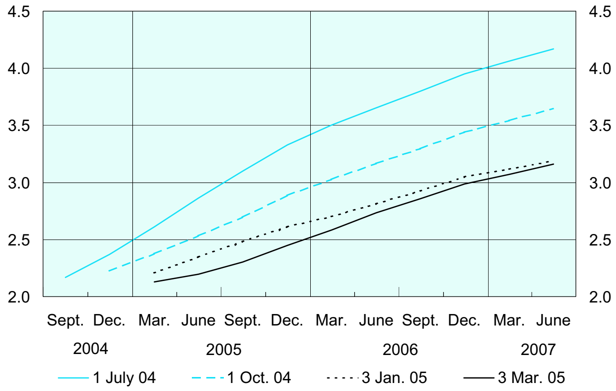
Interest rates and the exchange rate of the euro

Short-term interest rates in the euro area remained stable at close to 2.1 per cent. Compared with last summer, the market now appears to have pushed back the date at which it expects a return to a less accommodating monetary policy; this is indicated by the behaviour of yields implied by futures contracts (Figure 31). The progressive downward revision of forecasts for economic growth in the area was a factor in the fall in expected interest rates.

Figure 31

Rates on three-month Euribor futures contracts (1)

(percentages)



Source: Reuters.

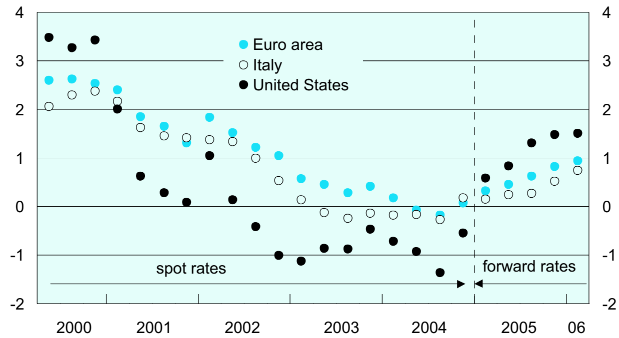
(1) The contract date of each curve is specified in the legend. The horizontal axis shows the settlement dates for the futures contracts to which the yields refer (around the 15th of each month).

Calculated on the basis of survey findings of inflation expectations, the real short-term interest rate in euros remained close to zero, despite a slight rise in the fourth quarter of 2004 (Figure 32). The market expects real short-term rates to continue to stay at historically moderate levels in 2005.

Figure 32

Spot and forward real three-month interest rates (1)

(quarterly data; percentages)



Sources: Based on Reuters and Consensus Economics data.

(1) Nominal three-month rates on Euromarket deposits (averages of daily data in the last month of the quarter; from March 2005, nominal rates implied by futures contracts in February), deflated using inflation expectations for the subsequent quarter measured by the quarterly Consensus Economics survey of professional forecasters.

Nominal long-term yields fell until the middle of February; subsequently they turned sharply upwards, although not regaining the levels of last summer. Between the end of June and the beginning of March, the ten-year rate implied by interest rate swaps in euros fell by 0.7 percentage points to 3.8 per cent, close to the lows reached during the cyclical slowdown of 1999; a similar decline was recorded for real rates, measured on the basis of the yield of government securities indexed to euro-area consumer prices. The progressive downward revision of long-term growth expectations contributed to these developments. Since the middle of 2004 long-term yields in dollars have declined less than those in euros, in concomitance with stronger expectations for growth; the ten-year interest rate on dollar swaps currently stands at 4.7 per cent.

In the last few months of 2004 and the early part of 2005 the effective exchange rate of the euro fluctuated, reflecting its movements against the dollar (Figure 33). The dollar weakened markedly in the last quarter of 2004, mainly in connection with fears of a further rise in the US external account deficit and apprehension about possible changes in the foreign exchange reserve investment policies of the oil-exporting countries and some Asian central banks. Overall, between July 2004 and early March the euro strengthened by 3.2 per cent in nominal effective terms as a consequence of an appreciation of 8.5 per cent against the dollar and smaller gains against the other main currencies. In the second half of 2004 the euro area recorded net direct and portfolio investment inflows of €36 billion, compared with outflows of €18 billion in the first half of the year.

Figure 33

Dollar/euro exchange rate and nominal effective exchange rate of the euro

(daily data)

Source: ECB.

(1) Index, first quarter of 1999=100. A rise in the index indicates an appreciation.

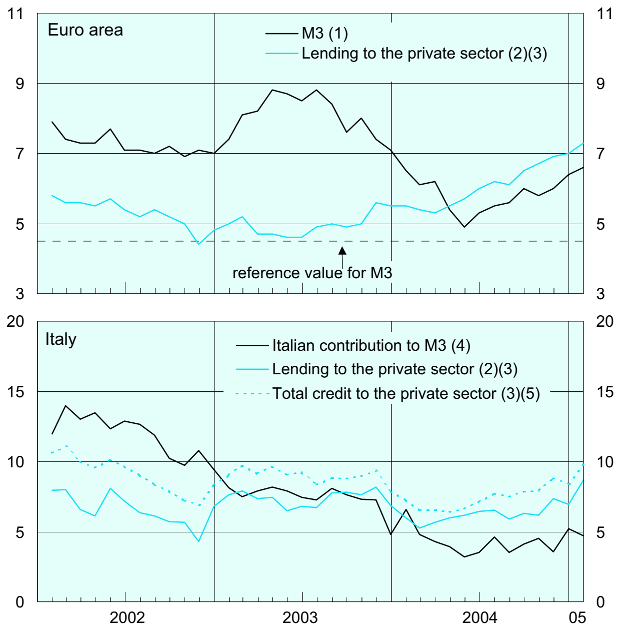
The money supply and credit

The acceleration in euro-area M3 under way since the middle of 2004 has continued in the past few months. The aggregate grew by 6.6 per cent in the twelve months to January, compared with 5.3 per cent in the twelve months to last June (Figure 34); the growth involved the most liquid components above all.

Figure 34

Monetary and credit aggregates

(end-of-month 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. – (2) Lending in euros and other currencies by monetary financial institutions (MFIs). – (3) The private sector includes households, non-financial firms, insurance companies, non-profit institutions serving households, non-money-market investment funds and other financial institutions. – (4) Excludes currency in circulation. – (5) Includes bonds and foreign loans in addition to lending by MFIs. The figures for November and December 2004 and January 2005 are estimated.

The high preference for liquidity is attributable to the very low level of interest rates, which makes the opportunity cost of holding monetary instruments modest. Currency in circulation, which had contracted appreciably before the introduction of the euro, was more than 15 per cent above the volume projected on the basis of trends in the two decades preceding the cash changeover.

The liquidity of households' financial portfolios, increasing since 2000, is not out of line with past experience. According to the financial accounts of the major euro-area countries, liquid instruments (currency, sight deposits and other forms of deposit) make up a smaller share of households' total financial assets than in the second half of the 1990s. In Italy the proportion is 26.4 per cent, close to the level of 1999.

In the euro area, the pace of growth in credit to the private sector has picked up since the spring of 2004, favoured by very easy lending conditions. Bank lending grew by 7.2 per cent in the twelve months ending in January, mainly as a consequence of the 10.1 per cent increase in households' demand for mortgage loans.

Since the middle of 2004 the behaviour of the main monetary and credit indicators in Italy has been broadly similar to that of the corresponding euro-area aggregates. The growth rate of the Italian component of M3, calculated net of currency in circulation, rose to 4.7 per cent in January. Post-office deposits continued to expand at a rapid pace, reflecting the new commercial policies of the Postal Administration in recent years.

Lending to Italian residents accelerated significantly in the second half of 2004. In the twelve months ending in January, outstanding bank loans grew by 8.7 per cent; total credit to the private sector, which includes finance from abroad and bond issues, increased by 9.7 per cent (Table 26).

Table 26

Credit in Italy (1)

(end-of-period data)

	Total credit (2)				
		Total credit to the private sector (3)			
			Bank lending	Bonds	Finance from abroad
			Twelve-month percentage changes		
2002 - Dec.	5.5	8.3	6.8	40.6	8.9
2003 - June	6.1	9.2	6.8	49.0	11.8
July	5.6	8.3	6.7	48.9	7.1
Aug.	5.9	8.8	7.7	46.6	5.6
Sept.	6.0	8.7	7.8	44.0	5.3
Oct.	6.2	8.9	7.6	46.5	6.6
Nov.	6.3	9.3	8.2	59.6	3.7
Dec.	5.1	7.9	6.9	46.4	3.1
2004 - Jan.	5.1	7.3	6.0	47.3	3.5
Feb.	4.9	6.5	5.3	44.9	2.8
Mar.	5.0	6.5	5.7	38.5	2.2
Apr.	4.8	6.4	6.0	31.0	1.9
May	5.2	6.6	6.2	30.6	2.3
June	5.4	7.1	6.4	40.2	1.3
July	5.7	7.7	6.5	34.6	5.0
Aug.	5.5	7.5	5.9	35.6	6.4
Sept.	5.6	7.9	6.3	36.7	6.3
Oct.	5.1	7.9	6.2	36.8	6.8
Nov.	5.6	8.8	7.4	....	....
Dec.	5.8	8.4	6.9	....	....
2005 - Jan.	....	9.7	8.7	....	....
			Percentage shares of stocks		
2004 - Oct.	100.0	48.9	37.1	3.3	8.5

(1) Rounding may cause discrepancies in totals. The November and December 2004 and January 2005 figures for total credit and total credit to the private sector are estimated. – (2) Sum of general government debt and total credit to the private sector. — (3) Italian residents other than central government and MFIs: households, non-financial corporations, insurance companies, non-profit institutions serving households, non-money-market investment funds and other financial institutions. Corresponds to "Other residents" in the harmonized statistics of the ESCB.

Households' financial saving and corporate sector financing in Italy

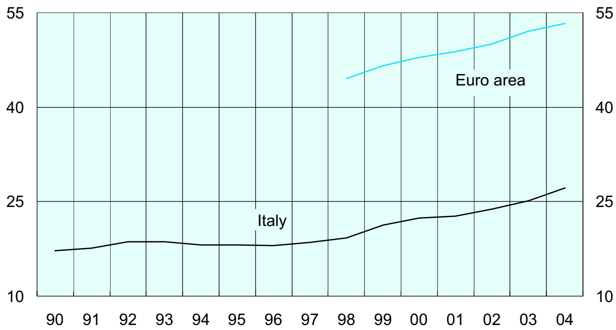
Households' financial assets and liabilities. – By international standards Italian households' total wealth is high, amounting to eight times disposable income. At the end of 2003 the financial component, net of liabilities, was equal to approximately €2,500 billion, or 2.7 times disposable income. In the first nine months of 2004 it rose further, to €2,640 billion (Table 27). During the same period Italian households' financial saving (the balance between the changes in financial assets and liabilities) amounted to €53.2 billion, or 5.4 per cent of GDP. Households' increased their holdings of bank and postal deposits, government securities and bank bonds. Net purchases of bonds issued by non-financial corporations declined significantly compared with the year-earlier period, while there were net sales of shares and other equity and, to a greater extent, investment fund units.

Households' gross debt continued to rise. Almost all of the increase, equal to 12.2 per cent in the twelve months ending in September, was due to the strong growth in mortgage loans, fueled by very favourable financing conditions. Italian households' total financial debt nonetheless remains low: 27.2 per cent of GDP, about half the average for the euro area (Figure 35).

Figure 35

Households' financial debt (1)

(percentages of GDP)



Sources: ECB and Bank of Italy; Eurostat and Istat for euro-area and Italian GDP.

(1) From 1995 onwards the data refer to the new definitions of instruments and sectors of economic activity introduced by ESA95. Stocks of financial liabilities at September of each year; the latest available figure for the euro area refers to June 2004. GDP for the full year.

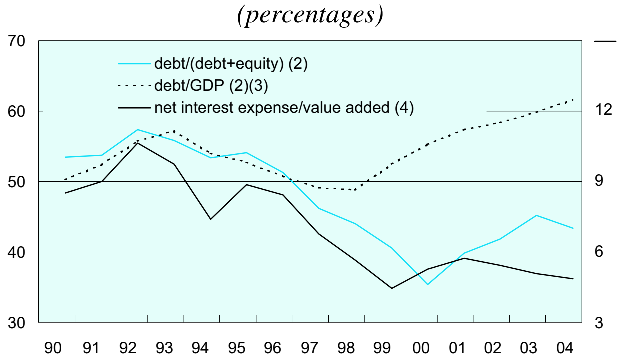
Corporate sector financing. – According to estimates based on national accounts data, in the first nine months of 2004 firms' operating profitability (gross operating profit in relation to value added) remained broadly unchanged with respect to the moderate levels of 2003. The corporate sector's financial balance (the difference between the change in financial assets and liabilities) was in surplus by €1.4 billion, compared with a deficit of €14.8 billion in the corresponding period of 2003 (Table 27). Self-financing grew, largely as a consequence of the reduction in interest expense (from 5.1 to 4.9 per cent of value added) deriving from the fall in interest rates and the lengthening of the average maturity of debt.

The corporate sector's gross financial debt in the form of loans and securities increased to 61.7 per cent of GDP at the end of September, compared with 59.8 per cent a year earlier (Figure 36). This ratio, which has been rising since 1999, is still about 15 percentage points lower than the average for the euro area. The share of medium and long-term liabilities in total financial debt rose to 54 per cent, from 51 per cent at the end of 2003, reflecting both the reallocation of bank debt towards longer maturities and substantial net bond issues (€10.2 billion in the first nine months of the year, against €3.4 billion in the corresponding period of 2003).

Figure 36

Financial debt and net interest expense of Italian non-financial corporations (1)

(percentages)



Source: For GDP and value added, Istat.

(1) From 1995 onwards the data refer to the new definitions of instruments and sectors of economic activity introduced by ESA95. – (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 expense and value added are for the full year except for the first three quarters. Bank of Italy estimates of net interest expense. Value added for 2004 is estimated on the basis of quarterly national accounts data.

Firms' leverage (the ratio of financial debts to the sum of financial debts and equity at market

Table 27

Financial assets and liabilities of Italian households and firms (1)

(millions of euros)

	Households (2)			Non-financial corporations		
	Flows		Stocks	Flows		Stocks
	Jan.-Sept. 2003	Jan.-Sept. 2004	Sept. 2004	Jan.-Sept. 2003	Jan.-Sept. 2004	Sept. 2004
Assets						
Cash and sight deposits	8,331	12,802	494,573	6,335	11,402	131,373
Other deposits	-8,076	8,883	302,134	801	1,438	11,107
Short-term securities	-11,374	15,255	22,542	-572	-272	300
Medium and long-term securities	4,833	32,455	576,509	-2,477	9,913	35,927
of which: government securities	*-14,981*	*10,260*	*200,776*	*-4,892*	*752*	*9,400*
corporate bonds	*6,907*	*597*	*55,027*	*1,718*	*8,363*	*14,494*
Investment fund units	20,576	-11,476	302,841	286	-160	4,212
Shares and other equity	-8,264	-4,754	625,930	22,782	5,502	400,977
External assets	-8	-1,267	204,620	6,295	15,751	294,072
of which: deposits	*-8,106*	*-3,829*	*4,101*	*897*	*-614*	*20,759*
short-term securities	*-176*	*-74*	*274*	*-310*	*-115*	*1,216*
medium and long-term securities	*6,104*	*-3,463*	*88,398*	*1,614*	*-845*	*16,845*
shares and other equity	*-541*	*887*	*75,291*	*5,561*	*1,811*	*133,203*
investment fund units	*2,711*	*5,212*	*36,556*	*415*	*242*	*9,374*
short-term loans	-	-	-	*-1,803*	*15,076*	*55,545*
Other financial assets (3)	40,526	33,839	506,087	-25,083	-7,686	261,054
of which: life insurance reserves	*32,658*	*24,566*	*294,555*	-	-	-
Total assets	**46,544**	**85,737**	**3,035,236**	**8,367**	**35,888**	**1,139,022**
Liabilities						
Short-term debt (4)	-1,583	-1,842	51,772	-9,589	-9,986	304,083
of which: bank	*-1,634*	*-1,733*	*50,810*	*-6,204*	*-10,029*	*273,685*
Medium and long-term debt (5)	23,249	32,750	315,209	33,505	24,646	389,596
of which: bank	*22,324*	*30,456*	*287,209*	*31,025*	*22,564*	*316,444*
Securities	-	-	-	9,178	10,277	44,056
of which: medium and long-term	-	-	-	*8,212*	*7,518*	*35,577*
Shares and other equity	-	-	-	24,233	4,331	944,385
External liabilities	-	-	-	-13,323	9,041	268,057
of which: short-term debt	-	-	-	*-4,130*	*-511*	*73,704*
medium and long-term debt	-	-	-	*-2,818*	*846*	*5,037*
medium and long-term securities	-	-	-	*-4,825*	*2,726*	*16,419*
shares and other equity	-	-	-	*1,444*	*6,751*	*144,269*
Other financial liabilities (6)	1,520	1,654	29,461	-20,845	-3,810	342,110
Total liabilities	**23,186**	**32,562**	**396,442**	**23,159**	**34,499**	**2,292,287**
Balance	**23,358**	**53,175**	**2,638,794**	**-14,792**	**1,389**	**-1,153,265**

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

prices) declined slightly, basically reflecting the increase in equity due to the rise in stock market values (see the box "The financial situation of Italian firms from 1990 to 2003"). In September it stood at 43.4 per cent, comparable to the euro-area ratio and two percentage points lower than a year earlier.

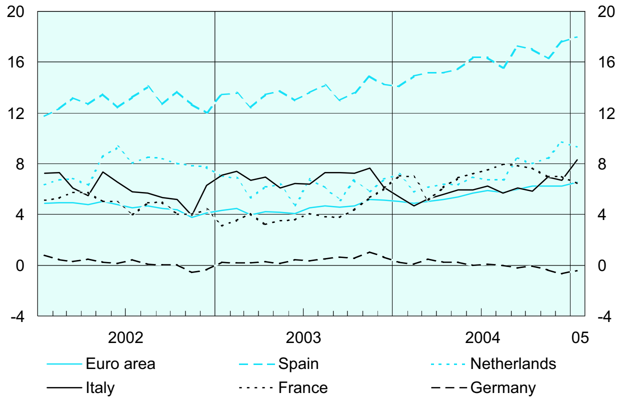
The activity of Italian banks

Lending. – The annual growth in euro-area bank lending accelerated from 5.1 to 6.3 per cent in 2004 (Table 28). The increase was especially rapid in Spain, where GDP growth was fastest; it was in line with the euro-area average in Italy and France and virtually nil in Germany (Figure 37).

Figure 37

Lending by monetary financial institutions in the euro area (1)

(monthly data; twelve-month percentage changes)



Sources: Based on ECB data and national statistics.

(1) Lending by euro-area MFIs (excluding the Eurosystem) to non-MFI resident customers. The percentage changes are calculated net of reclassifications, value adjustments, exchange rate variations and other variations not due to transactions.

Table 28

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

(harmonized definitions; twelve-month percentage changes)

	Funding							Lending
		Deposits					Debt securities issued (2)	
			Excluding central government					
			Overnight	With agreed maturity	Redeemable at notice	Repurchase agreements		
			Euro area (3)					
2003 - Sept.	5.6	5.6	8.5	1.3	9.3	-6.7	5.8	4.5
Dec.	6.2	5.5	8.0	1.7	8.4	-4.4	7.5	5.1
2004 - Mar.	6.4	5.0	9.4	0.1	6.7	-1.4	9.1	5.0
June	6.4	4.7	7.7	0.7	6.5	1.8	9.8	5.7
Sept.	7.3	5.4	8.0	2.1	6.3	2.7	11.0	6.0
Dec.	7.8	5.9	6.4	4.9	6.4	9.5	11.3	6.3
2005 - Jan.	7.6	6.0	8.0	4.7	6.1	6.2	10.5	6.5
			Italy (4)					
2003 - Sept.	5.1	4.5	8.3	-9.3	6.0	-10.2	6.1	7.8
Dec.	4.4	2.2	5.9	-10.2	5.1	-15.7	8.6	6.7
2004 - Mar.	5.7	3.3	7.8	-7.8	5.6	-18.0	10.0	5.7
June	5.6	3.2	6.5	-8.8	5.4	-12.7	10.0	6.1
Sept.	6.6	3.5	6.5	-9.1	4.9	-9.3	12.1	6.1
Dec.	7.2	5.1	6.2	-3.9	4.7	2.8	10.8	6.7
2005 - Jan.	7.4	5.3	6.6	-5.0	4.5	3.6	10.8	8.4

(1) End-of-period data. The data for January 2005 are provisional. The percentage changes are calculated net of reclassifications, value adjustments, exchange rate variations and other variations not due to transactions. The data are consistent with those published in the ECB's Monthly Bulletin. – (2) Total debt securities, including money-market securities, issued by banks. By convention they are entirely attributed to euro-area residents. – (3) 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. – (4) Funding and lending of Italian banks from and to non-MFI customers resident in Italy.

The financial situation of Italian firms from 1990 to 2003

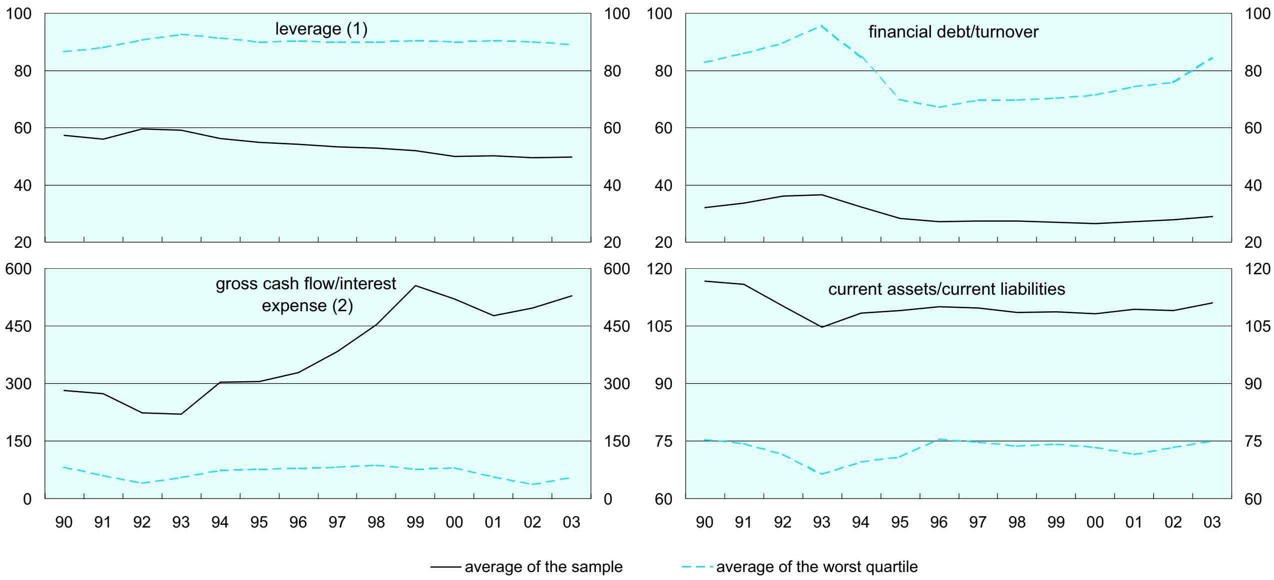
Between 2001 and 2003, despite the slackness of economic activity, the financial situation of Italian firms remained fairly stable. This followed a period of improvement beginning in the mid-1990s, after indebtedness had risen to very high levels. Interest expense has diminished considerably over the last decade, principally as a result of the pronounced fall in interest rates (see the box "Recent developments in the indebtedness of Italian non-financial firms" in Economic Bulletin No. 38, 2004).

Data on a sample of more than 35,000 non-financial firms surveyed by the Company Accounts Data Service indicate that between 1993 (when firms' finances came under especially heavy pressure) and 2003 average leverage declined by 10 percentage points, to 50 per cent (Figure 1); the debt-to-turnover ratio decreased from 37 to 29 per cent. The interest expense coverage ratio, which is a gauge of the burden of debt in relation to firms' self-financing capacity, rose considerably (in 2003 interest expense

Figure 1

Financial situation of Italian firms

(percentages)



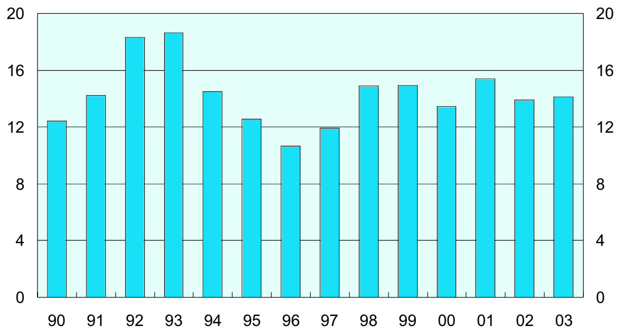
Source: Based on Company Accounts Data Service figures; figures for 2003 are provisional.
(1) Ratio of financial debt to financial debt plus net equity at book value. – (2) Ratio of cash flow gross of interest expense to interest expense.

In Italy, bank lending rose by 6.7 per cent, as in 2003 (Table 29). The growth was mainly attributable to loans to households for house purchases, to the construction industry and to real-estate brokerage firms. In January there was an acceleration, largely due to a syndicated loan connected with the corporate reorganization of Italy's leading telephone company.

Lending to consumer households continued to gain pace, growing by 15.8 per cent in the year to December (Table 30). More than 85 per cent of new mortgage loans were indexed to money-market rates or renegotiable within one year (in the euro area the corresponding figure is 54 per cent). For these contracts the current low level of interest rates allows borrowers to limit the amount *was only one fifth of cash flow, gross of interest expense, compared with 50 per cent in 1993); the ratio of current assets to short-term liabilities (which is a measure of firms' liquidity) held close to 110 per cent. Aggregate data point to a further decline in both leverage and interest expense in the first nine months of 2004 (see Figure 36 in the main text).*

Figure 2

Indicator of financial situation (1)
(percentages)



Source: Based on Company Accounts Data Service figures; figures for 2003 are provisional.
(1) Percentage of total sample turnover accounted for by firms in at least two of the following four conditions: leverage above 75 per cent, ratio of current assets to current liabilities below 75 per cent, debt-to-turnover ratio above 50 per cent, interest expense coverage ratio below 100 per cent. An increase in the indicator denotes greater financial vulnerability.

The improvement in companies' financial situation during the decade was not uniform. Dispersion around average values actually increased. Among the quartile of the sample for which each indicator was worst in each year, the financial difficulties were aggravated. Their leverage was stable at around 90 per cent between 1996 and 2003; their debt-to-turnover ratio rose from 67 to 84 per cent; and their interest expense coverage ratio worsened significantly, from 78 to 55 per cent.

To some extent this pattern reflects sectoral differences. Between 2001 and 2003 among heavily indebted firms or those with a low interest expense coverage ratio, the incidence of industrial firms increased, because their profitability generally declined more than that of service companies. Overall, however, the importance of the firms in the least favourable financial situation is much less than during the recession of the early 1990s. In 2002 and 2003 the firms that recorded at least two of the four indicators above given thresholds each year accounted for 14 per cent of total turnover, compared with 18 per cent in 1992 and 1993 (Figure 2; in the case of firms with at least three indicators worse than the threshold level, the share of turnover dropped from 4.8 to 2.9 per cent). Among these firms there was a significant decrease in the share of those from the South, which is now in line with that for the sample as a whole. In 2003 large companies (with at least 1,000 workers) in a weaker financial situation accounted for 5 per cent of the sample's turnover. This represented a fall of almost two points between 1993 and 2003, because this group reduced their indebtedness more than smaller firms and their earning capacity proved more resilient.

of the first instalments to be repaid, provided they accept the risk of subsequent rises. Consumer credit continued to expand at a sustained pace (16.3 per cent).

The rate of growth in bank lending to firms slowed from 6.3 per cent in 2003 to 3.5 per cent in 2004. A contributory factor was the fall in demand, due to the increase in self-financing and the slackness of economic activity. In addition, some large telecommunications and utility companies stepped up their bond issuance.

The growth in lending was concentrated in the service sector and the construction industry. Lending to manufacturing firms declined by 0.4

Table 29

Main assets and liabilities of Italian banks (1)

(end-of-period data; percentage changes on previous period, except as indicated)

	2002	2003	2004	2004 (2)				January 2005	
				Q1	Q2	Q3	Q4	12-month % change	Stocks (millions of euros)
Assets									
Securities	-15.6	4.2	-2.8	-14.4	7.5	4.2	-5.3	0.8	178.388
of which: government securities	*-19.8*	*-4.0*	*-12.0*	*-26.7*	*-1.1*	*-6.1*	*-10.0*	*-7.3*	*96.969*
Loans	6.3	6.7	6.7	4.1	7.5	6.3	9.3	8.4	1.177.300
of which (3)*: short-term (a)*	*0.5*	*-1.5*	*-4.1*	*-7.6*	*0.2*	*-1.9*	*-6.3*	*-1.6*	*444.122*
medium and long-term (b)	*11.7*	*13.3*	*13.8*	*13.9*	*12.4*	*11.8*	*17.4*	*15.2*	*668.128*
(a)+(b)	*6.1*	*6.2*	*6.0*	*4.2*	*7.1*	*6.0*	*7.2*	*7.9*	*1.112.250*
repos (4)	*-7.2*	*-1.1*	*88.2*	*-12.9*	*-88.8*	*-78.6*	*::*	*121.0*	*6.597*
bad debts (5)	*1.9*	*10.6*	*6.0*	*6.7*	*9.1*	*5.6*	*2.6*	*4.6*	*53.977*
Memorandum item:									
net bad debts (6)	*-0.4*	*9.3*	*-2.0*	*-20.7*	*2.2*	*4.0*	*8.8*	*-3.0*	*21.550*
External assets	19.8	1.2	11.5	12.9	-12.6	23.8	26.4	5.7	233.470
Liabilities									
Domestic funding (7)	8.0	4.4	7.2	9.8	5.8	7.6	7.4	7.4	1.166.570
Deposits	6.7	2.2	5.1	8.8	4.4	5.1	4.8	5.3	723.895
of which (8)*: overnight*	*7.2*	*5.9*	*6.2*	*14.8*	*5.7*	*6.9*	*2.0*	*6.6*	*542.369*
with agreed maturity	*-8.6*	*-10.2*	*-3.9*	*-9.3*	*-3.5*	*-9.8*	*7.9*	*-5.0*	*40.659*
redeemable at notice	*5.4*	*5.1*	*4.7*	*8.4*	*4.0*	*4.1*	*2.7*	*4.5*	*67.600*
repos	*17.2*	*-15.7*	*2.8*	*-17.7*	*0.6*	*3.2*	*24.6*	*3.6*	*65.678*
Bonds (7)	10.3	8.6	10.8	11.5	8.1	11.8	11.8	10.8	442.676
External liabilities	-3.2	11.2	3.8	20.5	-8.8	-8.4	15.3	5.9	312.376

(1) The figures for January 2005 are provisional. The percentage changes are calculated net of reclassifications, exchange rate variations and other variations not due to transactions. – (2) Calculated on seasonally adjusted data where appropriate. – (3) Some minor items in the aggregate are not reported. – (4) The figure for the fourth quarter is not reported as it is statistically not significant. – (5) The percentage changes are not adjusted for debt cancellations and assignments. – (6) Bad debts net of write-downs. – (7) Includes bonds held by non-residents. – (8) Excludes those of central government.

per cent overall; the contraction was particularly sharp in lending to the textiles, clothing and transport equipment industries, where production fell with respect to 2003, and to chemical companies.

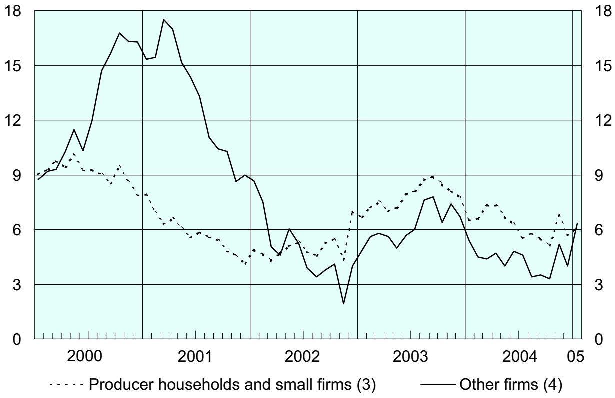
Lending to firms increased by 7.8 per cent in the South, compared with 3 per cent in the Centre and North. The gap remains wide even when adjustment is made for geographical differences in sectoral specialization.

In 2004 bank lending to small businesses (sole proprietorships and partnerships with fewer than 20 workers) continued to outpace lending to other firms (5.7 per cent growth compared with 4 per cent; Figure 38).

Figure 38

Lending to firms in Italy by size of firm (1)

(monthly data; twelve-month percentage changes) (2)



(1) Loans exclude repos, bad debts and some minor items included in the aggregate reported in Table 28. – (2) Calculated net of reclassifications, exchange rate variations and other variations not due to transactions. – (3) Sole proprietorships and partnerships with fewer than 20 workers. – (4) Excludes holding companies.

Table 30

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

	General govern-ment	Finance and insurance companies	Firms						Households		Total
				Holding companies	Non-financial corporations				Consumer house-holds	Producer house-holds (2)	
						Manu-facturing	Construc-tion	Services			
Twelve-month percentage changes (3)											
Centre and North											
2003 - Dec.	-9.6	2.2	6.3	3.0	6.6	1.3	13.9	11.3	11.4	9.4	5.9
2004 - Mar.	-2.8	1.9	3.8	-4.0	4.5	-0.2	12.2	9.2	12.2	8.9	5.1
June	-4.1	1.8	3.8	-5.7	4.5	0.7	12.0	8.1	14.3	7.5	5.3
Sept.	0.8	4.7	2.0	-12.0	3.2	-1.4	10.0	7.3	14.5	5.9	5.0
Dec.	1.0	0.8	3.0	-6.3	3.7	-0.8	8.4	6.9	15.6	6.9	5.3
2005 - Jan.	- 3.2	2.6	6.3	8.4	6.2	….	….	….	16.1	7.0	7.4
South											
2003 - Dec.	11.1	6.8	6.1	-12.7	6.2	2.7	8.8	9.8	9.6	9.1	7.9
2004 - Mar.	0.5	-1.0	6.0	25.0	5.9	2.0	7.4	9.3	11.1	9.0	7.6
June	8.9	-0.7	7.3	20.2	7.3	2.3	10.4	10.5	14.4	7.9	9.8
Sept.	11.1	11.5	7.9	96.3	7.6	2.4	11.5	11.4	15.4	7.7	10.8
Dec.	2.0	5.0	7.8	52.2	7.6	3.0	11.1	10.6	16.5	8.1	10.5
2005 - Jan.	13.3	17.9	8.6	111.5	8.0	….	….	….	16.4	8.5	11.8
ITALY											
2003 - Dec.	-7.2	2.3	6.3	2.9	6.6	1.4	13.1	11.1	11.0	9.3	6.2
2004 - Mar.	-2.3	1.8	4.0	-3.8	4.6	-0.1	11.4	9.2	12.0	8.9	5.4
June	-2.5	1.8	4.2	-5.5	4.8	0.8	11.8	8.4	14.3	7.6	5.9
Sept.	2.1	4.9	2.6	-11.4	3.6	-1.0	10.2	7.8	14.7	6.3	5.8
Dec.	1.2	0.9	3.5	-5.9	4.2	-0.4	8.8	7.4	15.8	7.2	6.0
2005 - Jan.	-1.1	3.0	6.6	9.3	6.4	1.5	8.8	10.8	16.2	7.3	7.9
Stock of lending in December 2004 (4) *(millions of euros)*											
Centre and North	45,304	118,707	525,323	35,208	490,116	158,082	59,001	234,251	208,477	52,537	950,349
South	7,173	3,688	65,272	410	64,861	17,668	10,494	30,583	54,603	14,979	145,714
ITALY	52,478	122,395	590,595	35,618	554,977	175,780	69,504	265,142	263,080	67,516	1,096,317
Percentage composition of lending in December 2004 (4)											
Centre and North	4.8	12.5	55.3	3.7	51.6	16.6	6.2	24.6	21.9	5.5	100.0
South	4.9	2.5	44.8	0.3	44.5	12.1	7.2	21.0	37.5	10.3	100.0
ITALY	4.8	11.2	53.9	3.2	50.6	16.0	6.3	24.2	24.0	6.2	100.0

(1) Loans exclude repos, bad debts and other minor items included in the aggregate reported in Table 28. The breakdown by geographical area is based on customer residence. – (2) Partnerships and sole proprietorships with up to 5 workers. – (3) Calculated net of reclassifications, exchange rate variations and other changes not due to transactions. – (4) The sum of stocks according to geographical area and sector of economic activity may differ from the total, as the data are derived from other items of the supervisory reports.

Approximately three quarters of total loans to firms are disbursed by banks officially classified as "small" and "minor", whose market share increased in both the segment of small firms and in that of medium-sized and large firms, to 44 and 30 per cent respectively.

The lengthening of loan maturities involved firms in all productive sectors, geographical areas and size classes (Table 31). The maturity composition of bank loans to firms in Italy is gradually approaching the pattern found in the euro area: at the end of December approximately 57 per cent of total lending was at medium or long term (compared with 69 per cent in the euro area); about 90 per cent of new lending in 2004 was at variable rates (against 86 per cent in the area).

Loan quality. – New bad debts in 2004 amounted to 0.9 per cent of the value of outstanding loans at the beginning of the year (Table 32), about the same as in 2003 net of the effects of the Parmalat group's collapse. The ratio continued to be higher for loans

Table 31

Lending by Italian banks to firms by maturity, sector, size and geographical area (1)
(twelve-month percentage changes) (2)

	North and Centre		South		ITALY	
	Dec. 2003	Sept. 2004	Dec. 2003	Sept. 2004	Dec. 2003	Sept. 2004
Firms and producer households (3)						
short-term	-1.1	-3.0	2.2	3.9	-0.8	-2.2
medium and long-term	16.6	11.3	11.0	11.0	15.8	11.2
Total ...	**6.9**	**4.0**	**6.7**	**7.7**	**6.9**	**4.5**
			By sector			
of which:						
Manufacturing industry						
short-term	-2.5	-6.3	3.0	4.0	-2.0	-5.4
medium and long-term	7.4	7.6	2.4	1.5	6.9	7.0
Total ...	**1.3**	**-0.8**	**2.7**	**3.0**	**1.4**	**-0.4**
Construction						
short-term	8.2	1.4	5.2	4.2	7.8	1.8
medium and long-term	18.9	14.0	11.5	15.9	17.7	14.3
Total ...	**13.9**	**8.4**	**8.8**	**11.1**	**13.1**	**8.8**
Services						
short-term	3.7	-1.0	3.5	6.2	3.6	-0.1
medium and long-term	20.0	14.3	16.7	14.8	19.7	14.6
Total ...	**11.3**	**6.9**	**9.8**	**10.6**	**11.1**	**7.4**
			By size			
Producer households and small firms (4)						
short-term	1.0	-0.6	1.1	2.5	1.0	-0.1
medium and long-term	13.1	9.6	14.6	11.7	13.3	10.0
Total ...	**7.6**	**5.3**	**8.8**	**8.0**	**7.8**	**5.7**
Medium-sized and large firms (3)						
short-term	-1.6	-3.5	2.6	4.4	-1.2	-2.7
medium and long-term	18.0	11.5	9.3	10.7	16.9	11.4
Total ...	**6.8**	**3.6**	**5.9**	**7.6**	**6.7**	**4.0**

(1) Loans exclude repos, bad debts and some minor items included in the aggregate reported in Table 28. The breakdown by geographical area is based on customer residence. – (2) Calculated net of reclassifications, exchange rate variations and other variations not due to transactions. – (3) Excludes holding companies. – (4) Sole proprietorships, partnerships, limited partnerships and general partnerships with fewer than 20 workers.

