

BANCA D'ITALIA

**Summary of the Reports
on economic developments in
the Italian regions in 1998**

Rome 1999

CONTENTS

	Page
A - THE RESULTS FOR THE YEAR	5
B - ECONOMIC ACTIVITY	9
<i>Manufacturing industry</i>	9
<i>Building and construction</i>	13
<i>Services</i>	15
<i>Exports</i>	22
<i>Developments in the productive structure</i>	25
C - THE LABOUR MARKET AND REGIONAL POLICIES	29
<i>Employment</i>	29
<i>Flexibility in employment relationships</i>	34
<i>The labour force and unemployment</i>	36
<i>Social shock absorbers and active labour policies</i>	37
<i>Regional development policies</i>	40
D – BANKING	45
<i>Lending</i>	45
<i>Bad debts</i>	47
<i>Deposits and borrowed funds</i>	48
<i>Asset management services</i>	50
<i>Interest rates</i>	52
<i>Profit and loss accounts</i>	54
<i>The structure of regional credit systems</i>	56
APPENDIX	59
STATISTICAL TABLES	59
METHODOLOGICAL NOTES	74

The Summary of the Reports on economic developments in the Italian regions, fruit of cooperation between the Bank's Research Department and its regional research units, is a selective compendium of the most important information contained in the regional Reports on economic developments in the Italian regions, in which interested readers can find more detailed local information.

A - THE RESULTS FOR THE YEAR

The Italian economy grew by 1.3 per cent in 1998, slightly less than the previous year (1.5 per cent) and less than the leading European countries. Notwithstanding the moderate pace of growth, employment grew by an average of 0.5 per cent; the unemployment rate remained at 1997 levels.

The gap in growth rates between the two main areas of the country persisted. According to Svimez estimates, output grew by 1.5 per cent in the Centre and North, compared with 1.1 per cent in the South. The increasing flow of migrants from the southern regions to the Centre and North of the country nonetheless wiped out the differential in terms of GDP per capita.

The pace of growth of household consumption was slower than the previous year in both areas, while collective consumption recovered, more markedly in the Centre and North. Gross fixed capital investment in the South, which had been sluggish in 1997, expanded more slowly than in the Centre and North.

For the country as a whole the growth in exports was slowed down by the decline in world trade and the loss of competitiveness vis-à-vis the Asian economies, compounded in the second half by the slowdown in productive activity in the leading euro area economies.

The performance of exports reflected diversifications in regional sectoral and geographic specializations, with traditional industries performing less well on the whole. Although the contribution of industrial districts to total exports remained greater than it had been in 1991, it was lower than in 1997, primarily on account of the decline in export sales by the fashion industry.

Exports from the South and the Islands expanded more slowly at current prices than in the previous year but still faster than the national average. Their share of the total rose from 9.7 to 10.2 per cent.

The slowdown in demand for industrial products was sharpest in the North-West and Centre. According to ISAE surveys, the cyclical

deterioration in the North-West was partly due to the domestic demand component. In Piedmont order books were particularly affected by the expiry of incentives to scrap cars. In the North-East indicators of order levels were stationary in the early months of the year, only to deteriorate in the following months, especially in the foreign component; industrial output grew faster than in the remaining areas. ISAE surveys for the South indicate a slight contraction in demand in the early months of 1998 and a recovery thereafter.

According to the Bank of Italy's survey, investment by industrial firms with 50 or more employees grew more strongly in the South and Islands than in the Centre and North, thanks partly to the increases in investment incentives.

The building sector showed some signs of recovery, with value added rising by 1.6 per cent, compared with a contraction of 0.4 per cent the previous year. This sector was helped by residential building renovation projects, which in turn partly benefited from the tax incentives envisaged in Law 449/1997. The effects of this law were stronger in central and northern regions, whence most of the applications submitted to the Finance Ministry originated. In the public works segment the total value of projects put out to tender expanded more slowly than in 1997, with growth being faster in the North-East and Centre.

The process of restructuring in the wholesale and retail trades continued. The number of retailers (net of motor vehicle sales outlets) declined further, albeit more slowly than the previous year. As in 1997 the process was more intense in the central and northern regions. According to the Bank of Italy's survey of large retail stores, employment and investment in the approximately 80 firms with more than 50 employees surveyed (representing more than half the total in terms of turnover) rose by 8 and 12 per cent respectively last year. These firms reported more modest plans for growth for the current year, possibly on account of delays in issuing the implementing provisions relating to the new laws governing the wholesale and retail trades and of the restrictions imposed by some regional governments on the expansion of large retail outlets.

Employment rose on average for the year in all parts of the country, more notably in the North-West and South. In the latter area this halted a decline that had begun in 1992.

An important contribution to employment growth came from industry excluding construction. On average for the year the South recorded a larger rise in the number of employees in this sector than the rest of the country.

Notwithstanding the persistence of elements of structural weakness, some parts of the South are seeing an increase in business initiatives, often of a local nature. According to the intermediate census, the number of local manufacturing units increased by 5 per cent in the South and Islands between 1991 and 1996, while falling slightly in the rest of Italy. The same trend of expansion in the South and contraction in other areas, continued in the following two years.

This rise in the numbers of local manufacturing units in the South between 1991 and 1996 was not, however, accompanied by higher employment. The fall in numbers of employees in local units was more marked in the South than in the other areas of the country, partly on account of the sharp decline in employees in larger firms. In the case of smaller local units, employment trends in the mainland South were better than the national average, while in the Islands, by contrast, the decrease in the number of workers was more pronounced. Surveys by the Bank of Italy relating to some areas of the South (particularly Campania) in 1997-98, reveal less favourable employment performances in large public-sector or non-locally-based firms than in local enterprises.

Recourse to more flexible forms of employment is growing. Last year the share of employees with fixed-term contracts rose to 8.9 per cent, spreading in fairly uniform fashion outside the agricultural sector. The expansion of part-time work was slower. Recourse to temporary workers was concentrated in the Centre and North, where it is expected to expand notably in the current year.

There was a decline in male labour force participation, particularly in the Centre and North. The rise in female participation rates continued, more briskly in the South. The geographical unemployment gap widened further, mainly on account of different trends in participation.

The completion of economic convergence in preparation for the single currency created favourable conditions for the growth of banking. Falling interest rates fuelled an increase in medium and long-term loans, particularly those granted to households for the purchase or renovation of homes. The demand for corporate finance benefited from the recovery in industrial investment.

The pace of growth in lending accelerated everywhere except in the North-West, where the slowdown was due partly to the trend in lending to financial firms. The increase in lending was larger in the North-East and more contained in the South, where there was a contraction in lending to general government, financial firms and the building sector.

The total of bad debts declined in the North but continued to grow elsewhere, albeit more slowly than in the previous year. In the South the pace of the increase was slower than in 1997, but faster than that of lending, partly reflecting bad debts in the building industry and the formal downgrading of long-substandard loans.

Savers continued last year to shift the financial composition of their wealth towards higher-risk, higher-return instruments such as investment funds and individual portfolio management schemes.

Savers' direct holdings of government securities declined further, with the trend being more pronounced in the North than in the Centre and South and, especially, the Islands.

The shift towards managed asset instruments, which are less liquid, was matched in all regions by an increase in bank current accounts, helped also by the lower yields on government securities and by banks' supply policies. Notwithstanding the growth of current accounts, overall fund-raising by banks decelerated because of a contraction in certificates of deposit and slower growth in bonds issued by banks.

The consolidation and reorganization of the banking system intensified, continuing to involve a fair number of small and medium-sized banks. There were many instances of small South-based banks being taken over by medium-sized groups based in the Centre and North. The integration of local credit markets intensified.

Bank interest rates continued to fall, with lending rates declining by more than deposit rates in most regions. The differential in short-term lending rates between the South and the Centre-North was broadly the same as in 1997.

As a result of the narrower interest rate spread, banks' net interest income declined, notwithstanding the expansion of lending. The gain in bond prices and the increase in income from services associated with the expansion in managed savings more than offset the fall in interest income and generated a rise in gross income. As a ratio to total assets, this increase was greater for banks in the Centre and smaller for those in the South. Southern banks recorded a smaller upturn in operating profits.

B - ECONOMIC ACTIVITY

Manufacturing industry

Calculated in accordance with the new European system of national accounts, the growth in value added of manufacturing at factor costs and constant prices slowed down from 3.4 per cent in 1997 to 2.6 in 1998, reflecting the decline in both domestic and foreign demand.

Demand. - Demand weakened, falling gradually over the year from the high levels attained in the second half of 1997. Foreign demand was affected most, as a result of the keener competition from Asian producers and the worsening cyclical conditions in the main markets in the second half. Domestic demand performed better, albeit with differences between the regions.

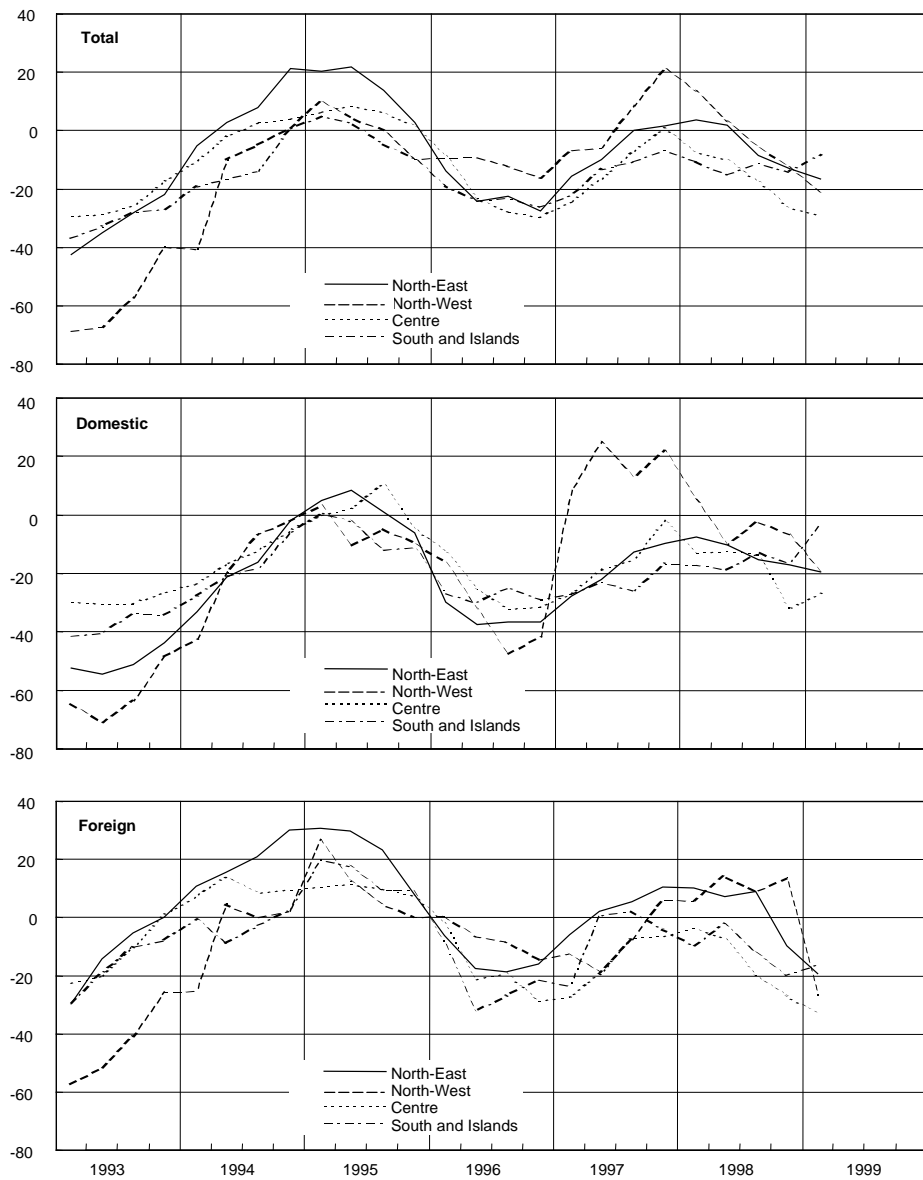
The deterioration in the state of demand was particularly marked in the North-West and Centre of Italy, where indicators based on ISAE surveys fell in the last quarter to the minimum level of the preceding cycle (Figure B1). In the North-West this was due mostly to the weakness of domestic demand, to which was added the sudden fall in foreign demand at the end of the year.

As indicated in the Report on Piedmont, the modest performance of domestic orders in this region is attributable to trends in consumer and intermediate goods, which were heavily affected by the expiry of the government incentives for the scrapping of old cars, on account of the high incidence of the motor vehicle segment in the total value added of the region (Table aB2): domestic demand for investment goods, by contrast, was boosted by sustained investment. Lombardy and Liguria recorded broadly similar trends, with the latter showing signs of a recovery in both domestic and foreign demand in the final months of the year.

In the central regions the uncertain development in domestic orders, which did not show signs of recovering until near the end of the year, was accompanied by a constant worsening in foreign demand.

Figure B1

LEVEL OF ORDERS (1)
(seasonally adjusted data)



Source: based on ISAE (Isco, until december 1998) data.

(1) Three month-averages of the balances between positive responses ("high") and negative responses ("low") in ISAE business opinion surveys (see the Methodological Notes section in the Appendix).

The indicators of orders in the North-East regions, which had anticipated the previous year's slowdown in the area in comparison with other regions, were initially stationary in 1998 and then declined in the second half-year, with a fall in foreign demand being added to the constant deterioration in domestic orders; for the year as a whole the average indicator was still higher than that for 1997.

The weakness of domestic demand affected primarily intermediate and investment goods, while demand for consumer goods improved. In Emilia-Romagna orders increased in almost all the main manufacturing sectors, albeit at a gradually decreasing pace. The textile and industrial machinery sectors appear, however, to have been more heavily affected by the crisis in South-East Asia. The transport equipment sector was only partially affected by the expiry of incentives to scrap old cars, since these regions specialize in goods at the upper end of the market, which is less susceptible to price facilitations.

Indicators of demand in the South were broadly unchanged from the end of last year, in contrast to the other regions: the decline in the first half was offset in the second, thanks mainly to a recovery in domestic orders.

In Puglia turnover in the textile and clothing, chemical, and rubber and plastics sectors recorded lively growth, although the poor performance of foreign demand led to a marked decrease in the footwear sector, which was affected by the keener competition from Asia and by the crisis in Russia. In Campania domestic demand expanded throughout the year and was brisk above all for the transport equipment sector; exports peaked in the autumn, thanks to foreign demand for food products and metal products, but subsequently appeared to flag. The constant decline of foreign orders in Sardinia, which was reflected in the stagnation of exports of manufactures, was joined in the second half-year by a fall in domestic orders.

Productive activity. - During the early months of last year industrial output oscillated around the cyclical peak reached at the end of 1997, but subsequently began a gradual decline; the average pace of growth for the year was 1.9 per cent, 1.4 percentage points slower than the previous year. All the regions were affected by the slowdown, albeit in differing degrees throughout the year. The survey by Unioncamere of firms with more than 10 employees revealed a less marked tendency in the regions of the North-East, which recorded growth of 2.7 per cent on average for the year and even showed signs of accelerating in the last quarter; the slowdown in demand led to stockbuilding.

In Veneto there was a marked and widespread increase in activity in the mechanical sector; jewellery and eyeglasses also performed well, while the slowdown that had begun in 1997 continued in the fashion sectors, with the sole exception of garments. The footwear district of Montebelluna recorded a decline in output and

turnover in excess of 14 and 11 per cent respectively, mostly attributable to sports shoes, which are more vulnerable to the effects of the South-East Asian crisis.

In the remaining regions output grew on average by 1.5 per cent and slowed down significantly during the year, stagnating in the central regions and declining in the North-West.

According to the Report on Marche, the wood products and furniture sectors expanded by 5 per cent and rubber and plastic products by 2.5 per cent, while regional output was stationary for textile and food products and declined by 2 per cent in the footwear segment. Electricity consumption in Piedmont indicates large increases in the segment of motor vehicle related products, more modest expansion in the transport equipment sector and a marked contraction in the chemical products.

After decelerating sharply in the third quarter, productive activity in the South settled at modestly higher levels than the previous year, recording annual growth of 1.6 per cent. There were considerable differences between the southern regions, with above-average increases in Molise, Abruzzo and Campania and a pronounced contraction in Sicily.

Investment. - Notwithstanding the gradual worsening of the outlook for demand, investment was sustained by the very high levels of capacity utilization at the beginning of the year, the favourable liquidity conditions enjoyed by firms and the lowering of interest rates. According to the Bank of Italy survey of manufacturing firms with at least 50 employees, gross fixed investment rose by 13.7 per cent, broadly as planned at the beginning of the year. Investment was lively in the northern regions, and even more so in the South, where there was a considerable expansion in government facilitations (see Chapter C: "Regional development policies").

In Campania, investment by local firms expanded briskly for the second year running, while that by firms controlled from outside the region stagnated. In Sardinia and Molise, on the contrary, investment was led above all by firms controlled from outside the region. According to the Bank of Italy survey, investment also expanded in Sicily and, albeit less markedly, in Calabria, while in Basilicata it was broadly unchanged. In Puglia, by contrast, it contracted sharply, diverging widely from the programmes drawn up at the beginning of the year. The divergence was due mainly to the worsening outlook for demand and had a more profound effect on smaller firms, which had planned to invest heavily. Medium-sized and large firms recorded a fall in investment substantially in line with their original programmes.

In the North-West investment spending rose in excess of the original plans in all regions except Liguria and Valle d'Aosta. In Lombardy the launch of monetary union is believed to have stimulated major investment programmes, presumably less with a view to cutting back manpower than in the past and more in order to expand productive

capacity, improve safety and renovate production processes and/or products. According to the Report on Lombardy, firms in this region are extremely interested in technological innovation, whether on an in-house basis (about half those interviewed have their own design centre) or via outsourcing (approximately one quarter have consulted academic experts and 10 per cent have bought patents or products to improve their technology). In Piedmont the metalworking and, to a lesser extent the textile industries revised their investment plans upwards. In the transport equipment sector investment was unchanged, while it contracted in the food products segment.

In Friuli-Venezia Giulia the expansion of investment in manufacturing was concentrated in the building sector, where there was a marked contraction in spending on plant, machinery and transport equipment. In Veneto investment spending slowed sharply, from 8.3 to 4.4 per cent: brisk purchases of plant and machinery were accompanied by unchanged spending on transport equipment and a sharp decline in investment in real estate. In Trentino-Alto Adige investment slowed down not only on account of the worsening outlook for demand but also of the close of a prolonged phase of plant restructuring.

Investment growth was much more contained in the Centre, at 3.6 per cent, though still in excess of planning.

In Marche, investment contracted in 1996 and 1997 but rose sharply last year, partly because of the difficulty of further postponing expenditure already planned. Some of the key reasons reported by firms were the expansion of productive capacity, the renewal of production processes and/or products and the replacement of obsolete machinery and equipment. In Umbria most investment was aimed at updating plant while maintaining productive capacity substantially unchanged.

Building and construction

The value added by the building and construction sector, according to the new national accounting system, recovered from the previous year's decline of 0.4 per cent to increase by 1.6 per cent at constant prices. Investment in the sector was broadly unchanged; a moderate increase in residential investment of 0.7 per cent was offset by a fall in non-residential building activity (-0.6 per cent).

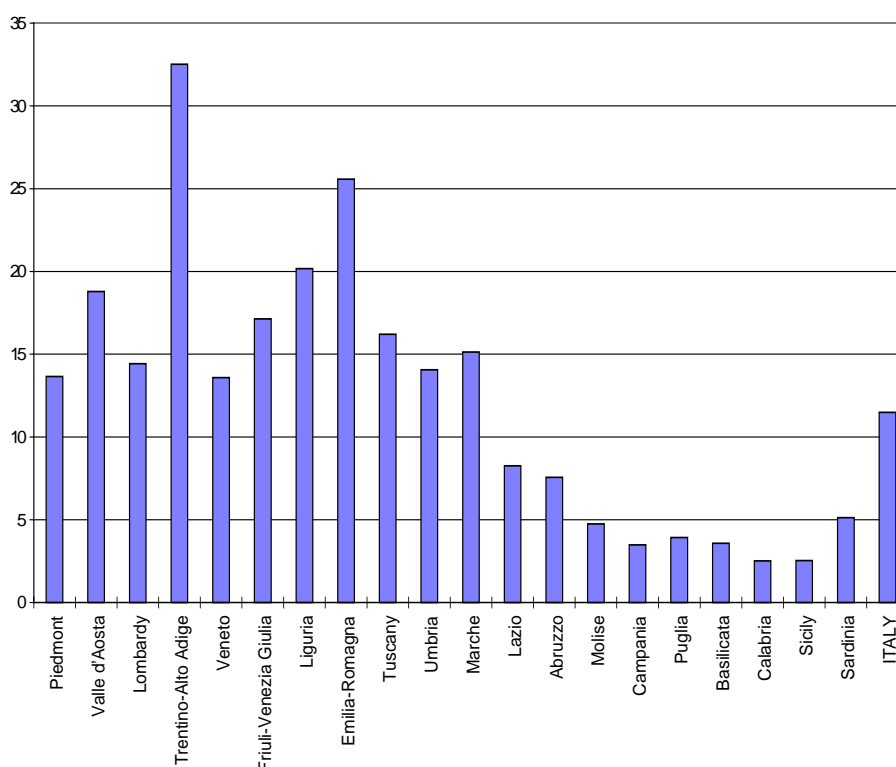
The Reports of the individual regions note signs of a modest recovery in the building sector, gathering strength in the second half of the year (particularly in Lombardy, Liguria, Friuli-Venezia Giulia, Emilia-Romagna, Marche, Lazio, Campania, Calabria and Sardinia); operators' expectations are also apparently improving.

Against a background of scant incentives to invest in new dwellings, due partly to demographic factors, the increased activity in residential building consisted mainly in renovation and modernization projects, for which the tax credit provided for in Law 449/1997 is partly responsible. The early effects of this law differed across the country.

Of the project notifications received by the Ministry of Finance up to the end of March 1999, 68.7 per cent came from the North, compared with 20.2 per cent from the Centre and 11.1 per cent from the South.

Figure B2

NOTIFICATIONS FOR BUILDING RENOVATION TAX CREDITS
(number of notifications per 1,000 dwellings)



Source: Based on Finance Ministry and Istat data. Notifications received in 1998 and the first quarter of 1999.

This gap is essentially confirmed when the number of tax credit notifications is compared with the number of dwellings recorded in the 1991 census (Figure B2); notifications in the North-East and North-West numbered 20.5 and 15.0 per 1,000 dwellings respectively, compared with 12.1 in the Centre and a bare 3.6 in the South and Islands. This scarce recourse to tax credits in the South could be attributable partly to the magnitude of the unofficial labour element, earlier post-earthquake reconstruction projects and differences in types of dwelling. The Report on Sicily notes poorer-than-expected response to the tax subsidy provision; the Report on Basilicata reports limited response, partly attributable to a lower level of obsolescence of dwellings in a region that benefited from government recovery and reconstruction projects in the wake of the 1980 earthquake. According to the Report on Marche, more than 70 per cent of the projects notified concerned condominiums; notifications from individual homeowners mainly concerned electrical and heating installations.

The decline in non-residential building reflected that in firms' investment in construction; spending on public works also slowed down.

In Veneto the decline in manufacturing firms' investment in buildings contributed to the sluggishness of the construction industry. The situation differed among the regions of the North-East, with Friuli-Venezia Giulia recording a moderate increase in firms' investment in non-residential building.

According to the building industry association (ANCE) the overall value of public works for which tenders were invited rose by 18.6 per cent, less than in the previous year. In 1998 growth was fastest in the regions of the North-East and Centre (about 34 and 28 per cent respectively), more moderate in the North-West (8 per cent) and in the South (14 per cent).

The Report on Lazio notes a gradual recovery of building activity in the final months of the year, stimulated by infrastructure projects for the Holy Year and, albeit to a lesser extent, by renovation and maintenance of homes, shops and hotels and other forms of tourist accommodation. In Campania activity and employment in the sector are picking up, thanks to growth in both industrial investment and public works. In Umbria there are positive signs from the initiation of projects relating to reconstruction and urban redevelopment in the earthquake-stricken areas. According to the Reports on Lombardy, Piedmont and Veneto, new projects to improve transport infrastructure are expected.

Services

Wholesale and retail trade. - After signs of recovery the previous year, the sector's value added at factor costs and constant prices remained roughly unchanged in 1998.

Retail sales increased by 2.7 per cent at current prices (Table B1). As in 1997, growth for large-scale distributors was more than twice that for small firms, with sales at hypermarkets and large-size speciality outlets rising at especially high rates. The central and southern regions recorded increases above the national average in the food sector; the northern regions recorded higher growth in all other sectors.

Incentives for scrapping motor vehicles were discontinued in July 1998; several of the regional Reports (Piedmont, Marche, Liguria, Trentino-Alto Adige) note that the automobile companies partly replaced them by reducing list prices. The Report on Liguria shows that the renewal of the region's automobile fleet brought about a decline in the used car business and a contraction in the volume of repair work.

The rationalization and consolidation of the sector continued in

1998, albeit at a pace that varied from one part of the country to another. According to Movimprese data, the number of retail firms, excluding motor vehicle dealerships, declined by 1.5 per cent in 1998, as against 1.6 per cent in 1997. The decrease was most pronounced in the North, though at a decelerating rate, and in the Centre, at an accelerating rate (Figure B3). In the South, where traditional channels of distribution are more predominant, the decline was below the national average both in 1998 and in 1997.

Table B1

**FIXED RETAIL SALES IN 1998
BY SECTOR AND GEOGRAPHICAL AREA**
(at current prices; percentage changes on 1997)

Areas	Food	Non-food	Total
North	1.8	3.6	2.7
North-West	1.2	3.9	2.4
North-East	2.8	3.2	3.1
Centre	3.2	2.1	2.9
South and Islands	3.0	1.8	2.7
Italy	2.5	2.9	2.7

Source: Istat.

Statistics published by the Ministry of Industry indicate that in 1997 there was a slowdown in the expansion of the surface area of supermarkets and hypermarkets and that in the southern regions this expansion was below the average. Data with reference to 1 January 1998 show that the floor space of modern distribution outlets was much smaller, proportionally, in the South and that the disparity with the rest of Italy widened further (Table B2).

A large number of the regional Reports describe the development of organized distribution. In Piedmont the growth in surface area slowed in 1998, but in Lombardy it accelerated. The Report on Piedmont describes the widespread development of associative forms in which franchising arrangements permit nearby small supermarkets to benefit from the group's logistical structure without having to change their business structures; daily stocking means they do not have to keep inventories and they can therefore maximize surface area, which is organized with the experience of the large-scale distributors. The Report on Lombardy reveals that processes of concentration are under way in the sector and that strategic alliances are being developed among the major groups.

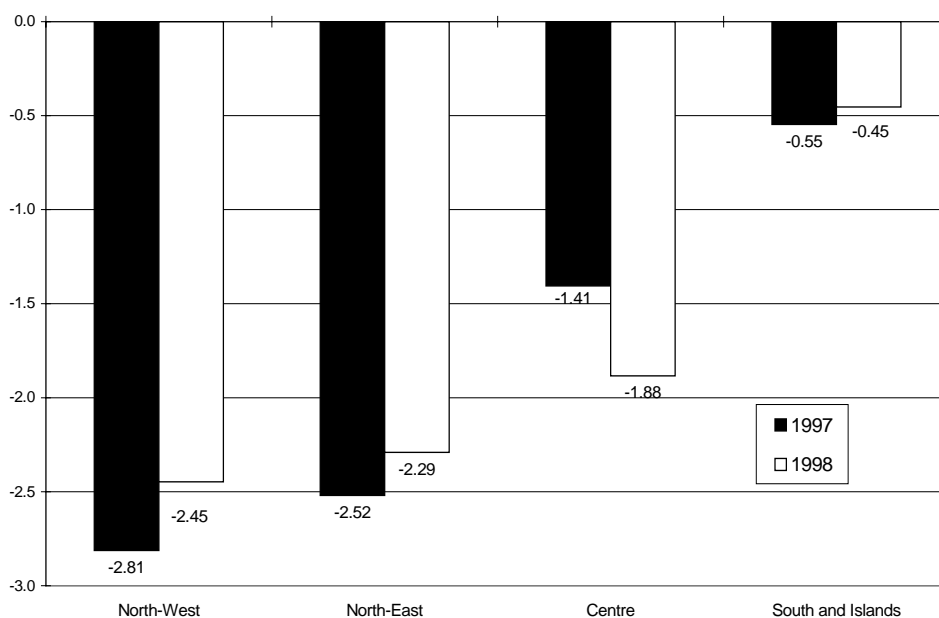
The Reports on Trentino-Alto Adige and Valle d'Aosta attribute the greater importance of small retail businesses in these regions, with respect to other northern

regions, to the territorial distribution of the population and to the high levels of tourism.

For the southern regions, the Reports on Campania and Puglia compare the regions' commercial structures with those of the rest of Italy, underscoring the lag in modernization in these regions. The Report on Sardinia emphasizes the greater diffusion of modern distribution outlets in Sardinia compared to other regions of the South and several regions of the Centre and North.

Figure B3

RETAIL TRADE FIRMS (EXCLUDING MOTOR VEHICLES) REGISTERED WITH THE CHAMBER OF COMMERCE BY GEOGRAPHICAL AREA
(percentage changes)



Source: Based on Movimprese data.

On 24 April 1999 the new legislative decree regulating wholesale and retail trade went into force, liberalizing store hours and licences for new outlets with smaller surface areas.

Legislative Decree 114 of 31 March 1998 provided for a moratorium on licences for new large-scale distribution outlets and delegated the territorial programming of this sector to the regional and, partly, city governments. In particular, it made the opening of large-scale outlets subject to regional approval. However, at the end of the moratorium only three regions (Tuscany, Veneto and Friuli-Venezia Giulia) had passed the implementing regulations provided for by the decree; hence, a 60-day extension was granted. Some regional laws, aimed at maintaining the existing

equilibrium between large and small-scale distributors, were rejected by the central Government and sent back to the regional councils for recasting.

Based on the Bank of Italy's survey of large-scale distributors, the number of outlets in this sector should continue to expand in 1999 (especially for firms that have their legal headquarters in the central and southern regions). Their 1999 investment plans and employment projections, however, point to a slowdown; these may have been affected by the moratorium provided for in the decree and the delays in implementation.

Table B2

DENSITY OF RETAIL OUTLETS PER 10,000 INHABITANTS

(number of outlets and surface in sq. mt.)

Years	North	Centre	South and Islands	Italy
Retail outlets (number)				
1982	148	157	152	151
1992	128	143	137	134
1996	85	110	114	100
1997	70	97	106	89
Supermarkets (average surface area)				
1982	293	215	99	209
1992	670	505	312	509
1996	951	720	436	719
1997	1,053	771	468	786
1998	1,116	829	497	836
Hypermarkets (average surface area)				
1992	206	187	52	147
1996	270	215	75	188
1997	302	230	75	205
1998	316	250	77	216

Source: Based on Ministry of Industry data. As at 1st January of indicated year.

Tourism. - The value added at factor costs of the hotel and restaurant sector rose by 2 per cent in real terms in 1998 (0.4 per cent in 1997).

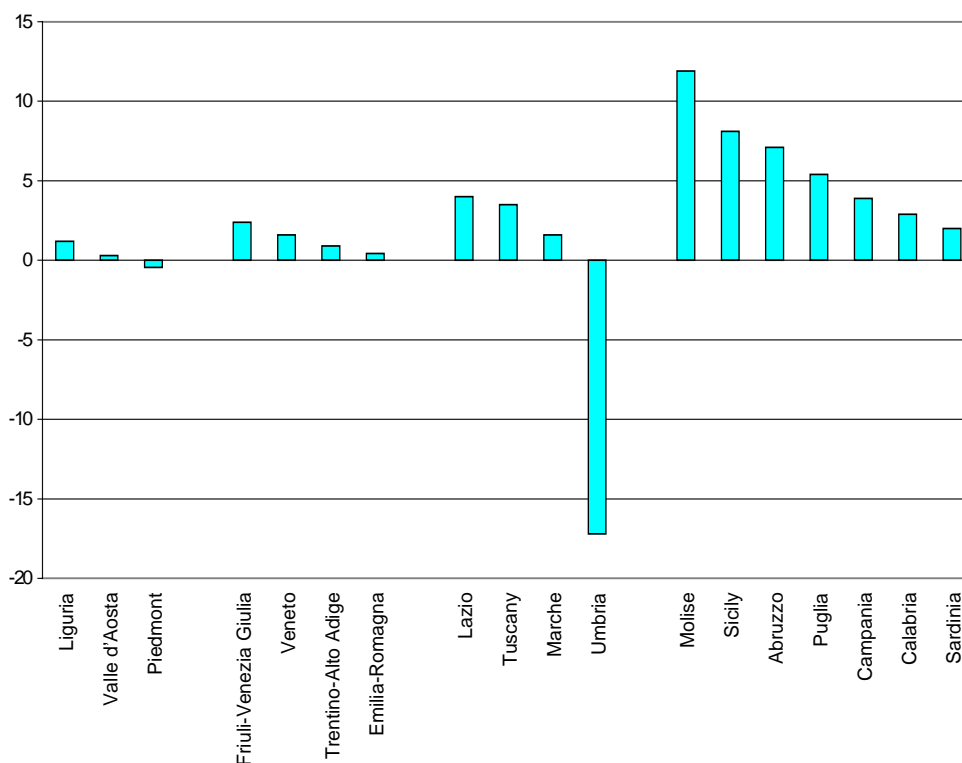
The data contained in the regional *Reports* were obtained by local institutions, and they show that both arrivals and overnight stays at hotels and other lodging facilities have increased. Only Piedmont and Umbria recorded declines (Figure B4); in the former, because the rise in the number of foreigners was not large enough to offset a decline among Italians; in the latter, because the 1997 earthquakes caused a drastic contraction in tourism. In the southern regions, where tourism is still less

developed than in the rest of Italy, the number of overnight stays rose more than in the other areas. Growth was especially strong in Sicily and in the southern regions on the Adriatic.