Table 32

Italian bank's bad debts and substandard loans by geographical area and economic sector (1)

	General govern-ment	Finance and insurance companies	Firms						Households		Total
				Holding companies	Non-financial corporations						
						Manu-facturing	Construc-tion	Services	Consumer households	Producer house-holds (2)	
			Twelve-month percentage changes in bad debts (3)								
			December 2003								
Centre and North	-18.9	20.8	23.1	42.8	22.6	49.8	4.7	12.6	-0.6	7.8	15.6
South	-0.2	-20.0	1.9	31.8	1.6	10.7	0.2	-5.2	2.5	3.9	2.4
ITALY	-4.7	11.5	16.3	41.0	15.8	38.7	3.1	6.9	0.7	5.8	10.6
			December 2004								
Centre and North	-38.8	-2.0	7.2	-4.3	7.5	7.2	4.0	11.4	8.7	4.5	7.0
South	-6.6	-15.6	4.9	-6.7	5.0	14.6	-0.5	3.9	4.6	1.7	3.9
ITALY	-13.3	-4.2	6.6	-4.6	6.8	9.2	2.1	9.1	7.1	3.1	6.0
			New bad debts as a percentage of outstanding loans (4)								
			December 2003								
Centre and North	0.0	0.2	1.7	….	….	2.6	2.2	1.2	0.7	1.3	1.1
South	0.0	0.1	2.5	….	….	3.7	2.2	2.1	0.8	2.2	1.7
ITALY	0.0	0.2	1.8	….	….	2.7	2.2	1.3	0.7	1.5	1.2
			December 2004								
Centre and North	0.0	0.0	1.0	….	….	1.4	1.1	0.9	0.7	1.3	0.8
South	0.0	0.0	1.8	….	….	2.9	1.8	1.4	1.0	2.0	1.4
ITALY	0.0	0.0	1.1	….	….	1.5	1.2	1.0	0.8	1.4	0.9
			Twelve-month percentage changes in substandard loans								
			December 2003								
Centre and North	20.4	-8.8	1.0	-60.6	3.8	-0.3	7.1	2.5	7.7	12.1	3.4
South	-14.9	-7.6	1.5	-35.8	1.5	9.3	-7.7	-5.4	8.4	24.0	6.6
ITALY	-4.4	-8.7	1.1	-60.4	3.4	1.5	3.0	1.3	7.9	15.2	4.0
			December 2004								
Centre and North	-18.7	-58.0	0.4	103.7	-1.3	-4.7	-17.9	3.0	1.9	-0.1	-0.6
South	-41.4	-40.3	-2.2	-23.8	-2.2	-17.3	-0.1	1.3	2.5	2.9	-0.5
ITALY	-32.9	-57.1	0.0	101.5	-1.5	-7.2	-13.5	2.7	2.0	0.7	-0.6

(1) The breakdown by geographical area is based on customer residence. – (2) Partnerships and sole proprietorships with up to 5 workers. – (3) Not adjusted for debt cancellations and assignments. – (4) New adjusted bad debts as a percentage of outstanding loans other than adjusted bad debts at the beginning of the period. The data for holding companies and non-financial corporations are not available. The figures on new adjusted bad debts are taken from reports to the Central Credit Register.

to firms in the South (1.8 per cent, compared with 1 per cent in the Centre and North). The stock of bad debts remained unchanged at 4.7 per cent as a proportion of total outstanding loans; at estimated realizable value, it fell from 2.2 to 2 per cent.

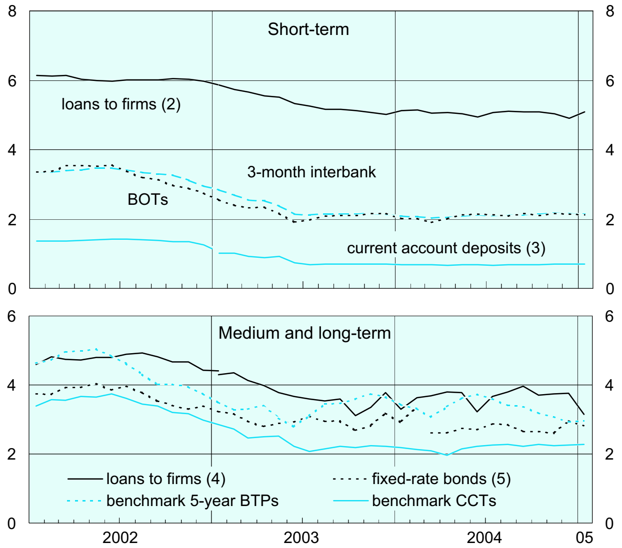
Banks' exposure to customers in temporary difficulty ("substandard loans"), which had increased by 4 per cent in 2003, declined by 0.6 per cent over the year. The contraction involved both the regions of the Centre and North and those of the South.

Credit conditions and interest rates. – Credit conditions remained generally easy in 2004. Bank interest rates in Italy are stable at historically low levels (Figures 39 and 40) and broadly in line with those in the rest of the euro area (see the box "The cost of bank credit in Italy and the euro area in 2004").

Figure 39

Bank interest rates and rates on government securities in Italy (1)

(monthly data; percentages)



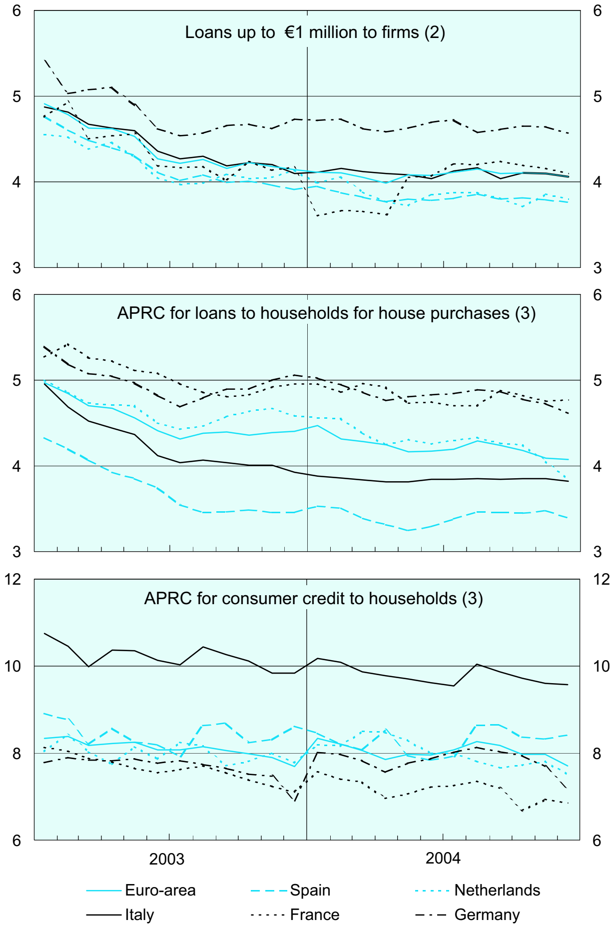
Sources: Based on Bank of Italy, MTS and MID data.

(1) The rates refer to transactions in euros. Since January 2003 the data on bank interest rates are gathered and processed using the new Eurosystem harmonized methodology. – (2) Since January 2003, average rate on loans to firms with a maturity of up to one year. Before 2003, data reconstructed using the monthly interpolation of three-month rates reported to the Central Credit Register for loans to firms with a maturity of up to 18 months. – (3) Up to December 2002, average rate on all current account deposits. Since January 2003, average rate on current account deposits of households and firms. – (4) Up to December 2002, average rate on new loans with a maturity of more than 18 months to firms resident in Italy. Since January 2003, average rate on new disbursements with a rate fixed in advance for more than one year to firms resident in the euro area. – (5) Average rate on bank bonds issued during the month. Data drawn from 10-day statistical reports. The sample of reporting banks was changed in March 2004.

Figure 40

Harmonized interest rates on loans in the major euro-area countries: new business (1)

(monthly data; percentages)



Sources: Based on ECB data and national statistics.

(1) New contracts concluded during the reference period or contracts renegotiating previous terms and conditions. – (2) Average lending rate for non-financial corporations across all maturities, weighted by loan amounts. The latter refer to the amount of each individual transaction. – (3) The annual percentage rate of charge includes accessory expenses (administrative expenses, loan examination fees and insurance). It is calculated as the average rate across all maturities, weighted by loan amounts. Households include producer households and non-profit institutions serving households.

In connection with a strong expansion in lending in the southern regions, the spread between the rate on short-term loans to firms in the South and those in the Centre and North widened by 0.2 percentage points to 1.5 per cent, adjusting for regional differences in the composition of firms by sector and size. The spread reflects the higher ratio of bad debts and substandard loans in the South.

For Italian households, the annual percentage rate of charge (APRC) on loans for house purchases currently stands at 3.8 per cent, compared with 4.1 per cent on average in the euro area. The APRC on consumer credit fell by 0.3 percentage points to 9.6 per cent in Italy, while in the euro area it held constant at 7.7 per cent.

The Italian banking groups participating in the Eurosystem's quarterly survey of bank lending indicated no change in the standards for granting loans to firms and households in Italy, although they reported an increase in the risks connected with cyclical economic conditions. According to the banks, credit demand weakened, especially that of large corporations.

Funding. – In January the twelve-month rate of growth in domestic funding was 7.4 per cent, higher than a year earlier and in line with that registered in the euro area (Table 28). The acceleration reflected the pronounced growth in bond issues, above all Eurobond issues, and the recovery of repos, which expanded by 3.6 per cent after contracting by 15.7 per cent in 2003. The growth of current account deposits of households and firms remained robust (6.6 per cent).

The expansion in bond issuance helped to keep the mismatch between the duration of assets and liabilities constant. Adding in off-balance-sheet assets and liabilities, which include hedging transactions with derivatives, the mismatch was equal to 1.4 months at the end of 2004, compared with 1.5 at the end of 2003.

The average interest raid paid on households' current accounts remained stable in 2004; at the end of December it was 0.6 per cent, compared with 0.7 per cent in the euro area as a whole. The yield on fixed-rate bank bonds diminished by 0.2 percentage points to 3 per cent.

Profitability. – According to preliminary data for 2004, banks' operating profitability on an unconsolidated basis fell; an improvement in the first half of the year was followed by a decline in the second. The 2.5 per cent decline in operating profit over the year as a whole was due to the stagnation of gross income in conjunction with a moderate increase in operating expenses (1 per cent). The increase in staff costs (1.8 per cent) is partly attributable to provisioning for the adjustment of wages to actual inflation in the two years 2002-03 under the industry's new labour contract.

Net interest income rose by 2.7 per cent, reflecting both the increase in the volume of business and a reduction in the expense of hedging against interest rate risk. Net non-interest income fell by 4.6 per cent, with a sharp contraction of 30.8 per cent in income from securities and foreign exchange trading; net income from services decreased by 1.1 per cent.

For the whole of the banking system, the return on equity in the first half of 2004 was close to 11 per cent on a consolidated basis.

In June 2004 the banking system's consolidated supervisory capital amounted to €144 billion, 4.7 per cent more than a year earlier (Table a39). The solvency ratio (supervisory capital over risk-weighted assets) rose to 11.5 per cent from 11.2 per cent in June 2003.

The government securities market

Net issues of euro-area government securities amounted to €191 billion in 2004, compared with €177 billion in 2003. In Italy, net issues rose from €18 billion to €27 billion (Table 33). The Treasury made further issues of BTPs indexed to euro-area consumer prices (€18 billion, with maturities of 5, 10 and 30 years); these securities can help reduce interest payments on the debt, since their yields do not incorporate a premium for the risk of inflation. The duration of the debt lengthened further (Figure 41).

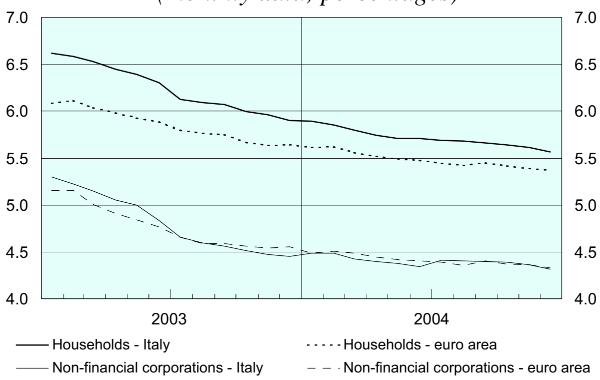
Net purchases of Italian government securities by non-residents fell from €63 billion to €23 billion (Table 34). By contrast, there was a return to net purchases by households.

The yield spread between ten-year BTPs and German Bunds narrowed from 16 basis points at the end of 2003 to 12 basis points at the end of 2004; similar reductions were recorded vis-à-vis the corresponding

The cost of bank credit in Italy and the euro area in 2004

According to the Eurosystem's harmonized interest rate statistics (see the box "The new harmonized statistics on bank interest rates" in Economic Bulletin, No. 37, 2003), last year the average rate on outstanding bank loans in Italy was an estimated 4.4 per cent for firms and 5.7 per cent for households. The corresponding values for the euro area were 4.4 and 5.5 per cent (see figure and table).

Harmonized interest rates on loans to households and non-financial corporations in Italy and the euro area (1)
(monthly data; percentages)



Sources: Bank of Italy and ECB.
(1) Figures for outstanding loans at the end of the month indicated. Weighted averages of data for individual categories of loan classified by technical form and original maturity.

For specific technical forms of lending and maturity classes, the cost of credit in Italy differs from that in the euro area as a whole owing to differences in the characteristics of loan contracts (such as the riskiness of loans, on which comparable data are not available) and other factors.

For firms, the average cost of current account overdrafts with no fixed maturity and renegotiable interest rates was 5.7 per cent in Italy and 5.5 per cent in the euro area. The proportion of such lending in total bank credit is significantly larger in Italy than in the area as a whole (32 per cent as against 16 per cent) for a variety of reasons. First, the high level and considerable variability of Italian inflation until the mid-1990s made it difficult for firms to predict cash flow and discouraged borrowing at fixed maturities (as inflation has diminished, current account lending has fallen from 42 per cent of the total in 1995 to 32 per cent in 2004). Second, the high incidence of current account lending also depends on the lack of disclosure by firms, especially small enterprises. In this context, banks often use lending through current accounts to glean financial information about borrower firms, for example by analyzing the use of credit lines. Such lending is advantageous for firms, as they can considerably reduce the cost of managing liquidity. The small size of Italian firms, which is far below the euro-area average, helps explain the greater recourse to such financing in Italy. [1]

By contrast, interest rates on fixed-term loans to firms are lower in Italy (3.8 per cent) than in the euro area (4.2 per cent), especially on medium and long-term lending. In addition to different levels of competition in national markets, this could reflect the large share of loans to Italian firms secured by guarantees (more than 70 per cent of medium and long-term loans in 2004). [2] *The gap is not attributable to the different proportion of floating-rate loans, which is high both in Italy and the area, or to differences in the terms applied to contracts with similar rate renegotiation characteristics.*

As regards lending to consumer and producer households, rates on mortgage loans for home purchases in Italy are 0.5 percentage points lower than the euro-area average; rates on other lending are 0.4 percentage points higher.

The low interest rates on loans for housing (4.5 per cent) depend on the large proportion of floating-rate loans (over 80 per cent at the end of 2004 in Italy, much higher than the average for the area), which are currently less expensive than fixed-rate mortgages but

Harmonized interest rates on loans to households and non-financial corporations in Italy and the euro area (1)
(percentages)

	Loans to non-financial corporations			Loans to households		
		Current account overdrafts	Fixed-term lending		Home purchases	Overdrafts, consumer credit and other loans
Italy	4.40	5.67	3.80	5.71	4.48	7.02
Memorandum item: percentage composition	*100.0*	*31.9*	*68.1*	*100.0*	*51.6*	*48.4*
Euro area	4.41	5.45	4.22	5.48	4.95	6.59
Memorandum item: percentage composition	*100.0*	*15.7*	*84.3*	*100.0*	*67.8*	*32.2*
Standard deviation (2)	*0.6*	*3.8*	*0.5*	*1.1*	*0.8*	*2.0*
Variation coefficient (3)	*0.1*	*0.6*	*0.1*	*0.2*	*0.2*	*0.3*

Sources: Bank of Italy and ECB.
(1) Average for 2004 of end-month figures for outstanding loans. – (2) Calculated on the basis of data for the 12 euro-area countries. – (3) Ratio of the standard deviation to the mean.

carry the risk of future interest rate increases. In 2004 the rate on new mortgage lending indexed to market rates was in line with that for the euro area (3.5 per cent).

The higher cost of other lending (current account overdrafts, consumer credit and other loans) is a consequence of two factors. First, the consumer credit market in Italy, although expanding rapidly, is still very small by international standards (see the box "Bank lending to households in Italy" in Economic Bulletin, No. 37, 2003). In this segment, where intermediaries controlled by leading international banking groups play a prominent role, interest rates in Italy are 1.6 percentage points higher than the euro-area average. Second, a large share of credit goes to producer households, which are charged higher rates on average than consumer households. Given the greater fragmentation of Italy's productive fabric, this financing accounts for a higher share of household lending than the euro-area average. According to data from the Central Credit Register, the differential between rates charged to the two segments is about 1.3 percentage points.

[1] Central Credit Register data show that the use of current account lending in Italy is inversely correlated with firm size (proxied by the amount of credit granted).

[2] Comparable data are only available for the mid-1990s. They show that the share of secured lending in Italy (66 per cent) was higher than in the other main euro-area countries. (see Borio, C.E.V., Credit Characteristics and the Monetary Policy Transmission Mechanism in Fourteen Industrial Countries, in Alders, K. et al. (ed.), Monetary Policy in a Converging Europe*, Kluwer Academic Publishers, Amsterdam, 1996).*

Table 33

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

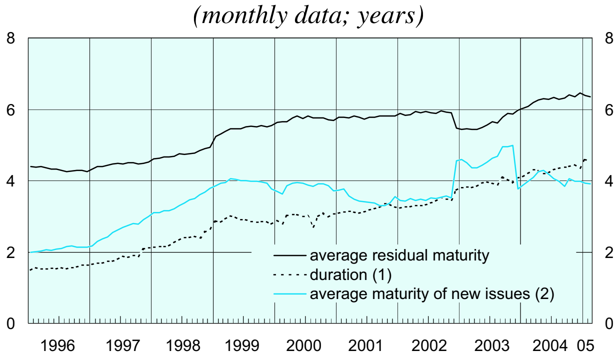
	Gross issues 2003	Gross issues 2004	Net issues (2) 2003	Net issues (2) 2004
BOTs	214,093	221,300	5,905	-895
CTZs	31,185	27,128	-7,907	-8,198
CCTs	38,313	34,527	-16,315	325
BTPs	144,882	134,803	31,711	33,556
Other	..	..	-1,180	-50
Total	**428,473**	**417,758**	**12,214**	**24,739**
Republic of Italy issues	21,998	13,980	5,582	2,468
Total government securities	**450,471**	**431,738**	**17,796**	**27,206**

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

French and Spanish government securities. The decline was concentrated in the second half of the year, in concomitance with the improvement in Italy's state sector borrowing requirement.

Figure 41

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 twelve months ending in the month indicated. The higher level of the series between December 2002 and November 2003 is due to the government bond conversion carried out at the end of 2002 between the Ministry for the Economy and Finance and the Bank of Italy.

Bank and corporate bonds

Issuance. – Net issues of bank and corporate bonds in the euro area were again substantial in 2004, rising to €370 billion (Table 35). Sectoral developments differed widely: while net issues by banks rose by 44 per cent, those by non-financial corporations fell, owing to the protracted weakness of investment and the abundance of internally generated resources. According to data on gross issues on the Euromarket (Table 36), these trends persisted in the early part of 2005.

In Italy, net bond issues amounted to €76 billion in 2004, compared with €57 billion in 2003. There was a substantial increase in net issues both by banks (€43 billion, against €32 billion in 2003) and, in contrast with general developments in the euro area, by non-financial corporations (€10 billion, against net redemptions of €1 billion in 2003). The figure for non-financial corporations reflects some major

Table 34

Outstanding amounts and net purchases of securities issued by residents of Italy, by holding sector (1)

(millions of euros)

	Public-sector securities						Private-sector bonds	Total public-sector securities and private-sector bonds	Listed Italian shares
	BOTs	CTZs	CCTs	BTPs	Other (2)	Total			
					Net purchases in January-December 2004				
Central bank	..	..	1,609	3,558	..	5,167	-4	5,163	36
Banks (3)	-1,691	-1,473	-931	-6,965	2,777	-8,282	9,425	1,142	236
Investment funds (4)	5,524	936	-873	-9,446	806	-3,054	-1,066	-4,120	-133
Other investors (5)	-4,727	-7,661	520	46,409	3,036	37,576	67,331	104,908	3,059
of which: non-residents (6)	*-6,614*	*4,764*	*10,562*	*10,401*	*3,956*	*23,069*	....	....	*13,189*
Total	**-895**	**-8,198**	**325**	**33,556**	**6,618**	**31,407**	**75,686**	**107,093**	**3,197**
					Outstanding amounts at end-December 2004				
Central bank	..	..	11,990	40,927	1,020	53,937	161	54,099	6,418
Banks (3)	17,402	3,244	40,510	14,961	8,789	84,907	67,869	152,776	22,117
Investment funds (4)	34,820	10,027	36,642	50,854	2,892	135,235	10,082	145,317	18,353
Other investors (5)	66,528	32,332	107,101	627,970	98,072	932,003	545,710	1,477,713	533,993
of which: non-residents (6)	*50,950*	*25,219*	*45,056*	*386,454*	*89,653*	*597,332*	....	....	*77,841*
Total	**118,750**	**45,603**	**196,243**	**734,713**	**110,773**	**1,206,082**	**623,822**	**1,829,904**	**580,881**
Percentage share of the total outstanding amount of public-sector securities	**9.8**	**3.8**	**16.3**	**60.9**	**9.2**	**100.0**			

(1) Outstanding amounts of public-sector securities and private-sector bonds are at face value, those of shares at market value; net purchases are at market value. Rounding may cause discrepancies in totals. – (2) Republic of Italy issues and other public-sector securities. – (3) The figure for listed Italian shares held by banks refers to the period January-September 2004. – (4) Figures for Italian harmonized investment funds and SICAVs. – (5) Households, enterprises, non-residents, central and local government, social security institutions, Cassa Depositi e Prestiti, and Italian investment firms and insurance companies. – (6) Provisional figures as of October 2004; excludes the securities of local governments, autonomous government agencies and Ente F.S..

Table 35

Net bond issues by Italian and euro-area banks and firms (1)

(millions of euros)

	2002	2003	2004
		Italy	
Banks	33,239	32,036	43,044
Other financial corporations	25,232	25,838	22,590
Non-financial corporations	6,628	-889	10,101
Total	**65,099**	**56,985**	**75,735**
		Euro area	
Banks	115,095	185,310	267,418
Other financial corporations	111,316	123,522	86,076
Non-financial corporations	29,679	49,770	16,833
Total	**256,090**	**358,602**	**370,327**

Sources: Bank of Italy and ECB.

(1) Bonds with a maturity at issue of more than one year issued by companies resident in the area and sector indicated. The nationality and sector refer to the issuer, not to its parent company. Net issues do not include issue discounts or premiums and are therefore equal to the difference between the face value of the securities issued and that of the securities redeemed.

transactions carried out by large corporations in the service sector (telecommunications, motorways and public utilities).

Yields. – Reflecting global trends, in 2004 yield spreads between euro-denominated corporate bonds and government securities narrowed further, reaching very low levels in the summer (Figure 42). This development regarded all the investment-grade sectors except the automobile industry, where several companies are in difficulty. In the last few months there was a further generalized contraction in spreads, particularly for financial companies and in the high-risk segment.

The decline in bond yield spreads was accompanied by a further reduction in the default rate and a progressive upgrading of non-financial

Table 36

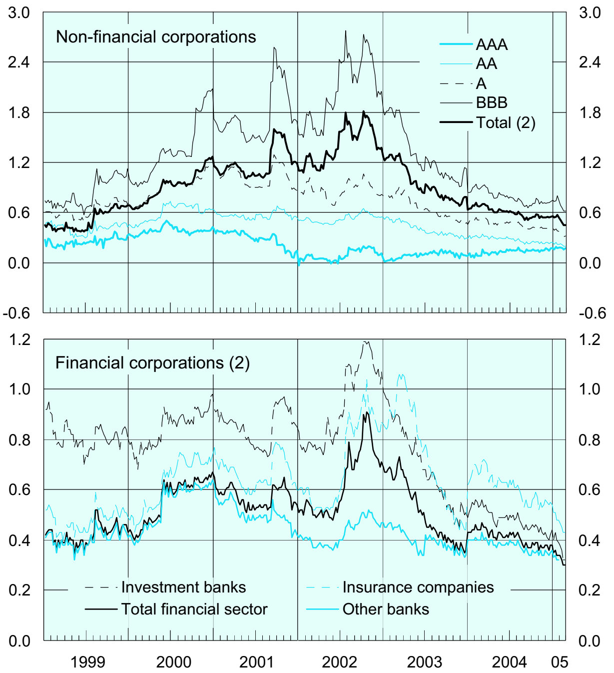
Gross international bond issues by private-sector companies (1)
(number of issues; amounts in millions of euros)

	1999	2000	2001	2002	2003	2004	2004				2004 Jan.-Feb.	2004 Jan.-Feb.
							Q1	Q2	Q3	Q4		
Italy												
Number of issues	118	203	276	238	197	259	55	84	52	68	29	49
Value of issues	44,171	50,906	75,911	53,705	54,894	77,075	15,529	29,265	15,589	16,692	9,633	13,756
of which: by non-financial corporations	*26,559*	*14,554*	*26,161*	*14,838*	*16,109*	*16,024*	*3,445*	*9,781*	*647*	*2,150*	*3,335*	*113*
France												
Number of issues	182	248	238	243	320	424	134	120	70	100	78	73
Value of issues	50,060	64,116	89,581	68,826	82,071	69,143	19,869	22,231	10,544	16,499	14,410	13,242
of which: by non-financial corporations	*31,930*	*42,606*	*69,072*	*36,401*	*48,192*	*29,606*	*8,911*	*9,253*	*6,479*	*4,964*	*6,896*	*4,703*
Germany												
Number of issues	652	719	526	496	583	676	211	166	162	137	142	95
Value of issues	118,597	146,394	137,211	113,888	123,332	112,316	35,439	22,158	31,932	22,787	26,837	27,719
of which: by non-financial corporations	*19,553*	*44,284*	*56,577*	*54,303*	*49,076*	*30,858*	*6,939*	*7,775*	*11,051*	*5,093*	*5,312*	*4,822*
Euro area												
Number of issues	1,520	1,886	1,843	1,761	2,148	2,554	741	666	538	609	450	455
Value of issues	333,881	425,976	473,608	374,452	485,642	497,933	139,936	127,710	109,990	120,297	90,049	98,567
of which: by non-financial corporations	*102,738*	*142,670*	*184,098*	*121,923*	*141,519*	*87,198*	*20,320*	*30,067*	*22,111*	*14,701*	*16,518*	*11,150*

Source: Based on Dealogic data.
(1) Medium and long-term bonds issued on the Euromarket by private-sector borrowers belonging to a corporate group resident in the country or area indicated, at face value; includes private placements and issues placed simultaneously on the Euromarket and the US domestic market. Non-financial corporations are classified according to the sector to which the parent company belongs.

Figure 42

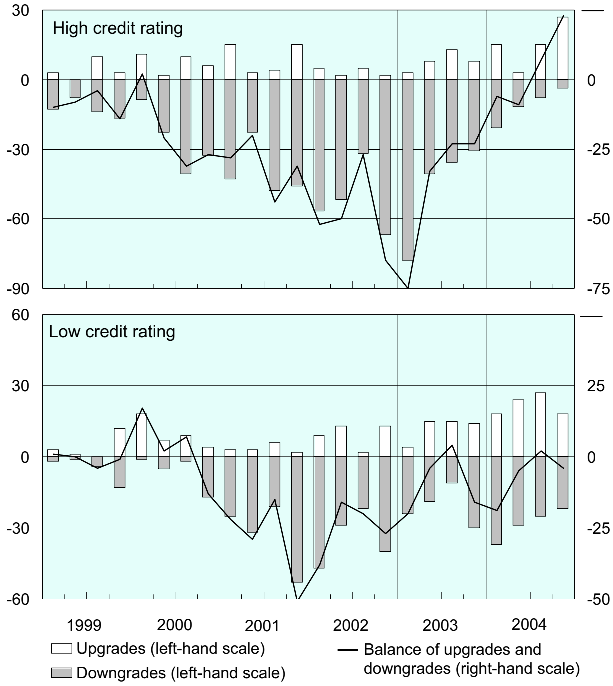
Yield spreads between euro-denominated corporate bonds and government securities (1)
(end-of-week data; percentage points)



Source: Merrill Lynch.
(1) Yields on fixed-rate euro-denominated Eurobonds with a residual term to maturity of not less than one year issued by non-financial corporations resident in countries whose long-term foreign currency debt is rated at least Baa3 or BBB-. Yield spreads are calculated with respect to French and German government securities. – (2) Only includes bonds rated at least Baa3 or BBB-.

Figure 43

Revisions of credit ratings of euro-area non-financial corporations (1)
(quarterly data; number of revisions)



Source: Bloomberg, based on Moody's data.
(1) Revisions for all classes of rating of long-term debt by Moody's. Includes credit-watch announcements. Downgrades include cases in which the agency withdrew the rating. Companies with high (low) credit ratings are those rated before the revision at least (lower than) Baa3.

corporations by the rating agencies (Figure 43). The widespread fall in yields may also have been partially the consequence of the very expansive monetary conditions prevailing in the main world regions, which fostered a general increase in the demand for financial instruments, particularly those offering higher nominal rates.

On both the primary and the secondary market, the yield spreads on Italian corporate bonds remained in line with those on other euro-area bonds of comparable duration and rating.

The stock markets

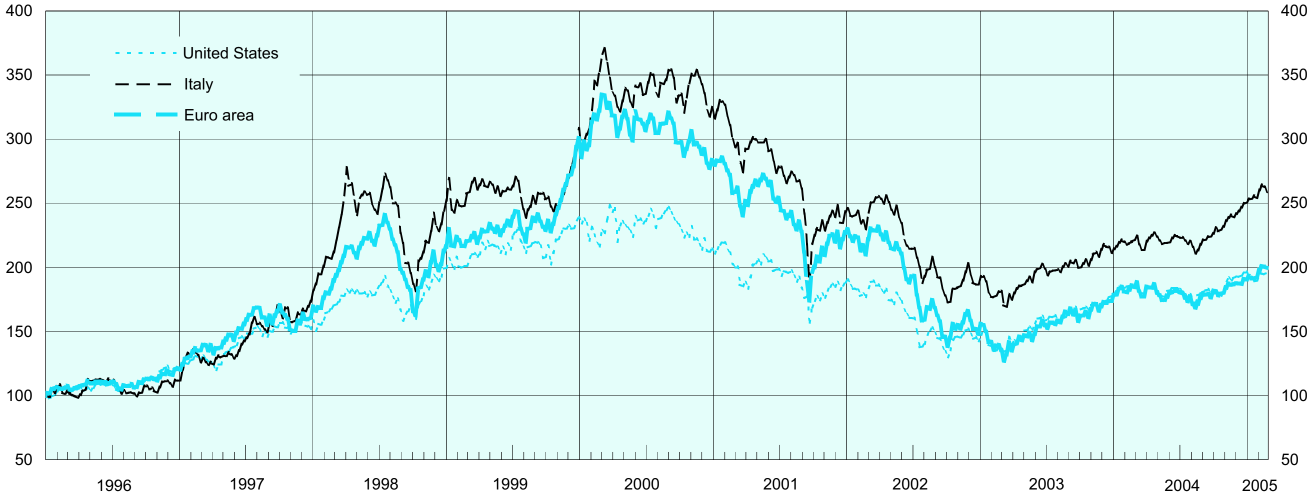
Price developments. – The rise in stock indices that began last summer continued in the final part of 2004 and the opening months of 2005 (Figure 44). Between the middle of August and early March, the Dow Jones Euro Stoxx index, which tracks the performance of the largest euro-area companies, gained 22 per cent; over the same period, the Standard and Poor's 500 index of US stocks rose by 15 per cent.

The upturn in euro-area equities found support in the further decline in real long-term interest rates in euros; presumably, it also reflects a reduction in risk aversion, as is shown by the indicators based on options prices and the low volatility implied by stock indices (see the box "The low volatility of interest rates and share prices" in Economic Bulletin, No. 39, November 2004). By contrast, the expected earnings performance of listed euro-area companies appears to have had a limited impact; according to

Figure 44

Share prices (1)

(end-of-week data; 31 December 1995=100)



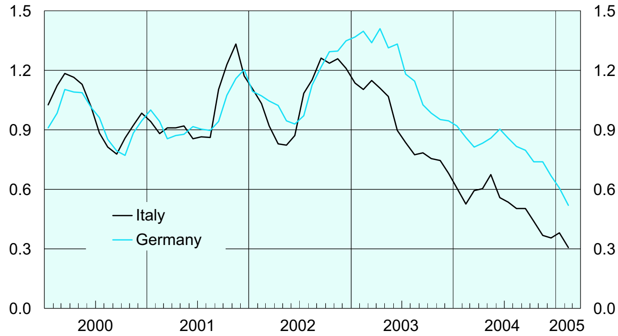
Source: Bloomberg.
(1) MIB for Italy, Dow Jones Euro Stoxx for the euro area, Standard & Poor's 500 for the United States.

IBES, expected earnings for 2005 have not changed significantly, while earnings forecasts over a longer time horizon have been revised down further. At the end of February, the earnings-price ratio of the main euro-area markets ranged between 6 and 8 per cent (Figure 46).

Figure 45

Indicators of risk aversion (1)

(monthly data; moving average for the three months ending in the reference month)



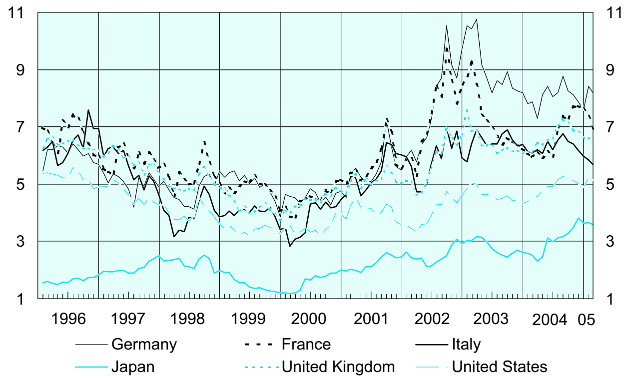
Source: Based on Bloomberg.
(1) The indicator is obtained by comparing the distribution of the returns of the share indices derived from options prices with the corresponding historical distribution. A decrease in the indicator signals a greater propensity to take on risks associated with investment in shares.

Since mid-August, the largest price gains have been recorded in the telecommunications, banking, media and electricity sectors. Pharmaceutical and automobile shares have posted smaller gains, or losses.

Figure 46

Current earnings/price ratios on the main stock exchanges

(monthly data; percentages and percentage points)



Sources: Thomson Financial, Bank of Italy and Consensus Economics.

In Italy, share prices rose by 24 per cent between August 2004 and early March, in line with the increase in Spain (27 per cent) and higher than that in Germany (21 per cent) and France (18 per cent). In Italy, particularly large gains were recorded for media and telephone shares (of the order of 30 per cent). The latter benefited from a corporate restructuring transaction by the sector's largest company. Shares of Italian insurance and electricity companies also outperformed the respective euro-area sectoral indices.

As of the end of January, for the Nuovo Mercato the Italian stock exchange only calculates the new TechSTAR index, which includes shares of companies that satisfy specific income and capital requirements; as of the same date, the baskets of the MIB and MIBTEL indices have been enlarged to include shares of companies traded on the Nuovo Mercato.

Listed companies. – The moderate recovery in new listings in the euro area continued in the last quarter of 2004. A total of 72 companies went public in 2004, compared with an average of 181 per year between 1995 and 2003.

In Italy, there were 7 new listings, compared with an average of 17 between 1995 and 2003. At the end of 2004, 269 resident companies were listed on the Italian stock exchange, with a total market value equal to 43 per cent of GDP. The corresponding ratios were 40 per cent in Germany, 72 per cent in the four countries of the Euronext circuit (Belgium, France, the Netherlands and Portugal), 127 per cent in the United Kingdom and 139 per cent in the United States.

Investment funds

In the euro area, on the basis of data for eight countries, investment funds' net subscriptions were down sharply in the third quarter of 2004 compared with the second (from €24.4 billion to €12.5 billion). The decline was especially marked for equity funds.

In Italy, investment funds recorded net redemptions of €16.7 billion in 2004 as a whole (Table 37). The net outflow of €7.1 billion in the second half of the year involved all the categories except bond funds.

Table 37

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

	2003	2004
	Net assets *(end-of-period stocks)*	
Italian funds	378,781	358,292
Foreign funds (2)	118,609	138,632
Total ...	**497,390**	**496,924**
	Net fund-raising *(flows)*	
Italian funds	6,628	-30,632
Foreign funds	15,581	13,946
Total ...	**22,209**	**-16,686**
	Gross fund-raising *(flows)*	
Italian funds	212,644	156,552
Foreign funds	91,378	161,670
Total ...	**304,022**	**318,222**

Sources: Bank of Italy and Assogestioni.
(1) The figures refer to harmonized investment funds. The data for 2004 are provisional. – (2) Value of units subscribed by Italian investors.

The average yield of Italian investment funds remained positive but modest in the second half of 2004 (1.3 per cent). Liquidity funds yielded 0.7 per cent, while the other categories achieved returns of between 1.5 and 1.8 per cent. The performance of funds specialized in investments denominated in foreign currency, the bulk of which are equity funds, was adversely affected by the marked appreciation of the euro.

At the end of 2004 the net assets of harmonized funds managed by Italian intermediaries amounted to €497 billion, unchanged from a year earlier.

SHORT-TERM ECONOMIC PROSPECTS

In 2004 world output increased by almost 5 per cent and world trade by nearly 10 per cent, compared with 3.9 and 4.8 per cent respectively in 2003 (Table 38). The sharp rise in the price of oil had only a limited effect on economic activity. Growth was buoyant in the United States and in the main emerging economies of Asia and Latin America, but weak and uncertain in the euro area; in Japan, activity picked up sharply in the first quarter but then declined slightly.