As against a 6.4 per cent rise in expenditures abroad by Italians, expenditures by foreigners in Italy grew by only 1.8 per cent in 1998. The slowdown is largely traceable to the Asian crisis, which caused a steep fall in the number of Japanese tourists and a 900 billion lira reduction in tourist receipts. Arrivals from European countries increased significantly (see the Chapter: “The balance of payments and Italy’s net external position” in the *Bank of Italy’s Annual Report* for 1998).

Figure B4

TOURISM IN SELECTED REGIONS IN 1998
(percentage changes on 1997)



Source: Based on data provided by the regions, provincial tourist offices and other local institutions.
For Emilia-Romagna, the data only refer to the provinces of Reggio Emilia, Ferrara, Rimini, Forli-Cesena, Ravenna e Parma.

The number of foreign tourists increased considerably in several southern regions, such as Sardinia, Puglia, Calabria, Molise and Abruzzo, and in those central regions, such as Lazio and Tuscany, where the cities of art attract tourism. However, foreign tourism fell drastically in Marche, with a contraction in Eastern European

arrivals owing to the financial crisis in that area; smaller declines were recorded in Valle d'Aosta, Trentino-Alto Adige and Emilia-Romagna.

Several of the regional *Reports* indicate regional support policies for tourism. The *Reports on Umbria and Liguria* note the extension, implemented in spring 1999, of the subsidies provided for by Law 488/1992 to firms operating in this sector. Other *Reports* describe regional policies for promoting tourism.

The Ministry of Industry Decree of 19 March 1999 issued a special call for project tenders for 650 billion lire by firms operating tourist facilities. The extension of law 488/1992 to firms operating in the tourist sector reflects the general orientation of lawmakers to grant the sector equal status with manufacturing.

The Report on Calabria attributes the strong growth in foreign tourism in the region to promotional activity that encouraged agreements between Italian and foreign tour operators; the Report on Valle d'Aosta notes the initiatives to differentiate tourism and expand on the region's reputation as a winter vacation spot. The Report on Lazio refers to initiatives in relation to the 2000 Holy Year: in particular, a co-ordination and management plan has been drawn up for the principal itineraries in and around Rome of interest to religious pilgrims. The Report on Umbria recalls the region's initiatives for programmes in the sector financed with European Community funds and for expected investment plans provided for within negotiated programming (Territorial agreements, Institutional programme understandings). The Reports on Liguria, Marche and Sicily also refer to locally promoted territorial agreements for investment.

Transport. - An efficient transport system is an important factor in the development of productive activity. The congestion of the road network, especially in the North, the low share of railway and maritime transport, and the lack of infrastructure in the South are thus weak points for the Italian economy (see the Chapter: "Domestic supply", in the *Bank of Italy's Annual Report* for 1998).

In many regional *Reports* reference is made to the problems connected with the mobility of goods and people and to initiatives to improve infrastructure.

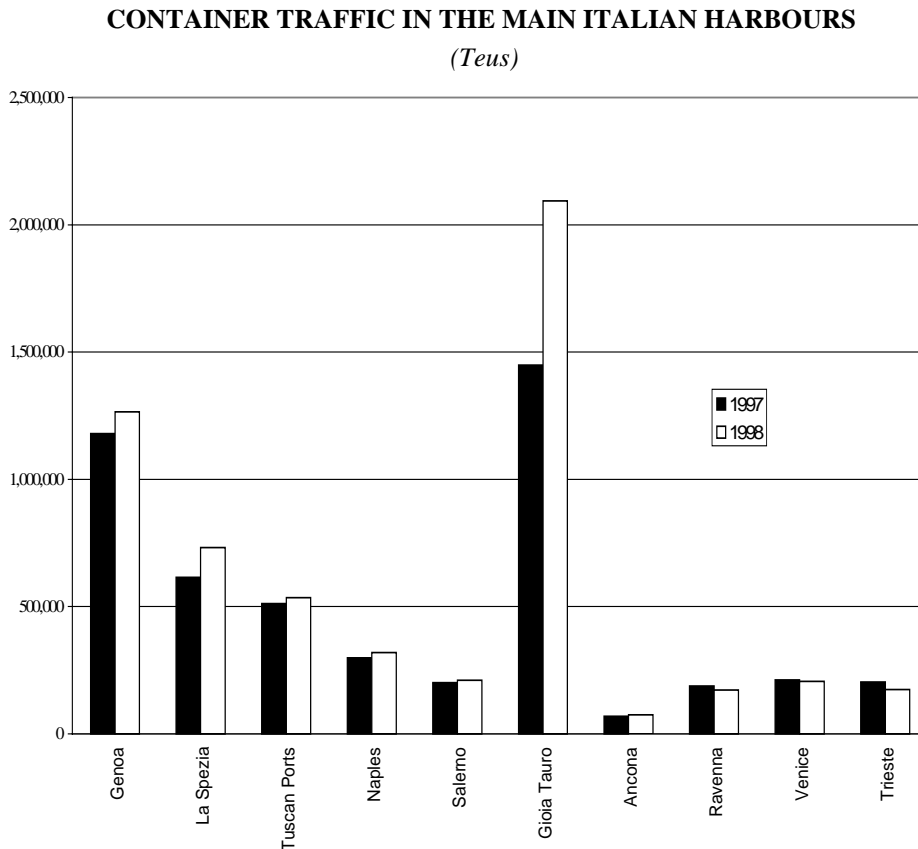
In particular, the Report on Veneto offers an extensive description of plans to alleviate the traffic congestion resulting from the sustained economic development of the North-East. The framing agreement signed on 1 August 1997 between the Government and the Veneto region recognizes a national interest in resolving the ensuing problems and identifies a set of projects to improve the transportation net. The Report on Emilia-Romagna also refers to the difficulties arising from the congestion of the regional east-west road network and to the projects foreseen by the Regional Transportation Plan.

The Report on Lombardy cites the results of a survey of the region's manufacturing companies, revealing the importance they attach to transport infrastructure. The Report also refers to the opening of the new airport, Malpensa 2000, and to works towards the completion of the third satellite and the logistic pole of

the airport, which should be finished in 2000 and 2001 respectively. With the institutional agreement of March 1999 between the State and the Region, 5.1 trillion lire was allocated to the road and rail connections to the new airport.

The Report on Liguria signals that inadequate connections inland may create problems for the further expansion of merchandise traffic in Ligurian ports. The Report on Calabria indicates how the poor state of road and rail connections aggravates the region's peripheral status, discouraging entrepreneurial initiatives from outside the region. Operators also signal delays in the modernization of the railways (in large part still single-track) and in the development of infrastructure in support of the activities of the port of Gioia Tauro.

Figure B5



Source: Based on Harbour Authorities data.

Maritime transport has benefited from a 1994 reform which, permitting the private management of loading and unloading of goods and allowing competition between operators, has enabled Italian ports to recoup efficiency and take advantage of the growth in traffic in the Mediterranean. Genoa, among ports of final destination, and Gioia Tauro, among those of transshipment, are among Europe's leading container

ports.

In 1998, despite a slowdown in world trade and a decline in Italian exports in the second half of the year, the growth in container traffic remained strong, confirming the trend of recent years in Italian and, more generally, Mediterranean ports.

Container traffic increased by almost 45 per cent in the port of Gioia Tauro and by about 19 per cent at La Spezia; growth rates ranging from 4.4 to 8.6 per cent were recorded in the Tuscan ports and in those of Genoa, Naples, Salerno and Ancona (Figure B5). Despite growth in total traffic, container traffic decreased in the ports of Ravenna, Venice and Trieste.

Exports

The Italian trade surplus contracted from 51.541 trillion lire in 1997 to 46.481 trillion lire in 1998 on a *cif-fob* basis. The terms of trade improved. The reduction in the trade surplus reflected a deceleration in export growth from 5.2 to 2.8 per cent by value, combined with a 4.7 per cent increase in imports.

The slowdown in export growth was largely due to the falling demand in Asian countries and the growing competitiveness of that area's products; in the second part of the year, these factors were amplified by the crisis in Russia, the decline in Latin American growth rates and the weakening economic situation of the major European countries.

In 1998 exports from the North-East increased in value by 5.2 per cent (Figure B6); those from the South, which account for about one tenth of total exports, rose by 8.2 per cent. Growth in the North-West and Centre was much slower, 0.5 and 1.1 per cent respectively. For all of the regions, the growth in exports was concentrated in the first half of the year. Indeed, declines were recorded in the second half: greater in the North-West and Centre (down 4.9 and 5.7 per cent, respectively, from the corresponding period of 1997) and smaller in the North-East (1.3 per cent) and in the South (1.4 per cent).

The fall in exports in the second half of 1998 was especially pronounced in Piedmont, Liguria, Veneto and Marche; in the South, Puglia, Molise and the island regions of Sicily and Sardinia recorded decreases in exports with respect to the year-earlier period.

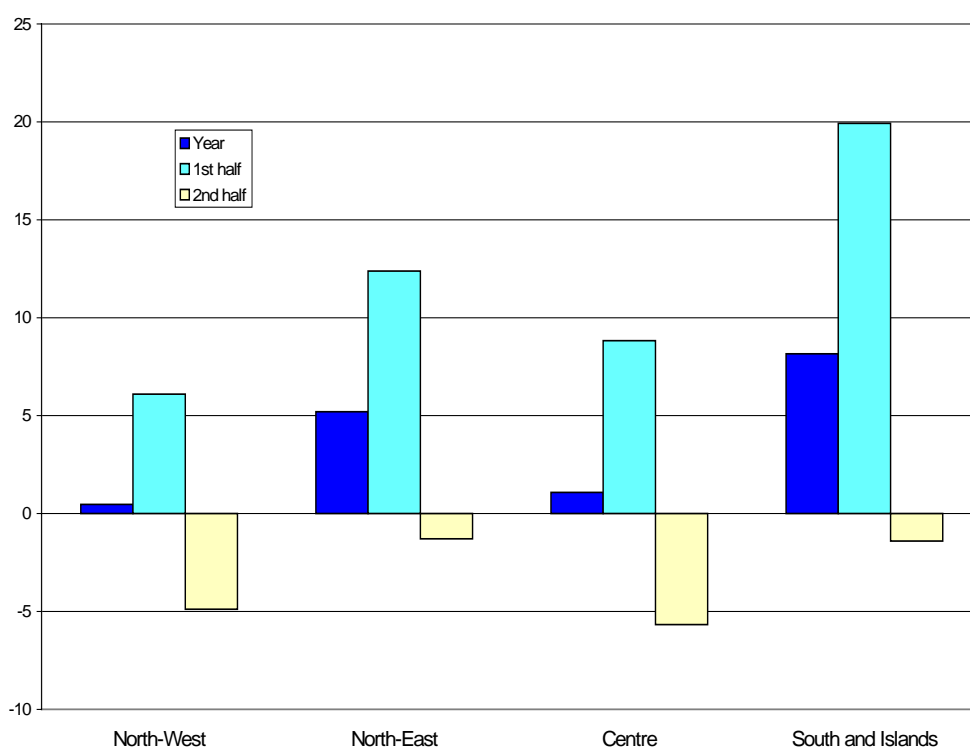
Total Italian exports of industrial products increased by 2.2 per cent at constant prices, but some categories recorded contractions: textiles and

clothing (1 per cent), leather and footwear (6.7 per cent), wood and furniture (0.7 per cent), agricultural and industrial machinery (0.3 per cent) and chemical products (0.9 per cent). The deceleration of international trade had varying impact on the regions depending on their model of foreign trade specialization.

Figure B6

EXPORT VALUE BY GEOGRAPHICAL AREA IN 1998

(percentage changes on the corresponding period of 1997)



Source: Based on Istat data.

Traditional industries were especially penalized by the slowdown in exports, with repercussions on the output of specialized industrial districts, which concentrate on the manufacture of footwear, textiles and clothing and wooden furniture. It is estimated that the share of total Italian exports, by value, accounted for by industrial districts slipped from 46.5 per cent in 1997 to 45.8 per cent in 1998, mainly as a result of the fall in exports of designer fashion goods; this share nonetheless remains above that of 1991 (43.3 per cent).

According to the regional Reports, in Veneto the deceleration in exports was related to the loss of competitiveness of several regional products with low technological content. In Trentino-Alto Adige the indirect effects of the Asian crisis were manifested in sharper price competition in export markets in Europe (Germany, France and Austria). Tuscany's exports were penalized by its high concentration, well

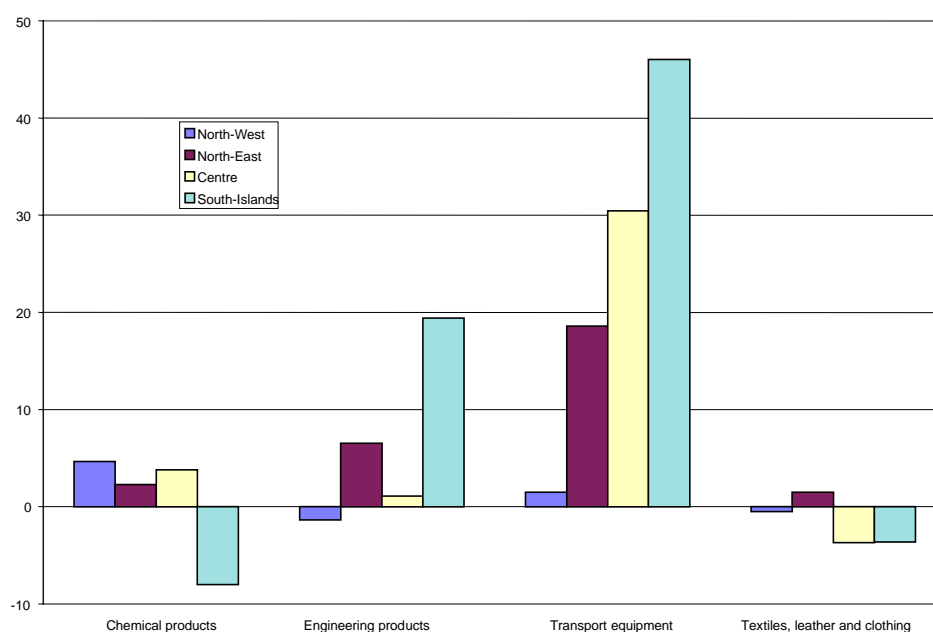
above the national average, in East Asian markets and by its specialization in industries exposed to the heightened competitiveness of foreign producers.

In 1998 exports from the southern regions accounted for 10.2 per cent of total Italian exports, as against 9.7 per cent in 1997. Engineering products and transport equipment contributed considerably to the growth in exports, with increases of 19.4 and 46.0 per cent, respectively.

Figure B7

EXPORTS BY SECTOR IN 1998

(percentage changes on 1997)



Source: Based on Istat data.

Between 1991 and 1998 the South's share of total Italian exports increased by 1.3 percentage points. Between 1992 and 1996 the number of exporting firms in Italy grew by about 8,500, more than 6,000 of the new exporters being located in the South.

The South's share of total Italian exports of engineering products grew from 3.7 per cent in 1997 to 4.3 per cent in 1998; in 1991 it had been 2.2 per cent. Its share of total Italian exports also increased in the following sectors between 1991 and 1998: transport equipment (from 16.9 to 21.5 per cent), food products (from 17.7 to 19.5 per cent), wood and furniture (from 6.4 to 13.6 per cent); by contrast its share of agricultural, forest and fishery exports fell from 28.3 to 23.4 per cent.

In Campania exports increased, particularly in the sectors of electrical materials and supplies, office machinery, transport equipment and food products. Abruzzo's exports, by value, reached 2 per cent of total Italian exports, confirming the expansion of recent years (in 1991 they had equalled 1.4 per cent of total exports). However,

Sicily and Sardinia recorded large declines in the value of their exports of energy products, a result of falling oil prices.

Developments in the productive structure

Data from the Intermediate Census on Industry and Services, recently made available, describe the regional structure of the Italian productive system to 1996.

With respect to 1991, employment at local industrial and service establishments fell by 2.1 per cent in Italy (Table B3). The North-East was the only part of the country to record an increase (1.6 per cent) in employment, which rose from 23.8 to 24.7 per cent of total employment in Italy (Table B4). In the South, overall, the decrease in employment (6.7 per cent) was sharper than the national average. Employment in the North-West and Centre, as a share of total employment in Italy, remained unchanged with respect to 1991.

Table B3

EMPLOYMENT IN LOCAL ESTABLISHMENTS BY SECTOR AND GEOGRAPHICAL AREA

(percentage changes and percentage shares)

Changes on 1991					
Sectors	North-West	North-East	Centre	South and Islands	Italy
Industry excluding construction	-9.1	-1.9	-6.6	-9.5	-6.8
Construction	2.9	2.0	7.5	-7.0	0.7
Wholesale and retail trade	-7.3	-4.9	-7.8	-13.8	-8.6
Other services	11.7	12.0	7.5	3.1	8.9
Total	-2.3	1.6	-1.0	-6.7	-2.1
Employment in services as a share of total					
Years	North-West	North-East	Centre	South and Islands	Italy
1991	47.4	48.2	56.8	58.9	52.0
1996	50.1	49.6	58.0	59.8	53.6

Source: Based on Istat data, the 1991 Census and the 1996 intermediate Census.

The sectoral dynamics in the North and Centre were similar, with manufacturing and trade decreasing and construction and other services increasing. In the South, all sectors fared below average.

The share of total private-sector non-farm employment accounted for by services rose everywhere and averaged 53.6 per cent, as against 52

per cent in 1991 (Table B3): the North-West recorded the largest rise, while levels in the southern and central regions continue to be the highest.

Table B4

**LOCAL ESTABLISHMENTS AND EMPLOYMENT
BY GEOGRAPHICAL AREA**

(percentages)

Areas	Industry and services				Manufacturing			
	Local establishments		Employment in local establishments		Local establishments		Employment in local establishments	
	1991	1996	1991	1996	1991	1996	1991	1996
North-West	29.2	29.7	34.4	34.3	32.2	31.9	40.1	39.0
North-East	22.9	21.6	23.8	24.7	25.2	24.5	26.5	28.0
Centre	20.0	20.9	19.9	20.1	21.0	20.8	17.6	17.7
South	19.0	19.1	15.1	14.6	15.3	16.2	12.1	11.9
Islands	8.9	8.7	6.8	6.3	6.4	6.7	3.7	3.4
Italy	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Based on Istat data, the 1991 Census and the 1996 intermediate Census.

Table B5

**MANUFACTURING: EMPLOYMENT IN LOCAL ESTABLISHMENTS
BY AREA, SECTOR AND SIZE IN 1996**

(percentage changes on 1991)

Sectors	North-West	North-East	Centre	South	Islands	Italy
Food and tobacco	-1.3	-6.4	-9.0	-8.5	-5.9	-5.8
Textiles, clothing, leather and Footwear	-17.4	-15.5	-9.8	-6.1	-23.2	-13.5
Petrochemical, rubber and Plastic	-1.8	1.5	-1.9	-8.5	-24.1	-3.2
Non-metalliferous minerals	-14.0	3.4	-11.9	-21.1	-16.1	-9.2
Machinery and metal products	-5.3	6.4	-2.5	-11.3	-11.0	-2.4
Transport equipment	-26.9	-13.1	-11.5	-0.4	-12.3	-18.2
Other sectors	-8.5	0.6	-4.0	-4.7	-10.9	-4.5
Size	North-West	North-East	Centre	South	Islands	Italy
1 – 19 employees	-7.6	-3.9	-4.1	-3.1	-8.4	-5.3
20 – 99 employees	-4.2	0.0	-3.8	-0.8	-10.3	-2.7
100 – 250 employees	-8.2	5.4	-10.3	-17.6	-12.9	-5.7
more than 250 employees	-18.0	-3.9	-15.1	-21.2	-32.0	-15.8
Total	-9.3	-1.6	-6.5	-8.4	-13.4	-6.8

Source: Based on Istat data, the 1991 Census and the 1996 intermediate Census.

Employment in manufacturing industry declined in all the regions, with the exception of Molise and Basilicata. Reductions were recorded in every sector and across all size categories (Table B5); the only significant increase was in the North-East for medium-sized local establishments and in the engineering industry.

The negative result in the southern regions is the result of sharp declines in employment in large local plants.

Surveys conducted by the Bank of Italy in Campania show that the downsizing of large public-sector enterprises, or at least those outside the region, also contributed to this trend; in the smaller plants, where locally owned businesses tend to prevail, the South grew more than the national average. Sicily and Sardinia recorded greater than average declines in employment for all size categories.

Table B6

**MANUFACTURING: EMPLOYMENT AT LOCAL ESTABLISHMENTS
IN DISTRICTS BY GEOGRAPHICAL AREA IN 1996**

(number and percentages)

Areas	Number of districts	Share of employment in the districts	Change on 1991	
			In districts	Total
North-West	59	46.2	-4.4	-9.3
North-East	65	61.9	0.0	-1.6
Centre	60	45.7	-1.4	-6.5
South	15	8.7	-3.6	-9.6
Italy	199	44.7	-2.2	-6.8

Source: Based on Istat data, the 1991 Census and the 1996 intermediate Census.

In the South, several positive signs emerge from growth in local manufacturing units, which increased by 5 per cent compared with slight reductions in the rest of Italy. Finally, of the 11 Italian provinces that recorded growth with respect to 1991 both in employment and in the number of local firms in the manufacturing sector, five are in the South: Isernia, Campobasso, Avellino, Benevento and Trapani.

Employment fell by 2.2 per cent in the specialized industrial districts, compared to 6.8 per cent on average nation-wide (Table B6). The share of employment in establishments belonging to industrial districts rose from 42.6 per cent in 1991 to 44.7 per cent last year.

In the two years since the Census survey, the number of firms has increased at a faster rate in the southern regions (Table B7), especially in manufacturing and non-trade services.

Table B7

NET NON-AGRICULTURAL BUSINESS CREATION
(percentage changes in number of registered firms, 1996-98)

Sectors	North-West	North-East	Centre	South and Islands	Italy
Manufacturing	-2.0	-0.8	-1.8	1.4	-0.8
Construction	4.5	5.7	1.1	3.1	3.6
Wholesale and retail trade	-0.5	1.9	-1.3	1.0	0.3
Other services	5.1	5.8	8.1	11.4	7.5
Total	1.3	2.0	1.3	3.5	2.1

Source: Based on Movimprese data.

C - THE LABOUR MARKET AND REGIONAL POLICIES

Employment

The growth of employment, which had been weak in the previous three years, picked up in 1998 despite the slowdown in the expansion of output. Istat's labour force survey found that on average for the year the number of persons employed increased by 111,000, or 0.5 per cent (Table C1). The growth involved all parts of the country: it was strongest in the North-West (66,000 or 1.1 per cent) and in the South (35,000 or 0.6 per cent), ending the prolonged decline in Southern employment that had reduced the number of people in work by 580,000 between 1992 and 1997. In both of these regional areas employment growth slowed in the course of the year, while in the North-East and the Centre the employment gains came mainly in the second half.

Labour demand in manufacturing industry. - With an increase of 53,000, industry excluding construction accounted for more than half of the overall gain in employment, thanks to growth in all parts of the country despite a slowdown in the growth of industrial output (Figure C1). The growth of employment in the last two years, at a time of modest expansion of output, can best be ascribed to the progressive exhaustion of scope for additional utilization of staff, attested by the high levels of per capita hours worked. The increase in employment was made possible by greater availability of flexible employment contracts.

In the regions of the North-West the employment expansion that began in the second half of 1997 continued. However, the cyclical slowdown in the second half resulted in a deterioration in labour demand. In January 1999 the number of persons in work was 1.6 per cent lower than in January 1998.

Table C1

**STRUCTURE AND DYNAMICS OF EMPLOYMENT
BY GEOGRAPHICAL AREA**

(thousands of persons, values and percentage changes)

Sectors	Employment in 1998			Changes on the corresponding period		
	Thousands of persons	With reference to the total area	With reference to the national total	1997	1998	January 1999
North-West						
Agriculture	206	3.4	15.4	-2.7	-4.6	-11.3
Industry	2,373	39.2	36.7	-1.7	0.9	-1.7
<i>Excluding construction</i>	1,952	32.2	39.8	-1.9	1.1	-1.6
<i>Construction</i>	421	6.9	27.0	-0.9	0.0	-1.9
Other activities	3,482	57.5	28.1	1.1	1.6	3.2
<i>Wholesale and retail trade</i>	974	16.1	29.1	-1.3	1.0	2.4
<i>Others</i>	2,508	41.4	27.7	2.0	1.8	3.6
Total	6,060	100.0	30.0	-0.2	1.1	0.8
North-East						
Agriculture	276	6.3	20.6	-1.4	-2.5	-5.4
Industry	1,641	37.2	25.4	1.4	0.8	1.2
<i>Excluding construction</i>	1,328	30.1	27.0	1.9	1.1	2.0
<i>Construction</i>	313	7.1	20.1	-0.6	-0.6	-2.3
Other activities	2,496	56.6	20.1	0.4	0.0	2.7
<i>Wholesale and retail trade</i>	737	16.7	22.0	-0.9	-1.1	2.1
<i>Others</i>	1,759	39.9	19.5	1.0	0.4	2.9
Total	4,412	100.0	21.8	0.7	0.1	1.6
Centre						
Agriculture	190	4.7	14.2	0.0	-2.6	-10.3
Industry	1,131	28.0	17.5	-0.7	-0.8	1.4
<i>Excluding construction</i>	856	21.2	17.4	-1.3	0.5	2.1
<i>Construction</i>	275	6.8	17.7	1.1	-4.5	-0.7
Other activities	2,718	67.3	21.9	-0.1	0.7	2.9
<i>Wholesale and retail trade</i>	696	17.2	20.8	-4.3	1.6	7.8
<i>Others</i>	2,022	50.1	22.4	1.5	0.3	1.2
Total	4,039	100.0	20.0	-0.2	0.1	1.9
South and Islands						
Agriculture	667	12.7	49.8	-3.0	-1.3	-8.6
Industry	1,323	23.3	20.5	0.1	-0.5	0.2
<i>Excluding construction</i>	774	13.6	15.8	0.5	1.7	0.3
<i>Construction</i>	548	9.6	35.2	-0.5	-3.5	0.0
Other activities	3,696	65.0	29.8	0.4	1.4	1.8
<i>Wholesale and retail trade</i>	944	16.6	28.2	-1.3	0.3	-0.4
<i>Others</i>	2,752	48.4	30.4	0.9	1.8	2.6
Total	5,685	100.0	28.1	-0.1	0.6	1.0
Italy						
Agriculture	1,339	6.6	100.0	-2.2	-2.3	-8.6
Industry	6,468	32.0	100.0	-0.4	0.3	-0.1
<i>Excluding construction</i>	4,910	24.7	100.0	-0.4	1.1	0.3
<i>Construction</i>	1,557	7.7	100.0	-0.4	-2.2	-1.1
Other activities	12,392	61.4	100.0	0.5	1.0	2.6
<i>Wholesale and retail trade</i>	3,351	16.6	100.0	-1.9	0.5	2.7
<i>Others</i>	9,041	44.8	100.0	1.4	1.2	2.6
Total	20,196	100.0	100.0	0.0	0.5	1.0

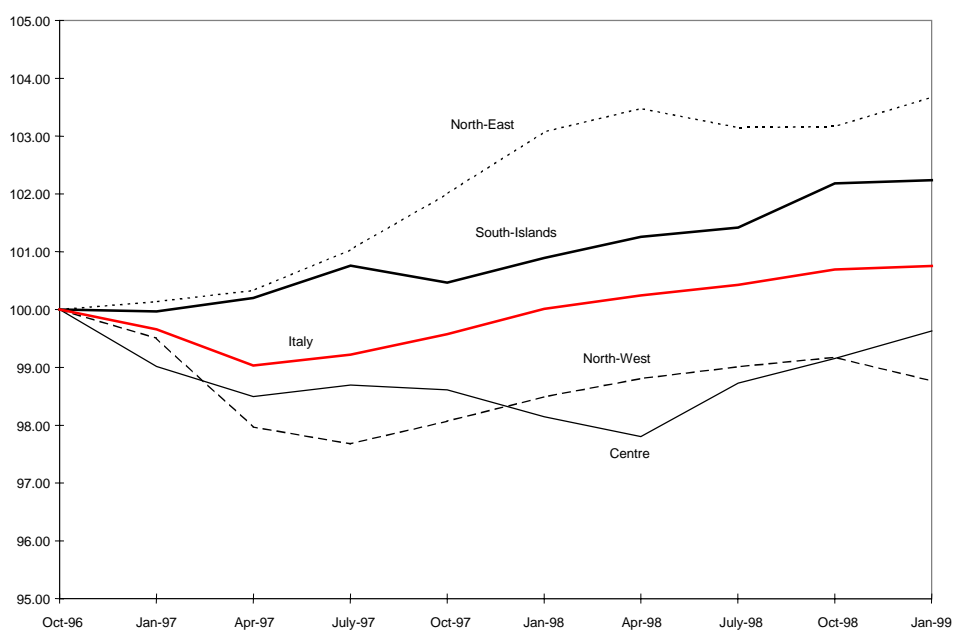
Source: Based on Istat data.

Employment growth was accounted for entirely by firms in Lombardy and, to a lesser extent, Liguria, which together more than offset a slight decline in Piedmont. Industrial employment in the area was affected by the outsourcing of service activities by industrial firms, which was intensive in Piedmont and even more so in Lombardy.

Figure C1

EMPLOYMENT IN INDUSTRY EXCLUDING CONSTRUCTION

(moving average of four periods ending in the reference quarter;
indices, October 1996=100)



Source: Based on Istat data.

The gain in industrial employment in the North-East was comparable to that registered in the North-West (1.1 per cent).

The expansion was concentrated in the Veneto and Emilia-Romagna regions (1.6 and 1.3 per cent respectively), where employment was sustained by firms' success in attenuating the repercussions of the crisis in South-East Asia, reorienting their output to the more dynamic European and North American outlet markets. Emilian firms expanded their use of labour, increasing both the number of persons employed and per capita working hours, which approached the ceilings set by the collective bargaining agreements in force.

Following the contraction of 1997, industrial employment in the regions of Central Italy recovered very weakly in 1998, with an increase of about 5,000, or 0.5 per cent. Comparatively strong gains in Marche (2.5 per cent) and Umbria (1.5 per cent) contrasted with a slight increase

in Tuscany (0.5 per cent) and a decline of 1.7 per cent in Lazio.

The Report on Marche notes that growth in the region was sustained by mechanical engineering, wood and furniture, and textiles, while the footwear industry was severely affected by a loss of competitiveness. In Tuscany the impact of the loss of competitiveness appears to have been felt mainly in the first half of the year; from then on, firms once again expanded staffs.

In the South of Italy, after the very modest upturn of 1997 the recovery in industrial employment gathered strength last year, with a gain of 1.7 per cent, partly recouping the losses registered from 1994 through 1996. The increase was sustained in part by actions taken under Law 196 of 24 July 1997, the Treu Law. A slight slowdown in the growth of labour demand was registered in the last few months of the year.

The acceleration in employment was accounted for essentially by the Puglia region, where the number of industrial employees rose by 15,000, or 8.4 per cent. A smaller rise was recorded in Sicily (4,000, or 3.8 per cent). Industrial employment stagnated in Basilicata and Molise and declined in Abruzzo (-1.9 per cent), Calabria (-5.6 per cent) Campania (-1.8 per cent) and Sardinia (-1.8 per cent). In Campania there was again a sharp divergence between employment in local firms, which increased by 1.6 per cent, and in those owned by non-regional residents, which fell by 4.3 per cent.

Labour demand in construction. - After remaining roughly unchanged in 1996 and 1997, employment in the construction industry turned significantly downwards again in 1998, with a loss of 35,000 jobs (2.2 per cent).

Trends continued to differ sharply between regional areas (Table C1). In the North construction employment slipped only marginally, by 0.4 per cent, as a decline in the regions of Lombardy, Emilia-Romagna and Trentino-Alto Adige was almost entirely offset by gains in Piedmont, Liguria, and Friuli-Venezia Giulia (Table aC1). The pattern in the Centre was much more uniform, with a fall of between 4 and 5 per cent in every region; overall, the area registered a decrease of 14,000 construction workers, or 4.5 per cent.

In 1999, according to the respective regional Reports, the building sector should benefit from reconstruction in the areas of Marche and Umbria struck by the 1997 earthquake and by the realization of infrastructure in Lazio in connection with the 2000 Holy Year.

The Report on Umbria notes that at the end of 1998 the integrated urban reconstruction programmes submitted to the Region by municipalities numbered 105. Private reconstruction projects are also slowly beginning to get under way.

The regional government of Marche has borrowed 341 billion lire to meet the requests for funds for reconstruction of buildings that suffered slight or moderate damage (up to 60 million lire per applicant under Commissioner's Decree 121/1998).