The expansionary impulse of economic policies was attenuated in the course of 2004. Economic conditions in the early months of 2005 indicate that world GDP will nonetheless continue to grow rapidly. For the year as a whole the pace of growth is expected again to differ according to region. Economic activity will continue at very high rates in the emerging Asian countries; growth will be robust in the United States and Latin America but modest in Japan and the euro area. These differences appear to be aggravating the external current account imbalances of the main industrial areas. Inflation is expected to remain moderate everywhere.

In Italy in 2004 GDP growth was slower than in the other main European economies; in the fourth quarter it contracted by about 1 per cent on an annual basis. In 2005 the expansion in economic activity in Italy is again expected to lag behind that of the euro area, owing to the loss of competitiveness and the weakness of domestic demand.

The world economy

In the United States, despite the waning of the expansionary impetus of monetary and fiscal policy, GDP grew by 4.4 per cent in 2004. Labour market conditions improved significantly. After increasing in the early months of the year, core inflation stayed modest. According to the financial indicators inflationary expectations also remained low. The markets expect that the tendency to restore neutral monetary conditions will persist in the coming months. According to the latest indicators economic growth has proceeded strongly in early 2005: in the first two months employment continued to rise sharply; in January there was again an increase in orders for investment goods. Professional forecasters estimate the rate of GDP growth in the first quarter at around 4 per cent.

In Japan output expanded by 2.6 per cent for 2004 as a whole, the pace of growth falling progressively from the second quarter on. That period of weakness may now have been overcome: in January industrial production and exports increased substantially; employment picked up sharply after several months of uncertain results.

In the emerging economies output expanded by around 7 per cent in 2004, compared with 6.3 per cent in 2003. Growth was particularly strong in China (9.5 per cent), and in the other Asian economies. In Latin America GDP, after a halting recovery in 2003, increased by 5.5 per cent. Central and Eastern Europe also recorded strong growth, of around 5 per cent, sustained chiefly by domestic demand. In the main emerging economies output has continued to expand rapidly in recent months.

According to the forecasting scenarios developed by the OECD and private analysts, in 2005 most countries and areas will record robust growth and low inflation. World trade is expected to increase by 9 per cent. The world economic expansion will continue to be driven by the United States and China. The deficit in the US balance of payments on current account will widen further, reaching 6 per cent of GDP.

Table 38

Forecast performance of selected international macroeconomic variables

(percentage changes on previous year, except as indicated)

	2003	2004	2005 (1) OECD Dec. 2004	Consensus Forecasts 14.2.2005	JP Morgan 11.3.2005	Goldman Sachs 11.3.2005	Credit Suisse First Boston 11.3.2005
GDP (2)							
United States	3.0	4.4	3.3	3.5	3.9	3.8	3.7
Japan	1.4	2.6	1.4	1.1	1.1	1.5	1.1
Euro area	0.5	2.0	1.9	1.7	1.6	1.4	1.5
Emerging economies	6.3 (3)	7.1 (3)	-	-	5.4 (4)	6.2 (4)	-
Asia	*8.0* (3)	*8.1* (3)	-	-	*6.4* (4)	*7.1* (4)	*7.2* (4)
of which: China	*9.3*	*9.5*	*8.0*	*8.4*	*8.5*	*8.1*	-
Latin America	*2.1* (3)	*5.5* (3)	-	*4.3*	*4.3*	*4.4*	*4.3*
of which: Argentina	*8.8*	*8.8*	-	*6.3*	*6.0*	*7.3*	-
Brazil	*0.5*	*5.2*	*3.6*	*3.7*	*3.4*	*4.0*	-
Mexico	*1.4*	*4.4*	*3.9*	*3.8*	*4.0*	*3.8*	-
Central and Eastern Europe	*4.1* (3) (5)	*5.3* (3) (5)	-	-	-	*4.3*	-
Consumer prices							
United States	2.3	2.7	2.4	2.4	2.1 (6)	2.6	2.6
Japan	-0.3	0.0	0.1	0.0	-0.2 (6)	-0.3	-0.1
Euro area	2.1	2.1	2.0	1.8	1.5 (6)	1.6	1.8
Emerging economies	6.0 (3)	5.8 (3)	-	-	4.4 (6) (4)	5.1 (4)	-
Asia	*2.6* (3)	*4.2* (3)	-	-	*2.9* (6) (4)	*3.0* (4)	*4.8* (4)
of which: China	*1.3*	*3.9*	*4.0*	*3.0*	*2.1 (6)*	*2.6*	-
Latin America	*10.6* (3)	*6.5* (3)	-	*6.2* (7)	*6.1* (6)	*6.1*	*5.6*
of which: Argentina	*13.4*	*4.4*	-	*7.8* (7)	*8.5* (6)	*6.8*	-
Brazil	*14.7*	*6.6*	*6.0*	*5.8* (7)	*5.8* (6)	-	-
Mexico	*4.5*	*4.7*	*4.5*	*3.8* (7)	*3.6* (6)	*3.9*	-
Central and Eastern Europe	*3.7* (3) (5)	*5.2* (3) (5)	-	-	-	*4.1*	-
World trade (2)(8)	**4.8** (3)	**9.8** (3)	**9.0**	-	-	-	-
Oil prices							
Average of the three leading grades ($ per barrel)	28.9	37.8	46.2 (9)	41.9 (10)	-	48.6 (11)	43.0 (11)

Sources: OECD, *Economic Outlook*, No. 76, December 2004 and *Economic Survey of Japan*, December 2004; *Consensus Forecasts*, 14.2.2005, *Asia Pacific Consensus Forecasts*, 14.2.2005; *Latin American Consensus Forecasts*, 21.2.2005; Credit Suisse First Boston, *Japan Economics Weekly*, 11.3.2005 and *The Global Economy This Week*, 11.3.2005; Goldman Sachs, *Asia-Pacific Economic Analyst*, 8.3.2005, *Euroland Weekly Analyst*, 11.3.2005, *Global Economics Weekly*, 9.3.2005, *Japan Economic Analyst*, 11.3.2005, *Latin America Economic Analyst*, 11.3.2005 and *US Economics Analyst*, 11.3.2005; JP Morgan, *Global Data Watch*, 11.3.2005.

(1) Forecasts. – (2) At constant prices. – (3) IMF estimates. – (4) Includes the recently industrialized economies. – (5) Includes Malta and Cyprus. – (6) Change 2005 Q4 on 2004 Q4. – (7) Change for the twelve months ending in December. – (8) Goods and services. – (9) Brent. – (10) WTI; end-May 2004 price. – (11) WTI.

The US still has no difficulty financing the deficit. However, its magnitude is a source of growing concern for the future world economic situation in view of its potential impact on exchange rates, on US interest rates, and on the value of financial wealth in the various countries.

Growth forecasts for the world economy may be revised downwards as a result of the rise in oil prices; at their current level they are higher than assumed in the forecasting scenario.

US monetary policy is becoming less accommodating; budget policy is increasingly aimed at deficit reduction. The expansion in economic activity will be driven more and more by strong corporate profitability and financial conditions and by gains in employment and in real wages. Output growth is expected to be around 3.5 per cent in 2005, which is in line with the economy's potential. Despite the slowdown in labour productivity growth and the progressive reduction in spare capacity, consumer price inflation is expected to remain low, as in 2004.

In Japan GDP growth is estimated between 1.1 and 1.5 per cent in 2005. There is uncertainty over the course of prices: some forecasters believe that the deflationary pressures will persist throughout the year.

In the emerging economies of Asia activity is set to expand again by close to 7 per cent. In China the pace of growth is expected to slow by comparison with 2004 but remain robust at around 8 per cent. In Latin America the growth rate should come to almost 4 per cent, only slightly less than last year.

The euro area

In 2004 economic activity in the euro area increased by 2 per cent, a growth rate more than 2 percentage points lower than that of the United States. In Germany and Italy growth remained slower than in the rest of the area.

Structural factors are holding back the European economy. Italy suffers above all from a decline in competitiveness connected with insufficient productivity growth.

The expansion in world trade has sustained the area's exports; they have nonetheless been affected by the loss of competitiveness caused by the appreciation of the euro. For the area as a whole, the foreign sector's contribution to growth was virtually nil, owing to the large increase in imports. In Germany instead, where household consumption and gross fixed investment contracted, the main contribution to growth came from exports.

In 2004 the harmonized index of consumer prices rose by 2.1 per cent. Core inflation, which excludes the most volatile components (energy products and unprocessed food), remained basically unchanged at close to 2 per cent.

General government net borrowing declined from 2.8 to 2.7 per cent of GDP for the area as a whole; according to the Stability Programmes submitted, there should have been a reduction of 0.4 percentage points. The euro-area ratio of debt to GDP is estimated to have risen by 0.5 percentage points to 71.3 per cent.

The budget deficit exceeded 3 per cent of GDP in Germany, France and Greece; it was brought below this threshold in the Netherlands. In Germany and France net borrowing overshot the limit established by the European rules for the third successive year and in both countries amounted to 3.7 per cent of GDP.

Monetary and financial conditions in the area remain expansionary. The minimum bid rate for Eurosystem main refinancing operations is 2 per cent; real short-term interest rates are close to zero. Conditions on the bond market remain favourable, for both public and private-sector borrowers; the improvement in firms' balance sheets has led to a downward revision of their risk premiums. M3 is growing rapidly, driven by the low returns on short-term assets and households' high liquidity preference.

The market expects nominal and real short-term interest rates to remain low throughout 2005, reflecting the expectations of modest inflation and the uncertainty about the rate of growth of the area's economy. A slight rise in interest rates is forecast in the last part of the year.

At the beginning of 2005 the main cyclical indicators revealed a situation still marked by uncertainty; signs of weakness prevail, especially in the qualitative surveys of firms and households. Consumer inflation has slowed down, to a twelve-month rate of 1.9 per cent in January, half a percentage point less than in December. According to Eurostat's preliminary estimates, in February price inflation in the area was 2 per cent.

According to the recently published ECB staff forecasts, the year-on-year rate of GDP growth in the area in 2005 will be between 1.2 and 2 per cent; according to Consensus Economics, it will be 1.7 per cent. The growth will be sustained by exports, which are expected to go on expanding at a rapid pace, albeit not as fast as world trade. Exports are also seen as triggering a recovery in investment, which is expected to benefit from the continuation of favourable financial conditions.

In view of the cyclical weakness of the economy and the modest dynamics of the domestic determinants, the ECB expects inflation to be between 1.6 and 2.2 per cent on average in 2005; according to Consensus Economics, it will be 1.8 per cent.

On the basis of the latest Stability Programme updates, euro-area net borrowing in 2005 will fall to 2.4 per cent of GDP, compared with the 2.8 per cent expected when the programmes were originally submitted; the ratio of debt to GDP is seen as declining to 70.7 per cent. For the area as a whole it is not expected that budgetary balance will be achieved within the time horizon of the programmes.

Germany and France plan to bring their deficits down to 2.9 per cent of GDP in 2005, with a further gradual improvement in the coming years.

The Italian economy

GDP grew in Italy by 1.2 per cent in 2004, which was more than in 2003 (0.3 per cent) but well below the euro-area average. The growth gap with respect to the other leading countries widened.

Italy's share of world exports fell further, reflecting a loss of price competitiveness that was more pronounced than for the other leading economies. The increase in exports was about half that of the rest of the euro area.

Per capita labour costs grew faster than the average for the other leading euro-area economies, although not as fast as in 2003. The rate of increase in unit labour costs remains higher than in Germany and France, owing to slower productivity growth, especially as regards total factor productivity. Since 1995 unit labour costs have risen by more than 20 per cent in Italy, compared with an average of 12 per cent for the other leading euro-area economies.

Gross fixed investment began to rise again, at rates that were practically the same for capital goods and construction. Private domestic consumption showed a modest increase, in line with that recorded in 2003.

The growth in employment slowed down during the year, partly because the effects of the adjustment in labour demand associated with the reforms in this field petered out.

In 2004 the harmonized index of consumer prices rose by 2.3 per cent, even when unprocessed food and energy products are excluded.

According to the note Istat submitted to the Commission on 1 March, general government net borrowing in 2004 amounted to 3 per cent of GDP.

On the same occasion Istat revised the 2001-03 figures for net borrowing. The new figures are: 3 per cent in 2001, 2.6 per cent in 2002 and 2.9 per cent in 2003. The upward revisions averaged 0.4 percentage points per year.

The primary surplus fell last year by 0.4 percentage points of GDP to 2 per cent; on a

The implementing provisions of the budget for 2005

The Finance Bill underwent substantial changes during its passage through Parliament. Tax reliefs were approved amounting to €4.3 billion, together with €1.8 billion of additional expenditure; these measures were financed by €3.9 billion of additional revenue and €2.2 billion of new expenditure savings.

The overall effect of the budget remained basically unchanged compared with that indicated in September 2004. The reduction in net borrowing produced by the measures contained in the Finance Law is officially expected to be of the order of €22.5 billion, as a result of: a net decrease of €8.7 billion in primary expenditure; proceeds of €7.1 billion from disposals of assets; a net increase in revenue of €5.2 billion and an increase of €1.5 billion in interest income following the restructuring of financial assets. A further adjustment of approximately €1.5 billion is expected to come from the revision of the tables attached to the Finance Law (see the box "The budget for 2005" in Economic Bulletin, No. 39, 2004).

Revenue

Increase in revenue. – *Compared with the original budget proposals, Parliament approved an additional increase in revenue of €3.9 billion. In particular, €2 billion is expected to come from the deferment from 2004 to 2005 of the second and third instalments due under the building offences regularization scheme; the new deadlines are 31 May and 30 September 2005.*

Additional revenue of €1.1 billion is expected to come from the increase in the fixed components of stamp duty and real-estate transfer taxes.

As regards sector studies, the provision calling for the automatic annual updating of the parameters on the basis of national accounts indicators was eliminated. This reduced the planned increase in revenue by €0.3 billion.

Other changes concerned the amnesty for irregularities committed by tax collection agents, the tax regime for Internet-based gaming, the new time limits set for determining the purchase values of shareholdings and land, and the rules governing lotto and enalotto.

Decrease in revenue. – *Compared with the Government's original proposals, additional reliefs were introduced for income tax and the regional tax on productive activities (Irap). In 2005 the income tax reliefs are expected to increase net borrowing by €4.3 billion; when they are fully operational in subsequent years, the increase is expected to be €5.9 billion (see the box "The second step of the reform of personal income tax" in the chapter on "The public finances in the euro area and Italy").*

The measures affecting Irap will reduce revenue as of 2006, when the decrease is expected to be €0.5 billion. The changes provide, on a permanent basis, for the deductibility of the costs associated with R&D staff and, within specific limits, of those associated with each new permanent employee who increases the total number of a firm's employees; the limits are doubled for firms in the South of Italy and for those in the disadvantaged areas of the Centre and North. In addition, the standard deduction for firms with a tax base of not more than €180,760 has been increased from €7,500 to €8,000.

downward trend since 1998, it returned to its 1992 level. Interest payments decreased further as a percentage of GDP, from 5.3 to 5 per cent. The ratio of tax and social security receipts to GDP fell by 1 percentage point, returning to the level of 2002 after the increase recorded in 2003 due to the receipts from regularization schemes. The ratio of primary current expenditure to GDP fell by 0.1 points.

The reduction in net borrowing attributable to one-off measures amounted to approximately 1.5 percentage points of GDP, compared with 2 points in 2003 and 1.5 in 2002.

Net of privatization receipts, the general government borrowing requirement was equal to 3.7 per cent of GDP, 0.4 points less than in 2003. The gap

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

REVENUE	
Increase in revenue	**10,970**
Measures concerning tax bases	4,810
Sector studies	*3,560*
Income of cooperative societies	*470*
Property rental income	*310*
Rating coefficients	*120*
Evasion of VAT	*190*
Evasion of the urban waste tax	*160*
Deferment instalments building offences amnesty (2)	2,000
Stamp duty and real-estate transfer taxes	1,120
Video games, lotto and enalotto	560
Tobacco products	500
Release of reserves subject to suspended tax	270
Indirect effects of revenue measures	360
Other	1,350
Decrease in revenue	**-5,760**
Reform of income tax	-4,260
Extension of tax relief for agriculture	-740
Extension of excise duty reliefs	-240
Extension of VAT deductibility for company cars	-180
Extension of reliefs for road hauliers	-130
Other	-210
Net change in revenue	**5,210**
EXPENDITURE	
Decrease in expenditure	**-11,380**
Health service	-4,310
Central government capital expenditure	-2,060
Central government current expenditure	-1,900
Local government current expenditure	-1,470
Transfers to firms and special statute regions	-460
Public employment	-440
Schools	-50
Social security	-40
Other current expenditure	-430
Other capital expenditure	-220
Increase in expenditure	**2,730**
Public employment	540
Domestic stability pact	450
Education	110
Other current expenditure	1,200
Other capital expenditure	430
Net change in expenditure	**-8,650**
DISPOSALS OF ASSETS	**7,100**
INCREASE IN INTEREST INCOME	**1,500**
REDUCTION IN NET BORROWING	**22,460**

(1) Based on official estimates. The table does not include the effects of some amendments made to the tables attached to the Finance Bill. – (2) Decree Law No. 282 of 29 November 2004.

Expenditure

Decrease in expenditure. *– The additional expenditure cuts introduced by Parliament amounted to €2.2 billion, of which nearly half is expected to come from reductions in central government intermediate consumption (€0.7 billion) and local government expenditure (€0.2 billion).*

As regards public employment, an additional €0.4 billion is to be saved as a result of the freeze on central government hiring and the limits imposed on local government expenditure.

Parliament further reduced transfers to public enterprises, by €0.3 billion, and those to the special statute regions, by €0.2 billion.

It also reduced the resources for underexploited areas and incentives for firms, by a total of €0.2 billion.

Increase in expenditure. *– Compared with the Government's original proposals, the budget approved by Parliament provides for additional expenditure amounting to €1.8 billion, of which €0.8 billion on capital account. The latter increase was primarily the consequence of the revision of the spending limits for investment by local authorities (€0.5 billion) and an additional appropriation for the flood-control and reforestation programmes of the Calabria region (€0.2 billion).*

The budget also provides for an increase in the resources for the renewal of public-sector labour contracts for the two years 2004-05 (€0.4 billion).

with respect to net borrowing narrowed from 1.2 to 0.6 points in connection with the one-off measures, which had a stronger impact on the borrowing requirement.

The ratio of public debt to GDP fell by 0.5 percentage points to 105.8 per cent; disposals of shareholdings and real estate amounted to 0.8 percentage points of GDP.

Credit supply conditions in Italy remain favourable. The Italian banks that participate in the Eurosystem survey on bank lending do not expect to tighten their loan approval standards in the near future. Credit demand from non-financial corporations remains weak; this is especially true for manufacturing firms, reflecting the stagnation of industrial production.

The quality of bank credit has not been affected by the weakness of the economy.

Corporate debt in relation to GDP remains below the euro-area average. The share of industrial companies rose among firms with high levels of debt and interest expense, partly as a consequence of the lower profitability of industry in the past few years. Despite rapid growth, the total volume of households' liabilities is still low in relation to GDP; a high percentage of households' debt is at variable rates.

After falling sharply in the second half of 2004, industrial production is estimated to have stagnated in the early part of 2005. Harmonized inflation eased slightly in the first two months of the year, falling to 2 per cent, compared with 2.2 per cent in the fourth quarter of 2004.

The leading private analysts recently revised down their forecasts for the Italian economy's growth this year. They now expect the increase in GDP to range between 1.1 and 1.3 per cent, buttressed by foreign demand and stronger domestic demand; it would again be smaller than the increase in euro-area GDP. These forecasts assume that the uncertainty present since the second half of 2004 will be rapidly overcome.

According to Consensus Economics, inflation will average 2 per cent this year.

Budgetary policy for 2005 aims at limiting net borrowing to 2.7 per cent of GDP, compared with an estimate of 4.4 per cent on a current programmes basis in last July's Economic and Financial Planning Document. The ratio of debt to GDP is expected to fall by 1.9 percentage points.

The composition of the budget underwent substantial amendment during its passage through Parliament with the addition of €4.3 billion of tax reliefs and €1.8 billion of expenditure, offset by further increases in revenue amounting to €3.9 billion and expenditure savings of €2.2 billion. The changes did not basically modify the impact of the budget, which is officially estimated at approximately €24 billion, or 1.7 per cent of GDP (see box).

The impact of measures of a temporary nature to curb net borrowing is estimated to be of the order of 1 percentage point of GDP.

Achievement of the objective for net borrowing is subject to some risk factors. The rate of economic growth assumed in the estimates is higher than the current projections of the leading forecasting institutions. The exclusion of the National Road Agency (ANAS) from the perimeter of general government, which reduces net borrowing by an estimated 0.2 percentage points of GDP, requires changes in the procedures for financing the agency. The changes made to the budget during its passage through Parliament may have reduced the potential receipts from the provisions updating sector studies. The impact on the budget balance of the recent revisions made by Istat will need to be evaluated. The action to curb expenditure and the sales of real estate must not encounter impediments to their implementation.

The medium-term picture outlined in the update of the Stability Programme shows a reduction in the deficit of 2 percentage points of GDP between 2004 and 2008, to 0.9 per cent. A sharper decline in the ratio of public debt to GDP is forecast, largely as a consequence of a programme of asset sales expected to generate proceeds estimated at 2 percentage points of GDP per year in the three years 2005-07.

In the light of the results achieved by the Italian economy in recent years, the need for a policy aimed at raising its growth potential is increasingly evident.

The Government has approved a decree and a bill aimed at boosting growth. Of particular interest are the proposals for the reform of bankruptcy law, the introduction of tax credits for business consolidations, and the allocation of funds to strategic research projects. The system of incentives for firms is overhauled. In addition, resources are allocated for infrastructure and the development of pension funds, and provision is made for the simplification of some of the rules regulating economic activity.

These measures can help to launch a recovery of the Italian economy's competitiveness and productivity; it is necessary that they be set in a framework of structural reforms designed to strengthen business activity and modernize the productive system.

For policies intended to support the economy to be perceived as lasting and to have a positive influence on the expectations of economic agents, it is essential to proceed resolutely with the structural adjustment of the public finances.

Based on information available at 14 March 2005. The preceding chapters are updated to 11 March, the Appendix to 9 March.

Speeches

The outlook for the global economy and Italy

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

Modena, 12 February 2005

1. The international economy

The world economy grew by 5 per cent in 2004, the largest increase in more than twenty years; domestic demand in the United States and a number of emerging Asian economies contributed to the expansion. World trade increased by 9 per cent. Growth remained weak in the euro area and came to a halt during the year in Japan. The rise in oil prices slowed economic activity marginally.

The US economy grew at an average annual rate of 3.1 per cent in the period 2002-04. The increase in public spending, the tax relief measures and the large reduction in interest rates sustained household consumption and encouraged a revival of investment.

Output grew in 2004 by 4.4 per cent. The improvement in labour productivity, up by 4.1 per cent on average for the year, curbed inflation and buoyed corporate profits.

Payroll employment rose by 2,200,000 during the year, making good all the decline that had occurred between the beginning of 2001 and the middle of 2003. The growth in employment sustained consumption and compensated for the drying up of the effects of the tax cuts on disposable income; the liquidity provided by mortgage refinancing also decreased.

The business sector's expectations regarding the growth of the economy are revealed by the performance of investment.

At the beginning of 2003 investment in high-tech capital goods had already reversed the downward trend of the previous two years, rising at an annualized rate of 17 per cent. In 2004, with profit margins widening and financial conditions favourable, purchases of machinery also picked up rapidly. Spending on machinery and software increased by 13 per cent, compared with 6 per cent in 2003.

Household expenditure rose by 4.1 per cent on an annual basis in the second half of the year; the saving rate declined further.

The increase in the consumer price deflator, excluding energy and food products, rose from 1.1 per cent at the end of 2003 to 1.5 per cent at the end of 2004.

At each of the six meetings of the Federal Open Market Committee held between 30 June 2004 and 2 February of this year, the federal funds target rate was raised by 25 basis points, bringing it to 2.5 per cent. As the Federal Reserve has emphasized in its press releases, monetary conditions continue to be accommodative. The markets expect further increases in interest rates in the coming months, for a total of 50 basis points.

The federal budget deficit rose to 3.5 per cent of GDP in 2003. In the fiscal year that ended last September the ratio was virtually unchanged. If no new measures are adopted, and including the additional funds being finalized to cover defence spending, the deficit is expected to decline to 3.3 per cent of GDP in 2005.

The US President has announced that the objective of budget policy will be to halve the ratio of the deficit to GDP by 2009, mainly by curbing expenditure. He stated that the priorities for his new term of office included reforming the public pay-as-you-go pension system, which currently provides benefits to around 45 million people for an annual outlay of $500 billion, or less than 5 per cent of GDP. The aim of the proposed reform is to prevent the emergence of growing financial deficits from 2018 on; it hinges on the introduction of individual accounts which would progressively be credited with part of the contributions presently paid into the public system.

Looking ahead, the imbalance in the US external accounts will be a drag on the American economy, and consequently on the world economy.

The current account deficit continued to increase in 2004. The improvement in price competitiveness brought by the weakening of the dollar has had very little effect. In 2004 the deficit amounted to 5.5 per cent of GDP; in 2005 it will exceed 6 per cent.

The net international investment position of the United States, which was practically in balance at the beginning of the 1990s, subsequently deteriorated, with net foreign debt rising to a quarter of GDP in 2004. The worsening of the external imbalance is basically linked to the growth gaps between the US economy on the one hand and the European and Japanese economies on the other.

The Federal Reserve has announced that there have been no major difficulties in financing the current account deficit, but it has also stressed that the growth in net foreign liabilities cannot continue indefinitely at the present rate. In order to maintain a rapid pace of capital formation, the Federal Reserve has called for a reduction in the budget deficit and measures to increase household saving.

In Japan, economic activity slackened in the course of 2004, after expanding by around 7 per cent on an annual basis in the first quarter. Exports, which had been growing rapidly since 2003, were flat in the second half of the year; private investment slumped. It is estimated that output picked up slightly in the fourth quarter. Growth over the year is expected to have been close to 3 per cent.

In the euro area, the recovery is struggling to gather momentum. It is hampered by the rapid ageing of the population. Structural factors hinder an improvement in productivity. The scope for macroeconomic policies remains limited: in the case of monetary policy this is due to the low flexibility of the economy; in that of budget policy to the size of the deficits.

Buoyed by international trade, euro-area output grew at an annualized rate of 2.2 per cent in the first half of 2004. The upturn in exports was accompanied by a gradual increase in purchases abroad, partly in response to the lagged effects of the euro's appreciation. Following a renewed slackening of consumer and investment demand, output slowed in the third quarter; over the year as a whole it is estimated to have risen by 2 per cent.

We have kept the rate on main refinancing operations in the euro area unchanged at 2 per cent in view of the expectations of a fall in inflation to below 2 per cent and the still uncertain recovery.

Short-term interest rates have been close to zero in real terms since the start of 2004. The market expects them to remain below 1 per cent until the middle of this year.

An important contribution to the growth of the world economy has come from the emerging economies of Asia. In 2004 the increase in GDP was around 7.5 per cent. In China it was 9.5 per cent; investment rose by 26 per cent in nominal terms; signs of overheating have emerged on the price front. Despite the substantial increase in imports, the trade surplus widened from $26 billion in 2003 to $32 billion last year. The authorities are still endeavouring to bring the rate of expansion in economic activity back to a sustainable path.

In India economic activity continues to expand at a rapid pace; in 2004 GDP grew by 6.4 per cent.

Latin America experienced growth of 5 per cent in 2004, compared with 1.8 per cent in 2003. The acceleration involved all the main countries; in Brazil, GDP grew by approximately 5 per cent.

In Argentina, the recovery, which got under way two years ago, was driven by the strong expansion of domestic demand and the good performance of exports; in the last three years there has been a large trade surplus. In the first three quarters of 2004 the growth in GDP amounted to 8.8 per cent year on year. The peso's exchange rate against the dollar, which at mid-2002 had weakened to nearly 4 to 1, subsequently staged a recovery and has stabilized at around 2.9 pesos to the dollar since 2003. Benefiting above all from the increase in revenue produced by the strengthening of economic activity, the primary surplus on the federal budget rose to 3.6 per cent of domestic output in the first nine months of 2004, from 2.8 per cent in the corresponding period of 2003. The problem of restructuring the debt remains open at international level.

2. The financial markets

As we have pointed out for some time now, conditions of abundant liquidity prevail in the international markets. The credit and monetary expansion has been very robust in recent years in the United States and Japan and has spread to the emerging economies of Asia whose currencies have been managed with reference to the dollar. Since the beginning of 2002 the broad measure of the money supply has grown by 56 per cent in China, by about 20 per cent in South Korea, and by between 12 and 16 per cent in the other Asian countries.

In Europe, the 12-month growth rate of the M3 money supply, after falling to 4.9 per cent in May 2004, rose to around 6 per cent in December as a consequence of the expansion in currency in circulation.

The plentiful supply of credit at global level has had a limited impact on consumer price inflation, thanks to greater competition and the spread of products originating from countries where labour costs are extremely low and social protection is scanty. In the United States, large productivity gains have helped to contain inflation.

Bond and share prices in the industrial and the emerging countries remained stable at the high levels of the start of 2004. By contrast, in most of the industrial countries house prices continued to rise.

Yields on ten-year government bonds have stabilized since October at around 4 per cent in the United States and approximately 1.4 per cent in Japan. In the euro area, given the low inflation rate and the uncertainty about the strength of the recovery, long-term yields fell to 3.6 per cent in January of this year.

The yield spread between the bonds of US companies with a high credit rating and ten-year Treasury paper was equal to 0.9 percentage points in January; the corresponding spread for the securities of riskier companies has stood at 2.8 points since last October. A factor helping to curb the cost of financing has been the strengthening of the profitability and balance sheets of the corporate sector as a whole, which is also reflected in the persistent reduction in defaults and the improvement in the balance between corporate rating upgrades and downgrades.

In the euro area, the growth in lending to the private sector was 7 per cent in December compared with the end of the previous year; the increase was nil in Germany, 7 per cent in Italy.

In Europe too, the spreads between non-financial-sector euro-denominated bonds and government securities are currently at very low levels. According to Moody's, at the end of 2004 defaults in the international market were equal to 0.2 per cent of the total amount of issues outstanding, the lowest rate since 1997. There was a further improvement in the rating agencies' assessments of the creditworthiness of issuers.

Thanks to the good performance of profits, in the United States and the euro area the ratio of share prices to earnings, declining since March 2002, has fallen further and is basically back in line with the long-term levels.

House prices have accelerated in many industrial countries since the end of the 1990s: between 1999 and 2003 they rose in the United States, France and Italy at average annual rates around 6 percentage points higher than the rise in consumer prices; in the United Kingdom and Spain, the increase in real terms was around 12 per cent.

In 2004 property prices again rose sharply with respect to the previous year; in the third quarter their increase outpaced that in consumer prices by 19 percentage points in the United Kingdom, 10 points in the United States, and 13 points in France and Spain. In Italy house prices rose by 9 per cent in nominal terms in 2004, compared with 11 per cent the previous year; in Germany and Japan, continuing a trend under way since the early 1990s, they fell slightly again in 2004.

In the main emerging countries, after the increase in risk premiums recorded last spring, there was a return to relaxed financial conditions; in mid-January 2005 the spreads stood at very low levels, reflecting the strengthening of economic activity, the good performance of exports and abundant liquidity.

In general, current conditions in the international financial markets are characterized by low interest rates and risk premiums. The large expansion of derivative products in the course of the last two years has redistributed risk towards market participants better able to absorb it. The markets are not signaling risks of instability at global level.

3. Exchange rates and external imbalances

According to the indicator calculated by the Federal Reserve, between February 2002 and January 2005 the effective exchange rate of the dollar fell by 15 per cent in both nominal and real terms. Over the same period the euro appreciated by 24 per cent in nominal terms and by 21 per cent in real terms. The yen strengthened by 7 per cent; in real terms it depreciated by 3 per cent.

In 2004 the central banks of the Asian countries again intervened on the foreign exchange market with massive purchases of dollars. In Japan the official reserves rose to $850 billion, in China they grew by about $200 billion to exceed $600 billion; in the other Asian countries they now amount to $830 billion.

Reserve assets, mostly denominated in dollars, are equal to about 18 per cent of GDP in Japan and to about 37 per cent in China.

Generally low rates of inflation and the peg to the dollar have enabled some Asian countries to improve their competitiveness: since February 2002 the real effective exchange rates of the currencies of China, Hong Kong and Malaysia have fallen by between 9 and 17 per cent. The competitiveness of Thailand and Taiwan has remained unchanged, while that of South Korea and Singapore has deteriorated slightly.

After the financial crisis of 1997 the reference to the dollar in the management of exchange rates resulted in only limited changes in competitiveness among the emerging and newly industrialized Asian countries, thereby encouraging the growth of regional trade, which has increased to about half the total. This integration reflects the spontaneous development of vertical integration of production within the region, in which each country tends to specialize in one phase of production.

In the last ten years China's share of international trade has increased significantly. It takes 13 per cent of Japan's exports and 17 per cent of those of the other emerging Asian countries: it imports capital goods and components from Japan, South Korea and Taiwan. It exports manufactures, for some ten years now mainly to the markets of the industrial countries.

As globalization proceeds, the emerging Asian economies, which have very low labour costs and faster productivity growth than the United States, cannot pursue policies aimed at stabilizing the exchange rate against the dollar for ever. Such policies risk boosting inflation and fueling excessive increases in the prices of financial and real assets.

In 2004 the large external deficit of the United States had a counterpart in the substantial surpluses of the Asian countries, which totaled about $330 billion. The surplus of the euro area rose from $26 billion in 2003 to about $50 billion, or 0.5 per cent of GDP.

At present the bulk of Asia's current account surplus is generated by Japan, which in 2004 contributed $170 billion; another major contribution, of

$90 billion, was made by the newly industrialized economies. According to the IMF, in 2004 the current account surpluses of China and the other Asian developing countries amounted to $38 billion and $30 billion, respectively. In the last few years India has recorded modest surpluses.

Even though all the Asian countries have been running large current account surpluses, their net international investment positions differ. Japan has had a structural current account surplus from the postwar period onwards. China began to record current account surpluses in the early 1990s. In South Korea and other important emerging Asian countries surpluses are of more recent date.

In the ten years prior to the crisis of 1997, the persistent deficits of the emerging Asian economies had resulted in their accumulating a high level of foreign debt. The crisis forced these countries to make an abrupt adjustment; a substantial current account surplus followed. Despite the subsequent rapid recovery of economic activity in the region, the surplus continued to grow, rising in the last three years from 2.4 to 3.7 per cent of GDP as a consequence of the upturn in world trade and the favourable competitive position.

The differing net investment positions affect countries' propensity to keep on accumulating dollars and, more generally, foreign exchange reserves.

4. Italy

In the first nine months of 2004 GDP growth in Italy was 1.2 per cent on an annual basis, 0.7 percentage points less than in the rest of the euro area. The growth gap, which had been nearly closed in the course of the previous three years, thus widened again in concomitance with the less favourable performance of exports.

In the first three quarters Italian exports grew by 3.3 per cent compared with the same period of 2003, approximately half the increase recorded by the other euro-area countries as a group. The balance-of-trade data indicate they slowed down in the final months of the year. Given the buoyant expansion of world trade, Italy's share of world exports of goods is estimated to have fallen to around 2.9 per cent in volume terms.

The loss of world trade shares that began in 1996, when Italy returned to the European exchange rate mechanism, has continued. The substantial stability of the currency has not been accompanied by structural reforms capable of increasing competitiveness as much as in the other industrial economies. Italian exports continue to be held back by the loss of price competitiveness, due largely to the poor performance of productivity.

The deterioration in manufacturing efficiency by comparison with the leading industrial countries, under way since the mid-1990s, has been aggravated in recent years. Between 2000 and 2003, total factor productivity in industry fell by about 1 per cent a year. The competitiveness of Italian goods, as measured by unit labour costs, declined by nearly 15 per cent between the start of 2002 and the end of 2003, or 9 points more than the deterioration in Germany and France.

In the first nine months of 2004, with nominal exchange rates essentially stable, Italian competitiveness continued to suffer from a faster rise in unit labour costs. Earnings per employee rose by 2.8 per cent in the entire economy and by 2.3 per cent in the non-farm private sector. But there was no adequate gain in productivity. The rise in unit labour costs in Italy thus exceeded that in France and Germany by 1.4 and 3.5 percentage points respectively.

Italian household consumption rose by 1.2 per cent in the first quarter of 2004 with respect to the previous three months, but then remained almost flat for the next two quarters.

Harmonized consumer price inflation was 2.3 per cent in Italy in 2004, as against 2.1 per cent in the euro area. According to the January *Consensus Forecasts*, inflation is expected to fall to 2.1 per cent this year in Italy and to 1.8 per cent in the area as a whole.

Investment in machinery, equipment and transport equipment, which in the first half of 2004 recouped the contraction registered in 2003, turned downwards again in the third quarter, reflecting uncertainty over the recovery in economic activity. Investment in residential construction continued to expand. Public works activity slowed sharply in the second half of the year after a lively expansion in the first.

The uncertain path of investment and the decline in industrial production have braked the expansion of employment. The more intensive utilization of labour in connection with wage moderation and with the greater flexibility produced by the reforms enacted since the early 1990s appears to have come to an end. In the third quarter the number of persons employed was 0.2 per cent higher than in the fourth quarter of 2003. In industry, following the moderate expansion recorded between 2000 and 2002, employment began to contract again in line with production.

The unemployment rate fell in 2004, mainly owing to the decline in labour force participation.

The diminution in the supply of labour interrupted the decade-long process of convergence towards the average European participation rate. There was a decline in labour force participation by young people in the South, especially women.

More systematic action, including training programmes, is needed to raise labour market participation rates.

Bank lending was 6.7 per cent greater in December than a year earlier. There was a slowdown in the North and Centre, while the growth in lending accelerated further in the South to 10.5 per cent. Credit to consumer households, essentially for the purchase of houses, increased by 16 per cent.

The value of new bad loans remained limited. Qualitative and quantitative indicators show that credit supply conditions continue to be easy. Interest rates are still extremely low. Secondary market yields on Italian corporate Eurobonds are in line with those on the bonds of other international issuers.

5. The banking system and the corporate sector

Since the early 1990s the Italian banking system has undergone a transformation on an historic scale. Initially, 68 per cent of total assets were held by banks controlled by the state or by foundations; today the figure is close to 10 per cent.

Most of the banking groups are controlled by a core group of investors comprising intermediaries, foundations and, in some cases, firms with minority interests. Important international financial intermediaries are present in a higher proportion than in other European banking systems.

Foreign banks and financial institutions currently hold an average of 17 per cent of the capital of the four largest banking groups; for the 10 largest groups, the share held by foreign intermediaries is 11 per cent.

On the basis of BANKSCOPE data, foreign intermediaries hold 7 per cent of the capital of the four leading banking groups in Germany, 3 per cent in France and 2.6 per cent in Spain.

In the privatization process, foundations' and public entities' sales of shareholdings were facilitated in the second half of the 1990s by buoyant share prices. In disposing of their holdings in banks, the foundations and public entities fostered the creation of stable core groups of controlling shareholders.