In the South the process of labour shedding, which had been attenuated in 1996 and 1997, resumed with force. Employment in construction declined by 20,000, or 3.5 per cent. The fall affected nearly all the regions of the South. Construction still plays a significantly greater role in overall employment in the South (9.6 per cent) than in the rest of the country (6.9 per cent).

The Reports on Sicily, Puglia and Abruzzo cite as the main cause for the decline in construction employment a fall in the demand for private residential construction. In Campania, by contrast, new building activity on public works projects produced an increase in construction industry employment.

Labour demand in wholesale and retail trade. - Employment in the commerce sector began to increase again (by 0.5 per cent) in 1998; growth was recorded in all parts of the country except the North-East (Table C1). The regional *Reports* underscore that in nearly all regions this was due to an increase in the number of employees (1.6 per cent nationwide), which more than offset a 0.5 per cent decline in the number of self-employed workers. As in the past, the shift in the balance in favour of payroll employment was most pronounced in the North, where the number of self-employed fell by 2.4 per cent and that of employees rose by 3 per cent. The trend is now extending to the South as well. Nevertheless, the self-employed component still accounts for 58 per cent of the total nationwide, high by European standards; in the South, the proportion is 65 per cent. Changes in the labour force are altering the composition of employment according to sex, age and type of employment contract. Typically, the new employees are young women on part-time or fixed-term contracts.

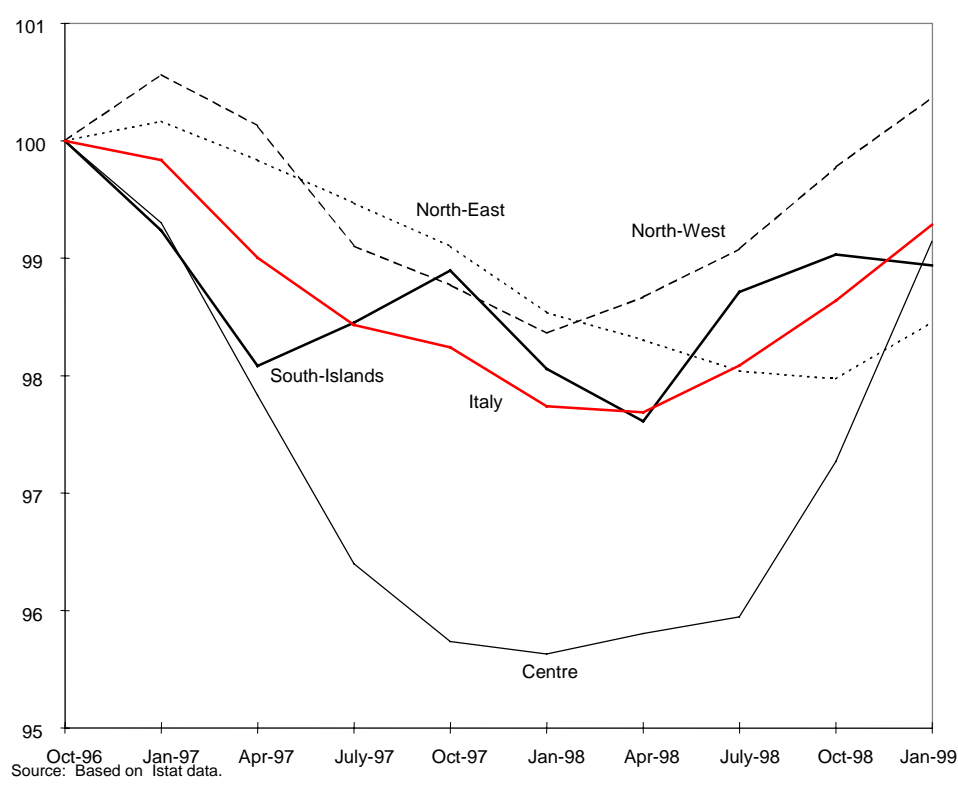
Labour demand in other service industries. - On average for the year, employment in services other than wholesale and retail trade increased in all parts of the country (1.8 per cent in the North-East, 0.4 per cent in the North-West, 0.3 per cent in the Centre and 1.8 per cent in the South). In the northern regions growth was led, as in 1997, by services related to industry (see the *Report on Lombardy*) and by financial intermediation. In the South, the increase was concentrated in services to households.

Labour demand in agriculture. - The decline in farm employment continued last year in nearly all the regions of Italy, with an overall fall

of 2.3 per cent. Agriculture nevertheless continues to account for a larger share of total employment (6.6 per cent) than in the other large European countries.

Figure C2

EMPLOYMENT IN WHOLESALE AND RETAIL TRADE
*(moving average of four periods ending in the reference quarter;
 indices, October 1996=100)*



Flexibility in employment relationships

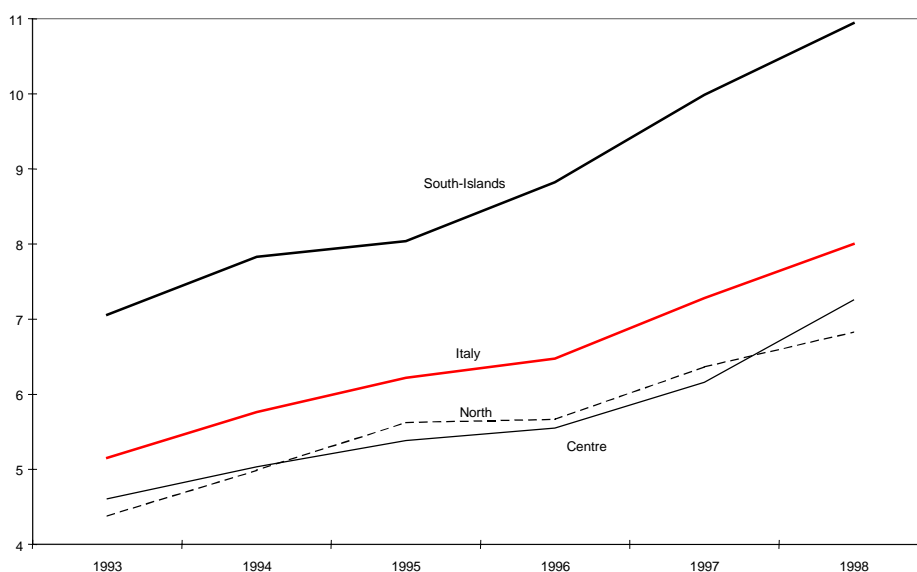
The spread of employment relationships allowing for closer correlation of labour input with effective demand continued in 1998.

Fixed-term contracts. - Employees on fixed-term contracts constituted 8.9 per cent of all Italian employees in 1998; in 1993, the figure was 6.2 per cent. The increase has been favoured both by legislative innovation and by collective bargaining agreements, which have expanded the possibilities for resort to this instrument.

The Reports on nearly all the regions note that the increased use of fixed-term employment involves chiefly contracts shorter than six months, which firms use to meet temporary labour requirements. In manufacturing firms in Emilia-Romagna, for instance, nearly 60 per cent of new fixed-term contracts were for less than six months. In Veneto such contracts accounted for more than half of all hirings. A large proportion of hirings for under six months involves trainee and apprenticeship contracts.

Figure C3

WORKERS WITH FIXED-TERM CONTRACTS AS A PERCENTAGE OF NON-AGRICULTURAL EMPLOYEES BY GEOGRAPHICAL AREA



Source: Based on Istat data.

Fixed-term employment is spreading rapidly outside its traditional niche in agriculture (the share of farm workers on fixed-term contracts was 29.3 per cent in 1993 and 34.2 per cent in 1998). In industry, including construction, the share of total employment accounted for by workers on fixed-term contracts rose from 4.5 per cent in 1993 to 7.5 per cent in 1998. Resort to the instrument is most common in the regions of the South (13.8 per cent of employment). It is less significant in the Centre (7 per cent) and the North (5.7 per cent), but its use is increasing at about the same pace in all parts of the country. In the services sector fixed-term employment (8.3 per cent nationwide, compared with 5.6 per cent in 1993) is more uniform geographically, though at 9.8 per cent it is higher in the South (compared with 5.9 per cent in 1993) than in the Centre (7.4 per cent) or North (7.7 per cent).

Part-time jobs. - Part-time work has spread less rapidly than fixed-term employment. In 1998 the share of total employment accounted for by part-time workers was 7.3 per cent, compared with 5.4 per cent in

1993. Part-time work also is more common in agriculture (12 per cent of persons employed). The growing use of part-time employment is favoured by the expansion of the services sector, where 8.3 per cent of all persons employed in 1998 were working part-time, compared with 5.7 per cent in 1993; in the North, where large retail outlets are more common, the figure was 10 per cent.

The labour force and unemployment

The Italian labour force grew by 0.6 per cent, or 142,000 persons, on average for 1998. This was entirely accounted for by growth of 2.0 per cent (170,000) in the number of economically active women, while the male component declined by 0.2 per cent, or 28,000 (Table C2). The women's participation rate rose further from 34.8 to 35.3 per cent, thanks mainly to an increase in the geographical areas where it is lowest.

Male participation rates declined throughout the country, except in the South. Between 1993 and 1998 the Centre and North have recorded a decline in the male activity rate of 2.3 percentage points; but in the South, after a sharp fall of 1.6 points between 1993 and 1994 the rate has stabilized at about 60.2 per cent.

The second half of the nineties has seen stepped-up emigration from the South to the rest of the country. Net out-migration from the South amounted to 200,000 persons from 1996 through 1998, 30,000 more than in the entire period from 1990 through 1995. The main destination is the North-East.

The Report on Veneto observes that the use of manpower from the South of Italy and of immigrants from outside the European Union has increased in recent years. The demand comes from small manufacturing and construction firms and involves mainly specialized workers.

The number of unemployed persons rose by the same percentage as the labour force in 1998, so the unemployment rate remained unchanged at 12.3 per cent. This overall stability conceals a widening of the gap between North and South, however: jobless rates for both men and women declined in the Centre and North and rose in the South.

The Reports on some southern regions (Puglia, Campania and Sicily) note that especially among women the signs of an employment upturn heightened confidence in the chances of finding work, thus increasing labour force participation.

Table C2

**PARTICIPATION RATE, UNEMPLOYMENT RATE,
LABOUR FORCE AND EMPLOYMENT BY GEOGRAPHICAL AREA**

(percentages and percentage changes)

Areas	Participation rate (population aged 15 and over)		Unemployment rate		Population aged 15 and over	Labour force	
	1997	1998	1997	1998	% change 1997-98	% change 1997-98	
			Men				
North-West	61.9	61.7	4.8	4.5	0.2	-0.2	
North-East	63.1	62.7	3.5	3.3	0.2	-0.3	
Centre	60.4	59.6	7.2	7.2	0.4	-0.8	
South and Islands	60.2	60.2	17.8	18.2	0.3	0.2	
Italy	61.2	61.0	9.5	9.5	0.3	-0.2	
			Women				
North-West	38.6	39.5	10.9	10.9	0.3	2.7	
North-East	40.8	40.6	8.8	8.2	0.3	-0.3	
Centre	36.0	36.2	14.8	14.1	0.4	0.9	
South and Islands	27.9	28.7	31.0	31.8	0.9	3.8	
Italy	34.8	35.3	16.8	16.8	0.5	2.0	
			Total				
North-West	49.8	50.2	7.3	7.1	0.2	0.9	
North-East	51.5	51.2	5.7	5.3	0.3	-0.3	
Centre	47.7	47.4	10.2	10.0	0.4	-0.2	
South and Islands	43.5	43.9	22.2	22.8	0.6	1.4	
Italy	47.5	47.6	12.3	12.3	0.4	0.6	

Source: Based on Istat data. (See the *Methodological Notes* section in the Appendix).

Social shock absorbers and active labour policies

Social shock absorbers. - Resort to the Wage Supplementation Fund continued to decline, involving both ordinary and extraordinary benefits, in almost all regions (Table aC2).

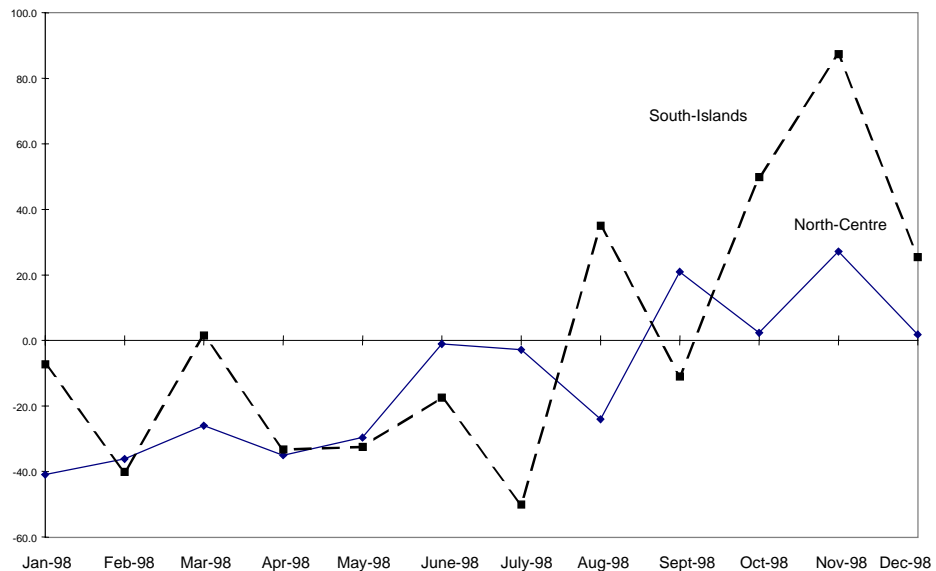
The only exceptions noted by the regional Reports were Abruzzo, where extraordinary Wage Supplementation increased in connection with a deterioration in the employment picture, and Friuli-Venezia Giulia, where the rise reflected restructuring in several large textile and mechanical engineering enterprises.

As in 1997, total Wage Supplementation benefit hours diminished

more sharply in the South (-31.3 per cent) than in the Centre-North (-17.8 per cent). The decline in extraordinary benefits (by 40.4 and 21.5 per cent in the two parts of the country) was largely due to the transfer of workers from Wage Supplementation to the mobility lists. The decline in ordinary benefits was most pronounced in the regions of the North (16.3 per cent, as against 8.6 per cent in the Centre and 8.2 per cent in the South). Ordinary benefits proved highly responsive to cyclical developments, increasing in correspondence with the production slump in the second half of the year (Figure C4).

Figure C4

WAGE SUPPLEMENTATION ORDINARY BENEFIT HOURS
(percentage changes on the corresponding month)



Source: Based on INPS data.

In manufacturing industry in the South the number of full-time equivalent workers drawing Wage Supplementation benefits fell from 4.7 to 3.1 per cent of the total number of payroll employees. Smaller reductions were observed in the North (from 1.3 to 1.0 per cent) and the Centre (from 1.7 to 1.5 per cent).

Outside of Campania and Sicily, for which data are not yet available, the number of workers on the mobility lists rose by more than 5 per cent in 1998. The increase was concentrated in the Centre and South of Italy. In Lombardy, Veneto, Trentino-AltoAdige and Friuli Venezia-Giulia the lists shrank. Hirings exceeded 40 per cent of the number of workers on the lists in the North but were about 25 per cent in the Centre and under 10 per cent in the South.

The number of persons employed on “socially useful jobs” increased by 20,523: 6,340 in the Centre and North and 14,183 in the South. In the South, the number of these workers came to 6.8 per cent of the number of job seekers, as defined by the labour force survey, with a peak of 10.1 per cent in Sicily, as against 4.0 per cent in the Centre and 1.2 per cent in the North (with a low of 0.6 per cent in Lombardy and Trentino-Alto Adige).

Table C3

ENTRY INTO WORK FORCE

(new hirings in 1998)

Region	Work grants	Vocational insertion plans	Publicly useful jobs	Temporary	Internship and stages	subsidized hirings with tax credits	Apprenticeship contracts
Piedmont	n.a.	1,696	n.a.	6,744	8,438	23	24,208
Valle d'Aosta	n.a.	3	n.a.	14	165	3	1,842
Lombardy	n.a.	54	n.a.	19,928	19,603	94	43,880
Liguria	n.a.	1,634	n.a.	914	458	14	8,054
Trentino-Alto Adige	n.a.	0	n.a.	1,308	n.d.	0	9,699
Veneto	n.a.	869	n.a.	5,690	n.d.	15	58,056
Friuli-Venezia Giulia	n.a.	79	n.a.	1,252	n.d.	2	10,570
Emilia-Romagna	n.a.	293	n.a.	5,151	2,695	48	43,509
Tuscany	387	1,116	45	2,330	102	84	25,365
Umbria	n.a.	722	n.a.	656	0	22	4,679
Marche	n.a.	204	n.a.	574	245	85	14,456
Lazio	10,750	6,492	1,249	3,913	100	294	3,865
Abruzzo	3,017	1,046	470	418	52	4,247	7,828
Molise	1,060	676	245	5	665	689	663
Campania	13,202	8,468	6,469	696	865	8,706	4,492
Puglia	10,542	3,236	1,793	2,113	410	9,397	17,097
Basilicata	1,904	1,049	339	320	55	1,879	1,273
Calabria	5,737	6,144	3,320	112	0	3,581	2,351
Sicily	11,683	n.d.	9,745	163	n.d.	9,696	5,073
Sardinia	4,545	n.d.	4,237	11	637	4,388	3,767
Italy	62,827	33,781	27,912	52,312	34,490	43,267	290,727

Source: Osservatorio del Mercato del Lavoro, INPS and Assointerim.

n.a.: not applicable; n.d.: data not available.

Active labour policies. - The Pact for Jobs reached by Government, trade unions and employers on 24 September 1996 launched a period of innovation in national development policy. The Pact's indications for job creation were implemented in Law 196/1997, a package of measures known by the name of then Labour Minister Tiziano Treu, and in the Plan of Action for Employment of April 1998. The measures taken

enriched the set of instruments to facilitate the entry into employment of young people and of those designed to enhance flexibility in the use of the work force.

In all, “work grants”, plans for vocational integration and publicly useful projects generated temporary jobs for more than 120,000 unemployed, 84 per cent of them resident in the South (Table C3).

The Treu package extended the utilization of apprenticeship contracts to all sectors, increased their possible duration, and raised the age limit for apprentices. In 1998 new apprenticeship contracts increased by 32,610 or 12.6 per cent. The increase was extremely marginal (just 600) in the South, where only 14.5 per cent of all Italian apprentices are employed.

The Reports on Piedmont and Puglia observe that apprenticeship has partly replaced trainee contracts, which have become relatively less advantageous to firms.

In part to compensate for the progressive reduction in social contribution relief, Law 449/1997 introduced hiring incentives, via tax credits, for small and medium-sized enterprises. In 1998 these subsidized hirings numbered 43,267, more than 98 per cent of them in the South.

The *Report on Campania* gives information on “contribution realignment” contracts, which enable “underground” firms to emerge and gradually regularize their workers’ social security positions. About 70 per cent of these contracts were signed in Puglia, 9.6 per cent in Abruzzo, 7.3 per cent in Sicily, and lower percentages in Campania and Calabria.

There were 52,312 temporary employment assignments in 1998; 93 per cent were effected in the Centre and North.

The Reports on Lombardy and Piedmont forecast significant increases in temporary employment. In some regions, mismatching between the skills required and those offered has hindered the spread of the new instrument (see the Reports on Liguria, Veneto, Umbria and Calabria). Of the southern regions, only Puglia saw significant use of temporary employment contract.

Regional development policies

The gradual reform of economic policy instruments for reducing regional disparities, which began with the termination of the extraordinary southern development programme, continued in 1998.

Financing and accounting procedures involving resources for the depressed areas were modified. Some changes in the procedures for subsidies under Law

488/1992 became operative. Specifically, two new parameters for ranking projects (environmental impact and the local development priorities set by the regions) were introduced; the criteria for the geographical distribution of funds were modified, and the possibility of holding two half-yearly calls for projects instead of one yearly was introduced. The subsidies provided for by Law 341 of 8 August 1995, which had been suspended in 1997, were reinstated. Selection and financing of entrepreneurial initiatives by unemployed Southerners (so-called "word-of-honour loans") was begun. Major regulatory adaptations to the instruments of negotiated development planning were also made.

Table C4

**COMMUNITY SUPPORT FRAMEWORK FOR REGIONAL DEVELOPMENT
(1994-99) OBJECTIVE 1: STATE OF IMPLEMENTATION**

(amounts in millions of euros and percentages)

Type of intervention	Total grant	Disbursements/ total grant (%)		
		31.12.1996	31.12.1997	31.12.1998
Total	31,090.2	15.9	38.8	55.3
<i>of which:</i>				
multiregional	16,180.0	22.0	44.6	59.0
regional	14,190.2	9.2	32.4	51.2
<i>of which:</i>				
<i>Abruzzo</i>	<i>555.4</i>	<i>15.6</i>	<i>40.5</i>	<i>56.3</i>
<i>Molise</i>	<i>537.2</i>	<i>11.7</i>	<i>44.9</i>	<i>64.2</i>
<i>Basilicata</i>	<i>1,224.2</i>	<i>20.9</i>	<i>43.2</i>	<i>60.6</i>
<i>Calabria</i>	<i>1,922.8</i>	<i>12.9</i>	<i>30.2</i>	<i>55.4</i>
<i>Campania</i>	<i>3,074.0</i>	<i>2.4</i>	<i>37.1</i>	<i>51.0</i>
<i>Puglia</i>	<i>2,683.1</i>	<i>5.2</i>	<i>24.8</i>	<i>45.9</i>
<i>Sardinia</i>	<i>1,811.7</i>	<i>18.2</i>	<i>34.1</i>	<i>55.0</i>
<i>Sicily</i>	<i>3,101.8</i>	<i>5.8</i>	<i>32.4</i>	<i>44.6</i>

Source: Ministero del Tesoro, *Documento di programmazione economico-finanziaria 1999-2001* and *Relazione generale sulla situazione economica del Paese 1998*.

The funding allocated to depressed areas by the Interministerial Committee for Economic Planning for 1998 totaled 11.449 trillion lire, compared with 9.5 trillion in 1997; on an accruals basis, appropriations for the completion of extraordinary development projects came to 4.614 trillion and those for new initiatives to 6.835 trillion.

At the end of 1998, the southern regions had spent slightly over 55 per cent of the total EU structural fund resources planned by the Community Support Frameworks for 1994-1999. This achieved the minimum goals for the deployment of Community resources, with an increase of 16.5 percentage points compared with the end of 1997 (Table C4). The target for 1999 has been set at 70 per cent.

Investment subsidies. - Since 1997, Law 488/1992 has worked to

halt the fall in investment in the South that took place in the previous years. Four calls for grant applications have been held since the new program went operational (Table C5).

The sharp increase in subsidized investment in 1998 was due to the significant increase in the number of projects located in the South, which rose to 67.5 per cent of the total, compared with 50 per cent in 1997 and 61 per cent in 1996.

The *Reports on Puglia and Sicily* note that the applications in 1998 showed an increasing incidence of labour-intensive industries among the sectors subsidized. The *Report on Campania* observes the substantial interest shown by entrepreneurs in subsidies under Law 488/1992, which translated into a sharp rise in the number of applications accepted.

Table C5

LAW 488/1992: APPLICATIONS FOR FACILITATED CREDIT

(number and billions of lire)

Regions	1996 1st round)			1997 (2nd round)			1998 (3rd and 4th round)		
	No. of applications	Investments	No. of jobs	No. of applications	Investments	No. of jobs	No. of applications	Investments	No. of jobs
Piedmont	801	3,048	11,109	366	2,852	4,719	480	1,512	6,524
Valle d'Aosta	2	3	24	1	33	91	2	4	20
Lombardy	161	269	1,128	86	176	617	112	418	741
Trentino-A. A.	3	7	22	-	-	-	-	-	-
Veneto	472	909	5,561	226	593	1,935	247	773	2,641
Friuli-V. G.	36	50	518	22	51	189	49	229	837
Liguria	257	467	1,916	139	405	534	195	513	918
Emilia-Rom.	134	280	2,278	49	165	1,156	75	322	733
Tuscany	921	1,533	8,931	582	1,000	3,751	441	1,177	2,864
Umbria	120	363	2,032	157	556	1,459	238	577	2,798
Marche	222	350	2,557	85	283	1,235	182	436	2,159
Lazio	160	1,176	1,808	195	1,456	2,928	220	680	2,081
Abruzzo	408	1,971	8,363	81	407	2,108	222	911	4,555
Molise	90	841	1,760	25	120	511	55	254	1,191
Campania	809	3,662	12,701	763	2,526	10,919	1,499	4,034	20,697
Puglia	726	2,305	11,311	528	1,349	7,212	1,127	2,462	19,378
Basilicata	157	550	2,239	54	170	763	203	927	3,249
Calabria	410	872	3,642	324	792	3,298	809	1,657	10,052
Sicily	335	2,306	3,821	446	1,669	4,595	977	2,720	10,467
Sardinia	169	743	2,030	100	538	1,604	199	834	3,387
Italy	6,393	21,702	83,752	4,229	15,141	49,624	7,332	20,438	95,292

Source: Istituto per la promozione industriale (IPI).

As for the reactivation of Law 341/1995, on 30 November 1998, the first day on which applications could be submitted, 7,737 applications for 4,510 billion lire in investment were received (44.2 per cent in the South). The funds available (880 billion lire) covered only part of the subsidies requested (1,434 billion).

By region, the largest shares of the investment planned were accounted for by Piedmont (15.2 per cent of the total), Campania (11.4 per cent), Veneto (10.8 per cent), Tuscany (10.7 per cent) and Puglia (10.3 per cent).

The promotion of entrepreneurial development. - In 1998 the instruments of negotiated development planning were further refined both procedurally and in their implementation criteria. The Interministerial Committee's resolution of 9 July, supplementing the procedure laid down in that of 21 March 1997, introduced a procedure for the rationing of resources whereby territorial pacts are granted eligibility for subsidies on a selective basis.

In the first few months of 1999 the streamlining made possible by the new rules favoured a resumption in findings of eligibility for funding (Table C6). The funding of new territorial pacts began six months after the July 1998 resolution and two months after the submission of the proposals.

Many pacts are in course of approval. Many of the regional Reports offer observations on the state of implementation of the territorial pacts and area contracts. The Report on Calabria emphasizes that the speed-up in procedures has revived interest in negotiated development planning initiatives.

Among the programs designed to foster entrepreneurship, the *Reports on Calabria and Campania* pay special attention to "word-of-honour loans".

By 31 December 1998, a total of 16,974 applications for word-of-honour loans had reached the training/selection phase. The number accepted for funding was 1,924; 25.4 per cent of them were located in Campania.

Table C6

TERRITORIAL PACTS BY REGION

Region	Pacts concluded under old procedures (1)	Community pacts (2)	Pacts concluded under new procedures (3)
Abruzzo		Sangro Aventino	
Molise		Matese	
Campania	Benevento	Agro Nocerino Sarnese	Avellino
	Caserta	Napoli Nord Est	Sele Tanagro
	Miglio d'oro		
Puglia	Lecce	Nord Barese Ofantino	Bari
	Brindisi		Castellaneta-Crispiano-Ginosa-M.Franca
			Sistema murgiano
			Taranto
Basilicata			Area Sud Basilicata
			Matera
Calabria	Vibo Valentia		Alto Tirreno Cosentino
			Cosentino
			Lametino
			Locride
Sicily	Enna	Alto Belice Corleonese	Messina
	Siracusa	Calatino Sud Simeto	
	Madonie	Catania Sud	
	Palermo		
	Caltanissetta		
Sardinia	Nuoro	Oristano	
Piedmont			Alessandria
			Cuneese
Veneto			Rovigo
Emilia-Romagna			Ferrara
Lazio			Frosinone
			Rieti
Tuscany			Livorno
			Maremma Grossetana
			Massa Carrara
			Piombino-Val di Cornia
Tuscany-Umbria			Valdichiana-Amiata-Trasimeno-Orvietano
Total	12	9 (4)	24

Source: Ministero del Tesoro. Press release of 3 February 1999.

(1) Pacts approved by CIPE resolution prior to 31 December 1997. (2) Territorial pacts for employment approved by decision of EU Commission. (3) Pacts ruled eligible for funding by Treasury on basis of ranking at 2 February 1999. (4) Plus the multiregional pact "Appennino centrale".

D - BANKING

Lending

Net of bad debts and exchange rate adjustments, bank lending grew by 6.0 per cent in 1998, compared with 5.4 per cent in 1997. Medium-to-long-term lending was buoyed by demand for home mortgage loans and outpaced short-term lending, with rates of growth of respectively 6.4 and 5.7 per cent.

The pick-up in lending, fostered by declining interest rates, involved all the main areas of Italy except the North-West.

The slowdown in lending in the North-West principally concerned loans to financial companies, which had expanded rapidly in the final months of 1997 owing to treasury operations of prime customers (see the Report on Piedmont). In addition, the end of the incentives for car scrapping led to a slackening in lending to consumer credit companies (see the Report on Lombardy). The pace of lending to industrial companies also declined, albeit to a limited extent.

Credit growth was most buoyant in the regions of the North-East, reflecting the better tenor of productive activity in the area (see, in particular, the *Reports on Veneto and Emilia-Romagna*); it was less strong in the Centre and the South. In the Centre the trend was attributable to the decline in lending to general government and to the energy products sector in the region of Lazio; in the South it was due to the contraction in loans to governmental bodies, financial companies and the construction industry.

In the South, the decline in lending to financial companies was confined almost exclusively to Campania and reflected the transactions between Banco di Napoli and the non-bank collection company SGA in connection with the restructuring of Banco di Napoli (see the Report on Campania).

There was a marked nationwide acceleration in lending to consumer households, driven above all by home purchases (Table D1). A contributory factor was the stability of housing prices along with the fall

in interest rates, which was accentuated by increased competition in the field of mortgage lending (see the *Reports on Lombardy, Liguria and Tuscany*).

Table D1

LOANS BY REGION AND SECTOR IN 1998 (1)

(end-of-period data; percentage changes on 1997)

Regions	Public administrations	Financial and insurance companies (2)	Non-financial companies and sole proprietorship					Consumer Households (3)	Total
				Agri-culture	Industry excluding construction	Construction	Services		
Piedmont	-12.8	-19.8	6.5	7.7	8.0	3.3	5.7	13.2	2.7
Valle d'Aosta	-4.8	63.5	5.4	0.4	25.4	3.2	-1.1	8.8	8.1
Lombardy	-6.4	7.7	7.2	9.9	7.2	5.7	7.5	19.8	8.6
Liguria	12.6	-13.0	-1.1	8.6	-16.1	4.7	5.2	14.9	2.7
Trentino-Alto Adige	-8.5	41.7	8.0	7.4	7.5	11.9	7.3	17.4	10.9
Veneto	8.9	19.9	7.7	5.9	9.1	4.1	7.0	17.9	9.9
Friuli-Venezia Giulia	2.6	19.9	10.6	6.3	13.4	8.5	7.9	17.6	12.5
Emilia-Romagna	16.0	29.9	8.1	8.8	6.6	6.8	10.1	20.7	11.6
Tuscany	26.6	23.2	4.0	7.4	5.1	1.2	3.1	10.0	7.9
Umbria	45.0	15.4	9.4	7.1	9.1	1.8	13.8	18.0	13.4
Marche	62.5	33.8	10.2	2.4	12.4	10.6	7.5	18.2	14.9
Lazio	-5.6	9.2	-0.6	-8.8	-10.2	-0.5	8.0	10.5	0.3
Abruzzo	-8.8	12.2	3.8	-0.2	3.3	4.0	5.2	13.3	5.4
Molise	-7.3	124.2	4.7	-9.0	8.5	-1.1	7.7	11.6	6.7
Campania	-11.5	-17.6	2.6	-4.5	2.6	-1.5	5.2	12.3	-0.3
Puglia	-1.7	69.7	1.5	-0.2	10.4	-5.7	1.3	10.4	4.9
Basilicata	7.0	-6.2	3.0	1.7	9.0	-3.2	-0.7	7.5	4.1
Calabria	-2.4	..	6.6	3.8	7.9	1.2	9.0	8.7	7.5
Sicily	-36.9	4.9	7.2	-6.6	12.8	0.5	11.4	10.0	6.0
Sardinia	-19.3	28.1	9.3	3.0	28.4	-1.5	5.4	12.0	9.8

Source: Supervisory returns.

(1) Loans include bad debts. (2) Includes holding companies. (3) Includes private social institutions and units not elsewhere classified.

Credit to industrial firms slackened somewhat from the previous year owing to the fall in lending to the energy sector, notably in Lazio and Liguria (see the *Reports* on those two regions). Loans to industry grew fastest in the North-East and the South and islands.

Reviving industrial investment fueled the demand for medium and long-term credit (see the section on manufacturing industry in Chapter C above and the *Reports on Piedmont, Veneto and Campania*). Mounting

stocks of finished products and longer terms of payment, reflecting the slowdown in economic activity, led firms to seek short-term credit (see the *Reports on Trentino-Alto Adige and Marche*).

After contracting in the past few years, bank lending to the construction industry remained more or less stable in Italy as a whole. Set against the increase recorded in the regions of the North and Centre (with the exception of Lazio), lending to the sector continued to decline in the South, although more slowly than in the past. The geographical trends in lending to agriculture were broadly similar to those for construction.