Mergers and acquisitions have resulted in the number of banks operating in Italy falling from 970 in the mid-1990s to 785; 443 are mutual banks. Initially the market share of the four largest banking groups was 30 per cent; by June 2004 it had risen to 44 per cent.

Some 80 per cent of total assets are held by groups headed by banks listed on the stock exchange.

In the mid-1990s the return on equity of the Italian banking system was less than 2 per cent. Today, after rising to approximately 13 per cent in 2000, it is close to 11 per cent.

All the indicators point to a considerable increase in banking competition; this is confirmed by the evolution of the structure of the market and interest rates, and by the redistribution of intermediaries' market shares.

In the regional loan markets there has been a marked decrease in the index of concentration.

Compared with the mid-1990s, the average cost of short-term bank credit has fallen by more than 8 percentage points and is now in line with the euro-area average; the spread between short-term lending and deposit rates has narrowed from 6 to 4 percentage points.

The Italian banking system is now in a position to compete in Europe. It is expanding its presence in Central and Eastern Europe.

Italian banking groups are smaller than the major euro-area intermediaries; the indicators of operating profitability and efficiency are nonetheless better than the average for the banking systems of the area.

The integration of the groups formed during the last ten years is at an advanced stage as regards corporate structure, operating procedures and information systems. Further combinations between large groups within the Italian banking system would entail serious problems in terms of the creation of dominant positions and a substantial reduction in competition in a number of regions and provinces.

Account must also be taken of the uncertainty surrounding the productivity gains obtainable from the increase in size, owing to the organizational complexity of the entities that would be created.

Combinations of regional and medium-sized banks are producing efficiency gains.

There has been a revival of discussion on the possibility of additional mergers in Europe, where the size of banks is deemed inadequate compared with that of the major banks of the other main monetary areas.

On the basis of the experience of recent years, the benefits of additional mergers are uncertain for large groups. At world level some of the largest banking groups have encountered serious difficulties. In other cases obstacles have emerged to the efficient control of operations in different lines of business and countries.

In wholesale banking there is already a fully-fledged single market at international level. For financial services, the key factors are intermediaries' technical skills and reputation and their links with countries with developed capital markets.

In the Italian market, from the beginning of 2000 up to June of last year, foreign banks managed, through their branches, 30 per cent of the issues of securities by Italian and foreign non-financial companies and a quarter of the issues of international financial institutions. Foreign banks placed more than 70 per cent of the value of the roughly 200 issues of Eurobonds made by Italian firms. The leading international banks dominate M&A activity in the Italian market.

As for retail banking, a dominant role in all the European countries is played by domestic intermediaries. These have detailed knowledge of the legal and institutional context and of the characteristics, needs and creditworthiness of customers, especially those of smaller size.

A recent report prepared under the auspices of the G-10 Finance Ministers and Central Bank Governors shows that bank mergers and acquisitions mainly involve domestic intermediaries in all the leading economies. In Europe most of the few cross-border mergers that occurred were between intermediaries based in countries with institutional, cultural and linguistic affinities or involved a bank in financial distress. When intermediaries of different countries are combined, legal and institutional differences and cultural barriers may hamper the transfer of managerial skills from the acquiring bank to the bank acquired.

In Italy the fruitfulness of collaboration with intermediaries of other countries is attested to by the extensive participation of foreign capital in the Italian banking system, by numerous cooperation agreements for the distribution of financial and credit products and by the significant role played by foreign intermediaries in wholesale banking.

The Bank of Italy examines every proposal submitted to it for mergers or acquisitions of major equity interests to be carried out by Italian banks vis-à-vis Italian banks, by Italian banks vis-à-vis foreign banks and by foreign banks vis-à-vis Italian banks. It applies Italian and Community law; it performs its statutory mandate of ensuring the sound and prudent management of credit, protecting the stability of intermediaries and of the system as a whole, and promoting competition.

In the last few years Italian banks have provided financial support to firms, including large ones and some involved in extensive restructuring. They have directed very large volumes of credit to small and medium-sized enterprises, which are an important part of the Italian economy. In the financing of such businesses, there has been a steady increase in the proportion of credit provided by banks rooted in the local economy.

For Italian banks, reducing costs and improving internal organization remain key objectives. Product innovation and the reduction of unit costs must be to the benefit of firms and households. They must be turned into an improvement in the quality of the products supplied and be reflected in the prices of retail services, above all for payment services and asset management.

In a period of low inflation it is only right for banks to limit the fees charged on retail services.

Progress in this direction, correct and professional conduct strengthen the relationship of trust with customers and are conducive to the orderly growth of intermediation business.

In collaboration with the Antitrust Authority, we have launched a fact-finding inquiry with the aim of ascertaining the existence, for some services, of strategies and costs that discourage customers from changing bank.

Over the last ten years, the banking system has been marked by a process of consolidation and a progressive increase in the average size of individual intermediaries, whereas the industrial and service sectors have experienced further fragmentation, with inevitable adverse effects on the productivity and competitiveness of the whole economy.

The number of large industrial groups, essential for the spread of new technologies, is limited. The system of industrial districts, which in past decades helped to generate the synergies and efficiencies typical of large groups within clusters of small firms, now seems less able on its own to sustain a further drive to improve competitiveness.

The shortage of infrastructure and the cost of energy and services for firms are a drag at national level.

Spending on research by both the public sector and the private sector is particularly low in Italy by comparison with the other advanced economies. The proportion of value added by high-technology sectors is very small.

This affects Italian products' penetration of international markets. Italy's share of world exports of goods and services in volume terms was approximately 4.5 per cent in the mid-1990s; in 2004 it fell below 3 per cent.

Industrial production follows the performance of exports. For several years now, as we have documented on other occasions, its growth in Italy has fallen appreciably short of that recorded both in the euro area as a whole and in the area's two largest countries, Germany and France. In 2004 Italy's index of industrial production showed a slight tendency to decline.

To a degree, the transfer of traditional production to countries with low labour costs and rapidly expanding demand is normal. In Italy the phenomenon has intensified since the mid-1990s; the number of workers employed in foreign companies invested in or controlled by Italian firms has reached one fifth of the total number employed in domestic industry. In recent years, the prevalent reason for investment abroad appears to have been to cut costs; direct investment aimed at increasing firms' presence in advanced markets has contracted sharply. The strategies that will enable the system to reap the maximum benefit from internationalization need to be identified; better knowledge and thorough analysis of the phenomenon are necessary.

An economic policy that intends to revitalize Italian industry must necessarily come to grips with the problem of firm size, in part by encouraging mergers and acquisitions.

There are difficulties, above all in connection with the ownership structure of Italian firms.

The banking system, which possesses databases and extensive and detailed information on the structure and profitability of firms, can promote mergers and acquisitions, provide the financial assistance and services needed to make the productive system more solid.

The Italian economy contains instances of excellence in innovative and creative ability, not just in the traditional branches of activity but also in high technology. These more dynamic units can act as poles of aggregation for less productive firms.

It's a challenge in which we cannot fail, in order to improve an important part of our economy.

6. The outlook

The overall expansion of the world economy is set to continue this year.

In the United States, GDP is expected to grow by about 3.5 per cent.

Short-term interest rates were drastically reduced in the weak phase of economic activity. They are currently nil in real terms; increases are expected in the course of the year.

The supply of dollar-denominated securities has been abundant in the past few years, reflecting the high public sector borrowing requirement and robust investment.

From the low it touched in the closing days of last year, as of yesterday the dollar had recouped 6 per cent against the euro.

Although, as mentioned earlier, the level and structure of yields do not signal risks, a growing imbalance between the demand for and the supply of savings in the largest industrial economy looms over the global financial system.

A current account deficit in 2004 of $600 billion, a little more than 1.5 per cent of world GDP at current exchange rates, was absorbed with a depreciation of the dollar but without serious strains in the markets, in a year in which the world economy grew by 8 per cent in nominal terms and the demand for financial assets expanded even faster.

The quantity of dollars as defined by M2 increased by 38 per cent between 1999 and 2004; over the same period the stock of public and private-sector bonds grew by 45 per cent. The sum of the two aggregates rose to 260 per cent of America's GDP.

For the euro, the money supply and the stock of bonds increased by 48 per cent over the same five years, and the volume of assets denominated in euros rose to 235 per cent of the area's GDP. In Japan, the money supply and securities grew by 35 per cent; their ratio to GDP is far higher than in the other two main monetary areas.

The expansion of the world money supply and, to an extent, that of private and public-sector bonds in relation to GDP have had bullish effects on share and especially property valuations. Consumer price inflation has been held in check by the increase in productivity and competition.

The external current account deficit of the United States for the current year is expected to be of the order of $700 billion.

The ability of the international markets to finance large imbalances between saving and investment in the major industrial countries has increased markedly in the last few years. The world economy will continue to absorb dollar-denominated financial assets; excessive repercussions on exchange rates and yield spreads can be avoided if the expansion of the quantity of dollars is not substantially greater than that of the other main currencies.

Important factors, in this context, will be the overall balance sheet position of the private and public sectors in the three monetary areas, the growth expectations for the US economy, and the willingness of global financial intermediaries to increase the share of their dollar holdings further, while reducing that of other currencies and their domestic currency.

A large loss of value by the dollar would be harmful for the orderly functioning of the financial system and the world economy.

The increase in official interest rates should help to sustain the external value of the dollar during 2005.

The resolve of the US administration, which it recently reaffirmed, to reduce the budget deficit substantially is crucial. But in a long-term perspective, a more balanced relationship between the major currencies cannot come about without a return to faster growth in Europe and Japan.

In Japan, according to the estimates of the central bank, the increase in GDP will be approximately 2 per cent this year. In the emerging areas the pace of growth is likely to slow somewhat but will nevertheless remain very rapid. According to the IMF, growth will diminish to 3.6 per cent in Latin America, 7.5 per cent in China and 5.5 per cent in the other emerging Asian economies; at world level, the expansion in GDP is forecast at 4.3 per cent.

In the euro area, the cyclical indicators weakened during the autumn. In November manufacturing output registered its second consecutive decline, reflecting the contraction in activity in Germany and Italy and stagnation in France.

Indicators of the climate of confidence have not yet signaled a clear reversal of trend in the expectations of households and firms in the main countries, except in Germany, where the last few months have seen an improvement. The international organizations forecast area-wide growth to be approximately 2 per cent this year, about the same as in 2004.

In Italy, GDP growth in 2004 is estimated to have been approximately 1.5 per cent.

According to preliminary estimates, industrial production declined by 0.5 per cent in the fourth quarter, and appears to have contracted slightly again in January.

During 2005 the expansion in output is expected to gain pace, as a consequence of an acceleration in exports and in the domestic components of demand.

A policy aimed at raising the Italian economy's growth potential appears increasingly necessary.

Prerequisites for this are the structural adjustment of the public finances and the lowering of the ratio of debt to GDP. The Government is considering a set of measures to improve the economy's competitiveness. Their prompt implementation is essential to bolster the still uncertain propensity of firms to invest.

Factors of fundamental importance are the development of basic and applied research, in part through closer relationships between universities and firms, the transfer of matters from primary to secondary legislation, and the reduction in the number of authorization procedures. The prompt implementation of the public works plan requires mechanisms, including extraordinary instruments, to speed up procedures and execution. The reform of bankruptcy law, which can no longer be put off and should be implemented in the form of a decree-law or enabling law, will benefit the protection of businesses, workers, creditors and banks.

The Italian banking system can sustain a higher rate of economic and investment growth. It will also benefit from a stronger economy. Its stability and efficiency are the guarantee for the savings entrusted to it and for their fruitful investment to the advantage of economic activity.

With a united effort, we must establish the conditions for faster growth. Among the measures for competitiveness, special attention must be paid to the South, with its resources of labour, intelligence and initiative.

Growth realizes the potential of labour flexibility through the employment it brings.

Economic policy action, the response of the social partners and the institutions can create the climate of confidence that is necessary for enterprise and innovation. We must increase our commitment on behalf of those, especially young people, who are convinced that a better future can and must be built.

Franco Modigliani

Address by Antonio Fazio, Governor of the Bank of Italy,
to the Accademia nazionale dei Lincei
International Conference

Rome, 18 February 2005

1. Some personal recollections

Franco Modigliani occupies a central role in 20th century economic analysis. For his work on the theories of saving and finance he was awarded the Nobel Prize. He made considerable contributions on innumerable topics, as is borne out by the five volumes of his *Collected Papers*.

His participation in the debate on Italian economic policy answered to the profound need of the man and the economist, who, after analyzing problems, threw into the search for solutions the whole weight of his civic passion, his commitment to the welfare of the community, of those he regarded as his fellow citizens. Discussions, whether with economic policymakers or with young people eager to learn from him, were always lively and directed to conclusions that were analytically well-founded and socially fair.

I first met Franco Modigliani in 1957. During a trip to Italy, the first since the end of the war, he gave a lesson in Piazza Borghese to Professor Travaglini's political economy students.

We had studied Bresciani Turroni, including his attempts to make an empirical analysis of the demand for Egyptian cotton, and were tackling *Value and Capital*. I was struck by Franco's description of the way the consumption function was estimated, in the United States, of course. Political economy did not end with sophisticated analyses of isoquants, the income effect and the substitution effect: it was a practical science.

After graduating and spending some time in the Bank of Italy's Economic Research Department on a scholarship, I was encouraged by Professor Cutilli to write to a number of American universities in order to specialize in monetary theory and econometrics. In the end I chose Northwestern, because Professor Modigliani taught there, and it was partly thanks to him that I was admitted.

At the beginning of 1962 Franco announced to me that he was moving to the Massachusetts Institute of Technology and suggested I should follow him. I did, without hesitating. Under Paul Samuelson's influence, MIT was already at the forefront of the academic world, for the originality of its research, the quality of its teaching staff, and the constant wrestling with practical problems; among the latter, I have pleasure in recalling Kennedy's new economic policy, which was under discussion in the States at the time.

Franco advised me to take Samuelson's course in *Advanced Monetary Theory*, which was also taught by Albert Ando. These were the years of fierce debate between Keynesians and monetarists regarding the role of monetary policy in economic growth and in controlling inflation. Let me recount an anecdote. One day, someone came into the lecture hall with a large pile of Xerox copies, which he placed on the table: it was the typescript of Friedman and Schwartz's *Monetary History*. Professor Samuelson remarked, 'Milton, Milton! We set up the Fed to adjust the quantity of money to the needs of the economy'. In its simplicity this comment touched on one of the main points of the debate on the importance of the quantity of money. I also attended – how could I fail to – Solow's lectures on economic growth, based on *Denison's Sources of Economic Growth in the U.S.*; I had confirmation of their topical relevance when discussing total factor productivity in the United States and Europe with colleagues from the Federal Reserve.

Professor Modigliani offered me the opportunity to attend a course in monetary theory *ad personam*. It consisted in a sort of two-man seminar, in which he assigned me reading to complete, which we would then analyze together. Inter alia, I was given the instruction that "…although I do not agree with a word of Milton Friedman's conclusions regarding monetary policy, he is an author you must study, starting with his reformulation of the quantity theory of money". Our discussions could last hours; if it was late in the afternoon, Professor Modigliani would sometimes take me to his home in Belmont to continue thrashing out various points over dinner; we would talk on into the evening, until Serena remonstrated and told him to drive his student home.

Modigliani was working on a new version of his 1944 essay "Liquidity Preference" to correct a mistake he thought he had made in that article by expressing income and wage variables in nominal instead of real terms. I had also studied Patinkin in depth, and Modigliani explained an aspect that I had not understood: the application of Walras' Law to macroeconomics. He "skewered" me again on this point some years later with a criticism of the early version of the model of the monetary sector of the Italian economy: I had included one market too many, a redundant one. After some sharp but unfailingly gallant exchanges he acknowledged, however, that I was right about the importance of the concept of monetary base, as distinct from money, as a central bank tool for controlling credit.

Another field of research in which Franco sought to involve me concerned the relationship between demographic structure and formation of savings; we pursued a line of thought initiated by Giorgio Mortara, an author I had also studied for my thesis.

I never had any doubt, thanks also to Guido Carli's encouragement, that I wanted to work for Italy's central bank. In recalling Franco Modigliani, I shall concentrate on some aspects of his thinking that have a major bearing on economic policy. His many important contributions to theory have already been discussed by the other economists of note taking part in this conference.

2. The role of money and the econometric model

The complexity of macroeconomic theory, and of monetary theory in particular, is attested to by the heated controversies that have marked it in the course of time. I have recalled the monetarists and the Keynesians; much earlier there had been the protracted dispute between the Currency School and the Banking School, more recently the debate on the new classical macroeconomics.

The contraposition between distinct strands of thought derives not only from alternative visions of the working of the economy but also from a different emphasis, as a result of a different assessment of their empirical importance, on certain aspects of the phenomena investigated. Antithetical economic policy ideas and suggestions may then emerge. In academic debate the different approaches proceed in parallel; often, the prevalence of one over another is connected with the occurrence of shocks strong enough to cause a change of paradigm.

The Great Depression created a break in the secular progress of economic analysis.

The classical model, dominant until then, proved inadequate in the face of a crisis of catastrophic dimensions. In a speech broadcast by radio on 21 November 1934 with the eloquent title "Poverty in Plenty: Is the Economic System Self-Adjusting?", Keynes took up the question of the economic system's intrinsic stability and answered it in the negative. While recognizing the validity of much of classical economics, Keynes called himself a "heretic" and proposed an alternative model. He identified an error in the prevailing theory: "There is, I am convinced, a fatal flaw in that part of the orthodox reasoning which deals with the theory of what determines the level of effective demand and the volume of aggregate employment; the flaw being largely due to the failure of the classical doctrine to develop a satisfactory theory of the rate of interest."

In the Keynesian tradition, the problem of the instability of capitalist systems, especially those in which financial intermediation is highly developed, was the subject of a penetrating essay by our friend Fausto Vicarelli, who died so prematurely. How many episodes of instability we have seen in the last ten or fifteen years, characterized by a rapid expansion of global finance. Episodes of instability that caused severe hardship and social malaise in the countries affected by the crises; efforts by all the components of society were necessary to overcome them.

Starting out from *The General Theory* and his rereading of Hicks, Modigliani, in his article of 1944 and in his subsequent paper, "The Monetary Mechanism", published in 1963, analyzed the implications for employment of the downward rigidity of wages. With the money supply constant in nominal terms, a diminution of aggregate demand entails a movement away from the full-employment equilibrium and hence the necessity for an activist monetary policy.

Different aspects of the monetary and economic policy transmission mechanism, which Modigliani analyzed and which he discussed in our Economic Research Department with reference to Italian economic reality, are incorporated in the structure of the Bank's econometric model. Modigliani let us have the benefit of his advice regularly during the 1960s and on numerous occasions in the following decades. We discussed the problems of growth, of employment and of investment, in general and in the Italian economy. The specification and estimation of the individual equations of the econometric model were also carefully considered.

In this setting the lines of a wage policy that was later applied with good results took form with Ezio Tarantelli through studies of the labour market.

The hallmark of the Bank's econometric model was that it combined an extensive part referring to the real economy – employment, wages, investment, prices, effective demand – with a detailed analysis of financial flows. This second part stemmed from the theoretical contributions of Gurley and Shaw, from Tobin's *Manuscript* and from Copeland's studies on the flow of funds, a subject empirically developed for the Italian economy by Ercolani and Cotula.

Modigliani was greatly interested in this structure of the model and threw himself into the discussions on the Italian financial system, which also engendered ideas for improving the structure of the markets.

The Bank of Italy has constantly used the econometric model since then as a logical frame of reference and a tool for knowing some fundamental parameters of the Italian economy.

We used the model in intense discussions with the International Monetary Fund in order to design and define the parameters of the policy to stabilize the Italian economy in 1974 in the wake of the first oil crisis. This had caused an enormous imbalance in the external accounts and a surge in inflation, which was followed by a wage explosion due in part to the indexation of wages to prices.

The success of the policy of credit restriction was immediate, thanks also to the resoluteness with which Governor Guido Carli implemented it.

Inappropriate budget policies created new imbalances in the following years. We used the model and its parameters again to define, under Governor Paolo Baffi, the stabilization policy of 1977-78 carried out by the government led by Giulio Andreotti. The budget correction amounted to 5 per cent of GDP. The positive effects on the external accounts came through within a year.

Over a span of thirty years Franco Modigliani's analyses, his diagnosis of the ills of our economy and the suggested cures, encompassed manifold subjects, from the labour market to the problems of retirement provision. He was motivated by the desire to penetrate the reality of the Italian economy in order to correct its malfunctions, increase efficiency and expand employment. His interventions, above partisan interests, were always highly appreciated by Governors Carli, Baffi and Ciampi.

3. Modigliani and economic policy

In the 1960s, the dominance of Keynesian economics was uncontested. Milton Friedman proposed an alternative line of thought, but his ideas were not considered, save to dismiss them out of hand. But not by Franco Modigliani.

In the 1970s the collapse of the Bretton Woods monetary order created the conditions for a worldwide inflationary drift. As a result of restrictive monetary policies, there was also a generalized slowdown in economic activity. Inflation refocused attention on Friedman's ideas. In the United States the Federal Reserve had long restricted its monetary action to stabilizing interest rates – the policy of William McChesney Martin. In this way the rise in costs and prices was financed almost automatically. With the policy shift instituted by Paul Volcker in 1979, the Fed focused on controlling the quantity of money. For a short time administrative ceilings were also imposed on lending by Federal Reserve System member banks. Market interest rates soared. Inflation was curbed.

The so-called monetarist counter-revolution, which blamed activist economic policy for destabilizing effects, sought to confine policymakers' actions within the bounds of a set of "simple rules". In reality, this prescription reflected the basic postulate of the economy's automatic return to equilibrium, which, as Keynes had underscored, was the keystone of classical economic theory.

In his presidential address to the American Economic Association in September 1976, Modigliani intervened in the debate between Keynesians and monetarists, with acute arguments defending the need for both fiscal and monetary countercyclical measures.

Modigliani was sceptical about the hypothesis of rational expectations underpinning the alleged ineffectiveness of stabilization policies, because of the conflict with the empirical evidence. Deviations of unemployment from its natural rate were neither transient, nor small. The factors preventing the economy from returning to an equilibrium position within a relatively short time are incomplete information and institutional rigidities. The hypothesis of rational expectations may apply in the long run. Exogenous shocks necessitate stabilization measures. The postwar experience, he said, offered confirmation of this view, but overemphasis on fine-tuning was a mistake.

Modigliani recoiled from partisan thinking and pinpointed the weaknesses of all the different models, including the Keynesian, which he criticized for failing to consider long-term effects. He once confided to me, "For decades we have focused exclusively on flows; in our analysis we need to go back to considering the role of stocks."

The ratio of wealth to disposable income in Italy today is about 8 to 1, the highest among the G-7 countries.

The conclusion that stabilization policies are effective anticipated by a quarter-century the thesis sustained by Robert Lucas in his presidential address in January 2003. Lucas offered a positive judgment on the economic policies of the postwar period based on advances in macroeconomic theory, both Keynesian and monetarist. Countercyclical policies did stabilize the economy and prevent another large-scale depression, but more intensive recourse to these measures would not produce additional welfare gains; such gains can be attained by supply-side policies.

In the classical tradition, Lucas stresses incomplete markets and the existence of rigidities and frictions that impede adjustment.

On these points and on the compatibility of a theory of money and prices with an essentially Keynesian model, Patinkin's analyses in "Price Flexibility and Full Employment" first and then his *Money, Interest, and Prices* tie in with specific passages in the last part of the *General Theory* and provide a synthesis that, to my mind, is still valid today.

This was a lesson that served me in the mid-1990s, when I had to impose a highly restrictive monetary policy in Italy to support the exchange rate of the lira and curb inflation. In doing so, I had in mind an idea of the working of the economy in which the level of activity is determined essentially by effective demand.

Perhaps, if monetarists today cannot but call themselves Keynesians, I should be tempted to assert that – as far as stocks and sound analysis are concerned – Keynesians must similarly own to being monetarists.

Economic theory is a great help to central bankers. In practical action, however, we must not forget that the complexity of theory is such that it is not always possible to reach unequivocal conclusions or, as a consequence, unquestionably correct and effective policy prescriptions. One may be confronted with hypotheses that suggest completely different economic policy measures. It is important for policymakers to bear in mind the multiple facets of each problem, so as to choose the model that has the greatest explanatory power. History provides numerous examples of policy errors that were the consequence of an inadequate theoretical apparatus. It is sufficient to recall the monetary policies of the early 1930s and the dysfunctions of the gold exchange standard, which helped to spread the Great Depression, with dire consequences for the world economy.

In the second place, it is necessary to have empirical knowledge of the phenomena to be acted on. We are regularly faced with discussions of topical problems based on abstract models unrelated to the real world. The search for solutions must begin from concrete situations. As Pareto suggested in his *Manual*, to approach the optimum one must also take account of non-economic factors and constraints. Insufficient understanding of the complex workings of a market economy affects our ability to operate and can produce erroneous solutions.

Expectations play a decisive role in determining economic performance and the transmission of economic policy impulses.

The lesson to be learned from Modigliani in this respect is important: he sought to grasp the essentials of the problems, independently of preconceived notions. Together with Emile Grunberg, he made a major contribution to our understanding of the role of expectations as early as 1954; this issue recurred frequently in his thinking.

Governing an economy – through fiscal policy, monetary policy and structural reforms – is a complicated task. Today, more completely than in the past, we read the various signals coming from the economy, but even so their informational content is incomplete, not sufficient to plot a secure course. Our knowledge, at micro and macro level, of the behavioural functions of economic agents has improved. Yet like all the applied disciplines, economic policy remains an art.

4. Conclusions

The international economy and national economies are dominated today by the phenomenon of globalization.

It is the sign of the times.

Globalization not only transforms economies and finance but it also impinges on social and cultural models; it raises the urgent question, especially at international level, of the institutions required to govern the phenomenon. To cope with the changes and anticipate the future, an approach is needed in which ever greater specialization is combined with elements of humanistic culture. In this context institutions such as this glorious Academy have a task to perform in the higher reaches of knowledge.

The financial system has gained a sort of primacy and autonomy at global level. Within it are determined the levels and structure of interest rates, exchange rates, the cost of capital – here too Modigliani *docet* – on the equity markets. The global financial system receives impulses from the performance of the major economies and from central banks; by its nature it is always exposed to the risk of instability; its raison d'être lies in bringing together the capacity for saving of some sectors with the investment expenditure of others.

In closed systems, the major actors were firms, households and the state; in the global system the imbalances between states and monetary areas come into play.

The international financial system is also tending to adapt the characteristics and scope of its operations to the need to transfer resources from countries and economic areas with current account surpluses to those with deficits. Capital flows to where productivity and, hence, profits and returns are highest and security greatest. Basically, for closed systems – and the world is a closed system – this has already been theorized in the Turnpike Theorem.

But the global system is a sort of free banking regime with no anchor.

The central bank governors are striving to define rules for intermediaries in order to increase stability. Notwithstanding failures along the way, we appear able to succeed in this intent. The Basel rules, continual consultations and banking supervision in the individual countries make a fundamental contribution to stability. Derivatives, this new invention of finance, provide the lubricant; they reduce and redistribute the risks. Sometimes they are transformed into fuel, pushing the system beyond the limits of prudence.

National economies are linked with the global system through trade, but today, much more than in the past, through finance as well. The efficiency and stability of national financial systems and their coordination with the global market are necessary for the vitality and proper working of an economy; they are not sufficient to ensure growth and prosperity.

Policies must in the first place correct macroeconomic imbalances and hence promote the full utilization of productive factors; in open systems, they must foster competitiveness. From a broad perspective, competitiveness is simply the ability of an economy to supply, through its working, an adequate and growing flow of value added. Accordingly, it appears to me that in open systems competitiveness comes to coincide with potential growth.

In Europe, and especially in Italy, the potential growth of GDP has diminished in recent years. The introduction of the euro has not been accompanied by reforms capable of accelerating growth. Monetary stability and low interest rates have brought benefits, but growth still has not ensued.

The Lisbon Agenda, valid in its general formulation, must be applied with the support of the Union and the Member States in the individual economies by identifying the instruments for its implementation. To judge by its public statements, the European Commission is working on these issues.

Demographic ageing – to whose implications for government budgets and macroeconomic equilibria, related in turn to those of individuals, Modigliani devoted so much attention – is looming over Europe, Italy and other advanced economies.

The public pension and health systems, conquests of great social value of the past century, must continue to provide their benefits to future generations. A wisely regulated immigration policy can be a resource, as the experience of the most advanced economy demonstrates.

It is a policy that has substantial effects on the social, institutional and legal plane; following thorough analysis based on solid principles, the problems must be addressed in ways that avoid extreme solutions. Our interests must be borne in mind, but also the expectations of those who leave their own country in search of dignified living conditions, the aspiration and right of every human person.

It has been affirmed by a high authority that every person, upon coming into the world, becomes a citizen of the world community, with the right to partake of the goods that the system can offer.

The economy is one aspect of a vaster civil society. Welfare, including economic wellbeing, is attained through analysis, determination, cooperation and enterprise that glimpses new horizons and works and struggles to reach them. Increased employment, the spread of work, is the goal that negates the idea of economics as the “dismal science”. It is crucial today in Italy to activate all the necessary means to reverse the trends, to catch the updraft of the recovery, to increase the propensity to invest, to trigger an expansionary drive.

The solutions and the proposals must come, albeit in the necessary dialectical process, from the convergence of all the parties, institutional, economic and social.

The prospects of an economy can be seen in the willingness of firms to venture and invest. The formation of capital, essential to raise potential growth, is tending to be dematerialized, to take on the form of knowledge, organization and the ability and quality of men of Smithian memory. We must recover the commitment to growth of every component of society and confidence in the future.

Practice must be founded on good theory. Economists offer recommendations for which they are competent. Action and synthesis, in the concrete context of civil life, are up to politics.

I think these reflections would not have displeased Franco Modigliani. He would certainly have offered criticisms and observations, suggested additions and changes. Fundamentally, however, it is his moral strength, his passion for the good of his fellow citizens, which he passed on to us with his teachings, that have inspired these reflections.

"Basel 2" and "IAS": more competition, less risk

Implementing Basel 2 and IAS: tendencies, problems, solutions
8th ABI CONVENTION
Speech by Pierluigi Ciocca, Deputy Director General of the Bank of Italy

Rome, 29 November 2004

My intention in these remarks is to set the issues raised by Basel 2 and IAS within a common framework. I shall therefore not consider the technical details but three general aspects:

a) the macroeconomic context in which the new methods will be inserted;

b) the hoped-for effects on the financial system;

c) their transposition by banks and the Italian legal system.

a) *The macroeconomic context*

The entry into force of the new International Accounting Standards and the "Basel 2" capital adequacy accord will be gradual, phased in between 2005 and 2007. Intermediaries and supervisors are making their preparations. The "context" thus consists in a set of present-day realities, plans, expectations and forecasts.

The information now available suggests that the moment is propitious for the non-traumatic introduction of the new methods.

The international economy is subject to the threat of military conflicts, oil shortages, high real-estate prices, the large foreign debt of the United States and a declining dollar. Yet overall the economic picture is the rosiest seen for a quarter of a century. The forecasting scenario for 2005-2006 remains one of inflation-free growth: annual GDP growth of 3 per cent in real terms and price inflation under 2 per cent in the OECD countries, and annual world trade growth of no less than 9 per cent.

This essentially benign macroeconomic situation is accompanied by systemic financial stability. The Financial Stability Forum, in which I have had the honour of participating since its foundation in 1999, is the world's leading financial supervisory body. The Forum sees the debt of firms and households as moderate or sustainable, intermediaries as profitable and well-capitalized, share prices as basically in line with fundamentals, and prudential standards as stronger virtually everywhere. By comparison with the past the indicators of stability are on average higher and have lower although not negligible dispersion.

Italy is no exception as regards low inflation and the stability of the financial system as a whole. Unfortunately, however, it is an exception in its rate of economic growth. From 1992 to 2006 (forecast) the yearly growth rate will come in at a mediocre 1.4 per cent. Yet the cycl ical upturn is basically in line with the – modest – expansion of potential output. Moreover, even an economy with slow growth in potential output can be financially efficient and stable. The Italian economy's "growth problem" can be solved.[1] We are not condemned to stagnation. We have a diagnosis. And most important, the therapy is clear.[2] The State must restore the health of the public finances, take care of infrastructure, reduce taxes and rewrite economic law; firms must expand in size and improve in quality with investment and technical progress; banks must select and support the best firms; the trade unions must defend but also moderate wage growth. All are called on to accept competition, not to impede the reallocation of resources. Policies and conduct together – not just government policies, not just the conduct of firms, banks and workers – can bring the Italian economy's long-run growth rate back up to 3 per cent.

b) *The purposes of Basel 2 and IAS*

Taken together, Basel 2 and IAS can appreciably increase efficiency, and above all in this way enhance bank stability.

How? In principle, through stepped-up competition between intermediaries and within the financial markets.

Without competition there cannot be efficiency. Without efficiency, in the long run there cannot be stability. Without stability the drive for efficiency is more difficult, and the free play of competition is impeded. A policy of prudential supervision that – by choice or because obliged by law – ignored competition or, worse, thought it could be sacrificed in the name of stability would be self-contradictory.

I shall back up these propositions – of whose validity the Bank of Italy remains thoroughly and analytically convinced – with a theoretical consideration and empirical evidence.

Simplifying, the theoretical consideration can be quickly set forth. By their nature or in response to the urgings of supervisors, banks are risk-averse. They are in equilibrium if lower returns correspond to lower risk. Competition erodes quasi-rents, the extra profits of oligopoly. Other things being equal, therefore, competition does not induce banks to take on greater risk. On the contrary, by eliminating the quasi-rent "subsidy" of their riskier assets, it recalls them to prudence. Supervisory action works in the same direction. On the theoretical plane there is no conflict between competition and banking stability. Accordingly, on the institutional plane there is no conflict in principle between supervision and antitrust action in banking where – as has been the case in the United States from the very beginning and in Italy since 1990 – the same institution is responsible for both.

The empirical evidence is equally clear. Despite the protracted stagnation of the Italian economy following the dramatic foreign exchange crisis of 1992, in supervising and regulating the banking system the Bank of Italy observed increasingly intense competition and at the same time instability limited to individual banks. In most of the markets for banking products the microeconomic indicators of price and volume testify to heightened competition, the transition from the traditional state of little rivalry to one of sharply stepped-up competition.[3] In the markets for corporate ownership and control, contestability in the banking sector has been boosted by the industry's virtually total privatization and the increased share of overall banking business accounted for by listed banks. The Lerner Index of oligopoly was one fifth lower in banking in 2000-2001 than it had been on average in the 1980s; in the service sector as a whole it was a quarter higher; and in the industrial sector excluding construction it was unchanged at a lower level.[4] On the average, as we can see from the tables and the figure, productivity in banking rose faster between 1990 and 2003 than it had in the 1980s, while the real cost of labour rose more slowly. Nevertheless, profitability declined, not because of larger loan write-downs but because of sharper competition. Meanwhile, since 1990 the number of banks has fallen by nearly 300 to 790, and 800 banks went out of business. Yet the present value of the total losses of the banks that failed or were taken over made good by other banks or by the State during this decade-and-a-half did not even amount to 1.5 per cent of a single year's GDP.

In the field of credit risk, regulations anticipated banking practice rather than following it as in the 1996 market risk amendment to the Basel accord. "Basel 2" fosters efficiency in banking. Banks, large or small, that use more accurate and effective methods of risk assessment and management are rewarded with lower capital requirements. In this sense the new accord introduces a "Darwinian" selection bias for the survival of the fittest banks. It will heighten competition and shift market shares.

The same holds for the new International Accounting Standards, although for different reasons. They are designed to enhance disclosure and transparency. They make the accounts of banks and firms comparable internationally. Potentially, they allow for a more realistic representation of market risk (with the application of fair value accounting for all securities) and of credit risk (with the broad, harmonized notion of "impaired loan", which includes overdue credits). Information and transparency will also intensify competition both between firms and between banks.

Since advances in competition and efficiency are for these reasons correlated with advances in capital soundness, Basel 2 and IAS together will certainly also strengthen the overall stability of the financial system.

Two qualifiers are needed here, however, one self-evident and the second more debatable.

The first is that Basel 2 will contribute to banking stability above all, and directly, by guaranteeing that banks' capital is better able to cover the risks incurred.

Second, aside from differences of opinion over the informational content of measurements based on fair value, it can be feared that the International Accounting Standards, and in particular those concerning securities, will make for more volatile balance sheets and income statements. This may not necessarily happen, once the impact of the initial transition to the new accounting rules is past; but even if it does, we must not mistake volatility in the operating results of firms and banks for instability of banks' balance-sheets. If "true" variability – or at any rate that which is relevant to the markets – is reflected better in items marked-to-market than valued at cost, then the banks will be called on to take precautions in managing, insuring against and sustaining risks. Prudential supervision itself will focus more sharply on the financial institutions supervised. In itself, better registration of "true" variability is not destabilizing; quite the contrary. In any case consideration is being given to the idea of applying prudential "filters" in calculating supervisory capital that can attenuate improper volatility in the accounts due to the repercussions of fair-value accounting.

c) *The transposition of the new methods*

The extent to which the aims are actually attained will depend on how well the banks make their preparations. But it will also depend on the adaptation of economic legislation.

For banks the change will be profound, at once technical and cultural. From valuations and decisions still largely based on deterministic values, single-value variables and the simple "summing up" of individual items they will move towards widespread use of both objective and subjective probability distributions. The next step will be even more towards considering portfolios as a whole and taking account of the linkages between asset and liability values, the structure of the balance sheet and immunization strategies. It will be less and less common for overall risk to be calculated by adding up the risk of the individual components.

Italian banks are readying themselves. The banking groups that will use advanced internal rating methods from the outset have initiated an especially intensive interaction with the supervisory department of the Bank of Italy.

Basel 2 and IAS also constitute an additional reason for adapting Italian law to the needs of a modern "regulated market economy ". Albeit in different ways and to a variable extent, three fields of economic legislation will be involved: company law, competition law and bankruptcy law.

Italy's recent company law reform is now filtering into the concrete reality of firms and banks. The legislation on banking has been coordinated with the Civil Code by Legislative Decree 37/2004. The implementing regulations will follow soon. The aspects on which the Bank of Italy has focused in helping banks to interpret the new company law are a more general notion of equity interest, adaptation of the requisites for bank officers and above all the duties and responsibilities of the board of directors and control bodies in the traditional and new models of governance. For Basel 2 and IAS to have the desired effects, the independence granted to directors – notably in the revised Articles 2381 and 2392 of the Civil Code – must be accompanied by strengthened internal and external controls on operations and accounts.

In applying the legislation intended to safeguard and foster competition in banking, even greater advantage will be taken of the connection between antitrust action and prudential supervision. Credit remains the heart of banking. Competition in the credit market is increasingly vital. As the supervisory authority, the Bank of Italy will have a delicate dual task. It must validate the various internal models of risk control that the banks can use under Basel 2. It will also have to check how these models are used in decision-making and, together with Consob, how the International Accounting Standards are applied. As stochastic methods come into more widespread use, until the ways in which they are employed converge under the pressure of competition the credit "product" and its price will vary – from bank to bank and over time, and perhaps even for the same customer. In the product price/quality/quantity analysis performed for antitrust purposes, the benefits of assigning the antitrust powers to banking supervisors will increase. The supervisory authority is better informed because it has primary responsibility for the validation and checking of the banks' risk models and accounting methods.