Lending to the service sector picked up throughout Italy, most notably in the North-East and especially the South.

In Campania, lending to service businesses, particularly in tourism and transport, increased substantially for the third consecutive year. In Sicily, there were large increases in lending to the marine and air transport sectors (mainly to shipping companies) and to hotels, cafés and restaurants, as well as to other market services.

Bad debts

Bad debts grew by 2.2 per cent for Italy as a whole while declining from 9.4 to 9.1 per cent of the total loan portfolio (Table D2). In 1997 they had contracted by 2.5 per cent in consequence of the reorganization of Banco di Napoli and the liquidation of Sicilcassa; net of those extraordinary operations, these had expanded by 7.1 per cent.

The increase in bad debts was kept down partly by substantial write-offs of uncollectible items and by the reduction in new bad debts thanks to the positive performance of the economy in 1997 and the first half of 1998.

The stock of bad debts diminished in the North (by 1.4 and 7.3 per cent respectively in the North-West and North-East); it grew in both the Centre (by 2.1 per cent) and especially in the South (by 7.3 per cent), albeit more slowly than in 1997. The ratio of bad debts to total loans rose further in the South, from 21.8 to 22.6 per cent; it fell considerably in the North-East, while declining only marginally in the North-West and even less in the Centre.

The growth in bad debts was particularly large in the Islands (14.0 per cent) where, partly on account of extraordinary reorganizations of major local banks, earlier loans that had been written down as bad debts are still carried on banks' balance sheets. The increase was far smaller, and in line with the growth in lending, in the mainland South (2.9 per cent).

Table D2

BAD DEBTS BY GEOGRAPHICAL AREA
(end-of-period data; percentages and percentage changes)

Areas	12-month percentage changes			Bad debts/loans	
	1997 (1)		1998	1997	1998
North-West	1.3	2.3	-1.4	5.3	5.0
North-East	-3.1	-0.9	-7.3	6.0	5.0
Centre	3.0	8.5	2.1	9.6	9.5
South and Islands	-8.3	10.8	7.3	21.8	22.6
Italy	-2.5	7.1	2.2	9.4	9.1

Source: Supervisory returns. Data referred to the monthly sample of the Bank of Italy. See the Methodological Notes in the Appendix and Glossario sections in the Appendix to the Bank's Annual Report in Italian.

(1) In italics: including the indicators resulting from the aggregate of the bad debts transferred by Banco di Napoli to the non-bank company SGA and those still held by winding-up Sicilcassa.

The proportion of bad debts to total loans declined in all sectors of economic activity except for the construction industry, where it rose further. That deterioration was limited to the South and the Centre; in the North the ratio of bad debts to loans to the construction industry declined.

In the South, bad debts on credit to the construction industry increased most rapidly in Sicily (where they rose to equal one third of the regional total), Sardinia and Puglia.

Deposits and borrowed funds

The funds raised by banks grew by 1.8 per cent last year, compared with 3.0 per cent in 1997. Current accounts and bond issues increased while CDs contracted; in contrast with the past, the contraction also involved short-term certificates. The volume of funds raised through repurchase agreements also declined.

Current accounts recorded intensified growth in every region. This was attributable to the reallocation of households' financial assets, with a contraction in direct holdings of government securities and stepped-up recourse to asset management products. The growth in current accounts compensated for the greater risk and lesser liquidity of the new forms of financial investment and was abetted by the reduction in the opportunity cost of holding cash: the differential between the average yield on Treasury bills and the rate on current account deposits, adjusted for the

different tax treatment, narrowed from 2.0 to 1.4 per cent.

Table D3

BANK DEPOSITS BY AREA IN 1998

(end-of-period data; percentage changes on previous year)

Areas	Deposits			
		of which: current accounts (1)	of which: CDs up to 18 months (1)	of which: CDs of 18 months or more (1)
North-West	1.7	16.2	-14.1	-48.1
North-East	-2.9	9.7	-0.4	-43.4
Centre	2.9	14.7	-13.0	-43.8
South	-1.3	14.2	-8.2	-39.0
Islands	-2.2	10.0	-4.8	-42.5
Italy	0.2	14.0	-9.3	-44.5

Source: Supervisory returns. The data are classified according to the residence of the counterparty.

(1) The percentage changes are adjusted to take account of the banks that in 1997 did not transmit detailed returns.

The growth in current accounts was most pronounced in the North-West (16.2 per cent) and the region of Lazio (18.5 per cent), owing to the strong expansion in the deposits of financial management companies, most of which are based in those areas (see the Reports on Lombardy, Piedmont and Lazio).

Banks fostered the expansion of current accounts with innovative pricing strategies and products.

In Lombardy, many banks did away with fees for payment services, replacing them with a monthly fixed charge for customers who buy bonds, asset management products or insurance policies. Some banks also offered telephone consulting or other services at no charge. In Piedmont too the banks accommodated customer demand by supplying products that supplement current accounts with additional services or with links to investment funds, not necessarily limited to money market funds. Banks are also reported to have adopted similar strategies in Friuli-Venezia Giulia, Campania and Puglia.

There were disparities from region to region in the growth in bank bonds, the geographical distribution of which can be derived from the information on securities deposited with banks (Table D4). The increase ranged from 24.9 per cent in the Centre to 16.4 per cent in the Islands, 12.4 per cent in the North-East, 9.0 per cent in the South and 1.5 in the North-West. The pace slackened from the previous year in every area except the Islands. A particularly sharp slowdown was recorded in the North-West, mainly in connection with the rapid expansion of professional asset management services (see the *Report on Lombardy*).

To diversify the supply of bonds and make them more attractive to savers with a higher propensity for risk, banks in some regions increased the supply of “structured” bonds. These products offer yields correlated with the performance of financial markets (e.g. one or more stock market indices, a basket of securities relating to a specific sector or of large-capitalization shares); they usually feature a minimum guaranteed yield (see the Reports on Piedmont, Lombardy, Emilia-Romagna, Marche and Lazio).

CDs with terms of 18 months and up declined steeply in all areas (Table D3). The drop was largest in the North-West (48.1 per cent) and least pronounced in the South and the Islands (39.0 and 42.5 per cent respectively). The contraction in short-term CDs intensified during the year as maturing certificates were not rolled over. The decline in short-term CDs exceeded the national average in the North-West and the Centre (14.1 and 13.0 per cent respectively); it was smaller in the South and the North-East (7.3 and 0.4 per cent).

Asset management services

The amount of securities deposited with banks increased in every region in 1998 with the expansion of asset management services, whose total resources grew by 44.1 per cent. There was a corresponding decrease of 11.9 per cent in the amount of securities directly deposited with banks by households and firms.

Greater recourse to institutional investors led to a substantial rise in the volume of securities deposited by Italian securities firms and investment fund management companies. This influenced the overall rates of growth in securities held on deposit in the different areas of Italy; the expansion was fastest in the North-West, where a significant share of Italy’s financial management companies are based (Table aD4).

In particular, securities deposited with banks in Lombardy by customers resident in that region increased by 29.5 per cent. The corresponding figure in Piedmont was 19.0 per cent.

In the South, unlike the other areas, the amount of securities directly held by households and firms grew further.

As in 1998, savers again increased their holdings of investment fund units while running down those of government securities (Table D4). The rate of growth in bonds and equities held directly by savers without the intermediation of institutional investors slowed down.

The process of portfolio adjustment again displayed major regional differences. In the North-West the drop in government securities held

directly by savers and deposited with banks was more than offset by the increase in investment fund units; the growth in bonds was very small. In the rest of Italy there was only partial replacement of maturing government securities with asset management products and a greater incidence of non-intermediated investment.

Table D4

SECURITIES DEPOSITED WITH BANKS (1)

(billions of lire and percentage changes on year-earlier period)

Types	North-West		North-East		Centre	
	Dec. 1998	% change (2)	Dec. 1998	% change (2)	Dec. 1998	% change (2)
Total securities	749,774	3.8	404,032	6.9	320,913	4.7
Government securities	212,381	-30.3	137,447	-25.9	135,894	-21.0
Bonds	218,954	-0.3	134,898	9.6	93,043	18.9
<i>of which: issued by Italian banks</i>	144,652	1.5	95,283	12.4	65,819	24.9
Shares and warrants	35,899	9.3	15,880	1.9	14,784	-16.4
Collective investment undertakings	222,711	86.3	70,484	85.9	42,390	86.0

Types	South		Islands		Italy	
	Dec. 1998	% change (2)	Dec. 1998	% change (2)	Dec. 1998	% change (2)
Total securities	148,682	15.5	65,981	12.6	1,689,382	6.0
Government securities	52,285	-23.0	20,913	-15.9	558,920	-26.0
Bonds	40,247	9.9	27,377	16.6	514,519	6.9
<i>of which: issued by Italian banks</i>	32,477	9.0	24,469	16.4	362,700	9.6
Shares and warrants	3,031	39.7	3,661	25.2	73,255	2.9
Collective investment undertakings	28,828	86.0	9,931	85.6	374,344	86.2

Source: Supervisory returns.

(1) At face value. Excluding securities owned by credit institutions and insurance companies. (2) The percentage changes are adjusted to take account of the banks that in 1997 did not transmit detailed returns.

These differences are attributable to the differing degree of development of professional asset management services, which had a head start in the North-West, and to the different propensity to invest in innovative financial instruments; both these factors also reflect disparities in the geographical distribution of household wealth.

At the end of 1998 government securities accounted for 28 per cent of all securities deposited by savers with banks in the North-West. The figures in the other areas were appreciably higher (34 per cent in the North-East and South and 43 in the Centre). On the other hand, the proportion of investment fund units was 30 per cent in the North-West, compared with 18 per cent in the North-East and South and 13 per cent in the Centre.

Investment in investment fund units grew at a uniform pace in all areas of Italy (Table D4).

The decline in savers' direct holdings of government securities accelerated from 1997 and was sharpest in the northern regions, amounting to 30.3 per cent in the North-West and 25.9 per cent in the North-East; it was less intense in the Centre and South (21.0 and 23.0 per cent respectively) and especially the Islands (15.9 per cent).

The amount of bonds deposited by savers with banks rose everywhere except in the North-West, where it edged down by 0.3 per cent. The increase was largest in the Centre (18.9 per cent) and the Islands (16.6 per cent, more than in the previous year). It was more modest, and well short of that recorded in 1997, in the North-East and South (9.6 and 9.9 per cent respectively).

Savers' direct holdings of shares increased in the North and, to a greater extent, in the South and the islands, but in the latter area the proportion of shares in savers' securities portfolios remained lower than in the rest of Italy. Direct investment in shares fell appreciably, by 16.4 per cent, in the Centre.

Portfolio management accounts grew by 34.4 per cent in the North, against a national average of 43.3 per cent; in detail, the increase came to 37.4 per cent in the North-West and 29.2 per cent in the North-East. The rate of growth was faster in the Centre, equalling 66.4 per cent. In the South the resources in portfolio management accounts more than doubled, in part reflecting much lower initial levels.

Banks in many regions promoted the spread of portfolio management services specializing in investment fund units, which require lower minimum investment than other portfolio management accounts. This led to a reduction in the average amount of assets per account (see the Reports on Lombardy, Liguria, Umbria, Lazio and Puglia). In Piedmont the growth in managed portfolios of investment fund units was accompanied by strategies of customer segmentation designed to raise the entry threshold for highly individualized portfolio management services, partly in view of the higher costs entailed.

Interest rates

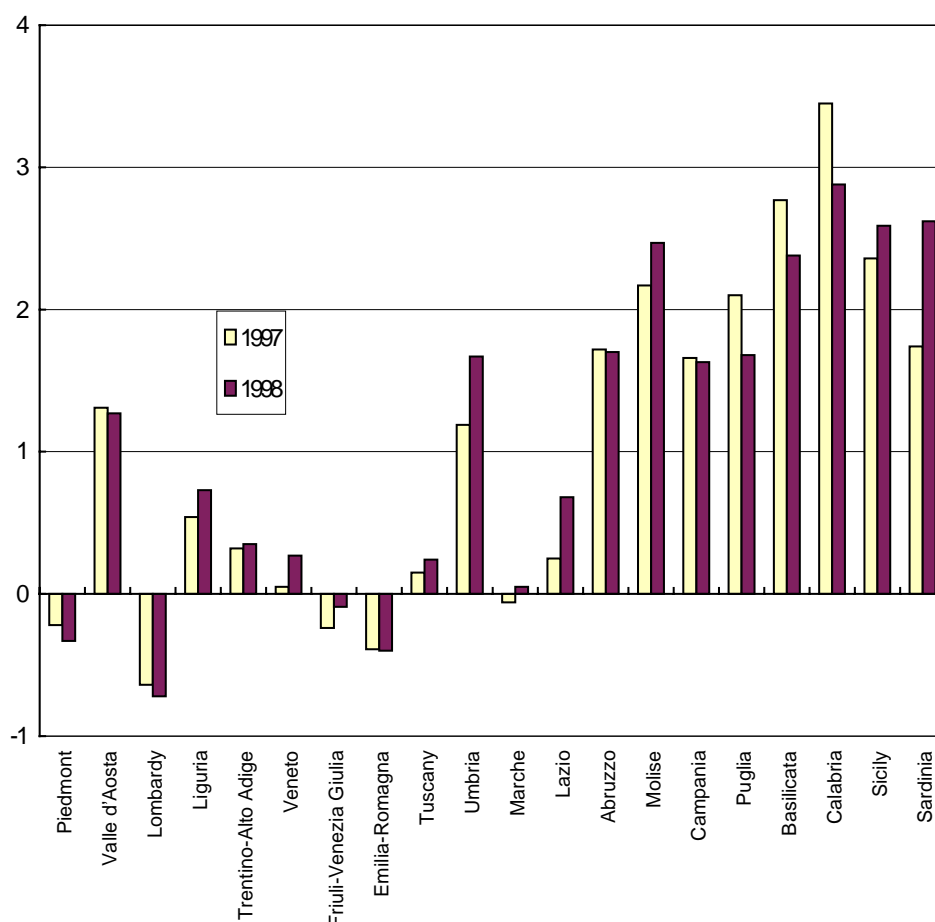
The average rate on short-term lira loans came down by 2.3 percentage points to stand at 6.7 per cent. The fall in interest rates involved every region. The differential between short-term lending rates in the South and those in the Centre and North remained unchanged at around 2.2 percentage points.

Interest rates fell less steeply in the Islands, where the growth in bad debts was considerably above the national average (Figure D1).

Figure D1

INTERES RATE ON BANK LOANS BY REGION

(percentages; differences vis-à-vis the national average in percentage points)



Source: Based on Central Credit Register data.

Deposit rates fell by nearly 2 percentage points over the year, reaching 2.5 per cent (Table aD5). The rate on current accounts fell by one half to 1.7 per cent, turning negative in real terms from August onwards.

Deposit rates were 13 basis points lower in the South than in the Centre and North. In 1997 the difference had been 7 basis points.

The larger fall in lending rates than in deposit rates, which tend to be stickier, caused the rate spread to narrow in nearly all the regions.

Profit and loss accounts

Banks turned in favourable results for the year: net profit was equal to 0.47 per cent of total assets. Banks based in the North continued to record higher profitability (0.55 per cent of total assets in the North-West, 0.73 per cent in the North-East; Table D5).

Table D5

BANK'S PROFIT AND LOSS ACCOUNTS BY GEOGRAPHICAL AREA (1) (percentages of total assets)

	North-West		North-East	
	1997	1998	1997	1998
Net interest income	2.05	1.85	2.83	2.62
Other non-interest net income	1.13	1.48	1.30	1.67
<i>of which: from trading</i>	0.24	0.25	0.39	0.38
<i>of which: from services</i>	0.50	0.72	0.54	0.79
Gross income	3.18	3.33	4.14	4.29
Operating expenses	2.17	1.96	2.61	2.41
<i>of which: staff costs</i>	1.35	1.18	1.57	1.42
Net income	1.01	1.37	1.52	1.88
Value adjustments, readjustments and allocations to provisions	0.45	0.31	0.42	0.56
Profit before tax	0.56	1.05	1.10	1.33
Taxes	0.28	0.50	0.51	0.60
Net profit	0.28	0.55	0.59	0.73
	Centre		South and Islands	
	1997	1998	1997	1998
Net interest income	2.14	2.15	2.81	2.74
Other non-interest net income	0.96	1.30	0.93	1.13
<i>of which: from trading</i>	0.30	0.42	0.38	0.37
<i>of which: from services</i>	0.28	0.45	0.24	0.41
Gross income	3.11	3.45	3.74	3.87
Operating expenses	2.19	2.16	2.88	2.77
<i>of which: staff costs</i>	1.41	1.38	1.85	1.79
Net income	0.91	1.28	0.85	1.10
Value adjustments, readjustments and allocations to provisions	1.33	0.72	0.68	0.76
Profit before tax	-0.42	0.56	0.17	0.33
Taxes	0.22	0.29	0.17	0.23
Net profit	-0.64	0.27	-0.01	0.10

Source: Supervisory returns. (See the Methodological Notes section in the Appendix and the *Note metodologiche and Glossario* sections in the Appendix to the Bank's Annual Report in Italian). The data refer to the monthly sample of the Bank of Italy and are classified according to the regional location of each bank's registered office.