Lastly, the urgent need for radical revision of bankruptcy procedures has become even more glaring. In a world in which corporate planning and decision-making are no longer deterministic but probabilistic, the old bankruptcy law, all black-and-white, without shades of grey (liquid-illiquid, solvent-insolvent, revocable loans, impaired loans and bad debts) has become simply impracticable. Even the vested interests that have stymied all attempts at reform for years now will have to recognize the need to rewrite the bankruptcy procedures from top to bottom.

Basel 2 and IAS encourage customized standards where abstract and general principles are hard to apply to concrete cases. This is consistent with the principle that the courts must weigh not so much the outcome of companies' decisions as the process by which they are made. Both extremes must be avoided: having directors' actions governed exclusively by established parameters on the one hand and placing excessive emphasis on the outcome, ex post facto, in judging their choices on the other. Ultimately, in any event, jurisprudence will be crucial.

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[1] P. Ciocca, *Il tempo dell'economia. Strutture, fatti, interpreti,* Turin, Bollati Boringhieri, 2004, Chapter 14.

[2] P. Ciocca and G. M. Rey, "For the growth of the Italian economy", *Review of Economic Conditions in Italy*, No. 2, 2004.

[3] P. Ciocca, *The Italian Financial System Remodelled*, Basingstoke, Palgrave Macmillan, 2005, especially Chapter 6.

[4] N. Cetorelli and R. Violi, *Forme di mercato e grado di concorrenza nell'industria bancaria dell'area dell'euro*, Quaderni di Ricerche, Ente Einaudi, No. 35, 2003, pp. 37-39 and Table 4, p. 55.

Table 1

Long-term trends in the Italian banking industry

	Demographics
Banks existing at 31.12.1990	1,064
Banks existing at 30.6.2004	790
Banks that went out of business between 1.1.1991 and 30.6.2004	812

	Profitability and productivity	
	1980-1990	1991-2003
	(averages of annual data; percentages)	
Return on equity	11.3	6.0
Operating profit/total assets	1.70	1.39
Rate of change in per capita staff costs at constant prices	0.8	0.1
Rate of change in assets per employee at constant prices	1.0	4.0
Rate of change in gross income per employee at constant prices	1.1	2.2

	Listed banks		
	1981	1990	2004
Number	32	47	40
Market share (assets) (1)	23%	30%	80%

	Losses of banks that went out of business: 1990-2003 (2)
Nominal losses (millions of euros)	12,998
Present value as of 2003 (millions of euros) (3)	17,465
Present value 2003/GDP 2003 (3)	1.34

1) Directly and throught unlisted subsidiaries. – 2) Income statement losses between 1990 and 2003 of all the banks that stopped operating, that were merged with other banks, or control of which was acqired by other banks or banking groups. – 3) Calculated using the average annual rate on Italian Treasury bills.

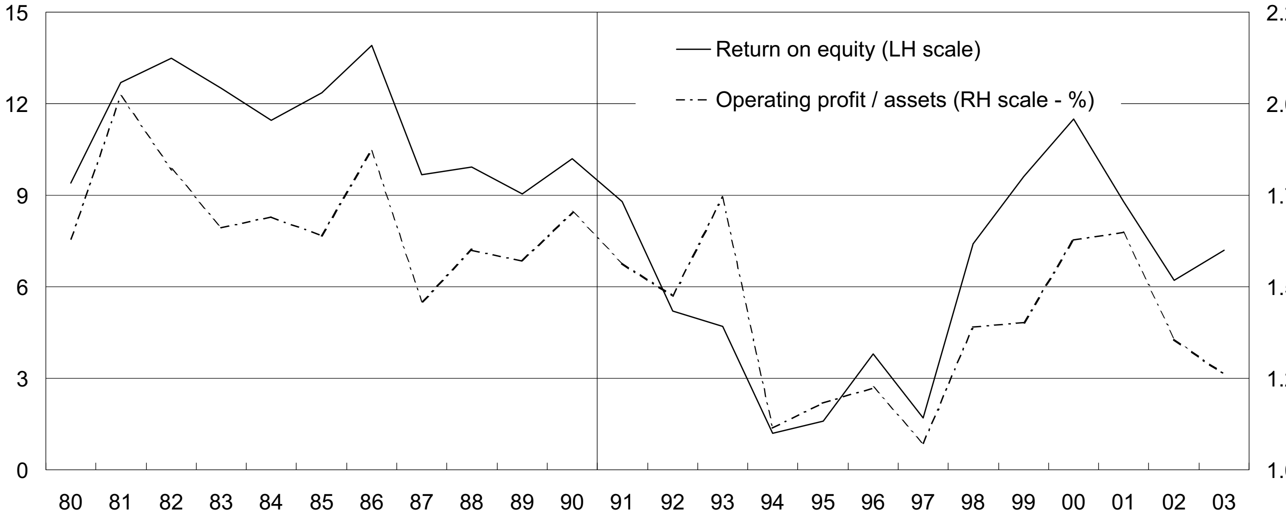
Table 2

Contribution to formation of the profit rate
(as a percentage of capital and reserves)

	1980-1990	1991-2003
Operating profit	45.9	20.19
Net value adjustments, net non-recurring expence/income	-23.2	-8.75
Pre-tax profit rate	22.7	11.4
Taxes	-11.4	-5.4
Return on equity	11.3	6.0

Figure 1

Indicators of the Italian banking industry's profitability: 1980-2003



Appendix

Statistical tables

The world economy

The Italian economy

Money, credit and interest rates

2a

Table a1

GDP at constant prices

	Percentage of world GDP in 2003 (1)	2000	2001	2002	2003	2004	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4
	(percentage changes on previous period on an annual basis; seasonally adjusted quarterly data)										
Industrial countries											
United States	21.0	3.7	0.8	1.9	3.0	4.4	4.2	4.5	3.3	4.0	3.8
Japan	7.0	2.4	0.2	-0.3	1.4	2.6	5.7	5.8	-0.8	-1.1	-0.5
Euro area	15.8	3.5	1.6	0.9	0.5	2.0	1.7	3.0	1.9	1.0	0.6
Germany	*4.5*	*2.9*	*0.8*	*0.1*	*-0.1*	*1.6*	*1.2*	*2.0*	*1.4*	*0.1*	*-0.9*
France (2)	*3.2*	*3.8*	*2.1*	*1.2*	*0.5*	*2.5*	*2.4*	*3.0*	*2.8*	*-0.1*	*3.1*
Italy (3)	*3.0*	*3.0*	*1.8*	*0.4*	*0.3*	*1.3*	*0.2*	*2.2*	*1.4*	*1.7*	*-1.2*
United Kingdom	3.2	3.9	2.3	1.8	2.2	3.1	4.0	2.4	4.2	2.1	2.9
Canada	1.9	5.2	1.8	3.4	2.0	2.8	3.3	2.8	4.5	2.9	1.7
	(percentage changes on year-earlier period)										
Emerging countries											
Latin America											
Argentina	0.8	-0.8	-4.4	-10.9	8.8	....	11.7	11.3	7.1	8.3	....
Brazil	2.8	4.4	1.3	1.9	0.5	5.2	0.9	4.1	5.6	6.1	4,9
Mexico	1.8	6.6	-0.2	0.8	1.4	4.4	2.1	3.9	4.1	4.6	4.9
Asia											
China	12.6	8.0	7.5	8.3	9.3	9.5	9.9	9.8	9.6	9.1	9.5
India (4)	5.7	5.4	4.5	4.7	7.0	....	10.5	8.2	7.4	6.6	....
Indonesia	1.4	4.9	3.8	4.4	4.9	5.1	4.9	4.4	4.4	5.1	6.7
Malaysia	0.5	8.9	0.3	4.1	5.3	7.1	6.6	7.8	8.2	6.7	5.6
South Korea	1.7	8.5	3.8	7.0	3.1	....	3.9	5.3	5.5	4.6	....
Taiwan	1.1	5.8	-2.2	3.9	3.3	5.7	5.9	6.7	7.9	5.3	3.3
Thailand	0.9	4.8	2.2	5.3	6.9	....	7.7	6.7	6.4	6.0	....
Europe											
Poland	0.8	4.0	1.0	1.4	3.8	....	4.7	6.9	6.1	4.8	....
Russia	2.6	10.0	5.1	4.7	7.3	7.1	7.7	7.3	7.5	7.1	6.7
Turkey	0.9	7.3	-7.5	7.9	5.8	....	6.1	10.1	13.4	4.5	....

(1) On the basis of purchasing power parities. – (2) For 2004 as a whole, changes estimated on the basis of the quarterly data. – (3) For 2004 as a whole, percentage changes for the first nine months on the corresponding period of the previous year. – (4) GDP at factor cost.

Table a2

Industrial production

	2001	2002	2003	2004	August 2004	September 2004	October 2004	November 2004	December 2004	January 2005
	(percentage changes on previous period; seasonally adjusted data)									
Industrial countries										
United States	-3.6	-0.3	..	4.1	0.1	-0.3	0.8	0.1	0.7	..
Japan	-6.5	-1.3	3.3	5.4	0.1	-0.4	-1.3	1.7	-0.8	(2.1)
Euro area	0.4	-0.5	0.2	1.9	-0.6	0.7	-0.6	-0.4	0.5	....
Germany	*0.2*	*-1.0*	*0.4*	*2.9*	*-0.7*	*..*	*0.4*	*-1.5*	*0.6*	*....*
France	*1.1*	*-1.5*	*-0.4*	*1.7*	*-1.6*	*2.8*	*-1.0*	*0.3*	*0.7*	*....*
Italy	*-0.6*	*-1.6*	*-1.0*	*0.7*	*-0.7*	*0.3*	*-0.5*	*-1.0*	*-0.6*	*....*
United Kingdom	-1.6	-2.5	-0.2	....	-1.1	-0.3	-0.2	0.2	....	....
Canada	-3.9	1.5	0.8	....	1.0	-0.2	..	0.2	....	....
	(percentage changes on year-earlier period)									
Emerging countries										
Latin America										
Argentina	-4.9	-7.3	12.9	7.4	10.1	7.3	6.0	6.2	6.2	4.9
Brazil	1.6	2.7	0.1	8.3	13.3	7.5	3.2	7.7	8.3	....
Mexico	-3.4	-0.3	-0.2	3.8	5.1	5.6	1.8	5.4	3.8	....
Asia										
China	9.7	12.8	16.7	16.3	15.9	16.1	15.7	14.8	14.4	20.9
India	2.3	4.6	6.2	8.0	8.0	8.8	9.8	7.7	7.9	6.9
Indonesia	-1.1	-7.1	3.9	....	-	-	-	-	-	-
Malaysia	-4.1	4.6	9.3	11.3	10.6	10.0	6.9	9.9	5.8	....
South Korea	0.7	8.0	5.0	10.4	10.9	10.0	5.8	9.9	4.6	14.2
Taiwan	-7.8	7.9	7.1	9.8	8.5	8.3	2.9	5.7	-0.7	13.0
Thailand	2.7	8.9	13.8	11.0	10.3	13.5	8.9	11.7	5.3	3.9
Europe										
Poland	0.4	1.4	8.7	12.7	13.8	9.4	3.4	11.4	6.9	4.7
Russia	4.9	3.7	7.0	5.6	6.8	3.5	3.5	0.6	4.8	2.1
Turkey	-8.8	9.2	8.5	9.7	8.2	5.5	1.3	9.3	4.7	....

Table a3

Consumer prices

	2000	2001	2002	2003	2004	September 2004	October 2004	November 2004	December 2004	January 2005
	(percentage changes on year-earlier period)									
Industrial countries										
United States	3.4	2.8	1.6	2.3	2.7	2.5	3.2	3.5	3.3	3.0
Japan	-0.7	-0.7	-0.9	-0.3	..	..	0.5	0.8	0.2	-0.1
Euro area (1)	2.1	2.3	2.3	2.1	2.1	2.1	2.4	2.2	2.4	1.9
Germany	*1.4*	*1.9*	*1.3*	*1.0*	*1.8*	*1.9*	*2.2*	*2.0*	*2.2*	*1.6*
France	*1.8*	*1.8*	*1.9*	*2.2*	*2.3*	*2.2*	*2.3*	*2.2*	*2.3*	*1.6*
Italy	*2.6*	*2.7*	*2.6*	*2.8*	*2.3*	*2.1*	*2.1*	*2.0*	*2.4*	*2.0*
United Kingdom	2.1	2.1	2.2	2.8	2.2	1.9	2.1	2.2	2.5	2.1
Canada	2.7	2.5	2.2	2.8	1.8	1.8	2.3	2.4	2.1	2.0
Emerging countries										
Latin America										
Argentina	-0.9	-1.1	25.9	13.4	4.4	5.9	5.7	5.4	6.1	7.2
Brazil	7.0	6.8	8.5	14.7	6.6	6.7	6.9	7.2	7.6	7.4
Mexico	9.5	6.4	5.0	4.5	4.7	5.1	5.4	5.4	5.2	4.5
Asia										
China	0.3	0.7	-0.8	1.3	3.9	5.2	4.3	2.8	2.4	1.9
India	4.0	3.8	4.3	3.8	3.8	4.8	4.6	4.2	3.8	4.4
Indonesia	3.7	11.5	11.9	6.6	6.2	6.4	6.4	6.3	6.4	7.3
Malaysia	1.5	1.4	1.8	1.1	1.4	1.6	2.1	2.2	2.1	2.4
South Korea	2.3	4.1	2.8	3.5	3.6	3.9	3.8	3.3	3.0	3.1
Taiwan	1.3	..	-0.2	-0.3	1.6	2.8	2.4	1.5	1.6	0.5
Thailand	1.6	1.6	0.6	1.8	2.8	3.6	3.5	3.0	2.9	2.7
Europe										
Poland	10.1	5.5	1.9	0.8	3.5	4.4	4.5	4.5	4.4	4.0
Russia	20.8	21.6	16.0	13.6	11.0	11.5	11.6	11.7	11.7	12.6
Turkey	54.9	54.4	45.0	21.6	8.6	8.0	9.4	9.5	9.4	9.2

(1) As of January 2001, includes Greece.

Table a4

External current account

	2000	2001	2002	2003	2004	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4
	(billions of dollars; seasonally adjusted quarterly data)									
Industrial countries										
United States	-413.5	-385.7	-473.9	-530.7	….	-127.0	-147.2	-164.4	-164.7	….
Japan	119.6	87.8	112.8	136.4	171.8	39.4	46.0	42.9	42.0	42.9
Euro area	-62.3	-10.1	56.3	25.9	52.1	11.6	19.4	18.3	4.4	7.6
Germany	*-25.5*	*1.8*	*43.5*	*52.4*	*96.7*	*19.9*	*27.0*	*27.3*	*17.7*	*25.1*
France	*18.3*	*21.6*	*14.7*	*5.0*	*-5.1*	*0.1*	*0.1*	*-0.3*	*-1.7*	*-3.3*
Italy	*-5.7*	*-0.8*	*-9.4*	*-19.0*	*-14.1*	*-4.2*	*-2.5*	*-3.6*	*-2.4*	….
United Kingdom	-36.2	-32.1	-26.3	-30.5	….	-9.0	-11.9	-10.5	-16.0	….
Canada	19.6	16.2	14.4	17.3	….	5.1	6.2	8.2	7.2	….
	(billions of dollars; quarterly data, not seasonally adjusted)									
Emerging countries										
Latin America										
Argentina	-9.0	-3.9	8.6	7.4	….	1.0	0.4	1.6	0.5	….
Brazil	-24.2	-23.2	-7.6	4.2	11.7	0.3	1.6	2.7	5.3	2.0
Mexico	-18.5	-17.8	-13.4	-8.6	-8.7	-2.9	-1.7	-0.6	-1.8	-4.6
Asia										
China	20.5	17.4	35.4	45.9	70.0	-	-	-	-	-
India (1)	-4.6	1.4	7.1	6.9	1.7	2.6	5.8	3.2	-6.4	….
Indonesia (1)	8.0	6.9	7.8	7.3	7.3	1.6	-0.4	1.1	1.6	….
Malaysia (1)	8.4	7.3	8.0	13.4	15.2	2.8	4.0	3.4	4.5	….
South Korea	12.3	8.0	5.4	11.9	27.6	7.7	6.1	7.0	7.1	7.3
Taiwan	8.9	18.2	25.6	29.3	19.0	8.0	5.9	5.6	5.3	2.2
Thailand	9.3	6.2	7.0	8.0	7.3	2.5	2.2	0.6	1.5	3.0
Europe										
Poland	-10.0	-5.4	-5.0	-4.6	….	-0.9	-0.7	-1.6	-0.9	….
Russia	46.8	33.9	29.1	35.4	….	8.6	12.6	13.4	14.7	….
Turkey	-9.8	3.4	-1.5	-8.0	-15.6	-3.5	-5.4	-4.5	-0.6	-5.1

(1) For 2004 as a whole, IMF estimates.

Table a5

Short-term interest rates

(percentages)

	United States	Japan	Euro area	United Kingdom	Canada
			Official rates *(end-of-period data)*		
2000	6.50	0.50	4.75	6.00	5.75
2001	1.75	0.10	3.25	4.00	2.25
2002	1.25	”	2.75	”	2.75
2003	1.00	”	2.00	3.75	”
2004 - Feb.	”	”	”	4.00	2.50
Mar.	”	”	”	”	2.25
Apr.	”	”	”	”	2.00
May	”	”	”	4.25	”
June	1.25	”	”	4.50	”
July	”	”	”	”	”
Aug.	1.50	”	”	4.75	”
Sept.	1.75	”	”	”	2.25
Oct.	”	”	”	”	2.50
Nov.	2.00	”	”	”	”
Dec.	2.25	”	”	”	”
2005 - Jan.	”	”	”	”	”
Feb.	2.50	”	”	”	”
			Money market rates *(period averages)*		
2001	3.69	0.16	4.26	4.97	4.00
2002	1.73	0.09	3.32	3.99	2.63
2003	1.15	0.13	2.33	3.67	2.96
2004	1.57	0.13	2.11	4.57	2.31
2004 - Feb.	1.05	0.19	2.07	4.10	2.32
Mar.	1.05	0.09	2.03	4.23	2.16
Apr.	1.09	0.28	2.05	4.33	2.07
May	1.21	0.05	2.09	4.46	2.07
June	1.46	0.04	2.11	4.73	2.10
July	1.57	0.02	2.12	4.79	2.11
Aug.	1.68	0.07	2.11	4.89	2.15
Sept.	1.86	0.31	2.12	4.87	2.41
Oct.	2.04	0.02	2.15	4.83	2.58
Nov.	2.26	0.10	2.17	4.82	2.70
Dec.	2.46	0.16	2.17	4.81	2.57
2005 - Jan.	2.61	0.09	2.15	4.80	2.56
Feb.	2.77	0.05	2.14	4.82	2.58

Table a6

Long-term interest rates and share price indices

(period averages)

	United States	Japan	Germany	France	Italy	UK	Canada
				Bond yields *(percentages)*			
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
2003	4.01	0.99	4.07	4.13	4.25	4.58	4.81
2004	4.27	1.50	4.04	4.10	4.26	4.93	4.58
2004 - Feb.	4.08	1.25	4.11	4.14	4.34	4.88	4.45
Mar.	3.83	1.36	3.91	3.98	4.17	4.76	4.26
Apr.	4.35	1.51	4.10	4.19	4.35	4.99	4.61
May	4.72	1.49	4.25	4.34	4.49	5.15	4.77
June	4.73	1.77	4.31	4.39	4.54	5.24	4.93
July	4.50	1.80	4.24	4.27	4.44	5.14	4.75
Aug.	4.28	1.65	4.08	4.11	4.28	5.03	4.63
Sept.	4.13	1.51	4.02	4.09	4.25	4.95	4.60
Oct.	4.10	1.49	3.89	3.98	4.13	4.81	4.55
Nov.	4.19	1.47	3.78	3.86	4.00	4.74	4.48
Dec.	4.23	1.40	3.58	3.64	3.79	4.58	4.32
2005 - Jan.	4.22	1.37	3.56	3.58	3.71	4.60	4.26
Feb.	4.17	1.39	3.54	3.60	3.68	4.66	4.21
				Share price indices *(indices, 1995=100)*			
2001	220.33	86.57	218.65	268.00	258.79	162.81	175.75
2002	183.90	70.93	165.23	202.59	205.25	135.17	159.49
2003	177.91	66.50	127.17	166.49	185.17	120.11	161.00
2004	208.79	81.10	152.53	196.91	213.15	136.64	194.35
2004 - Feb.	211.11	75.68	157.89	196.71	208.62	134.64	196.23
Mar.	207.51	82.41	152.03	195.33	206.77	134.94	194.77
Apr.	209.25	87.02	155.46	200.10	212.95	136.77	195.40
May	203.76	81.44	147.94	194.07	208.14	134.26	186.93
June	209.17	83.94	151.59	198.20	211.65	135.23	190.61
July	204.33	83.07	148.63	193.99	209.79	132.04	190.37
Aug.	201.04	80.76	143.58	190.69	204.40	132.22	187.13
Sept.	206.31	81.27	148.68	196.54	211.72	137.54	192.16
Oct.	206.42	80.41	150.25	197.74	217.34	139.98	198.76
Nov.	215.92	79.75	155.70	202.40	225.29	143.26	201.95
Dec.	221.49	80.60	159.42	202.86	233.34	144.18	206.23
2005 - Jan.	218.14	82.90	160.71	206.42	240.79	147.05	205.43
Feb.	221.50	84.01	163.90	213.27	247.59	152.37	215.43

Table a7

Euro exchange rates and the price of gold

	Units of national currency per euro								Gold (dollars per ounce)
	US dollar	Japanese yen	Canadian dollar	Pound sterling	Danish krone	Norwegian krone	Swedish krona	Swiss franc	
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
2003	1.131	130.97	1.582	0.6920	7.431	8.003	9.124	1.521	417.25
2004	1.244	134.44	1.617	0.6787	7.440	8.370	9.124	1.544	438.00
2002 - Q4	0.999	122.42	1.569	0.6361	7.428	7.319	9.095	1.467	342.75
2003 - Q1	1.073	127.59	1.620	0.6696	7.431	7.571	9.182	1.466	334.85
Q2	1.137	134.74	1.589	0.7017	7.425	7.957	9.143	1.518	346.00
Q3	1.125	132.14	1.553	0.6989	7.431	8.247	9.163	1.545	388.00
Q4	1.189	129.45	1.566	0.6975	7.436	8.223	9.009	1.554	417.25
2004 - Q1	1.250	133.97	1.648	0.6799	7.449	8.631	9.184	1.569	423.70
Q2	1.205	132.20	1.637	0.6670	7.439	8.263	9.145	1.537	395.80
Q3	1.222	134.38	1.600	0.6722	7.437	8.389	9.158	1.536	415.65
Q4	1.298	137.11	1.584	0.6951	7.434	8.199	9.013	1.533	438.00
2004 - Feb.	1.265	134.78	1.682	0.6769	7.451	8.775	9.176	1.573	395.85
Mar.	1.226	133.13	1.631	0.6712	7.449	8.541	9.235	1.567	423.70
Apr.	1.199	129.08	1.607	0.6653	7.444	8.298	9.165	1.555	388.50
May	1.201	134.48	1.654	0.6716	7.440	8.207	9.128	1.540	393.25
June	1.214	132.86	1.649	0.6643	7.434	8.286	9.143	1.519	395.80
July................	1.227	134.08	1.622	0.6658	7.435	8.475	9.196	1.527	391.40
Aug.	1.218	134.54	1.601	0.6694	7.436	8.331	9.186	1.539	407.25
Sept.	1.222	134.51	1.577	0.6813	7.438	8.360	9.092	1.543	415.65
Oct.	1.249	135.97	1.560	0.6914	7.438	8.235	9.062	1.543	425.55
Nov.	1.299	136.09	1.554	0.6986	7.431	8.141	8.998	1.522	453.40
Dec.	1.341	139.14	1.633	0.6950	7.434	8.221	8.982	1.536	438.00
2005 - Jan.	1.312	135.63	1.606	0.6987	7.440	8.213	9.048	1.547	422.15
Feb.	1.301	136.55	1.613	0.6897	7.443	8.320	9.085	1.550	435.45

Table a8

Indicators of competitiveness (1)

(period averages; indices, 1993=100)

	US	Japan	Germany	France	Italy	UK	Canada	Switzerland
1999	107.0	90.4	91.2	94.3	102.5	122.6	97.8	95.4
2000	113.3	95.4	84.8	89.7	99.3	121.1	97.4	90.2
2001	119.5	84.7	87.6	90.3	100.9	118.0	95.0	93.1
2002	116.1	79.6	89.1	91.9	103.2	120.0	95.2	97.6
2003	111.2	77.3	94.8	95.9	108.6	115.6	99.2	97.4
2004	107.4	76.7	95.3	96.5	110.2	120.4	103.0	96.1
2002 - Q4	115.1	78.4	90.1	93.1	105.0	120.6	94.3	98.5
2003 - Q1	115.0	77.0	92.8	94.6	106.9	116.5	94.8	99.0
Q2	111.0	75.8	95.4	96.3	109.0	114.6	99.0	98.2
Q3	111.6	76.4	95.2	96.1	108.9	114.8	100.2	96.1
Q4	107.1	80.0	95.9	96.7	109.6	116.7	102.8	96.4
2004 - Q1	105.7	78.5	96.0	97.3	110.2	121.2	102.2	95.8
Q2	109.0	77.0	94.4	95.8	109.4	121.4	101.0	96.3
Q3	108.8	75.7	94.7	96.1	110.0	120.7	103.4	95.8
Q4	106.1	75.7	96.1	96.9	111.3	118.3	105.6	96.7
2003 - Dec.	105.8	79.6	96.8	97.3	110.3	117.3	102.5	97.2
2004 - Jan.	105.3	79.0	96.5	97.7	110.6	119.5	102.6	96.5
Feb.	105.3	78.5	96.2	97.4	110.3	122.2	101.6	95.7
Mar.	106.5	77.9	95.3	96.7	109.8	122.0	102.2	95.2
Apr.	107.7	78.7	94.2	95.7	108.9	121.5	102.0	95.2
May	110.1	75.5	94.5	96.0	109.7	120.6	100.4	96.2
June	109.2	76.7	94.3	95.8	109.8	122.2	100.6	97.4
July	108.6	76.3	94.8	96.2	109.9	122.0	102.6	96.7
Aug.	109.3	75.3	94.6	96.1	109.9	121.0	103.1	95.4
Sept.	108.6	75.5	94.8	96.1	110.1	119.1	104.4	95.2
Oct.	108.0	75.0	95.5	96.4	110.5	117.8	105.6	95.3
Nov.	106.3	76.1	95.7	96.9	111.2	117.7	106.2	97.5
Dec.	104.0	76.0	97.0	97.5	112.1	119.5	105.1	97.3

(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, unless otherwise indicated)

	Sources			Uses					
				Gross fixed capital formation					
	GDP	Imports	Total	Building	Machinery and equipment, sundry products and vehicles	Total	Consumption of resident households	Other domestic uses	Exports
				At 1995 prices					
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	3.0	7.1	3.9	5.9	7.7	6.9	2.7	- 4.2	9.7
2001	1.8	0.5	1.5	3.0	1.1	1.9	0.8	3.2	1.6
2002	0.4	- 0.2	0.2	3.3	- 0.3	1.2	0.5	4.5	- 3.4
2003	0.3	- 0.6	0.1	1.8	- 4.9	- 2.1	1.3	4.7	- 3.9
2004 (1)	1.3	2.3	1.5	2.6	2.8	2.7	1.0	-0.5	3.3
				Implicit prices					
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	2.2	14.2	4.5	3.2	2.1	2.5	2.9	10.0	6.3
2001	2.6	2.6	2.6	2.6	2.0	2.3	2.8	1.7	3.2
2002	3.1	0.1	2.4	3.7	1.4	2.4	3.1	0.9	1.8
2003	2.9	- 0.8	2.2	3.3	0.7	1.9	2.5	2.4	1.0
2004 (1)	2.4	2.6	2.4	3.5	1.4	2.4	2.1	0.4	3.9

(1) Percentage changes of the first nine months on the corresponding period.

Table a10

Industrial production and ISAE business opinion indicators

(seasonally adjusted data)

	Industrial production					ISAE business opinion indicators				
						Level of orders				
	General index	Consumer goods	Investment goods	Intermediate goods	Energy	domestic	foreign	total	Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal
	(indices, 2000=100)					(average balance of monthly responses; percentage points)				
1998	96.8	96.9	97.0	97.2	95.6	-16.2	-12.9	-11.7	15.8	8.0
1999	97.0	98.7	97.3	95.1	97.3	-19.6	-20.7	-16.6	17.6	7.5
2000	100.0	100.0	100.0	100.0	100.0	0.1	-2.3	4.3	27.0	3.9
2001	99.4	100.4	99.8	98.2	99.6	-15.7	-18.7	-12.8	15.0	9.9
2002	97.8	98.5	97.3	95.6	103.8	-17.7	-22.3	-15.3	18.5	6.7
2003	96.8	97.6	94.0	94.4	108.2	-22.2	-27.8	-20.4	16.3	6.8
2004	97.5	97.8	94.1	95.3	110.3	-18.3	-18.6	-15.3	17.4	7.4
1997 - Q1	91.9	93.3	93.3	90.1	91.1	-28.1	-23.1	-22.8	12.2	7.0
Q2	95.2	94.7	97.6	95.5	93.1	-21.9	-16.2	-16.8	13.1	7.7
Q3	96.4	96.1	98.2	96.6	93.3	-14.3	-10.4	-7.9	19.9	4.3
Q4	97.5	95.6	99.4	98.7	95.1	-12.2	-11.2	-6.8	23.1	6.3
1998 - Q1	96.9	95.1	97.6	98.8	94.7	-10.7	-6.4	-4.8	24.1	6.7
Q2	97.2	97.1	97.7	98.5	94.8	-13.4	-8.5	-7.8	18.1	8.3
Q3	96.6	97.0	97.2	96.1	95.5	-17.4	-15.5	-13.2	11.4	7.3
Q4	95.5	96.7	93.3	94.2	97.0	-23.4	-21.2	-20.8	9.6	9.7
1999 - Q1	95.2	97.0	96.0	93.1	97.8	-27.5	-27.8	-24.5	8.8	9.3
Q2	95.0	96.3	95.8	93.8	95.2	-25.7	-26.5	-23.2	13.9	9.3
Q3	96.9	99.6	96.7	94.6	97.5	-15.3	-17.5	-13.5	20.5	5.3
Q4	98.3	99.4	98.3	97.2	98.2	-9.9	-11.2	-5.1	27.3	6.0
2000 - Q1	98.6	97.8	99.3	98.5	99.6	-2.5	-4.1	1.1	28.2	2.3
Q2	100.3	100.6	100.9	100.1	100.8	2.8	-1.6	6.1	27.5	4.3
Q3	100.4	100.3	100.6	100.2	100.4	1.1	-0.8	5.9	28.1	3.3
Q4	102.0	103.4	101.0	102.5	99.4	-1.2	-2.9	4.3	24.1	5.7
2001 - Q1	101.9	104.0	103.2	100.9	97.7	-7.5	-10.4	-4.3	21.0	9.3
Q2	100.1	100.8	100.6	99.4	98.7	-12.5	-14.9	-8.3	20.1	11.7
Q3	98.7	99.1	98.6	97.9	99.1	-18.4	-19.8	-15.4	13.0	8.0
Q4	97.1	98.0	96.5	95.0	103.1	-24.3	-29.5	-23.3	6.1	10.7
2002 - Q1	97.4	99.1	96.9	95.1	103.1	-18.4	-24.8	-14.7	18.6	8.7
Q2	98.0	98.8	97.1	95.5	104.5	-15.7	-19.2	-11.7	22.1	9.3
Q3	98.2	97.8	97.5	96.3	105.2	-20.3	-23.8	-18.7	18.0	4.0
Q4	97.8	98.5	97.6	95.5	102.8	-16.5	-21.5	-16.3	15.3	4.7
2003 - Q1	97.5	97.7	94.8	96.1	108.0	-17.7	-22.8	-15.7	16.4	5.0
Q2	96.3	97.1	93.0	93.8	107.9	-23.8	-29.2	-22.6	15.4	7.7
Q3	97.6	98.8	94.9	94.7	109.3	-25.8	-30.8	-24.4	15.9	6.3
Q4	97.7	99.0	95.5	94.3	108.9	-21.5	-28.2	-19.0	17.5	8.3
2004 - Q1	97.3	99.2	94.7	93.9	108.7	-22.0	-24.8	-19.7	17.0	9.7
Q2	97.5	98.1	95.1	95.2	109.0	-18.1	-18.6	-15.6	18.1	7.0
Q3	97.0	96.6	93.2	95.1	111.4	-16.1	-14.5	-12.0	18.1	5.3
Q4	95.6	94.8	90.6	94.7	110.3	-16.8	-16.5	-13.7	16.5	7.7

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				
1999	1,030	5,052	1,521	13,245	20,847	2,560	23,407	10.9	60.4
2000	1,014	5,016	1,560	13,621	21,210	2,388	23,599	10.1	61.0
2001	1,018	4,988	1,641	13,958	21,605	2,164	23,769	9.1	61.6
2002	990	5,029	1,674	14,221	21,913	2,062	23,975	8.6	62.1
2003	968	5,080	1,742	14,452	22,241	2,048	24,289	8.4	62.9
1999 - Q1	989	5,050	1,463	13,045	20,547	2,641	23,188	11.4	59.8
Q2	1,012	4,985	1,512	13,261	20,770	2,619	23,389	11.2	60.4
Q3	1,061	5,074	1,554	13,365	21,054	2,487	23,542	10.6	60.7
Q4	1,056	5,097	1,556	13,308	21,017	2,491	23,508	10.6	60.7
2000 - Q1	979	4,961	1,517	13,306	20,763	2,539	23,302	10.9	60.2
Q2	989	4,925	1,538	13,609	21,062	2,437	23,499	10.4	60.8
Q3	1,032	5,079	1,582	13,754	21,447	2,298	23,745	9.7	61.4
Q4	1,057	5,097	1,601	13,814	21,569	2,279	23,848	9.6	61.6
2001 - Q1	990	5,024	1,596	13,771	21,381	2,276	23,658	9.6	61.2
Q2	1,004	4,949	1,625	13,889	21,468	2,168	23,636	9.2	61.2
Q3	1,036	4,984	1,673	14,105	21,798	2,090	23,888	8.7	61.9
Q4	1,041	4,994	1,670	14,065	21,771	2,122	23,893	8.9	61.9
2002 - Q1	953	4,990	1,638	14,124	21,705	2,095	23,800	8.8	61.7
Q2	964	5,003	1,643	14,206	21,816	2,107	23,923	8.8	62.0
Q3	1,025	5,054	1,704	14,294	22,077	1,994	24,071	8.3	62.3
Q4	1,017	5,068	1,710	14,259	22,054	2,053	24,107	8.5	62.4
2003 - Q1	890	5,045	1,730	14,170	21,835	2,186	24,021	9.1	62.4
Q2	901	5,104	1,756	14,514	22,275	2,046	24,321	8.4	63.0
Q3	1,059	5,143	1,713	14,477	22,392	1,938	24,330	8.0	62.9
Q4	1,020	5,028	1,767	14,647	22,462	2,023	24,485	8.3	63.2
2004 - Q1	903	4,957	1,746	14,459	22,065	2,099	24,164	8.7	62.2
Q2	943	5,080	1,841	14,574	22,438	1,923	24,361	7.9	62.5
Q3	1,081	5,011	1,883	14,510	22,485	1,800	24,286	7.4	62.3

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 (4)							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				
			Processed	Un-processed	Total									
Weights (3)	*30.0*	*31.9*	*10.0*	*6.5*	*16.6*	*3.3*	*81.8*	*2.8*	*12.3*	*15.2*	*3.0*	*100.0*	*61.9*	*100.0*
2001	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	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
2003	1.9	3.5	2.4	4.2	3.2	2.3	2.8	4.1	1.6	2.1	2.8	2.7	2.7	2.5
2004	0.8	3.4	2.3	2.0	2.2	5.8	2.3	-1.2	2.4	1.7	2.8	2.2	2.1	2.0
2002 - Jan. ...	2.0	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	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	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	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	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	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	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	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	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	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	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	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	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
Feb. ..	2.0	3.6	2.2	2.6	2.4	8.4	2.9	2.0	0.5	0.8	2.7	2.6	2.8	2.5
Mar. ..	2.0	3.7	2.3	2.8	2.5	9.5	3.0	3.2	0.5	1.0	2.7	2.7	2.8	2.6
Apr. ...	2.1	3.7	2.3	2.1	2.2	3.2	2.7	6.0	1.7	2.5	2.8	2.7	2.8	2.5
May ...	2.0	3.6	2.3	2.4	2.4	-0.4	2.6	6.3	2.6	3.3	2.8	2.7	2.8	2.4
June ..	2.0	3.6	2.4	3.9	3.0	-1.3	2.7	6.4	2.1	2.9	2.8	2.7	2.8	2.3
July ...	1.9	3.6	2.4	4.6	3.3	-0.2	2.7	4.5	1.9	2.4	2.9	2.7	2.7	2.5
Aug. ..	1.9	3.7	2.4	5.2	3.6	1.3	2.9	4.5	1.8	2.3	2.9	2.8	2.7	2.5
Sept. .	1.8	3.4	2.4	6.0	3.9	1.8	2.8	4.4	1.8	2.3	2.9	2.8	2.6	2.5
Oct. ...	1.6	3.4	2.6	6.3	4.2	-1.1	2.7	3.7	1.7	2.1	2.7	2.6	2.5	2.4
Nov. ..	1.4	3.3	2.7	6.1	4.1	-0.3	2.6	3.7	1.9	2.2	2.7	2.5	2.3	2.4
Dec. ..	1.4	3.2	2.8	5.4	3.9	0.3	2.5	3.7	1.9	2.3	2.7	2.5	2.3	2.3
2004 - Jan. ...	1.3	3.2	2.8	5.5	3.9	-1.7	2.4	1.6	1.6	1.6	2.7	2.2	2.2	2.0
Feb. ..	1.2	3.1	2.8	5.7	4.0	-2.4	2.4	0.6	2.6	2.2	2.7	2.3	2.2	2.2
Mar. ..	0.9	3.2	2.7	5.1	3.7	-3.2	2.2	0.2	3.6	2.9	2.7	2.3	2.1	1.9
Apr. ...	0.8	3.5	2.6	4.5	3.4	0.7	2.3	-2.4	2.4	1.5	3.0	2.3	2.1	2.0
May ...	0.7	3.3	2.6	3.8	3.1	6.4	2.4	-2.8	2.4	1.4	3.0	2.3	2.0	2.1
June ..	0.6	3.6	2.4	3.2	2.8	9.6	2.5	-2.9	2.7	1.6	3.0	2.4	2.1	2.2
July ...	0.6	3.6	2.4	2.2	2.3	9.0	2.4	-2.3	2.7	1.8	2.8	2.3	2.1	2.1
Aug. ..	0.6	3.7	2.3	1.4	1.9	9.0	2.4	-2.3	2.7	1.8	2.8	2.3	2.2	2.1
Sept. .	0.6	3.8	2.1	-0.2	1.1	7.9	2.2	-2.3	2.5	1.6	2.8	2.1	2.2	1.8
Oct. ...	0.8	3.3	1.8	-1.6	0.4	12.1	2.1	-0.9	1.9	1.4	2.7	2.0	2.1	1.7
Nov. ..	0.8	3.4	1.5	-2.3	..	12.2	2.0	-0.5	1.3	0.9	2.7	1.9	2.1	1.7
Dec. ..	0.8	3.6	1.3	-2.3	-0.2	11.1	2.1	-0.3	2.1	1.7	2.7	2.0	2.2	1.7
2005 - Jan. ...	0.8	3.5	1.2	-2.6	-0.4	8.3	1.9	1.7	1.5	1.6	2.5	1.9	2.2	1.6

Source: Based on Istat data.

(1) Indices, 1995=100. – (2) Consumer price index for worker and employee households, excluding tobacco products; indices, 1995=100. – (3) As of January 1999 Istat changes the weights every year on the basis of estimates of households' final consumption in the previous year. The weights shown in the table are those for January 2005. – (4) The calculation of the sub-indices is based on the disaggregation into 207 elementary items. – (5) Includes medicines, for which the reference is to the aggregate calculated by Istat; around one third of this aggregate consists of products in the so-called "C" band, the prices of which are not regulated. – (6) Percentage changes published by Istat and calculated on indices rounded to the first decimal place.

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: Processed	Food products: Unprocessed	Food products	Energy products	Total net of unprocessed food and energy products	Total
Weights	*34.0*	*40.0*	*74.0*	*11.6*	*7.9*	*19.5*	*6,4*	*85.6*	*100.0*
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
2003	1.9	3.2	2.6	3.4	3.9	3.6	3.2	2.7	2.8
2004	1.6	2.6	2.1	3.6	1.9	2.9	2.4	2.3	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
Feb.	1.1	3.4	2.4	2.3	2.5	2.4	5.3	2.4	2.6
Mar.	2.0	3.5	2.8	2.5	2.6	2.5	6.4	2.8	2.9
Apr.	2.0	3.4	2.8	3.9	2.0	3.0	4.5	2.9	3.0
May	2.2	3.3	2.8	3.8	2.3	3.2	2.8	2.9	2.9
June	2.2	3.3	2.8	3.6	3.6	3.6	2.3	2.9	2.9
July	1.8	3.2	2.6	3.6	4.3	3.9	2.1	2.7	2.9
Aug.	1.5	3.3	2.5	3.5	4.8	4.1	2.8	2.6	2.7
Sept.	1.7	3.1	2.4	3.5	5.6	4.4	3.0	2.6	3.0
Oct.	2.0	2.8	2.4	3.7	5.9	4.6	1.1	2.6	2.8
Nov.	1.9	2.7	2.3	3.9	5.7	4.7	1.6	2.5	2.8
Dec.	1.8	2.6	2.2	4.0	5.0	4.4	1.9	2.4	2.5
2004 – Jan.	1.0	2.4	1.8	3.9	5.1	4.4	-0.1	2.1	2.2
Feb.	2.0	2.4	2.3	4.0	5.2	4.5	-1.0	2.5	2.4
Mar.	1.5	2.3	2.0	5.1	4.7	4.9	-1.5	2.4	2.3
Apr.	1.8	2.5	2.2	3.6	4.2	3.9	-0.8	2.4	2.3
May	1.6	2.4	2.0	3.7	3.6	3.6	1.9	2.3	2.3
June	1.6	2.6	2.2	3.6	3.0	3.3	3.5	2.4	2.4
July	1.3	2.6	2.0	3.6	2.1	3.0	3.4	2.2	2.2
Aug.	1.4	2.7	2.2	3.4	1.4	2.6	3.5	2.3	2.4
Sept.	1.6	2.8	2.3	3.3	-0.2	1.8	3.0	2.4	2.1
Oct.	1.7	2.6	2.2	2.9	-1.5	1.1	5.8	2.3	2.1
Nov.	1.6	2.6	2.1	2.6	-2.1	0.6	6.0	2.2	2.0
Dec.	1.7	2.9	2.3	3.5	-1.9	1.2	5.5	2.5	2.4
2005 – Jan.	1.2	2.6	2.0	3.4	-2.2	1.0	5.0	2.2	2.0

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 2005. – (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 unprocessed food and energy products	Total
				Processed	Unprocessed				
Weights	*30.8*	*41.0*	*71.8*	*12.0*	*7.6*	*19.6*	*8.5*	*83.8*	*100.0*
2001	0.9	2.5	1.8	2.9	7.0	4.5	2.2	1.9	2.3
2002	1.5	3.1	2.4	3.1	3.1	3.1	-0.6	2.5	2.3
2003	0.8	2.5	1.8	3.3	2.1	2.8	3.0	2.0	2.1
2004	0.8	2.6	1.8	3.4	0.6	2.3	4.5	2.1	2.1
2002 – Jan.	1.6	3.0	2.4	3.8	8.4	5.6	-1.9	2.6	2.6
Feb.	1.8	3.0	2.5	3.4	7.1	4.9	-2.9	2.6	2.5
Mar.	1.7	3.2	2.6	3.3	5.6	4.2	-1.5	2.7	2.5
Apr.	1.7	2.9	2.4	3.3	4.2	3.6	-0.5	2.5	2.3
May	1.6	3.3	2.5	3.2	2.1	2.7	-2.8	2.6	2.0
June	1.5	3.2	2.5	3.1	1.2	2.3	-3.6	2.5	1.9
July	1.3	3.2	2.4	3.0	0.9	2.2	-1.6	2.5	2.0
Aug.	1.3	3.3	2.4	3.0	1.4	2.3	-0.3	2.5	2.1
Sept.	1.3	3.2	2.4	2.8	1.7	2.4	-0.2	2.4	2.1
Oct.	1.2	3.1	2.3	2.6	1.7	2.2	2.6	2.3	2.3
Nov.	1.3	3.1	2.3	2.6	1.9	2.3	2.4	2.3	2.3
Dec.	1.2	3.0	2.2	2.7	1.3	2.1	3.8	2.2	2.3
2003 – Jan.	0.6	2.8	1.9	2.8	-0.7	1.4	6.0	2.0	2.1
Feb.	0.7	2.7	1.9	3.2	0.3	2.0	7.7	2.0	2.4
Mar.	0.8	2.6	1.8	3.3	0.7	2.2	7.5	2.0	2.4
Apr.	0.8	2.9	2.0	3.3	0.9	2.3	2.2	2.2	2.1
May	0.9	2.5	1.8	3.3	1.1	2.4	0.6	2.0	1.8
June	0.8	2.5	1.8	3.2	2.5	2.9	1.6	2.0	1.9
July	0.7	2.3	1.6	3.1	2.7	3.0	2.0	1.8	1.9
Aug.	0.6	2.5	1.7	3.0	3.3	3.1	2.7	1.9	2.1
Sept.	0.8	2.5	1.8	3.2	4.2	3.6	1.6	2.0	2.2
Oct.	0.8	2.5	1.7	3.5	3.8	3.6	0.7	2.0	2.0
Nov.	0.7	2.4	1.7	4.0	3.8	3.9	2.2	2.0	2.2
Dec.	0.7	2.3	1.6	3.8	3.2	3.6	1.8	1.9	2.0
2004 – Jan.	0.6	2.5	1.7	3.3	2.9	3.1	-0.4	1.9	1.9
Feb.	0.8	2.6	1.8	3.2	1.9	2.7	-2.2	2.0	1.6
Mar.	0.7	2.5	1.8	4.1	1.7	3.1	-2.0	2.1	1.7
Apr.	1.0	2.5	1.8	3.9	1.6	2.9	2.0	2.1	2.0
May	0.9	2.6	1.8	3.9	1.7	3.1	6.7	2.1	2.5
June	0.9	2.6	1.9	3.8	1.2	2.8	5.9	2.2	2.4
July	0.7	2.7	1.8	3.8	0.7	2.6	5.9	2.1	2.3
Aug.	0.9	2.7	1.9	3.6	-0.2	2.1	6.5	2.2	2.3
Sept.	0.8	2.6	1.8	3.3	-1.5	1.4	6.4	2.0	2.1
Oct.	0.8	2.6	1.8	2.8	-1.2	1.2	9.8	2.0	2.4
Nov.	0.8	2.7	1.9	2.3	-1.0	1.0	8.7	1.9	2.2
Dec.	0.8	2.7	1.9	3.2	..	2.0	6.9	2.1	2.4
2005 – Jan.	0.5	2.4	1.6	2.8	-0.6	1.5	6.2	1.8	1.9

Source: Eurostat.

(1) Weighted average of the harmonized indices of the euro-area countries. The weights shown in the table are those for January 2005. – (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 unprocessed food and energy products	Total	Total net of unprocessed food and energy products	Total	Total net of unprocessed food and energy products	Total	Total net of unprocessed food and energy products	Total	Total net of unprocessed food and energy products
2001	2.7	2.4	1.9	1.2	1.8	1.5	2.8	2.6	2.3	1.9
2002	2.6	2.8	1.3	1.5	1.9	2.2	3.6	3.9	2.3	2.5
2003	2.8	2.7	1.0	0.9	2.2	2.2	3.1	3.0	2.1	2.0
2004	2.3	2.3	1.8	1.7	2.3	2.4	3.1	2.8	2.1	2.1
2002 - Jan.	2.3	2.5	2.2	1.9	2.5	2.2	3.1	3.5	2.6	2.6
Feb.	2.7	2.9	1.8	1.9	2.3	2.1	3.2	3.6	2.5	2.6
Mar.	2.5	2.9	2.0	2.0	2.2	2.2	3.2	3.6	2.5	2.7
Apr.	2.5	2.7	1.5	1.6	2.1	2.1	3.7	4.0	2.3	2.5
May	2.4	2.7	1.1	1.8	1.5	2.2	3.7	4.2	2.0	2.6
June	2.2	2.7	0.8	1.6	1.5	2.2	3.4	4.2	1.9	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	1.1	1.4	1.8	2.3	3.7	4.0	2.1	2.5
Sept. ...	2.8	3.0	1.0	1.4	1.8	2.2	3.5	3.7	2.1	2.4
Oct.	2.8	2.9	1.3	1.3	1.9	2.1	4.0	3.9	2.3	2.3
Nov.	2.9	3.0	1.1	1.2	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	0.9	0.8	1.9	1.8	3.8	3.3	2.1	2.0
Feb.	2.6	2.4	1.2	0.8	2.5	2.4	3.8	3.4	2.4	2.0
Mar.	2.9	2.8	1.2	0.8	2.6	2.2	3.7	3.3	2.4	2.0
Apr.	3.0	2.9	1.0	1.1	1.9	2.1	3.2	3.4	2.1	2.2
May	2.9	2.9	0.6	0.8	1.8	2.1	2.7	3.1	1.8	2.0
June	2.9	2.9	0.9	0.8	1.9	2.1	2.8	3.0	1.9	2.0
July	2.9	2.7	0.8	0.7	1.9	1.9	2.9	3.0	1.9	1.8
Aug.	2.7	2.6	1.1	0.9	2.0	1.9	3.1	3.0	2.1	1.9
Sept. ...	3.0	2.6	1.1	1.0	2.3	2.1	3.0	2.9	2.2	2.0
Oct.	2.8	2.6	1.1	1.0	2.3	2.4	2.7	2.8	2.0	2.0
Nov.	2.8	2.5	1.3	0.9	2.5	2.6	2.9	2.7	2.2	2.0
Dec.	2.5	2.4	1.1	0.8	2.4	2.6	2.7	2.7	2.0	1.9
2004 - Jan.	2.2	2.1	1.2	1.3	2.2	2.6	2.3	2.5	1.9	1.9
Feb.	2.4	2.5	0.8	1.3	1.9	2.6	2.2	2.4	1.6	2.0
Mar.	2.3	2.4	1.1	1.6	1.9	2.6	2.2	2.4	1.7	2.1
Apr.	2.3	2.4	1.7	1.7	2.4	2.6	2.7	2.6	2.0	2.1
May......	2.3	2.3	2.1	1.8	2.8	2.5	3.4	2.8	2.5	2.1
June	2.4	2.4	1.9	1.8	2.7	2.5	3.5	2.9	2.4	2.2
July	2.2	2.2	2.0	1.7	2.6	2.6	3.3	2.9	2.3	2.1
Aug.	2.4	2.3	2.1	1.8	2.5	2.7	3.3	2.9	2.3	2.2
Sept. ...	2.1	2.4	1.9	1.6	2.2	2.4	3.2	3.0	2.1	2.0
Oct.	2.1	2.3	2.2	1.7	2.3	2.0	3.6	2.9	2.4	2.0
Nov.	2.0	2.2	2.0	1.7	2.2	1.8	3.5	2.9	2.2	1.9
Dec.	2.4	2.5	2.2	2.1	2.3	1.7	3.3	2.9	2.4	2.1
2005 - Jan.	2.0	2.2	1.6	1.4	1.6	1.4	3.1	2.7	1.9	1.8

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 compilance 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.

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		
Weights	*17.2*	*13.1*	*17.9*	*34.3*	*17.5*	*69.4*	*100.0*
2001	2.2	2.8	1.2	1.3	2.7	1.6	1.9
2002	2.5	1.0	1.0	0.4	-4.0	1.1	0.2
2003	1.1	2.7	0.7	1.5	2.5	1.2	1.6
2004	0.6	1.4	1.7	4.9	2.4	3.0	2.7
2002 - Jan.	2.8	1.9	1.1	-1.4	-8.6	0.3	-1.2
Feb.	2.8	0.9	1.0	-1.0	-8.2	0.5	-1.1
Mar.	2.8	0.9	1.2	-0.8	-7.3	0.6	-0.8
Apr.	2.3	0.1	1.2	-0.5	-7.1	0.6	-0.8
May	2.1	0.4	1.1	..	-6.2	0.8	-0.5
June	2.6	0.2	1.0	0.3	-6.8	1.1	-0.5
July	2.3	0.6	1.0	0.7	-3.2	1.2	0.4
Aug.	2.6	0.7	1.0	0.9	-2.4	1.3	0.6
Sept.	2.5	1.0	1.0	1.1	-1.5	1.4	0.9
Oct.	2.6	1.5	1.1	1.5	1.2	1.7	1.6
Nov.	2.4	2.0	1.1	1.8	0.6	1.8	1.6
Dec.	2.5	2.1	0.9	1.9	2.8	1.8	2.0
2003 - Jan.	1.7	2.2	0.7	2.3	5.7	1.7	2.5
Feb.	1.5	2.3	0.6	2.6	7.2	1.8	2.8
Mar.	1.5	2.0	0.6	2.5	8.1	1.7	2.8
Apr.	1.6	2.6	0.5	2.4	3.1	1.7	2.0
May	1.5	2.4	0.7	2.0	0.8	1.5	1.6
June	1.2	2.7	0.7	1.3	2.2	1.1	1.5
July	1.1	2.6	0.9	0.8	2.0	0.9	1.3
Aug.	0.8	2.9	0.9	0.4	2.9	0.6	1.4
Sept.	0.8	3.6	0.9	0.6	0.1	0.7	1.0
Oct.	0.4	3.4	0.8	0.8	-1.4	0.7	0.7
Nov.	0.5	3.3	0.8	1.0	1.0	0.8	1.2
Dec.	0.3	2.8	0.9	1.0	-1.4	0.8	0.8
2004 - Jan.	0.2	2.7	1.1	1.2	-3.6	0.9	0.4
Feb.	0.1	2.6	1.2	1.5	-5.9	1.1	0.1
Mar.	..	3.1	1.3	2.8	-5.6	1.7	0.7
Apr.	..	2.6	1.6	3.9	-1.2	2.3	1.7
May	-0.2	2.8	1.7	4.5	4.3	2.6	2.9
June	-0.1	2.9	2.0	5.2	3.8	3.1	3.2
July	0.3	2.1	1.7	5.9	3.8	3.4	3.3
Aug.	0.8	1.1	1.9	6.6	4.2	3.9	3.5
Sept.	1.0	-0.3	1.9	6.7	5.8	4.1	3.8
Oct.	1.4	-0.7	2.0	6.9	9.2	4.3	4.4
Nov.	1.7	-1.1	2.1	7.0	8.0	4.4	4.3
Dec.	1.8	-0.7	2.2	7.0	7.6	4.4	4.2
2005 - Jan.	1.8	-1.2	2.1	6.7	10.0	4.3	4.5

Source: Istat.
(1) Classification by economic purpose. The weights shown in the table relate to base 2000=100. See the notes to the statistical tables. – (2) Excluding energy products and motor vehicles; the latter are included under “Investment goods”.

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)	*13.5*	*31.2*	*18.1*	*68.0*	*100.0*	*13.5*	*34.3*	*17.5*	*65.2*	*100.0*
2002	0.3	-0.7	-3.7	0.1	-0.6	-0.2	-0.6	-0.7	-0.2	-0.2
2003	-0.2	0.4	7.1	0.2	1.7	0.4	0.4	2.6	0.3	0.9
2004	-0.6	2.8	2.5	1.2	1.6	-0.8	2.6	5.1	1.1	2.0
2003 – Jan.	-0.6	0.9	5.1	0.4	1.5	0.8	0.7	7.9	0.5	1.7
Feb.	-0.3	1.4	6.2	0.5	1.9	0.7	0.9	9.9	0.6	2.2
Mar.	-0.2	1.3	5.7	0.6	1.7	1.0	1.1	8.3	0.7	2.1
Apr.	-0.2	1.0	5.8	0.5	1.7	0.8	1.2	1.7	0.8	1.0
May	-0.3	0.9	5.0	0.4	1.4	1.0	0.8	0.4	0.7	0.7
June	-0.1	0.3	5.8	0.1	1.4	0.7	0.6	1.8	0.6	0.9
July	0.3	-0.1	8.6	..	1.9	0.6	-0.3	1.7	0.1	0.6
Aug.	-0.1	-0.4	9.8	-0.2	2.0	0.3	-0.6	1.6	-0.1	0.5
Sept.	..	-0.3	9.0	-0.1	2.0	0.2	-0.3	-0.8	0.1	0.1
Oct.	..	-0.4	7.9	-0.2	1.7	..	-0.1	-0.6	0.1	0.3
Nov.	..	-0.1	8.5	..	2.0	-0.2	0.2	1.0	0.2	0.8
Dec.	-0.3	-0.1	8.0	-0.1	1.8	-0.6	0.3	-1.0	..	0.3
2004 – Jan.	-0.3	-0.2	0.7	-0.1	0.2	-1.0	0.4	-1.7	0.1	0.3
Feb.	-0.5	0.1	-0.7	..	-0.1	-1.0	0.9	-4.3	0.3	..
Mar.	-0.7	0.6	-1.1	0.1	0.3	-1.3	1.3	-3.1	0.3	0.3
Apr.	-1.0	1.5	0.7	0.5	0.9	-1.3	1.6	2.5	0.4	1.3
May	-1.3	2.0	3.9	0.7	1.6	-1.4	1.9	7.4	0.5	2.2
June	-0.9	2.2	2.9	0.8	1.5	-1.6	2.3	6.3	0.7	2.2
July	-0.9	3.3	2.7	1.4	1.9	-1.1	3.3	6.7	1.4	2.6
Aug.	-0.6	4.0	3.1	1.8	2.2	-0.8	3.8	7.3	1.7	2.8
Sept.	-0.6	4.2	3.4	1.9	2.3	-0.4	4.0	9.0	1.8	3.0
Oct.	-0.4	5.2	6.4	2.4	3.3	..	4.3	12.0	2.0	3.5
Nov.	-0.1	5.2	4.5	2.5	2.8	0.4	4.2	10.6	2.2	3.2
Dec.	0.4	5.1	3.3	2.6	2.9	0.5	4.1	9.1	2.2	3.0
2005 – Jan.	0.5	5.5	7.3	3.0	3.9	1.0	4.1	8.1	2.5	2.8
	SPAIN					EURO AREA (3)				
Weights (1)	*16.8*	*31.6*	*18.0*	*66.7*	*100.0*	*14.0*	*31.7*	*16.8*	*66.8*	*100.0*
2002	1.8	0.2	-1.3	1.1	0.7	0.8	-0.3	-2.3	0.3	-0.1
2003	2.3	0.8	1.3	1.3	1.4	0.4	0.8	3.8	0.5	1.4
2004	1.3	4.5	5.3	2.9	3.4	-0.6	3.5	3.7	1.8	2.3
2003 – Jan.	2.3	1.2	7.4	1.5	2.5	0.7	1.4	6.6	0.9	2.1
Feb.	2.5	1.5	8.9	1.7	2.9	0.7	1.8	8.1	1.0	2.5
Mar.	2.7	1.5	9.5	1.7	3.0	0.8	1.8	7.3	1.1	2.3
Apr.	2.5	1.3	1.3	1.5	1.4	0.8	1.6	3.2	1.0	1.5
May	2.3	1.0	-2.3	1.4	0.7	0.8	1.3	1.7	0.8	1.2
June	2.6	0.4	-0.9	1.2	0.9	0.7	0.7	3.1	0.6	1.3
July	2.4	0.1	0.2	1.0	1.1	0.6	0.1	3.3	0.3	1.1
Aug.	2.4	..	0.1	0.9	1.1	0.3	-0.2	4.1	0.1	1.2
Sept.	2.5	0.3	-2.4	1.1	0.8	0.4	..	1.8	0.2	0.9
Oct.	2.2	0.7	-3.6	1.2	0.6	..	0.1	1.1	0.2	0.8
Nov.	2.1	0.9	-0.4	1.3	1.3	-0.3	0.4	3.2	0.2	1.3
Dec.	1.6	1.0	-1.2	1.2	1.1	-0.7	0.4	1.7	0.1	0.9
2004 – Jan.	1.3	1.4	-3.6	1.3	0.7	-0.9	0.5	-1.5	0.2	0.2
Feb.	1.1	2.0	-5.4	1.6	0.7	-0.9	0.9	-3.5	0.3	..
Mar.	1.0	2.6	-5.6	1.9	0.8	-1.1	1.5	-2.8	0.6	0.4
Apr.	1.0	3.7	1.3	2.4	2.6	-1.2	2.3	1.2	1.0	1.4
May	1.1	4.4	7.2	2.6	3.8	-1.3	2.9	5.4	1.3	2.4
June	1.0	4.8	7.1	2.9	4.0	-1.2	3.3	4.4	1.5	2.4
July	1.0	5.3	7.2	3.2	4.1	-0.9	4.3	5.2	2.1	2.9
Aug.	1.0	5.7	9.0	3.4	4.4	-0.7	4.8	5.4	2.4	3.1
Sept.	1.2	5.9	11.0	3.5	4.6	-0.4	5.0	7.0	2.5	3.3
Oct.	1.8	6.2	14.2	3.8	5.4	0.1	5.5	9.7	3.0	4.1
Nov.	1.9	6.3	12.6	3.9	5.2	0.6	5.6	8.0	3.1	3.7
Dec.	2.6	6.2	10.7	4.0	5.0	1.0	5.5	6.6	3.2	3.5
2005 – Jan.	3.3	6.1	8.7	4.2	4.8	1.4	5.5	8.0	3.4	3.9

Source: Based on Eurostat data.

(1) For Germany, base 1995=100; for France, Spain and euro area, base 2000=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 euros 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	..	4.4	1.7	1.0	6.1	3.2
1998	1.6	-6.6	-1.6	2.9	4.0	3.4
1999	0.7	3.4	1.7	1.6	4.2	2.7
2000	7.8	30.4	16.3	5.0	12.2	8.0
2001	4.7	-0.3	2.7	3.1	4.4	3.6
2002	0.7	-2.3	-0.5	1.5	1.3	1.4
2003	0.8	-1.9	-0.3	1.1	0.5	0.8
2000 – Q1	5.8	32.8	15.4	4.8	11.5	7.6
Q2	8.4	30.8	16.6	5.6	11.2	7.9
Q3	9.3	26.2	15.8	6.0	12.3	8.7
Q4	7.7	32.1	17.1	3.5	13.8	7.9
2001 – Q1	6.8	9.4	7.9	2.3	8.0	4.8
Q2	6.4	6.0	6.2	3.8	6.5	5.0
Q3	2.4	0.1	1.3	3.2	3.0	3.1
Q4	3.3	-14.2	-4.1	2.9	0.1	1.6
2002 – Q1	2.3	-4.8	-0.6	3.7	1.6	2.7
Q2	..	-3.0	-1.2	0.7	0.5	0.6
Q3	0.9	-3.9	-1.0	0.0	0.6	0.1
Q4	-0.3	2.8	1.0	1.8	2.6	2.1
2003 – Q1	1.7	3.7	2.5	1.6	1.6	1.5
Q2	1.3	-4.7	-1.2	0.5	-0.3	0.1
Q3	..	-2.8	-1.2	1.2	0.6	0.9
Q4	0.3	-3.8	-1.4	1.0	..	0.5
2004 – Q1	0.9	-4.8	-1.4	2.2	0.2	1.3
Q2	2.9	5.9	4.1	5.2	4.4	4.8
Q3	5.4	9.9	7.4	5.0	6.3	5.6

Source: Based on Istat data.
(1) As of 2002, base 2000=100. See the notes to the statistical tables.

Table a19

Balance of payments: current account and capital account

(millions of euros)

	Current account							Capital account			
				Transfers					Transfers		
				Private		Public				Public	
	Goods	Services	Income		Emigrants' remittances		EU institutions	Intangible assets	Private		EU institutions
2001	17,405	18	-11,635	-2,764	-390	-3,763	-5,634	-312	64	1,184	1,748
2002	14,049	-3,043	-15,396	-4,567	-476	-1,057	-5,727	-206	227	-88	1,625
2003	9,928	-2,712	-17,002	-1,550	-913	-5,544	-6,289	-85	218	2,366	3,635
2004	(8,040)	(2,299)	(-13,666)	....	....	....	....	....	....	....	....
2002 - Q4	3,199	-1,717	-3,799	-2,323	-142	-118	-1,656	-77	76	60	391
2003 - Q1	-565	-3,179	-3,168	-1,086	-163	745	-67	-49	44	362	778
Q2	738	204	-6,336	131	-187	-2,766	-2,912	-5	76	-382	150
Q3	5,431	1,340	-2,801	-116	-240	-2,405	-2,416	-54	23	54	164
Q4	4,324	-1,077	-4,697	-479	-323	-1,118	-894	23	75	2,332	2,543
2004 - Q1	-227	-1,447	-1,419	-448	-340	-407	-165	-22	1	271	518
Q2	1,079	2,084	-7,108	62	-423	-2,255	-2,034	-65	7	294	395
Q3	5,730	1,944	-993	-160	-495	-1,965	-2,092	16	61	124	297
Q4	(1,459)	(-282)	(-4,146)	....	....	....	....	....	....	....	....
2002 - Dec.	267	-830	-1,873	-1,049	-63	182	-268	-20	31	49	141
2003 - Jan.	-1,223	-998	-1,475	-694	-64	328	-14	-15	26	118	188
Feb.	464	-1,374	-535	-233	-47	377	-34	-31	13	130	202
Mar.	194	-807	-1,159	-159	-52	40	-19	-3	5	114	388
Apr.	23	-312	-1,060	9	-45	-820	-849	-21	7	-378	50
May	274	281	-2,041	102	-79	-770	-796	-1	43	16	51
June	441	234	-3,234	20	-63	-1,176	-1,267	17	26	-20	49
July	3,532	1,241	-1,453	-80	-59	-472	-520	-24	45	40	78
Aug.	1,759	-512	-727	-86	-87	-629	-606	2	-31	39	74
Sept.	140	612	-621	50	-94	-1,304	-1,290	-32	9	-25	12
Oct.	3,418	259	-1,350	-46	-107	-628	-574	-4	16	45	130
Nov.	972	-1,196	-1,126	-205	-86	-406	-437	18	41	62	121
Dec.	-65	-140	-2,220	-228	-130	-84	117	9	18	2,225	2,292
2004 - Jan.	-1,721	-162	-253	-260	-114	-77	-1	-8	-10	150	185
Feb.	-143	-517	-379	-175	-107	-53	-55	-11	5	159	196
Mar.	1,637	-768	-787	-13	-119	-277	-109	-3	6	-38	137
Apr.	810	101	-1,612	-56	-130	-836	-849	-29	-1	40	71
May	1,089	1,163	-2,554	-2	-143	-838	-865	-8	1	33	68
June	-820	820	-2,942	120	-150	-581	-320	-28	7	221	256
July	4,113	885	-427	-210	-163	-567	-650	3	29	23	53
Aug.	1,716	-11	134	29	-144	-736	-792	34	24	24	51
Sept.	-99	1,070	-700	21	-188	-662	-650	-21	8	77	193
Oct.	1,071	556	-612	-104	-197	-365	....	-29	-85	67	....
Nov.	(174)	(-428)	(-1,297)	....	....	....	....	....	....	....	....
Dec.	(213)	(-411)	(-2,237)	....	....	....	....	....	....	....	....

Balance of payments: financial account

(millions of euros)

	Direct investment		Portfolio investment		Other Investment		Financial derivatives	Change in reserve assets
	abroad	in Italy	assets	liabilities	assets	liabilities		
2001	-23,995	16,618	-40,070	32,430	3,007	8,709	-477	484
2002	-18,194	15,455	-16,968	33,075	8,296	-7,311	-2,710	-3,111
2003	-8,037	14,544	-51,064	54,437	-19,860	32,992	-4,831	-1,406
2004	(-14,589)	(13,004)	(-20,101)	(45,427)	(-30,069)	(11,983)	(1,686)	(2,052)
2002 - Q4	-5,146	6,140	-586	11,240	-11,599	8,435	-1,761	-1,767
2003 - Q1	-3,847	3,727	-10,410	15,481	-21,327	29,583	-1,522	-3,786
Q2	-6,934	6,168	-17,049	37,249	-12,416	6,526	-2,139	-589
Q3	3,900	-212	-18,104	11,699	10,532	-11,662	366	-1,021
Q4	-1,156	4,861	-5,501	-9,992	3,351	8,545	-1,536	3,990
2004 - Q1	-3,126	2,731	-7,072	14,713	-18,022	14,664	335	505
Q2	-8,235	4,713	-996	15,749	7,543	-11,251	325	-2,108
Q3	-178	1,980	-7,139	12,630	-3,157	-11,737	600	3,331
Q4	(-3,050)	(3,580)	(-4,894)	(2,335)	(-16,433)	(20,307)	(426)	(324)
2002 - Dec.	-2,831	3,777	-2,387	1,656	3,655	-1,710	-10	-1,287
2003 - Jan.	-1,248	1,525	-8,079	5,436	-2,496	12,517	-565	-3,070
Feb.	-1,009	1,452	-3,457	-695	-13,775	21,219	-882	-239
Mar.	-1,590	750	1,126	10,740	-5,056	-4,153	-75	-477
Apr.	-2,791	1,257	-4,681	18,624	2,703	-11,270	-115	-278
May	-2,458	3,631	-5,036	5,357	-9,656	11,438	-920	664
June	-1,685	1,280	-7,332	13,268	-5,463	6,358	-1,104	-975
July	3,198	-685	-7,662	1,640	9,935	-10,730	1,060	-317
Aug.	2,047	-271	-6,330	-9,271	10,212	1,909	190	-78
Sept.	-1,345	744	-4,112	19,330	-9,615	-2,841	-884	-626
Oct.	3,143	661	-8,862	-6,134	10,303	102	111	683
Nov.	-2,103	1,110	-703	5,120	-5,741	4,317	-339	302
Dec.	-2,196	3,090	4,064	-8,978	-1,211	4,126	-1,308	3,005
2004 - Jan.	-1,453	1,148	-2,751	21,782	-21,855	5,830	1	-219
Feb.	-184	1,025	-2,330	-6,175	7,672	2,336	-163	-283
Mar.	-1,489	558	-1,991	-894	-3,839	6,498	497	1,007
Apr.	-2,870	2,892	-3,376	-413	15,487	-9,214	101	-962
May	-1,289	618	-4,184	-5,332	8,797	3,127	-117	-388
June	-4,076	1,203	6,564	21,494	-16,741	-5,164	341	-758
July	-902	1,487	-1,908	-3,276	883	-2,001	333	1,934
Aug.	-971	1,296	-4,532	-810	-2,791	5,779	120	1,310
Sept.	1,695	-803	-699	16,716	-1,249	-15,515	147	87
Oct.	-1,180	869	-2,123	4,155	-3,863	1,280	-393	218
Nov.	(-939)	(306)	(-5,485)	(-492)	(-15,805)	(23,156)	(977)	(-304)
Dec.	(-931)	(2,405)	(2,714)	(-1,328)	(3,235)	(-4,129)	(-158)	(410)

Table a21

Formation of the general government borrowing requirement

(millions of euros)

	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	Debt settlements	GGBR net of debt settlements and privatization receipts	*Memoran-dum item:*
	Receipts (1)	Payments (-)	Balance		*of which:* Collection account (1)						Unconso-lidated CGBR net of debt settlements and privatization receipts
2001	352,007	426,396	-74,389	25,895	432	-1,792	-50,287	4,603	-9,310	-45,580	-43,343
2002	352,900	407,737	-54,838	18,095	-400	-4,972	-41,715	1,929	-5,328	-38,316	-32,532
2003	382,246	442,696	-60,450	49,251	-75	-24,993	-36,192	16,855	-8,537	-44,511	-18,863
2004	394,937	430,849	-35,912	-4,637	59	-5,015	-45,564	3,968	-257	-49,275	-44,151
2001 - Q1	73,661	97,057	-23,396	8,685	1,232	-263	-14,974	4,263	-1,672	-17,565	-17,238
Q2	68,753	83,893	-15,140	2,442	17,737	615	-12,083	57	-3,502	-8,638	-9,478
Q3	97,754	119,170	-21,416	15,656	-18,406	608	-5,152	1	-1,335	-3,818	-3,749
Q4	111,840	126,276	-14,437	-888	-130	-2,753	-18,077	282	-2,801	-15,558	-12,878
2002 - Q1	63,905	78,188	-14,282	-3,922	-668	-1,845	-20,049	95	-409	-19,735	-17,478
Q2	75,128	85,128	-9,999	1,799	16,644	-749	-8,949	83	-389	-8,643	-7,618
Q3	88,577	107,588	-19,011	3,158	-16,377	558	-15,295	0	-1,905	-13,390	-14,073
Q4	125,289	136,834	-11,545	17,059	1	-2,936	2,578	1,752	-2,625	3,451	6,638
2003 - Q1	68,394	88,903	-20,509	867	-138	-2,451	-22,093	0	-591	-21,501	-19,195
Q2	78,859	100,268	-21,409	10,582	15,598	-1,055	-11,881	1	-2,866	-9,016	-7,932
Q3	86,989	94,953	-7,964	-10,814	-14,121	642	-18,135	0	-1,450	-16,686	-17,961
Q4	148,004	158,572	-10,568	48,614	-1,415	-22,129	15,917	16,855	-3,629	2,692	26,226
2004 - Q1	67,049	79,895	-12,845	-21,202	9	-2,294	-36,342	-3,705	-158	-32,479	-30,277
Q2	77,936	113,441	-35,505	21,709	19,561	-904	-14,700	15	-17	-14,698	-13,818
Q3	97,159	84,654	12,505	-24,664	-19,433	-1,588	-13,747	0	-39	-13,708	-12,298
Q4	152,792	152,859	-66	19,520	-78	-229	19,225	7,658	-43	11,610	12,242
2004 - Jan.	22,768	25,754	-2,986	-6,290	-121	-762	-10,039	-3,705	-136	-6,199	-5,294
Feb.	20,933	34,563	-13,629	4,121	348	-143	-9,652	0	-11	-9,641	-9,619
Mar.	23,348	19,578	3,770	-19,033	-218	-1,389	-16,651	0	-11	-16,639	-15,365
Apr.	22,128	33,455	-11,327	-32	2,345	-652	-12,011	15	-6	-12,021	-11,320
May	25,355	35,533	-10,178	-165	82	-1,079	-11,421	0	-5	-11,417	-10,388
June ...	30,453	44,454	-14,000	21,906	17,134	827	8,733	0	-6	8,739	7,891
July	47,498	42,178	5,321	-3,087	-18,731	-786	1,448	0	-28	1,477	2,176
Aug. ...	30,445	21,653	8,793	-13,955	-721	-441	-5,603	0	-8	-5,595	-5,329
Sept. ..	19,215	20,823	-1,608	-7,623	19	-361	-9,592	0	-3	-9,589	-9,145
Oct.	31,003	22,505	8,498	-8,280	783	648	867	7,500	-4	-6,630	-6,828
Nov. ...	32,064	38,307	-6,244	6,637	-74	-1,465	-1,072	156	-27	-1,202	216
Dec. ...	89,726	92,047	-2,321	21,163	-788	588	19,431	2	-13	19,442	18,854

(1) See the notes to the statistical tables.

Table a22

Financing of the general government borrowing requirement

(millions of euros)

	Currency and deposits	*of which:* PO funds	Short-terms securities	Medium and long-term securities	MFI loans	Other	*of which:* change in central bank current accounts	Borrowing requirement	*of which:* financed abroad
2001	16,284	16,410	11,775	23,201	-3,785	2,812	-2,024	50,287	9,063
2002	14,339	11,496	-372	31,704	-2,412	-1,544	284	41,715	7,621
2003	-42,465	-64,806	6,057	23,305	-5,260	54,556	8,022	36,192	7,038
2004	19,214	-1,688	-1,011	34,400	-222	-6,818	-2,578	45,564	3,818
2001 - Q1	2,406	2,408	13,507	21,890	-1,222	-21,606	-20,516	14,974	6,423
Q2	968	965	6,072	10,322	-899	-4,380	-5,111	12,083	-998
Q3	2,144	2,146	2,487	-10,552	-3,240	14,313	14,344	5,152	33
Q4	10,766	10,891	-10,291	1,541	1,576	14,485	9,260	18,077	3,605
2002 - Q1	3,438	2,559	14,864	27,269	560	-26,083	-23,826	20,049	7,107
Q2	-399	-401	8,191	487	-2,270	2,940	2,918	8,949	-3,981
Q3	1,108	1,099	-3,460	7,892	-1,853	11,608	10,511	15,295	2,886
Q4	10,193	8,238	-19,968	-3,944	1,151	9,991	10,682	-2,578	1,609
2003 - Q1	3,449	2,079	20,465	19,178	-576	-20,423	-21,955	22,093	10,284
Q2	2,284	1,728	5,779	4,976	291	-1,448	-484	11,881	130
Q3	4,025	2,678	-27	18,533	-2,807	-1,589	-1,725	18,135	-1,529
Q4	-52,223	-71,292	-20,161	-19,382	-2,168	78,016	32,186	-15,917	-1,848
2004 - Q1	14,465	-209	25,031	14,806	1,758	-19,719	-19,890	36,342	4,881
Q2	8,481	633	3,107	26,240	388	-23,515	-22,221	14,700	1,092
Q3	819	-926	-2,197	7,377	-275	8,024	8,251	13,747	-1,029
Q4	-4,550	-1,185	-26,953	-14,022	-2,092	28,392	31,282	-19,225	-1,126
2004 - Jan.	8,426	322	13,512	8,064	1,495	-21,457	-21,712	10,039	1,237
Feb.	5,694	524	3,073	6,492	-109	-5,498	-5,356	9,652	873
Mar.	346	-1,056	8,446	251	372	7,236	7,177	16,651	2,771
Apr.	1,180	447	3,423	8,925	511	-2,028	-2,375	12,011	380
May	1,204	-238	-288	9,347	1,093	65	-67	11,421	-528
June	6,096	424	-28	7,968	-1,216	-21,553	-19,779	-8,733	1,240
July	-1,714	101	-1,129	-4,481	-483	6,359	7,666	-1,448	-442
Aug.	2,005	-227	-383	3,861	-547	667	-99	5,603	95
Sept.	527	-801	-685	7,996	755	999	685	9,592	-682
Oct.	21	-350	-1,433	-4,174	-1,214	5,933	5,678	-867	-713
Nov.	784	-34	-3,986	3,560	-320	1,034	1,029	1,072	1,026
Dec.	-5,355	-801	-21,533	-13,409	-559	21,425	24,575	-19,431	-1,438

Table a23

General government debt
(millions of euros)

	Currency and deposits	of which: PO funds	Short-term securities	Medium and long-term securities	MFI loans	Other	General government debt	of which: in foreign currencies	of which: medium and long-term	Memorandum item: central bank current accounts
2000	112,564	111,218	101,923	1,008,648	67,488	7,072	1,297,696	45,845	1,114,652	19,535
2001	128,848	127,629	113,699	1,029,896	64,008	11,908	1,348,360	38,312	1,137,260	21,559
2002	143,188	139,124	113,325	1,033,943	61,538	10,079	1,362,074	39,064	1,135,081	21,275
2003	100,722	74,318	119,382	1,050,184	56,187	56,613	1,383,088	26,289	1,187,177	13,253
2004	119,936	72,630	118,370	1,083,286	55,952	52,373	1,429,917	27,733	1,212,632	15,831
2000 - Mar.	109,803	108,456	115,486	995,771	68,458	5,806	1,295,323	46,574	1,102,210	28,461
June	110,041	108,692	115,003	1,015,244	67,804	5,779	1,313,871	46,077	1,120,766	34,372
Sept.	110,472	109,122	113,257	1,020,722	65,882	5,710	1,316,043	49,806	1,124,589	27,433
Dec.	112,564	111,218	101,923	1,008,648	67,488	7,072	1,297,696	45,845	1,114,652	19,535
2001 - Mar.	114,970	113,626	115,432	1,029,992	66,281	5,982	1,332,657	44,308	1,134,088	40,051
June	115,938	114,592	121,504	1,042,238	65,420	6,713	1,351,813	41,298	1,146,096	45,162
Sept.	118,082	116,738	123,989	1,029,752	62,165	6,682	1,340,671	37,940	1,131,122	30,819
Dec.	128,848	127,629	113,699	1,029,896	64,008	11,908	1,348,360	38,312	1,137,260	21,559
2002 - Mar.	132,286	130,188	128,563	1,058,275	64,571	9,651	1,393,346	41,583	1,163,709	45,385
June	131,887	129,787	136,757	1,057,385	62,251	9,673	1,397,953	39,578	1,159,449	42,467
Sept.	132,995	130,886	133,297	1,064,706	60,404	10,770	1,402,172	42,778	1,165,936	31,956
Dec.	143,188	139,124	113,325	1,033,943	61,538	10,079	1,362,074	39,064	1,135,081	21,275
2003 - Mar.	146,636	141,203	133,801	1,050,453	60,936	11,611	1,403,437	33,475	1,152,903	43,230
June	148,920	142,932	139,589	1,052,604	61,187	10,647	1,412,947	30,570	1,151,656	43,714
Sept.	152,945	145,610	139,558	1,071,040	58,389	10,783	1,432,715	28,336	1,168,006	45,439
Dec.	100,722	74,318	119,382	1,050,184	56,187	56,613	1,383,088	26,289	1,187,177	13,253
2004 - Jan.	109,148	74,640	132,898	1,058,973	57,687	56,867	1,415,573	27,556	1,197,077	34,964
Feb.	114,842	75,165	135,970	1,065,321	57,573	56,726	1,430,432	27,643	1,202,519	40,320
Mar.	115,188	74,109	144,416	1,065,600	57,957	56,784	1,439,944	28,591	1,204,087	33,143
Apr.	116,368	74,556	147,839	1,074,332	58,456	57,131	1,454,125	29,053	1,212,666	35,518
May	117,572	74,318	147,551	1,083,985	59,547	57,263	1,465,917	28,894	1,222,585	35,584
June	123,668	74,742	147,523	1,091,833	58,332	55,490	1,476,846	30,620	1,226,943	55,364
July	121,954	74,843	146,391	1,087,563	57,848	54,183	1,467,939	30,861	1,220,980	47,698
Aug.	123,959	74,616	146,008	1,091,550	57,301	54,949	1,473,767	30,840	1,224,998	47,797
Sept.	124,487	73,815	145,323	1,098,765	58,050	55,263	1,481,887	30,192	1,232,817	47,113
Oct.	124,508	73,466	143,890	1,094,671	56,835	55,518	1,475,421	30,174	1,227,894	41,435
Nov.	125,291	73,431	139,904	1,097,810	56,511	55,523	1,475,039	29,792	1,230,487	40,406
Dec.	119,936	72,630	118,370	1,083,286	55,952	52,373	1,429,917	27,733	1,212,632	15,831

Table a24

ECB interest rates

Date announced	Standing facilities			Main refinancing operations			*Memorandum item:* Official reference rate for instruments linked to the former official discount rate		
							Order issued by the Governor		Rate
	Date effective	Deposit facility	Marginal lending facility	Date effective	Fixed rate *(fixed rate tenders)*	Minimum bid rate *(variable rate tenders)*	Date issued	Date effective	
22.12.1998	1.1.1999	2.00	4.50	7.1.1999	3.00	-	-	-	-
22.12.1998	4.1.1999	2.75	3.25	-	-	-	-	-	-
22.12.1998	22.1.1999	2.00	4.50	-	-	-	23.12.1998	28.12.1998	3.00
8.04.1999	9.4.1999	1.50	3.50	14.4.1999	2.50	-	9.04.1999	14.04.1999	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	12.3.2003	-	2.50	7.3.2003	12.3.2003	2.50
5.6.2003	6.6.2003	1.00	3.00	9.6.2003	-	2.00	6.6.2003	9.6.2003	2.00

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
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
2003	2.21	2.17	2.21	2.28	2.19	2.32	2.35	2.33	2.31	2.35
2004	1.99	2.04	2.17	1.96	2.08	2.05	2.08	2.10	2.15	2.22
2003 - Jan.	2.59	2.61	2.42	2.54	2.54	2.79	2.85	2.84	2.75	2.73
Feb.	2.54	2.33	2.42	2.28	2.39	2.76	2.78	2.69	2.57	2.57
Mar.	2.43	2.37	2.21	2.36	2.33	2.73	2.61	2.54	2.45	2.40
Apr.	2.39	2.40	2.30	2.01	2.33	2.56	2.57	2.53	2.46	2.45
May	2.29	2.10	2.18	-	2.16	2.55	2.51	2.38	2.31	2.24
June	2.00	1.92	1.86	-	1.92	2.21	2.16	2.15	2.08	2.11
July	2.00	1.99	1.95	-	1.98	2.08	2.12	2.13	2.09	2.08
Aug.	1.99	2.08	2.16	-	2.09	2.09	2.12	2.14	2.18	2.27
Sept.	2.06	2.03	2.18	-	2.09	2.03	2.12	2.15	2.16	-
Oct.	2.01	2.10	2.19	-	2.11	2.01	2.09	2.14	2.16	2.32
Nov.	2.02	2.09	2.37	-	2.16	1.97	2.08	2.15	2.25	-
Dec.	-	2.06	2.30	2.20	2.16	2.04	2.15	2.14	2.23	-
2004 - Jan.	1.97	2.00	2.07	-	2.02	2.02	2.07	2.08	2.14	2.17
Feb.	1.98	1.98	2.09	2.01	2.02	2.03	2.06	2.06	2.08	2.16
Mar.	1.97	1.83	1.98	1.83	1.90	2.01	2.04	2.02	2.00	2.03
Apr.	1.95	2.00	2.03	2.03	2.00	2.07	2.05	2.04	2.05	-
May	2.01	2.06	2.24	-	2.11	2.01	2.06	2.08	2.18	-
June	2.04	2.09	2.31	-	2.14	2.03	2.08	2.11	2.21	-
July	2.02	2.11	2.24	-	2.12	2.06	2.07	2.11	2.19	-
Aug.	1.98	2.06	2.19	-	2.09	2.03	2.08	2.11	2.15	2.31
Sept.	2.00	2.12	2.28	-	2.16	2.05	2.08	2.11	2.19	2.38
Oct.	2.00	2.08	2.21	-	2.10	2.10	2.09	2.14	2.17	2.28
Nov.	-	2.10	2.26	-	2.15	2.09	2.11	2.17	2.27	-
Dec.	-	2.11	2.16	-	2.13	2.06	2.16	2.16	2.20	-
2005 - Jan.	2.03	2.09	2.21	-	2.12	2.08	2.11	2.14	2.17	2.28

(1) Before tax: the annual values are obtained as the aritmetic 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 on euro deposits: outstanding amounts and new business

(percentages)

	Outstanding amounts							New business		
		of which:						Deposits of households with agreed maturity		Repos
		Overnight deposits		Deposits of households with agreed maturity		Deposits of households redeemable at notice up to 3 months	Repos			
			of which: households	up to 2 years	more than 2 years				of which: up to 1 year	
2003 – Jan.	1.31	1.02	0.92	2.39	4.05	1.10	2.72	2.09	2.07	2.62
Feb.	1.29	1.02	0.92	2.34	4.05	1.09	2.64	2.04	2.03	2.55
Mar.	1.19	0.91	0.82	2.25	3.98	1.12	2.46	1.89	1.88	2.33
Apr.	1.14	0.89	0.79	2.15	3.89	1.09	2.36	1.80	1.80	2.32
May	1.15	0.91	0.81	2.09	3.87	1.04	2.29	1.80	1.79	2.25
June	0.97	0.74	0.66	2.02	3.82	0.92	2.12	1.60	1.59	1.97
July	0.91	0.69	0.62	1.91	3.79	0.86	1.99	1.49	1.49	1.91
Aug.	0.92	0.70	0.61	1.82	3.77	0.91	1.93	1.50	1.49	1.90
Sept.	0.90	0.70	0.61	1.74	3.74	0.88	1.93	1.49	1.48	1.92
Oct.	0.89	0.69	0.60	1.69	3.69	0.89	1.93	1.51	1.50	1.91
Nov.	0.90	0.70	0.60	1.65	3.67	0.89	1.94	1.51	1.50	1.93
Dec.	0.88	0.71	0.61	1.62	3.67	0.89	1.95	1.49	1.47	1.96
2004 – Jan.	0.87	0.68	0.59	1.59	3.66	0.91	1.94	1.52	1.50	1.91
Feb.	0.87	0.68	0.59	1.58	3.65	0.94	1.92	1.53	1.51	1.89
Mar.	0.88	0.68	0.59	1.56	3.72	1.02	1.89	1.50	1.48	1.87
Apr.	0.85	0.67	0.58	1.54	3.70	0.96	1.88	1.47	1.46	1.85
May	0.86	0.67	0.58	1.54	3.69	0.97	1.88	1.48	1.47	1.88
June	0.86	0.68	0.58	1.51	3.65	0.98	1.90	1.49	1.48	1.91
July	0.84	0.66	0.57	1.50	3.62	0.91	1.92	1.49	1.48	1.92
Aug.	0.86	0.67	0.58	1.49	3.62	0.93	1.92	1.51	1.50	1.90
Sept.	0.87	0.69	0.59	1.48	3.59	0.94	1.93	1.50	1.49	1.92
Oct.	0.87	0.69	0.58	1.47	3.58	0.95	1.94	1.51	1.49	1.93
Nov.	0.88	0.70	0.59	1.47	3.56	0.96	1.96	1.50	1.49	1.93
Dec.	0.89	0.71	0.59	1.47	3.54	1.01	1.97	1.50	1.49	1.97
2005 – Jan.	(0.87)	(0.70)	(0.59)	(1.47)	(3.52)	(0.96)	(1.97)	(1.51)	(1.50)	(1.95)

Table a27

Bank interest rates on euro loans to non-financial corporations: new business

(percentages)

	Total	Loans of up to EUR 1 million				Loans of more than EUR 1 million			
			Initial period of rate fixation				Initial period of rate fixation		
			up to 1 year	from 1 to 5 years	more than 5 years		up to 1 year	from 1 to 5 years	more than 5 years
2003 – Jan.	4.27	4.87	4.85	5.26	4.83	3.76	3.65	3.80	4.35
Feb.	4.21	4.81	4.81	5.16	4.72	3.74	3.61	4.07	4.30
Mar.	4.06	4.67	4.63	5.04	5.15	3.57	3.52	3.58	4.51
Apr.	4.00	4.63	4.60	5.03	5.04	3.56	3.53	3.53	3.98
May	3.90	4.60	4.58	4.93	4.98	3.36	3.33	3.34	3.90
June	3.59	4.36	4.32	4.97	4.93	3.09	3.04	3.07	3.89
July	3.59	4.27	4.24	4.75	4.78	3.10	3.06	3.05	3.93
Aug.	3.71	4.30	4.28	4.68	4.60	3.33	3.35	3.07	4.28
Sept.	3.62	4.18	4.16	4.70	4.69	3.21	3.21	3.00	3.90
Oct.	3.55	4.22	4.19	4.75	4.77	3.08	3.14	2.55	3.84
Nov.	3.55	4.20	4.17	4.73	4.81	3.04	3.05	2.65	3.56
Dec.	3.53	4.10	4.06	4.64	4.91	3.18	3.13	3.31	3.83
2004 – Jan.	3.44	4.11	4.09	4.74	4.69	2.97	2.95	2.78	3.74
Feb.	3.58	4.15	4.10	5.21	4.84	3.05	3.01	3.21	3.21
Mar.	3.55	4.12	4.10	4.84	4.70	3.05	2.97	3.30	3.74
Apr.	3.61	4.09	4.07	4.77	4.68	3.19	3.06	3.64	3.82
May	3.51	4.08	4.06	4.68	4.55	3.06	2.97	3.28	4.02
June	3.34	4.04	4.01	4.67	4.78	2.95	2.94	2.84	3.19
July	3.47	4.13	4.10	4.97	4.75	3.07	3.02	3.34	3.79
Aug.	3.48	4.16	4.14	4.95	4.88	2.91	2.89	3.15	3.49
Sept.	3.46	4.04	4.02	4.66	4.77	3.08	2.94	3.23	5.26
Oct.	3.48	4.10	4.08	4.85	4.67	3.01	2.93	3.26	4.24
Nov.	3.44	4.10	4.08	4.79	4.53	2.99	2.88	3.12	4.74
Dec.	3.41	4.06	4.04	4.60	4.44	3.06	2.98	3.46	3.73
2005 – Jan.	(3.21)	(4.01)	(3.99)	(4.77)	(4.57)	(2.81)	(2.80)	(2.78)	(3.66)

Bank interest rates on euro loans to households: new business

(percentages)

	Loans for house purchases				
		Initial period of rate fixation			
		up to 1 year	from 1 to 5 years	from 5 to 10 years	more than 10 years
2003 - Jan.	4.65	4.34	4.66	5.49	5.03
Feb.	4.50	4.25	4.33	5.49	5.00
Mar.	4.40	4.14	4.35	5.38	5.43
Apr.	4.29	4.01	4.25	5.33	5.49
May	4.20	3.93	4.20	5.11	5.40
June	4.00	3.75	3.87	4.92	5.15
July	3.90	3.64	3.71	4.83	5.13
Aug.	3.97	3.68	3.93	5.09	5.34
Sept.	3.90	3.61	3.82	5.05	5.34
Oct.	3.89	3.61	3.83	5.05	5.29
Nov.	3.88	3.63	3.91	4.81	5.30
Dec.	3.80	3.61	3.73	5.00	5.10
2004 - Jan.	3.77	3.61	3.67	5.06	5.02
Feb.	3.76	3.59	3.80	5.08	5.13
Mar.	3.69	3.53	3.79	4.97	4.98
Apr.	3.65	3.52	3.79	5.16	4.98
May	3.65	3.50	3.92	5.13	5.04
June	3.69	3.54	3.83	5.12	5.24
July	3.67	3.51	4.03	5.16	5.29
Aug.	3.71	3.55	3.90	5.31	5.28
Sept.	3.68	3.51	3.93	4.77	5.33
Oct.	3.69	3.53	3.96	4.63	5.28
Nov.	3.68	3.54	3.94	4.56	5.19
Dec.	3.66	3.54	3.80	4.51	5.02
2005 - Jan.	(3.67)	(3.54)	(3.85)	(4.44)	(5.00)

Table a28

	Consumer credit				Loans for other uses			APRC	
		Initial period of rate fixation			Initial period of rate fixation			Loans for house purchases	Consumer credit
		up to 1 year	from 1 to 5 years	more than 5 years	up to 1 year	from 1 to 5 years	more than 5 years		
	9.66	9.77	10.08	8.19	5.10	5.86	5.15	4.96	10.75
	9.49	10.99	9.48	8.02	4.94	5.52	5.21	4.68	10.46
	9.12	9.34	9.30	7.99	4.91	5.52	5.47	4.52	9.99
	9.40	10.55	9.31	7.69	4.85	5.30	5.22	4.44	10.36
	9.40	10.66	9.38	7.51	4.75	5.38	5.30	4.36	10.36
	9.25	10.53	9.21	7.41	4.60	4.96	4.90	4.12	10.13
	9.16	10.38	9.14	7.29	4.52	4.74	4.87	4.04	10.03
	9.51	11.09	9.24	7.50	4.36	4.87	5.00	4.07	10.45
	9.37	10.87	9.16	7.59	4.27	4.93	4.74	4.04	10.27
	9.28	10.90	9.02	7.60	4.67	4.90	4.90	4.00	10.11
	9.08	10.99	8.74	7.33	4.46	4.86	4.85	4.00	9.84
	9.08	10.87	8.65	7.34	4.54	4.88	4.92	3.93	9.84
	9.33	10.57	9.23	7.75	4.58	5.10	4.90	3.88	10.18
	9.23	10.43	9.17	7.79	4.68	5.12	4.83	3.86	10.09
	9.06	10.74	8.78	7.57	4.43	4.99	4.99	3.84	9.86
	8.99	10.71	8.68	7.41	4.39	4.93	4.82	3.82	9.79
	8.91	10.75	8.69	7.40	4.53	4.76	4.96	3.81	9.71
	8.82	10.69	8.62	7.64	4.68	4.91	4.84	3.84	9.61
	8.80	10.86	8.58	7.63	4.91	5.03	4.92	3.84	9.54
	9.22	11.68	8.84	7.59	4.62	4.86	4.84	3.85	10.04
	9.09	11.14	8.84	7.70	4.74	4.93	4.90	3.84	9.86
	8.95	10.83	8.85	7.61	4.76	4.86	4.92	3.85	9.71
	8.85	11.16	8.59	7.65	4.76	4.94	4.94	3.85	9.61
	8.77	11.00	8.49	7.39	4.48	4.83	4.64	3.82	9.58
	....	....	....	....	(4.56)	(5.07)	(4.79)	(3.83)	....

Bank interest rates on euro loans: outstanding amounts

(percentages)

	Households							
		Loans for house purchases			Consumer credit and other loans			Overdrafts
			of which:					
			from 1 to 5 years	more than 5 years	up to 1 year (1)	from 1 to 5 years	more than 5 years	
2003 - Jan.	6.62	5.49	5.70	5.48	8.65	8.00	6.07	9.07
Feb.	6.58	5.46	5.68	5.45	8.61	8.04	6.02	9.03
Mar.	6.53	5.40	5.57	5.39	8.56	8.06	5.96	8.96
Apr.	6.45	5.28	5.47	5.27	8.51	8.05	5.89	8.90
May	6.39	5.22	5.43	5.21	8.48	8.06	5.83	8.87
June	6.30	5.11	5.20	5.11	8.36	8.01	5.78	8.79
July	6.13	4.89	4.95	4.89	8.25	7.96	5.60	8.70
Aug.	6.09	4.85	4.93	4.85	8.22	7.99	5.55	8.66
Sept.	6.07	4.83	4.90	4.83	8.20	7.97	5.54	8.65
Oct.	6.00	4.77	4.88	4.76	8.18	7.93	5.49	8.59
Nov.	5.96	4.74	4.85	4.73	8.11	7.91	5.46	8.53
Dec.	5.90	4.68	4.76	4.68	8.05	7.86	5.42	8.44
2004 - Jan.	5.89	4.66	4.76	4.66	8.18	7.84	5.40	8.56
Feb.	5.85	4.62	4.72	4.62	8.21	7.79	5.37	8.60
Mar.	5.80	4.58	4.69	4.57	8.13	7.75	5.33	8.51
Apr.	5.75	4.52	4.65	4.51	8.13	7.72	5.30	8.56
May	5.71	4.49	4.62	4.49	8.08	7.71	5.30	8.49
June	5.71	4.50	4.71	4.49	8.10	7.70	5.29	8.50
July	5.69	4.44	4.58	4.44	8.19	7.76	5.29	8.60
Aug.	5.68	4.44	4.56	4.44	8.23	7.75	5.28	8.63
Sept.	5.66	4.43	4.54	4.42	8.21	7.73	5.28	8.60
Oct.	5.64	4.41	4.53	4.41	8.23	7.72	5.25	8.62
Nov.	5.61	4.40	4.53	4.39	8.17	7.68	5.25	8.55
Dec.	5.56	4.37	4.49	4.37	8.02	7.65	5.22	8.37
2005 - Jan.	(5.58)	(4.35)	(4.47)	(4.35)	(8.19)	(7.68)	(5.21)	(8.60)

(1) Includes overdrafts.

Table a29

	Non-financial corporations				Households and non-financial corporations	
	Loans with original maturity			Overdrafts	up to 1 year	*of which:* overdrafts
	up to 1 year (1)	from 1 to 5 years	more than 5 years			
5.30	5.86	4.64	4.87	6.57	6.30	7.03
5.22	5.73	4.60	4.84	6.47	6.18	6.95
5.14	5.66	4.56	4.76	6.43	6.11	6.90
5.05	5.54	4.54	4.67	6.26	6.01	6.74
5.00	5.52	4.48	4.60	6.19	5.99	6.69
4.83	5.32	4.33	4.45	6.04	5.79	6.55
4.66	5.25	4.05	4.21	5.95	5.71	6.45
4.59	5.16	4.03	4.18	5.88	5.63	6.39
4.56	5.15	3.98	4.15	5.86	5.63	6.38
4.52	5.13	3.95	4.09	5.83	5.61	6.34
4.47	5.07	3.93	4.06	5.73	5.55	6.24
4.45	5.01	3.94	4.05	5.62	5.48	6.12
4.49	5.13	3.93	4.03	5.77	5.60	6.26
4.49	5.15	3.93	4.01	5.79	5.62	6.29
4.42	5.06	3.85	4.00	5.66	5.54	6.18
4.40	5.07	3.83	3.94	5.67	5.54	6.18
4.37	5.04	3.81	3.93	5.61	5.52	6.11
4.34	4.94	3.82	3.92	5.54	5.42	6.06
4.41	5.07	3.88	3.92	5.71	5.54	6.22
4.41	5.10	3.85	3.92	5.75	5.58	6.26
4.39	5.10	3.84	3.90	5.72	5.58	6.23
4.39	5.08	3.87	3.90	5.70	5.57	6.23
4.36	5.03	3.84	3.90	5.62	5.51	6.14
4.31	4.91	3.83	3.89	5.49	5.38	5.99
(4.36)	(5.08)	(3.74)	(3.88)	(5.73)	(5.55)	(6.23)

Banks and money market funds: balance sheet

(end-of-period data; millions of euros)

Assets

	Cash	Loans							Holdings of securities other		
		Residents of Italy			Residents of other euro-area countries			Rest of the world	Residents of Italy		
		MFIs	General government	Other sectors	MFIs	General government	Other sectors		MFIs	General government	Other sectors
2001	8,687	205,076	58,003	922,575	49,945	124	13,771	65,094	42,488	149,149	13,509
2002	9,566	285,834	56,763	979,517	72,827	110	13,544	71,406	48,040	145,094	13,127
2003	9,488	325,056	52,867	1,048,297	74,876	110	16,027	69,670	56,184	167,108	19,075
2004 - Jan.	6,779	326,878	54,289	1,037,715	71,392	110	14,914	79,982	57,145	167,962	19,384
Feb.	6,506	325,946	54,580	1,032,675	67,110	95	14,636	72,564	57,166	169,467	21,965
Mar.	7,013	333,022	54,996	1,035,291	72,990	97	15,083	76,093	60,697	172,857	21,296
Apr.	6,859	324,776	55,586	1,042,540	72,678	89	12,898	74,365	61,019	173,257	20,982
May	7,453	321,846	56,736	1,045,436	70,118	93	12,686	72,392	63,568	169,905	22,336
June ...	7,066	314,739	55,787	1,062,308	67,729	89	12,314	71,971	63,438	176,634	23,382
July	7,271	328,100	55,187	1,066,913	74,673	89	12,015	72,980	62,835	173,261	23,398
Aug.	7,289	330,127	54,637	1,061,595	77,227	89	11,814	71,584	62,244	173,180	23,210
Sept. ...	7,476	323,748	55,401	1,069,497	75,978	89	12,110	73,071	62,980	179,400	23,735
Oct.	7,044	325,013	54,505	1,071,460	85,968	95	12,072	69,579	64,397	176,277	24,339
Nov.	7,980	317,237	54,261	1,091,944	89,807	92	11,723	72,747	63,618	174,363	27,232
Dec.	9,083	338,488	53,741	1,107,874	93,645	89	13,467	65,035	61,158	162,819	25,081
2005 - Jan.	(7,508)	(327,039)	(54,554)	(1,123,168)	(86,053)	(89)	(12,743)	(60,911)	(60,931)	(164,734)	(24,685)

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
2001	192,934	7,214	636,656	109,572	291	5,525
2002	285,275	7,109	689,068	111,654	8	9,279
2003	313,742	7,730	691,960	118,928	17	9,268
2004 - Jan.	322,317	7,670	680,193	124,308	2,220	11,779
Feb.	320,193	7,639	674,498	131,632	2,013	10,806
Mar.	328,313	7,767	681,983	129,437	1,012	12,546
Apr.	326,295	7,707	689,163	126,336	339	10,727
May	328,402	7,447	688,606	130,814	1,263	11,264
June ...	316,705	8,002	696,551	128,988	503	10,472
July	335,645	7,392	696,652	128,835	302	10,550
Aug.	336,390	7,292	683,742	133,739	24	11,044
Sept. ...	335,403	7,555	693,474	122,448	12	12,195
Oct.	341,393	7,834	704,450	125,938	18	11,083
Nov.	334,641	7,079	694,573	134,440	14	10,904
Dec.	342,549	8,508	724,432	126,283	13	13,263
2005 - Jan.	(335,015)	(7,588)	(716,306)	(137,642)	(19)	(11,091)

Table a30

...than shares, at market value				Shares and other equity					Fixed assets	Remaining assets	Total assets
Residents of other euro-area countries			Rest of the world	Residents of Italy		Residents of other euro-area countries		Rest of the world			
MFIs	General government	Other sectors		MFIs	Other sectors	MFIs	Other sectors				
4,039	4,671	6,279	13,286	42,957	30,513	6,481	10,393	6,454	48,397	176,266	1,878,155
4,456	5,692	8,333	11,354	42,179	38,105	6,692	11,073	6,818	49,992	185,600	2,066,122
6,941	17,475	9,494	15,730	51,008	43,453	5,219	12,154	7,635	46,545	190,490	2,246,138
7,432	20,500	10,303	16,163	52,030	43,619	5,345	12,389	7,800	45,920	209,232	2,268,633
7,490	23,133	10,497	15,596	52,446	46,254	5,090	12,454	9,501	46,648	202,080	2,255,227
7,994	22,229	10,696	17,760	53,268	50,735	5,182	12,426	9,513	46,564	211,858	2,299,036
8,541	23,115	10,280	17,717	53,699	54,540	5,155	12,788	9,497	46,587	199,108	2,287,478
9,013	24,232	10,614	17,856	55,497	58,354	5,380	12,581	9,447	46,633	197,819	2,291,365
8,678	23,065	9,833	18,361	52,544	54,153	5,405	12,580	8,106	46,774	205,482	2,301,870
8,126	25,102	9,056	18,567	51,827	49,604	5,394	12,314	9,561	46,955	190,931	2,305,625
8,216	25,951	8,729	18,263	51,660	48,599	5,380	12,547	9,998	46,979	182,946	2,293,768
8,650	24,731	8,675	18,675	51,345	44,317	5,617	12,327	10,295	47,071	195,229	2,312,055
9,283	24,346	8,973	19,795	51,899	45,569	5,322	12,817	10,705	47,128	199,961	2,328,341
9,163	26,949	8,680	18,785	52,796	47,506	5,335	13,110	10,533	46,835	214,884	2,367,401
8,967	25,853	8,775	16,331	52,577	46,092	5,455	12,424	8,314	47,078	215,073	2,379,255
(9,599)	(26,741)	(8,794)	(20,060)	(52,955)	(48,495)	(5,241)	(12,219)	(10,005)	(46,546)	(229,536)	(2,394,312)

Rest of the world	Money market fund shares/units	Debt securities issued	Capital and reserves	Remaining liabilities	Total liabilities
171,121	26,164	334,672	133,633	260,372	1,878,155
146,026	41,966	367,969	146,172	261,595	2,066,123
159,227	107,031	399,958	156,726	281,551	2,246,139
159,117	106,102	399,519	158,496	296,910	2,268,633
153,448	105,666	402,231	158,980	288,120	2,255,228
162,022	103,597	411,171	160,934	300,254	2,299,036
159,241	102,921	413,970	161,431	289,347	2,287,477
156,257	103,021	420,029	161,476	282,787	2,291,365
158,388	106,295	419,267	161,628	295,072	2,301,871
160,558	105,967	421,826	161,469	276,427	2,305,624
159,880	107,269	423,527	161,463	269,398	2,293,768
155,917	105,970	431,001	161,669	286,411	2,312,055
148,806	104,229	437,177	161,854	285,559	2,328,341
157,488	102,010	438,181	162,394	325,677	2,367,401
157,033	101,079	442,994	163,060	300,041	2,379,255
(163,615)	(99,645)	(442,676)	(165,405)	(315,309)	(2,394,312)

Table a31

Banks and money market funds: deposits and bonds

(end-of-period data; millions of euros)

	Deposits in euros and euro-area currencies					Debt securities 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				
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
2003 - Sept.	481,674	34,480	3,642	63,455	70,683	11,557	369,493
Oct.	485,865	34,525	3,548	63,459	72,406	11,098	372,885
Nov.	485,608	33,675	3,850	63,363	72,546	10,875	375,049
Dec.	505,648	33,109	3,050	64,814	68,074	11,074	386,198
2004 - Jan.	498,772	32,622	3,040	64,640	63,334	11,047	385,708
Feb.	491,536	32,889	2,963	64,959	64,307	11,063	388,421
Mar.	499,812	32,397	2,646	65,472	63,157	10,953	397,402
Apr.	507,710	32,341	2,622	65,497	63,417	10,712	398,894
May	508,606	31,713	2,371	65,450	62,309	10,484	405,139
June	516,367	32,283	2,307	65,472	61,416	9,709	404,929
July	515,933	31,399	2,240	65,683	63,038	9,463	407,692
Aug.	499,318	31,356	2,220	66,586	65,548	9,282	409,884
Sept.	512,317	31,358	2,196	66,531	63,112	9,508	417,079
Oct.	520,696	31,089	2,171	66,319	66,349	9,174	423,219
Nov.	510,856	30,833	2,130	66,481	66,517	9,090	424,299
Dec.	535,839	32,223	2,170	67,835	69,176	8,750	429,513
2005 - Jan.	(532,166)	(31,647)	(2,141)	(67,545)	(65,621)	(8,504)	(429,320)

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			
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	465,483	449,378	514,770	509,183	980,253	958,561	20,153	46,298	21,160
2003	457,354	445,065	581,810	576,894	1,039,165	1,021,959	21,657	51,243	23,140
2004 - Jan.	447,120	434,764	584,251	579,279	1,031,371	1,014,043	22,824	51,597	22,223
Feb.	436,986	424,591	590,843	586,033	1,027,829	1,010,624	20,456	51,969	20,846
Mar.	434,539	421,157	598,062	593,215	1,032,601	1,014,372	21,191	52,082	19,591
Apr.	431,596	418,157	607,819	602,812	1,039,414	1,020,969	18,833	52,493	19,953
May	429,409	416,235	613,016	608,033	1,042,425	1,024,268	18,554	52,889	20,396
June	441,020	426,778	618,113	613,185	1,059,133	1,039,963	17,891	53,226	20,706
July	436,973	424,136	624,662	619,671	1,061,635	1,043,806	17,713	53,385	21,158
Aug.	429,073	416,313	626,316	621,289	1,055,389	1,037,602	17,390	53,663	21,282
Sept.	432,125	419,729	631,491	626,530	1,063,617	1,046,260	17,879	53,958	21,519
Oct.	421,848	410,080	639,802	634,848	1,061,650	1,044,928	16,767	54,406	22,046
Nov.	433,687	422,400	647,713	642,761	1,081,400	1,065,162	16,453	54,455	22,236
Dec.	437,468	426,614	658,849	654,154	1,096,317	1,080,768	17,035	54,301	22,668

	Securities: book value							
	Italian government securities					Other securities		Total
		of which:				Total	*of which*: bonds issued by banks	
		BOTs	CTZs	CCTs	BTPs			
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
2002	93,746	16,091	4,430	47,676	24,569	47,831	42,195	141,577
2003	87,982	18,917	4,625	41,765	22,048	54,746	47,765	142,728
2004 - Jan.	90,017	23,334	4,966	39,526	21,585	55,500	47,747	145,517
Feb.	89,838	24,166	5,750	39,868	19,434	55,637	47,553	145,475
Mar.	93,316	27,305	5,686	40,349	19,404	59,522	51,519	152,838
Apr.	92,383	26,479	5,562	41,220	18,228	59,769	51,781	152,152
May	91,166	26,797	5,287	39,538	18,658	60,685	53,220	151,851
June	93,668	25,381	5,295	41,718	20,497	61,684	53,563	155,353
July	88,437	20,704	5,599	42,149	19,240	61,089	53,005	149,526
Aug.	87,155	20,999	5,079	42,223	18,115	60,794	52,674	147,949
Sept.	91,689	22,490	5,524	41,059	21,898	61,496	53,561	153,184
Oct.	92,926	23,090	4,921	40,729	23,433	62,972	54,674	155,898
Nov.	89,878	23,041	4,783	41,747	19,503	63,871	54,075	153,748
Dec.	77,054	17,203	3,152	40,834	15,084	61,962	51,542	139,016

Italian investment funds: securities portfolios and net assets

(end-of-period market values; millions of euros)

	Residents							
	Government securities					Bonds	Shares	Total
		of which:						
		BOTs	CTZs	BTPs	CCTs			
2002	129,505	17,260	8,040	67,665	33,821	10,342	18,123	157,970
2003	141,117	29,324	8,818	62,333	37,925	11,138	16,777	169,032
2004	136,408	34,344	9,668	52,141	36,917	10,059	18,574	165,041
2002 - Q4	129,505	17,260	8,040	67,665	33,821	10,342	18,123	157,970
2003 - Q1	138,590	22,297	6,175	71,898	35,403	10,825	15,067	164,482
Q2	141,995	25,759	6,260	66,757	40,392	10,681	16,334	169,011
Q3	143,973	26,114	7,598	67,959	39,366	10,927	15,444	170,344
Q4	141,117	29,324	8,818	62,333	37,925	11,138	16,777	169,032
2004 - Q1	134,983	29,624	7,398	57,827	37,287	10,750	16,776	162,508
Q2	137,252	33,262	7,620	56,387	36,619	11,008	17,041	165,301
Q3	140,266	37,796	8,831	51,378	39,083	9,790	16,446	166,502
Q4	136,408	34,344	9,668	52,141	36,917	10,059	18,574	165,041
2003 - Dec.	141,117	29,324	8,818	62,333	37,925	11,138	16,777	169,032
2004 - Jan.	135,010	25,539	8,468	59,919	38,147	11,195	17,189	163,394
Feb.	136,402	26,708	8,853	58,995	38,863	10,981	17,010	164,393
Mar.	134,983	29,624	7,398	57,827	37,287	10,750	16,776	162,508
Apr.	137,017	33,699	8,394	55,358	36,580	10,622	17,075	164,714
May	135,782	32,183	8,834	55,099	36,369	10,971	16,645	163,397
June	137,252	33,262	7,620	56,387	36,619	11,008	17,041	165,301
July	136,889	37,299	8,093	50,618	37,460	10,227	16,774	163,890
Aug.	137,280	34,913	8,516	51,232	39,519	9,743	16,256	163,278
Sept.	140,266	37,796	8,831	51,378	39,083	9,790	16,446	166,502
Oct.	136,163	36,989	9,303	48,723	38,060	10,112	16,977	163,252
Nov.	136,308	37,074	9,991	48,872	37,262	10,422	17,207	163,937
Dec.	136,408	34,344	9,668	52,141	36,917	10,059	18,574	165,041

Table a33

Non-residents		Other financial assets	Total portfolio	Net assets	*Memorandum items:*		
	of which: shares				gross subscriptions	net subscriptions	
158,255	64,552	108	316,333	360,557	190,254	-12,340	 2002
167,792	70,138	138	336,962	378,781	212,644	6,628	 2003
158,727	65,283	92	323,860	358,292	156,552	-30,632	 2004
158,255	64,552	108	316,333	360,557	46,657	-963	.... Q4 - 2002
149,730	54,077	110	314,322	360,275	58,730	5,945	.... Q1 - 2003
161,198	61,398	212	330,421	378,491	61,762	6,998	.... Q2
167,345	65,094	219	337,907	382,384	45,571	1,605	.... Q3
167,792	70,138	138	336,962	378,781	46,581	-7,919	.... Q4
169,285	72,472	168	331,961	377,785	42,356	-6,882	.... Q1 - 2004
166,859	70,098	130	332,291	369,918	38,092	-7,959	.... Q2
159,410	64,991	103	326,015	361,060	29,194	-8,078	.... Q3
158,727	65,283	92	323,860	358,292	46,910	-7,713	.... Q4
167,792	70,138	138	336,962	378,781	14,244	-725	.... Dec. - 2003
169,445	71,750	144	332,983	378,765	12,776	-3,052	.... Jan. - 2004
170,203	73,001	181	334,778	377,981	13,097	-2,145	.... Feb.
169,285	72,472	168	331,961	377,785	16,483	-1,685	.... Mar.
167,938	70,922	174	332,826	376,218	13,866	-917	.... Apr.
169,219	69,585	181	332,797	371,676	12,947	-3,150	.... May
166,859	70,098	130	332,291	369,918	11,279	-3,892	.... June
161,987	67,161	117	325,993	364,460	10,604	-3,786	.... July
160,168	65,533	127	323,574	363,642	9,039	-1,052	.... Aug.
159,410	64,991	103	326,015	361,060	9,551	-3,240	.... Sept.
158,262	64,952	119	321,633	358,118	12,394	-4,162	.... Oct.
159,449	65,560	142	323,528	356,937	20,726	-3,084	.... Nov.
158,727	65,283	92	323,860	358,292	13,790	-466	.... Dec.

Italian investment funds: net purchases of securities

(market values; millions of euros)

	Residents					
	Government securities					Bonds
		of which:				
		BOTs	CTZs	BTPs	CCTs	
2002	6,310	3,036	4,079	-8,608	7,812	644
2003	14,581	12,457	1,778	-4,295	4,506	802
2004	-2,930	5,524	936	-9,446	-873	-1,190
2002 - Q4.....................	4,421	507	240	5,357	-1,603	244
2003 - Q1.....................	10,501	5,387	-936	4,239	1,670	432
Q2.....................	3,407	3,463	97	-5,289	5,175	-205
Q3.....................	2,805	356	1,393	1,780	-843	331
Q4.....................	-2,132	3,251	1,224	-5,025	-1,495	244
2004 - Q1.....................	-6,266	176	-1,340	-4,566	-597	-477
Q2.....................	3,657	3,804	296	-602	-587	65
Q3.....................	3,279	4,858	1,187	-5,032	2,430	-1,132
Q4.....................	-3,601	-3,314	793	754	-2,118	354
2003 - Dec.	-668	-273	-52	-736	304	-385
2004 - Jan.	-5,933	-3,875	-242	-2,288	286	36
Feb.	1,289	1,133	407	-1,039	713	-247
Mar.	-1,622	2,918	-1,505	-1,239	-1,596	-267
Apr.	2,896	4,156	1,018	-1,922	-671	-189
May	-875	-1,442	450	-47	-197	251
June	1,636	1,090	-1,171	1,366	281	2
July	-222	4,145	462	-5,704	832	-802
Aug.	414	-2,158	411	473	2,028	-442
Sept.	3,088	2,871	314	199	-430	112
Oct.	-4,061	-786	461	-2,623	-1,031	335
Nov.	60	57	662	67	-808	324
Dec.	400	-2,585	-330	3,309	-279	-305

Table a34

		Non-residents				
Shares	Total		*of which:* shares	Other financial assets	Total portfolio	
-4,400	2,554	-15,937	-2,617	-43	-13,426	 2002
-1,377	14,006	8,562	2,308	30	22,597	 2003
-138	-4,258	-9,149	-5,878	-46	-13,452	 2004
-1,060	3,605	-5,546	-1,634	-3	-1,944	.... Q4 - 2002
-1,146	9,787	-595	-3,016	2	9,194	.... Q1 - 2003
-41	3,161	6,546	2,673	102	9,809	.... Q2
-625	2,511	4,294	1,393	7	6,812	.... Q3
434	-1,454	-1,683	1,259	-81	-3,218	.... Q4
-182	-6,924	-3,432	-1,131	30	-10,326	.... Q1 - 2003
-29	3,693	-92	-2,065	-38	3,563	.... Q2
-445	1,703	-4,917	-2,313	-27	-3,241	.... Q3
518	-2,729	-708	-369	-11	-3,447	.... Q4
-169	-1,222	-976	-1	-41	-2,238	.... Dec. - 2003
-24	-5,921	-1,097	-670	6	-7,011	.... Jan. - 2004
-193	850	-617	203	37	270	.... Feb.
35	-1,854	-1,718	-663	-13	-3,585	.... Mar.
49	2,757	264	-1,084	6	3,027	.... Apr.
4	-621	3,217	-156	7	2,603	.... May
-82	1,557	-3,573	-826	-51	-2,067	.... June
86	-938	-2,729	-756	-13	-3,680	.... July
-219	-246	-1,678	-989	10	-1,915	.... Aug.
-312	2,888	-510	-567	-24	2,353	.... Sept.
190	-3,537	-1,058	14	16	-4,578	.... Oct.
-19	365	1,636	878	23	2,024	.... Nov.
347	443	-1,287	-1,261	-50	-893	.... Dec.

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
2002 - Q3								
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	4,411	885	803
Asset management cos	92,545	2,626	68,273	18,139	33,624	3,260	8,206	2,176
Total ...	**140,660**	**5,047**	**89,254**	**38,708**	**37,666**	**21,688**	**12,354**	**5,599**
2002 - Q4								
Banks	43,054	1,708	18,209	19,844	3,995	16,090	3,525	3,311
Securities firms	6,631	455	3,423	1,906	814	4,563	932	719
Asset management cos	94,786	2,318	65,778	22,772	34,090	2,890	8,289	2,016
Total ...	**144,471**	**4,481**	**87,410**	**44,522**	**38,899**	**23,543**	**12,746**	**6,046**
2003 - Q1								
Banks	44,703	2,138	19,665	19,623	4,839	17,097	3,027	2,383
Securities firms	4,285	439	1,684	1,684	843	4,761	785	518
Asset management cos	97,052	4,732	63,218	25,286	37,103	2,792	7,789	1,691
Total ...	**146,040**	**7,309**	**84,567**	**46,593**	**42,785**	**24,650**	**11,601**	**4,592**
2003 - Q2								
Banks	44,314	1,679	19,062	19,999	5,863	18,885	3,590	2,810
Securities firms	4,297	326	1,633	1,735	903	5,588	878	623
Asset management cos	95,358	5,755	65,163	20,660	39,738	2,870	9,234	1,699
Total ...	**143,969**	**7,760**	**85,858**	**42,394**	**46,504**	**27,343**	**13,702**	**5,132**
2003 - Q3								
Banks	43,962	1,621	20,307	18,642	5,775	19,375	3,689	2,884
Securities firms	4,519	423	1,901	1,525	910	6,011	958	696
Asset management cos	86,592	5,261	56,824	19,885	41,521	2,929	7,443	1,602
Total ...	**135,073**	**7,305**	**79,032**	**40,052**	**48,206**	**28,315**	**12,090**	**5,182**
2003 - Q4								
Banks	43,018	1,812	18,510	18,896	5,466	19,554	4,188	3,427
Securities firms	3,867	191	1,936	1,330	915	6,590	1,025	939
Asset management cos	86,014	5,637	52,975	22,834	44,953	2,593	7,940	1,745
Total ...	**132,899**	**7,640**	**73,421**	**43,060**	**51,334**	**28,737**	**13,153**	**6,111**
2004 - Q1 (2)								
Banks	43,247	2,380	17,405	19,272	5,035	19,147	4,038	3,602
Securities firms	3,575	267	1,639	1,242	904	7,574	991	1,075
Asset management cos	89,774	5,356	56,763	23,841	48,972	3,208	9,342	1,846
Total ...	**136,596**	**8,003**	**75,807**	**44,355**	**54,911**	**29,929**	**14,371**	**6,523**
2004 - Q2 (2)								
Banks	41,657	2,053	18,727	17,030	5,368	18,939	4,073	3,626
Securities firms	3,867	369	1,970	1,155	974	7,648	1,003	983
Asset management cos	89,456	6,110	56,516	22,636	50,032	3,910	9,919	1,680
Total ...	**134,980**	**8,532**	**77,213**	**40,821**	**56,374**	**30,497**	**14,995**	**6,289**
2004 - Q3 (2)								
Banks	41,294	2,496	16,408	17,974	5,631	19,890	4,048	3,387
Securities firms	3,908	339	1,979	1,138	990	8,258	1,058	948
Asset management cos	97,308	8,550	59,889	23,899	51,899	3,473	8,882	1,564
Total ...	**142,510**	**11,385**	**78,276**	**43,011**	**58,520**	**31,621**	**13,988**	**5,899**

(1) See the notes to the statistical tables. – (2) Provisional.

Table a35

Investment fund units		Other financial assets	Total portfolio	Total managed funds	*Memorandum items:*		
Italian	Foreign				gross inflow	net inflow	
							2002 - Q3
56,164	32,353	1,967	154,449	161,449	21,760	-4,428	.... Banks
5,425	14,855	216	34,687	36,212	1,726	-3,870	.... Securities firms
53,530	1,704	58	195,103	201,960	26,536	8,073	.... Asset management cos
115,119	**48,912**	**2,241**	**384,239**	**399,621**	**50,022**	**-224**	... **Total**
							2002 - Q4
53,816	33,441	1,844	159,076	164,446	16,538	-192	.... Banks
5,009	13,967	202	32,832	34,171	2,034	-2,342	.... Securities firms
54,086	1,571	36	197,766	204,065	22,534	-1,748	.... Asset management cos
112,911	**48,979**	**2,082**	**389,674**	**402,682**	**41,106**	**-4,282**	... **Total**
							2003 - Q1
47,228	34,045	1,245	154,564	160,242	13,630	-1,750	.... Banks
4,395	13,446	241	29,272	30,220	2,689	-3,693	.... Securities firms
52,516	1,309	69	200,317	206,236	31,367	1,620	.... Asset management cos
104,139	**48,800**	**1,555**	**384,153**	**396,698**	**47,686**	**-3,823**	... **Total**
							2003 - Q2
47,249	34,845	1,306	158,863	164,865	13,596	1,114	.... Banks
4,360	14,295	297	31,240	32,176	2,574	1,071	.... Securities firms
56,508	1,268	92	206,764	212,852	14,732	4,365	.... Asset management cos
108,117	**50,408**	**1,695**	**396,867**	**409,893**	**30,902**	**6,550**	... **Total**
							2003 - Q3
46,725	35,563	1,331	159,309	164,977	9,354	-438	.... Banks
4,294	3,323	421	21,133	21,927	1,741	-10,397	.... Securities firms
70,376	2,017	114	212,597	218,479	32,270	5,031	.... Asset management cos
121,395	**40,903**	**1,866**	**393,039**	**405,383**	**43,365**	**-5,804**	... **Total**
							2003 - Q4
45,804	37,014	1,404	159,874	166,025	13,158	-281	.... Banks
4,148	3,350	355	21,189	22,071	2,453	-90	.... Securities firms
76,291	2,036	1,958	223,529	230,162	25,208	9,702	.... Asset management cos
126,243	**42,400**	**3,717**	**404,592**	**418,258**	**40,819**	**9,331**	... **Total**
							(2) **2004 - Q1**
44,086	38,032	1,211	158,396	164,316	11,797	-2,922	.... Banks
4,159	3,313	278	21,870	22,626	2,112	206	.... Securities firms
80,044	2,343	1,840	237,368	243,599	14,709	5,576	.... Asset management cos
128,289	**43,688**	**3,329**	**417,634**	**430,541**	**28,618**	**2,860**	... **Total**
							(2) **2004 - Q2**
41,016	35,309	991	150,980	155,726	10,696	-7,218	.... Banks
3,692	3,817	256	22,236	22,918	1,872	398	.... Securities firms
86,116	2,655	1,847	245,615	252,928	21,627	11,543	.... Asset management cos
130,824	**41,781**	**3,094**	**418,831**	**431,572**	**34,195**	**4,723**	... **Total**
							(2) **2004 - Q2**
37,052	37,477	850	149,633	154,170	10,860	-1,602	.... Banks
3,261	4,039	253	22,717	23,387	1,483	468	.... Securities firms
89,037	2,425	1,820	256,401	262,292	18,146	6,066	.... Asset management cos
129,350	**43,941**	**2,923**	**428,751**	**439,849**	**30,489**	**4,932**	... **Total**

Italian components of euro-area monetary aggregates: residents of the euro area

(end-of-period stocks; millions of euros)

	Currency held by the public and overnight deposits	Deposits with agreed maturity up to 2 years	Deposits redeemable at notice up to 3 months	Total	Repurchase agreements
2000	489,429	57,611	128,040	675,080	68,303
2001	524,623	52,623	138,556	715,802	76,213
2002	572,306	50,669	151,025	774,000	89,310
2003 - Jan.	543,122	51,103	151,517	745,742	82,605
Feb.	548,595	52,895	154,023	755,513	81,453
Mar.	558,958	51,712	156,651	767,321	78,515
Apr.	567,873	52,190	155,873	775,936	78,968
May	576,539	50,950	156,183	783,672	79,588
June	586,878	49,504	156,872	793,254	71,949
July	582,052	49,026	157,795	788,873	73,944
Aug.	577,810	49,426	159,889	787,125	74,141
Sept.	586,491	49,219	160,236	795,946	70,940
Oct.	590,768	48,128	161,336	800,232	72,912
Nov.	594,205	46,690	162,802	803,697	72,903
Dec.	616,242	43,955	165,920	826,117	68,468
2004 - Jan.	608,386	46,846	167,713	822,945	63,554
Feb.	603,202	45,704	168,759	817,665	64,516
Mar.	612,014	46,435	170,351	828,800	63,989
Apr.	621,281	45,624	171,980	838,885	63,585
May	623,585	46,078	172,871	842,534	62,436
June	629,424	45,928	173,877	849,229	61,587
July	636,717	45,216	175,053	856,986	63,309
Aug.	619,584	45,933	177,992	843,509	65,725
Sept.	633,442	45,787	179,092	858,321	63,248
Oct.	643,471	43,590	179,916	866,977	66,597
Nov.	636,098	42,857	181,269	860,224	67,725
Dec.	663,083	45,665	184,357	893,106	70,940
2005 - Jan.	(659,019)	(44,364)	(184,533)	(887,916)	(65,852)

Table a36

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
10,039	11,137	764,559	419,749	605,400	694,879
26,103	10,118	828,236	467,117	658,296	770,730
41,690	9,814	914,814	510,801	712,495	853,309
87,243	9,953	925,543	485,079	687,699	867,500
90,166	9,529	936,661	489,184	696,102	877,250
94,178	9,892	949,906	498,640	707,003	889,588
96,298	9,477	960,679	505,487	713,550	898,293
97,259	9,326	969,845	512,625	719,758	905,931
97,276	9,442	971,921	521,811	728,187	906,854
98,839	8,533	970,189	514,993	721,814	903,130
101,035	8,779	971,080	510,412	719,727	903,682
98,782	8,457	974,125	518,922	728,377	906,556
98,733	7,975	979,852	521,791	731,255	910,875
104,336	7,758	988,694	523,952	733,444	918,441
105,463	7,197	1,007,245	542,936	752,811	933,939
104,418	6,818	997,735	536,533	751,092	925,882
103,993	6,976	993,150	530,457	744,920	920,405
101,870	6,432	1,001,091	538,546	755,332	927,623
101,142	5,790	1,009,402	545,780	763,384	933,901
101,250	6,138	1,012,358	547,209	766,158	935,982
104,461	5,373	1,020,650	551,617	771,422	942,843
104,107	5,065	1,029,467	556,611	776,880	949,361
105,362	4,163	1,018,759	540,060	763,985	939,235
103,932	4,185	1,029,686	553,197	778,076	949,441
102,033	3,522	1,039,129	561,652	785,158	957,310
99,794	3,549	1,031,293	554,297	778,423	949,492
98,823	3,462	1,066,331	577,775	807,798	981,023
(97,523)	(3,062)	(1,054,353)	(574,826)	(803,722)	(970,160)

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
2000	758,341	48,209	31,167	2,979	412,679	113,326	260,683	8,764
2001	823,612	43,425	36,654	5,496	424,336	94,888	310,949	10,740
2002	908,645	40,478	42,896	7,020	432,554	88,532	356,915	10,021
2003 - Jan.	916,558	40,026	48,039	4,068	439,051	67,582	354,220	9,186
Feb.	926,183	39,686	49,189	4,468	436,558	68,556	357,158	9,496
Mar.	939,781	39,285	46,924	5,095	436,679	69,528	363,143	9,767
Apr.	951,595	39,239	42,698	4,195	429,230	68,815	366,260	9,840
May	961,273	38,798	36,573	4,146	416,413	71,018	370,612	9,533
June	963,774	38,769	33,004	4,406	409,454	70,867	375,073	9,605
July	963,502	38,474	27,948	4,605	417,534	71,404	379,475	9,704
Aug.	963,370	38,205	31,525	3,878	422,863	72,114	380,839	9,709
Sept.	965,808	37,968	31,168	3,311	419,568	74,644	383,583	9,777
Oct.	973,125	37,715	28,214	5,032	427,293	71,483	388,941	9,760
Nov.	982,243	37,915	27,499	4,866	427,644	66,698	396,843	10,602
Dec.	1,001,757	37,223	17,372	4,195	407,451	65,724	404,567	10,013
2004 - Jan.	990,106	37,069	17,306	4,722	406,033	63,779	402,924	10,036
Feb.	986,460	36,829	25,414	4,674	413,942	64,306	405,848	9,831
Mar.	993,255	36,336	22,431	5,944	416,789	62,928	410,411	9,563
Apr.	1,003,815	36,144	33,370	7,339	422,162	61,975	412,814	9,351
May	1,005,659	35,721	38,333	6,584	433,808	61,586	416,720	9,656
June	1,014,912	35,492	35,493	5,796	421,540	60,852	425,024	9,601
July	1,023,766	35,259	42,074	6,329	416,101	59,404	429,107	9,052
Aug.	1,013,161	34,866	39,875	5,283	420,775	60,216	432,569	8,695
Sept.	1,023,032	34,504	35,859	5,513	416,005	59,864	439,605	8,794
Oct.	1,034,060	(34,116)	37,620	6,148	407,596	57,946	445,723	8,912

Table a37

Other domestic assets held by non-money-market funds	Other financial assets	Total domestic financial assets	External financial assets		Total financial assets	Memorandum item: Shares/units of investment funds	
				held by non-money-market funds			non-money-market funds
44,275	937	1,556,291	723,006	239,260	2,279,298	449,931	439,891
26,053	984	1,666,014	733,196	215,399	2,399,209	403,689	377,586
18,123	1,035	1,800,647	631,529	162,552	2,432,176	360,557	318,867
17,070	1,043	1,816,007	628,165	156,042	2,444,172	359,329	271,532
16,416	1,039	1,826,229	626,552	150,470	2,452,781	360,343	269,552
15,067	1,043	1,841,921	629,154	146,676	2,471,075	360,275	265,322
16,683	1,051	1,846,756	630,694	150,781	2,477,450	368,945	271,572
17,500	1,061	1,842,230	637,975	153,394	2,480,205	373,710	275,324
16,334	1,057	1,837,466	654,083	158,739	2,491,549	378,491	279,928
15,879	1,064	1,843,875	658,708	163,174	2,502,583	382,887	282,696
15,822	1,071	1,853,695	667,438	167,797	2,521,133	388,165	285,744
15,444	1,061	1,854,600	665,787	165,098	2,520,387	382,384	282,212
16,195	1,061	1,872,542	677,281	168,839	2,549,824	382,588	282,827
17,105	1,049	1,890,298	669,589	165,100	2,559,886	377,776	272,176
16,777	1,170	1,886,316	666,014	166,152	2,552,330	378,781	272,083
17,189	1,069	1,871,695	671,298	169,414	2,542,993	378,765	272,997
17,010	1,065	1,886,570	671,307	171,255	2,557,877	377,981	272,663
16,775	1,065	1,897,062	677,151	171,959	2,574,213	377,785	274,540
16,980	1,273	1,926,557	673,746	168,414	2,600,302	376,218	273,676
16,645	1,269	1,948,155	679,197	173,104	2,627,353	371,676	269,054
17,057	1,265	1,950,783	679,972	170,681	2,630,755	369,918	264,024
16,549	1,266	1,964,122	671,470	165,274	2,635,592	364,460	258,886
16,256	1,269	1,958,771	666,878	157,237	2,625,649	363,642	256,776
16,432	1,276	1,966,713	674,029	165,483	2,640,742	361,060	255,490
16,977	(1,279)	(1,977,371)	675,848	165,523	(2,653,219)	358,118	254,291

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
	A	B	held by Italian MFIs	C=A+B	D	E=C+D
2000	862,250	17,391	7,995	879,641	180,508	1,060,149
2001	922,575	38,395	13,629	960,970	207,809	1,168,779
2002	979,517	53,039	13,189	1,032,556	227,113	1,259,669
2003 - Jan.	991,030	53,378	15,366	1,044,408	226,546	1,270,954
Feb.	993,263	55,689	16,198	1,048,952	235,858	1,284,810
Mar.	991,292	58,010	16,740	1,049,301	236,156	1,285,457
Apr.	994,691	61,207	18,311	1,055,898	239,428	1,295,326
May	994,760	61,288	18,337	1,056,047	241,550	1,297,597
June	1,008,839	63,614	18,172	1,072,453	244,259	1,316,712
July	1,012,438	66,881	18,822	1,079,319	233,648	1,312,967
Aug.	1,014,234	67,162	18,881	1,081,396	229,804	1,311,200
Sept.	1,017,697	66,622	18,251	1,084,319	228,566	1,312,885
Oct.	1,021,261	68,597	18,090	1,089,858	230,451	1,320,309
Nov.	1,029,328	75,531	18,952	1,104,859	231,084	1,335,943
Dec.	1,048,297	78,146	19,139	1,126,443	233,704	1,360,147
2004 - Jan.	1,037,764	79,176	19,437	1,116,940	233,989	1,350,929
Feb.	1,032,675	81,372	22,019	1,114,047	241,951	1,355,998
Mar.	1,035,387	80,789	21,350	1,116,177	240,867	1,357,043
Apr.	1,042,540	80,962	21,037	1,123,502	243,183	1,366,685
May	1,045,436	81,424	22,390	1,126,860	245,967	1,372,827
June	1,062,308	90,692	23,436	1,153,001	246,202	1,399,202
July	1,066,913	91,039	23,450	1,157,952	244,609	1,402,562
Aug.	1,061,595	91,590	23,263	1,153,185	244,034	1,397,219
Sept.	1,069,497	92,074	23,788	1,161,571	242,178	1,403,749
Oct.	1,071,460	94,207	24,393	1,165,667	245,769	1,411,436

Table a38

General government debt			Credit		Memorandum item: Shares placed domestically, held by Italian MFIs
	held domestically	held by Italian MFIs	Total domestic	Total	
F	G		H=G+C	I=E+F	
1,297,696	1,212,793	269,893	2,092,434	2,357,845	34,641
1,348,360	1,253,882	272,208	2,214,852	2,517,139	36,882
1,362,074	1,263,448	246,341	2,296,004	2,621,743	43,290
1,384,331	1,282,885	263,775	2,327,292	2,655,285	43,247
1,394,826	1,288,179	267,257	2,337,131	2,679,636	43,761
1,403,437	1,295,806	267,315	2,345,108	2,688,895	46,411
1,409,427	1,300,552	266,475	2,356,449	2,704,753	51,297
1,414,478	1,307,064	270,694	2,363,112	2,712,075	55,762
1,412,947	1,306,751	272,078	2,379,204	2,729,659	53,631
1,411,146	1,303,830	271,323	2,383,149	2,724,113	47,550
1,415,593	1,307,743	271,883	2,389,139	2,726,793	47,886
1,432,715	1,327,394	271,708	2,411,713	2,745,599	49,015
1,427,145	1,322,467	270,483	2,412,325	2,747,454	50,645
1,437,037	1,332,408	277,083	2,437,267	2,772,980	51,718
1,383,088	1,280,709	273,698	2,407,151	2,743,235	49,131
(1,415,573)	(1,311,420)	276,409	(2,428,360)	(2,766,502)	49,478
(1,430,432)	(1,325,809)	279,290	(2,439,856)	(2,786,429)	52,252
(1,439,944)	(1,331,602)	283,445	(2,447,778)	(2,796,988)	56,731
(1,454,125)	(1,345,712)	284,314	(2,469,214)	(2,820,810)	60,713
(1,465,917)	(1,358,136)	282,431	(2,484,996)	(2,838,743)	64,326
(1,476,846)	(1,367,728)	288,392	(2,520,729)	(2,876,048)	60,271
(1,467,939)	(1,359,387)	285,210	(2,517,340)	(2,870,501)	55,655
(1,473,767)	(1,365,142)	285,690	(2,518,327)	(2,870,985)	54,594
(1,481,887)	(1,374,597)	293,079	(2,536,168)	(2,885,636)	50,562
(1,475,421)	(1,368,813)	289,754	(2,534,479)	(2,886,857)	52,104

Table a39

Supervisory capital and capital requirements (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 2002									
Banks in the Centre and North.....	94,842	40,734	36,077	130,512	10.9	35,415	4	71	0.1
Banks in the South	2,933	219	146	3,149	18.1	1,765	2	7	..
Total ...	**97,775**	**40,953**	**36,223**	**133,661**	**11.0**	**37,180**	**6**	**78**	**0.1**
December 2002									
Banks in the Centre and North.....	95,801	40,004	35,920	131,093	11.1	37,769	6	196	0.2
Banks in the South	3,027	269	164	3,292	18.1	1,837	1	2	..
Total ...	**98,828**	**40,273**	**36,084**	**134,385**	**11.2**	**39,606**	**7**	**198**	**0.2**
June 2003									
Banks in the Centre and North.....	98,510	41,066	36,590	134,055	11.1	38,437	5	235	0.3
Banks in the South	3,177	298	198	3,471	18.1	1,937	1	1	..
Total ...	**101,687**	**41,364**	**36,788**	**137,526**	**11.2**	**40,374**	**6**	**236**	**0.3**
December 2003									
Banks in the Centre and North.....	101,211	41,217	36,916	136,344	11.3	40,541	-	-	-
Banks in the South	3,145	342	235	3,485	18.1	1,941	-	-	-
Total ...	**104,356**	**41,559**	**37,151**	**139,829**	**11.4**	**42,482**	**-**	**-**	**-**
June 2004									
Banks in the Centre and North.....	105,417	41,303	37,308	140,382	11.4	42,759	2	4	..
Banks in the South	3,286	345	238	3,628	17.7	1,989	-	-	-
Total ...	**108,703**	**41,648**	**37,546**	**144,010**	**11.5**	**44,748**	**2**	**4**	**..**

(1) See the notes to the statistical tables. – (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, IMF and national statistics.

Table a2

Sources: IMF, Eurostat, Istat and national statistics.

For Italy, see the note to Table a10.

For China, industrial value added. For Indonesia and Thailand, manufacturing.

Table a3

Sources: IMF, Eurostat, Istat and national statistics.

For the euro area, Germany, France and Italy, harmonized consumer prices. For the United Kingdom, RPIX.

Table a4

Sources: IMF, ECB and national statistics.

The annual data for the current account balance may not coincide with the sum of the seasonally adjusted quarterly data.

Table a5

Sources: ECB and national statistics.

Official 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, target rate on overnight deposits.

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 indices (1995=100). For the United States, S&P 500; for Japan, Topix; for Germany, FAZ Aktien; for France, CAC 40; for Italy, MIB; for the United Kingdom, FTSE All-Share; for Canada, S&P/TSX composite index.

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 series of the main industrial groupings and that of the general index are carried out separately using the TRAMO-SEATS procedure. Consequently, the seasonally adjusted aggregate figure may differ from the weighted mean of the seasonally adjusted components.

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 average" 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, which is published by Eurostat. 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 temporary 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 has 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 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 2004. 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, 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 institutes 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 basically reflect those 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 are also constructed taking account of price reductions that last for at least 15 days (in compliance with Commission Regulation 2602/2000). This innovation gives rise to pronounced monthly variations in the HICP series and has caused a discontinuity in the indices for these two countries and the euro-area average. 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. In addition, the series regarding the euro-area is calculated with reference to the rebased German index (2000=100) introduced at the beginning of this year. On this occasion the German statistical institute published the indicators recalculated using the new base starting from 2000. As a consequence of these innovations it is not possible to use a single time series to calculate inflation rates in the countries affected by the above-mentioned methodological changes or the euro-area average. However, since Eurostat publishes a single series of indices for the euro-area countries and the euro-area average, the inflation for the euro area shown in the tables must necessarily be calculated without taking the above discontinuity into account. Only for Italy is recourse made in calculating percentage changes to the homogeneous indicators published until December 2001 and to the indicators based on the new method of observing price reductions from January 2002 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.

As of January 2003 Istat calculates the indices of the producer prices of industrial products sold on the domestic market using the new base 2000=100, in accordance with Community rules. The main changes to the index with respect to the previous base concern the criteria for classifying products, the composition of the index basket and the weighting structure. In particular, with reference to the classification of products by economic purpose (now known as Main Industrial Groupings), the various items are grouped as follows: consumer goods, divided into durable and non-durable products, investment goods, and intermediate goods, divided into non-energy and energy products. The allocation of individual products to these categories is now based on the "prevalent use" of each product, as recommended by Eurostat. Previously, instead, products were allocated to the various categories on the basis of their "effective use", so that, in theory, the same product could appear in more than one category.

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.

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 other areas. National statistical institutes produce three types of foreign trade indicators referred to: values, average unit values and quantities. Like 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 institutes. In order to produce series that maintain a satisfactory level of representativeness over time, Eurostat uses chained indices. 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.

From July 2003 Istat calculates the indices of average unit values using the new base 2000=100 and has published the updated figures from January 2001. The new calculation of the indices, in addition to implementing the shift to the ATECO 2002 sectoral classification, involves substantial methodological changes, of which the three most important are: 1) the exclusion from the calculation of the unit values of temporary exports and imports for repairs or processing and the consequent re-imports and re-exports; 2) the calculation of the new series does not include some goods for which average values are not an accurate approximation of market prices (ships, boats and parts thereof, radioactive materials and the like, space vehicles and parts thereof, etc.); to deflate the values of these goods, reference is made to the average unit values of the next higher grouping in the ATECO economic classification; and 3) the coefficient used to chain the indices for two successive years (e.g. t and t-1) is calculated as the annual average of the index in year t-1 with reference to year t-2. Previously, the coefficient used was the index of December of year t-1 with reference to year t-2.

Consistently with the terminological changes made to the calculation of the producer price indices, the groupings by economic use have been renamed Main Industrial Groupings.

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, revision 3); economic sector (NACE, revision 1.1, ATECO 2002); economic purpose (Main Industrial Groupings); and groups of countries, geographical areas or geo-economic regions.

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 component of state budget receipts refers to the amounts allocated each month to the various chapters of the budget. In fact, as of 1998, the time at which amounts are allocated may not coincide with the time at which they are paid. Tax revenue is not adjusted for tax refunds (included in the budget under payments) and includes VAT accruing to the European Union. The monthly figures are consistent with those published by the Ministry for the Economy and Finance in Conto Riassuntivo del Tesoro, except that they are net of accounting transactions with the Sicily and Sardinia regions. The sub-item “Collection accounts” shows the change in receipts paid using the single mandate procedure and awaiting allocation (including central government taxes, Irap due to the regions and social security contributions due to INPS). A negative (positive) sign indicates that the amounts allocated in the month were higher (lower) than the revenue received.

The formation of the central government borrowing requirement (computed as the sum of the budget plus other central government operations) includes transactions with other general government bodies. Accordingly, the borrowing requirement of local government and social security institutions refers exclusively to their financing needs over and above those covered by central government transfers.

The unconsolidated central government borrowing requirement net of debt settlements and extraordinary revenue, consisting mainly of privatization receipts, is shown as a memorandum item. The item “Privatization and other extraordinary receipts” includes the effects of the transformation of the Export Credit Insurance Agency (SACE) into a public limited company as of 1 January 2004.

The data on central government debt settlements and extraordinary revenue are used to provide an estimate of the general government net borrowing requirement.

As of December 2003 the Deposits and Loans Fund is no longer part of general government and loans to local governments are included in the item “Borrowing requirement of local government and social security institutions”. The Fund’s deposits with the Treasury and postal deposits pertaining to the Treasury appear in the item “Other central government operations”.

Tables a22 and a23

General government debt consists of the sector’s total financial liabilities at face value at issue. The debt is consolidated within and between the various sub-sectors, i.e. it does not include liabilities constituting assets in the same instruments of general government bodies, following the definition adopted in the European Monetary Union’s excessive deficit procedure. The aggregate is calculated according to the methods set out in Council Regulation 3605/93/EC by summing the financial liabilities falling in the following categories: currency and deposits, securities other than shares, and loans. Lending by monetary and financial institutions (MFIs) is allocated to the general government sub-sector of the actual borrower, i.e. the body required to make the repayment, and not to the sub-sector of the body that receives the funding.

The discrepancy between the borrowing requirement and the change in the debt is due to differences in the treatment of general government deposits with the Bank of Italy and in the accounting standards used to compute the two statistics. More specifically: a) in the case of the borrowing requirement, securities issues, excluding BOTs, are valued on the basis of their "net proceeds" while for the debt they are stated at face value; b) for the borrowing requirement, liabilities denominated in foreign currency are converted at the exchange rate applying at the time of settlement, while for the debt they are valued at end-of-period exchange rates. 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 refers exclusively to their financing needs over and above those covered by central government transfers.

Medium and long-term securities include those issued in repayment of past debts, those issued by the former autonomous agencies, which are repaid from the budget, those issued in 1993 to set up the Treasury's current account with the central bank in accordance with Law 483/1993, and those issued in November 1994 in connection with the conversion of the temporary Treasury account pursuant to Ministerial Decree of 15/11/1994 (76,206 billion lire). The latter, which were initially held in the Bank of Italy's portfolio, were the subject of a bond conversion transaction in December 2002.

The sub-item "Change in central bank current accounts" mainly includes the Treasury payments account (Law 483/1993) and the sinking fund for the redemption of government securities (Law 432/1993, amended by Decree Law 436/1994 and ratified by Law 110/1996) and, until November 1994, the Treasury's current account with the Bank of Italy and the Treasury suspense account (Law 483/1993).

As of December 2003, when the Deposits and Loans Fund ceased to be part of general government, PO deposits include only the those pertaining to the Ministry of the Economy and Finance. The item includes ordinary and fixed-term postal savings certificates and postal current accounts and is included, together with the Fund's deposits with the Treasury, in the item "Currency and deposits"; from the same date lending by the Fund to general government is included in the items "Other operations" and "Other liabilities".

Table a24

The interest rates on the "Deposit facility" and the "Marginal lending facility" are set by the Governing Council of the ECB and represent respectively the lower limit and the upper limit of the corridor of official interest rates.

On 8 June 2000 the Governing Council of the ECB announced that, starting from the operation to be settled on 28 June 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 determined the "official reference rate for instruments linked to the former official discount rate", which replaced the latter. The reference rate was 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 considered to be the closest equivalent to the official discount rate. As of 1 January 2004 the Bank of Italy ceased to determine the official reference rate, in accordance with the Legislative Decree.

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. The average overnight rate excludes transactions concluded in the large-deal segment.

Tables a26, a27, a28 and a29

The information contained in Tables a26 to a 29 refers to ESCB harmonized statistics on bank interest rates, based since January 2003 on a monthly sample survey carried out in accordance with Regulation (EC) No. 63/2002 (ECB 2001/18). The interest rates reported are on outstanding amounts and new business for the main forms of fund-raising and lending in euros from/to households and non-financial corporations resident in the euro area. Households include producer households and non-profit institutions serving households.

The rates on outstanding amounts are weighted using the balances on the accounts at the end of the reference month; the rates on new business in the month are weighted using the relevant amounts. "New business" consists of contracts concluded in the reporting period or for which previously established terms and conditions have been renegotiated.

For new business lending rates applied to households and non-financial corporations, the breakdown by maturity refers to the initial period of rate fixation; i.e. the interval for which the contract does not provide for changes in the rate. The rates include those on supported loans, for which the total interest rate must be reported, regardless of how much the customer pays. By contrast, the rates on bad debts and restructured loans are excluded. As regards loans to non-financial corporations, the breakdown by size refers to the amount of each individual transaction and not to the bank's total exposure to the firm in question. In the case of overnight deposits, deposits redeemable at notice and overdrafts the concept of new business coincides with that of outstanding amounts. The average interest rate on the total outstanding amount of deposits is calculated as the weighted average of the interest rates on overnight deposits, deposits with agreed maturities and redeemable at notice, and repo liabilities.

The Annual Percentage Rate of Charge (APRC) for households includes the accessory expenses (administrative, application processing, insurance, etc.) provided for in Directive 87/102/EEC.

Tables a30 and a31

These tables refer to the harmonized statistical returns submitted by Italian banks and money market funds in accordance with the criteria laid down by the ESCB. 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 and Financial Indicators – 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.

The annual data refer to the month of December.

In Table 30 the item "Loans" includes repo assets and bad debts. "Deposits" include overnight deposits, deposits with agreed maturities and redeemable at notice, and repo liabilities. The item "Debt securities" includes 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.

In Table 31 deposits and debt securities refer to those of other general government (communes and provinces and social security institutions) and other sectors (households, non-financial corporations, and financial and insurance corporations). 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. The item "Bonds" comprises 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 a32

The data refer to all the banks resident in Italy and are calculated in accordance with the traditional definitions published by the Bank of Italy.

As regards residents of Italy, the table divides loans between those at short term (up to 18 months) and those at medium and long term (more than 18 months). The indication "lire/euros" means that the figures include amounts in euros and the euro-area currencies. "Other securities" refer to banks' holdings of bonds issued by residents.

The annual data refer to the month of December.

Table a33

"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 liquidity). SICAVs are included. The data refer only to harmonized funds. Rounding may cause discrepancies in totals.

Table a34

"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 a35

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 respectively in euros and other currencies.

Table a36

All the items refer to the liabilities included in M3 of Italian MFIs and postal deposits 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 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 note circulation in the euro area since it includes the 8% share distributed by the NCBs but allocated for accounting purposes to the ECB. As of January 2003 currency in circulation no longer includes notes and coins denominated in lire. The item “Currency held by the public and overnight deposits” comprises current accounts held with resident MFIs and the Post Office; postal current accounts for the period prior to 2003 are estimated.

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”. 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 a37

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”, Supplementi al Bollettino Statistico, 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, postal current accounts, 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. Postal current accounts for the period prior to 2003 are estimated.

“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 a38

"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 a39

The data refer to supervisory capital and the solvency ratio, calculated on a consolidated basis (on a solo basis for banks not belonging to a banking group). The Italian branches of foreign banks are not included.

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, net valuation gains on participating interests, hybrid capital instruments and subordinated liabilities constitute supplementary capital, which is included – net of any revaluation losses on securities and participating interests – in the calculation of supervisory capital up to the amount of core capital.

Consolidated supervisory capital consists, in addition to the components of individual bank supervisory capital, of the characteristic items resulting from the consolidation itself (positive or negative consolidation differences, etc.). The deductions consist of unconsolidated shareholdings, hybrid capital instruments and subordinated loans to banks and financial companies.

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 and the "other requirements".

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
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/Ires	—	*Imposta sul reddito delle persone giuridiche/delle società* 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
MTS	—	*Mercato telematico dei titoli di Stato* Screen-based market in government securities
SACE	—	*Istituto per i servizi assicurativi del commercio estero* Export Credit Insurance Institute
UIC	—	*Ufficio italiano dei cambi* Italian Foreign Exchange Office

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