(1) The data for 1998 on expenses, net income and profit before taxes are not fully comparable with those for 1997, owing to the elimination of contributions to the National Health Service.

In Italy as a whole, the narrowing of the spread between lending and deposit rates, only partly compensated by the growth in lending, caused net interest income to fall from 2.26 per cent of total assets in 1997 to 2.12 per cent last year.

Net interest income declined for banks based in the North-West (from 2.05 to 1.85 per cent of total assets) and the North-East (from 2.83 to 2.62 per cent). It remained broadly unchanged in the Centre (edging up from 2.14 to 2.15 per cent) as a result of increased net profits on hedging transactions. The net income ratio declined by almost 0.1 percentage points in the South.

Gross income rose from 3.36 to 3.56 per cent of total assets. Banks based in the North-East recorded the highest figure (4.29 per cent). The improvement was chiefly due to the increase in fee income resulting from the growth of asset management services. Banks in the Centre posted the largest gain (from 3.11 to 3.45 per cent of total assets), thanks to an appreciable rise in dealing profits. Banks in the South made a smaller gain (from 3.74 to 3.87 per cent).

Income from services contributed 21.6 per cent of gross income for banks in the North-West and 18.4 per cent for those in the North-East, compared with 15.7 and 13.1 per cent respectively in 1997. Structurally lower ratios characterized banks in the Centre and South (13.1 and 10.7 per cent respectively, compared with 8.9 and 6.3 per cent in 1997).

In order to diversify their sources of income, many banks pushed the sale of insurance products, including those with considerable financial content, such as index-linked and unit-linked policies tied, respectively, to share indices and investment funds (see the Report on Lazio).

Staff costs rose by 1.5 per cent, slightly outpacing overall operating expenses, which increased by 1.3 per cent. The rise in staff costs was somewhat higher for banks in the South and the islands than for those in the rest of the country.

With the introduction of the regional tax on productive activities, contributions to the National Health Service were eliminated along with local income tax and the extraordinary tax on companies' net worth. The changes and rates of growth last year in costs, net income and gross profit have been adjusted by subtracting from staff costs for 1997 the amount of the contributions that are no longer levied. This can be put at some 6.6 million lire per employee, or 2.1 trillion lire in all.

Policies aimed at curbing staff costs focused on reducing the number of staff, which fell by 1.8 per cent over the year, mainly through incentives for voluntary severance of workers close to retirement age. The fall in staff numbers was sharper in the South (4.7 per cent) than in the rest of the country (1.4 per cent). In some cases the reduction in staff concentrated primarily on managers and officers (see the Report on Lazio) as well as on information systems and EDP personnel (see the Report on

Umbria). *Additional cost-curbing measures were the use of fixed-term employment contracts, less overtime and the adoption of pay schemes linked to company performance (see the Reports on Umbria, Friuli-Venezia Giulia and Marche).*

The increase in operating expenses stems in part from the introduction of the euro and the effort to solve the Year 2000 information systems problems. In some cases, efforts were made to curb costs by unifying information systems within the group framework (see the Report on Veneto); in others, the work of making procedures 2000-complaint was outsourced (see the Report on Marche).

The increase in net income was larger in the Centre and North (31.8 per cent) than in the South (17.7 per cent), thanks to the more robust growth in income from trading and services.

Value adjustments, net of readjustments, and allocations to provisions declined for banks in the North-West and Centre but increased for those in the North-East and South. (In Campania, over 90 per cent of net income was absorbed by value adjustments to cover expected loan losses; see the *Report on Campania*).

The tax reform resulted in a lower level of taxation except for mutual banks (see the *Reports on Veneto and Trentino-Alto Adige*). Net profit, including profit earned by Italian banks' branches abroad, was equal to 7.4 per cent of capital and reserves. The return on equity was higher for banks based in the North (9.7 per cent in the North-East, 8.8 per cent in the North-West) than for those based in the Centre and South (4.7 and 2.9 per cent respectively).

The structure of regional credit systems

Consolidation and reorganization of the banking system intensified in nearly all the regions. Some of the largest Italian banks were involved in concentrations: the union of Ambroveneto and Cariplo to form the Banca Intesa Group, the merger of Istituto San Paolo di Torino and Istituto Mobiliare Italiano, and the integration between the Unicredito Group and Credito Italiano. The changes taking place in competitive conditions in local markets and in the demand for financial services also caused smaller banks to be swept up in the reorganization process.

The Report on Lombardy, analyzing the consolidation under way in that region's banking system, notes that most of the principal combinations in the past two years have been based on a federal model designed to preserve the defining qualities of the participating banks. The latter retain their own corporate name, marketing independence and geographical base, while important group-wide functions, such as strategy and business stance, finance and treasury management are concentrated in the holding company.

In the past decade the credit market in Trentino-Alto Adige has seen numerous concentrations, involving 49 of the 180 local banks in existence in 1989. The banks resulting from these operations accounted for 24 per cent of the total resources of banks in the region last year. Consolidation at the local level has been facilitated by the similarity of production processes of the banks involved.

Consolidation also proceeded in Veneto and was accompanied by an expansion of the branch network, particularly that of mutual banks, which has grown swiftly in the last five years and represented nearly 14 per cent of all bank branches in the region at the end of 1998. A more aggressive policy of branch opening on the part of mutual banks also distinguished the credit market in Tuscany.

Half of the 54 concentrations that took place in 1998 resulted in the absorption of troubled small banks, largely operating in the South and acquired by medium-sized banking groups based in the North.

The Report on Puglia notes that the increased participation of banks based in the Centre and North in the capital of local intermediaries has enabled the former to expand the distributive networks for their own products and the latter to offer innovative services to their customers, especially in the asset management field. The Reports on Molise and Basilicata point out occurrences of combination with northern banks; the cases in Molise involved that region's two largest banks.

The presence of banks based in the Centre and North in southern banking markets has been increasing for some years now. In Abruzzo, 48 per cent growth in the number of bank branches between 1990 and 1998 was accompanied by a shift in the balance between local and outside banks in favour of the latter: local banks' share of branches in the region declined from 70.1 to 55.1 per cent. In Sicily, local banks' market share contracted further, falling in the three years 1996-98 from 68.0 to 61.5 per cent for loans and from 70.4 to 66.4 per cent for deposits. In Campania, too, local banks have steadily lost market share in terms of branches (from 56 to 46 per cent between 1991 and 1998) and lending. According to the Report on Campania, the erosion of local banks' relative importance does not appear to have affected credit availability, at least for the sturdier local businesses.

There were 921 banks in business in Italy at the end of 1998, down by 14 from a year earlier and by 200 (17.8 per cent) from 1989. In 1998 the reduction was concentrated in the North-East, where the number of area-based banks fell by around 2 per cent, and in the South, where it fell by 6 per cent. By contrast, the number of banks based in the North-West and Centre rose by 4 and 2 per cent respectively. Between 1989 and last year, the number of banks based in the South dropped by 19 per cent; in the Islands, by 40 per cent.

The number of bank branches increased by 1,011 last year, a gain of 4.0 per cent, compared with one of 3.5 per cent in 1997. The total increase since 1989 came to 68.7 per cent. Despite slower expansion of the branch network in the North and Centre, overall growth picked up thanks to the jump in the number of branches in the South (6.0 per cent,

compared with 1.7 per cent in 1997) due to the transformation into regular branches of Banco di Sardegna's former correspondent offices at municipal farm credit funds (see the *Report on Sardinia*).

Foreign banks and institutional investors increased their presence in Italy last year both by opening new branches and through equity investment in the main Italian banking groups. The number of branches of foreign banks rose from 55 to 59, 51 of them are in Milan.

The Report on Lombardy presents the results of a special survey of the operations of branches of foreign banks in Milan, showing their presence to be significant in corporate financial services, particularly in project financing, share placements and securitization. These activities are accompanied by consulting for corporate restructuring. The launch of the Monetary Union has led to a revision of the strategies and organizational arrangements of the Italian branches of foreign banks, in part following the transfer of securities and derivatives operations to the parent banks or their London branches. The branches in Italy appear likely to take on a mainly commercial role, which would be strengthened principally through marketing agreements with Italian partners, local banks above all.

APPENDIX

STATISTICAL TABLES

B - ECONOMIC ACTIVITY

Table aB1 Sectoral composition of value added by region in 1996

- ” aB2 Composition by branch of the manufacturing value added by region in 1996
- ” aB3 Capital spending, turnover and employment of manufacturing firms with at least 50 employees
- ” aB4 Exports (*FOB*) by region
- ” aB5 Regional indicators of export specialization by region and branch of manufacturing in industry 1998

C - THE LABOUR MARKET AND REGIONAL POLICIES

Table aC1 Labour force, unemployment rate and participation rate

- ” aC2 Authorized hours of wage supplementation

D - BANKING

Table aD1 Number of banks and bank branches by region

- ” aD2 Bank loans and bad debts by region
- ” aD3 Bank deposits by region
- ” aD4 Securities held for custody and assets under management by region
- ” aD5 Bank lending and deposit rates by region
- ” aD6 Banks' profit and loss accounts by geographical area

Table aB1

SECTORAL COMPOSITION OF VALUE ADDED BY REGION IN 1996

(percentages and amounts in billions of lire)

Regions	Agriculture, forestry and fishing	Industry			Services	Total	Amounts (1)
			Industry excluding construction	Construction			
Piedmont	2.88	35.59	30.59	5.00	61.53	100.0	150,342
Valle d'Aosta	2.51	25.30	15.93	9.37	72.19	100.0	4,649
Lombardy	1.84	37.35	32.16	5.19	60.80	100.0	353,106
Liguria	2.31	23.07	19.31	3.76	74.62	100.0	58,737
Trentino-Alto Adige	4.98	25.56	17.69	7.87	69.46	100.0	34,915
Veneto	3.80	35.09	28.84	6.25	61.12	100.0	164,698
Friuli-Venezia Giulia	2.85	27.92	22.18	5.74	69.23	100.0	44,534
Emilia-Romagna	4.14	32.72	27.39	5.33	63.14	100.0	155,504
Tuscany	2.38	30.46	25.83	4.63	67.16	100.0	116,320
Umbria	4.92	29.32	22.10	7.21	65.77	100.0	24,147
Marche	3.69	32.59	26.52	6.07	63.72	100.0	45,856
Lazio	1.74	17.68	13.78	3.90	80.58	100.0	176,783
Abruzzo	4.97	29.14	23.67	5.47	65.89	100.0	33,969
Molise	6.61	25.87	17.38	8.50	67.52	100.0	7,753
Campania	3.83	20.05	15.50	4.55	76.12	100.0	113,350
Puglia	7.85	20.91	16.19	4.72	71.24	100.0	86,581
Basilicata	7.56	26.64	18.69	7.95	65.80	100.0	12,601
Calabria	6.44	16.25	9.73	6.52	77.30	100.0	36,598
Sicily	6.19	19.07	13.34	5.73	74.74	100.0	99,877
Sardinia	5.38	22.53	15.08	7.45	72.09	100.0	35,918
Italy	3.50	28.93	23.65	5.28	67.57	100.0	1,756,237

Source: Based on Istat data.

(1) Value added at factor costs, gross of imputed banking services.

Table aB2

COMPOSITION OF REGIONAL MANUFACTURING VALUE ADDED BY BRANCH IN 1996

(percentages)

Regions	Ferrous, non-ferrous minerals and metals	Non-metallic minerals and products	Chemical and pharmaceutical products	Machinery and metal products and	Transport equipment	Food products, beverages and tobacco products	Textiles and clothing, leathers, and footwear	Paper, paper products, printing and publishing	Wood, rubber, and other industrial products	Total manufacturing industry
Piedmont	7.97	3.43	6.41	32.76	13.37	7.51	13.19	4.10	11.27	100.0
Valle d'Aosta	33.59	24.64	10.30	11.59	0.42	6.98	2.75	2.14	7.59	100.0
Lombardy	6.38	3.16	11.77	32.71	3.44	7.25	17.59	7.38	10.33	100.0
Liguria	14.07	6.47	13.50	38.06	11.47	4.64	3.59	3.82	4.39	100.0
Trentino-Alto Adige	8.59	10.56	4.85	21.21	5.56	15.93	7.21	7.25	18.86	100.0
Veneto	3.13	5.36	5.95	28.37	3.77	7.82	22.15	8.03	15.43	100.0
Friuli-Venezia Giulia	6.25	6.29	6.16	30.59	5.30	9.03	7.88	7.06	21.44	100.0
Emilia-Romagna	2.21	9.87	5.00	40.36	4.81	14.72	11.10	3.97	7.96	100.0
Tuscany	5.67	12.09	7.53	18.65	4.85	4.44	29.60	5.93	11.24	100.0
Umbria	7.28	17.15	7.81	12.02	3.15	17.70	19.11	5.22	10.55	100.0
Marche	2.36	4.05	2.88	22.97	3.46	9.38	31.29	5.02	18.60	100.0
Lazio	1.57	6.42	15.98	27.56	7.95	9.55	4.44	17.82	8.71	100.0
Abruzzo	2.38	8.17	6.53	24.38	8.35	11.46	17.76	12.26	8.71	100.0
Molise	15.38	11.45	10.50	11.38	14.37	17.24	12.19	0.28	7.21	100.0
Campania	4.62	8.50	7.92	25.89	14.82	12.34	12.11	4.88	8.94	100.0
Puglia	15.67	9.00	7.04	23.98	6.61	11.99	13.75	2.74	9.21	100.0
Basilicata	0.25	6.11	6.17	14.11	39.35	14.08	7.78	2.01	10.14	100.0
Calabria	1.68	9.21	7.55	26.31	5.09	18.12	14.62	4.50	12.92	100.0
Sicily	1.85	17.70	13.75	21.89	11.48	12.61	8.59	2.48	9.65	100.0
Sardinia	4.12	18.79	28.95	15.34	3.67	12.38	3.63	2.87	10.25	100.0
Italy	5.53	6.55	8.81	29.66	6.41	9.12	16.12	6.60	11.20	100.0

Source: based on Istat data.

Table aB3

**CAPITAL SPENDING, TURNOVER AND EMPLOYMENT OF MANUFACTURING
FIRMS WITH AT LEAST 50 EMPLOYEES**

(units and percentage changes at 1998 prices) (1)

Areas	No. of firms in sample (1998)	Items	% change 1996-97	% change 1997-98	% change 1998-99 (3)
North-West	437	Capital spending			
		-planned	-2.2	9.6	3.1
		-actual	-5.0	10.8	-
		Turnover	3.8	2.3	2.0
		Employment at end of year	-0.6	-2.2	-0.7
North-East	246	Capital spending			
		-planned	11.4	9.6	1.3
		-actual	1.1	10.0	-
		Turnover	4.7	5.9	3.9
		Employment at end of year	0.7	0.5	1.0
Centre	178	Capital spending			
		-planned	-8.4	0.4	12.8
		-actual	-6.1	3.6	-
		Turnover	1.1	4.2	3.0
		Employment at end of year	-1.5	-2.2	0.1
South and Islands	139	Capital spending			
		-planned (2)	13.6	35.9	-11.5
		-actual	9.6	24.7	-
		Turnover	5.0	-1.0	4.8
		Employment at end of year	-0.6	-0.1	1.4
Italy	1,000	Capital spending			
		-planned	1.0	14.4	3.4
		-actual	-2.6	13.7	-
		Turnover	3.6	3.1	2.8
		Employment at end of year	-0.5	-1.4	0.0

Source: Survey of manufacturing firms' investments in 1997 and 1998 (See section: *Methodological notes*).

(1) The deflator of capital spending and turnover was calculated as the average of the price changes estimated by sample firms. (2) The average increase in southern firms' 1998 planned capital spending was obtained by omitting of the first and last deciles in order to avoid the distortionary effects of outlying values because of the small size of the sample. (3) Forecast.

Table aB4

EXPORTS (FOB) BY REGION
(billions of lire and percentage changes)

Regions	Total		of which:							
			Chemical products		Machinery and metal products		Transport equipment		Textiles, leather and clothing	
	1998	% change 1997-98	1998	% change 1997-98	1998	% change 1997-98	1998	% change 1997-98	1998	% change 1997-98
Piedmont	51,887	-0.3	2,873	3.3	17,926	-1.9	12,629	-0.7	5,849	1.5
Valle d'Aosta	558	19.5	2	100.0	207	65.6	4	-75.0	23	35.3
Lombardy	121,713	1.7	15,736	6.2	54,331	-0.6	7,202	10.4	17,808	-1.1
Liguria	5,407	-16.3	783	-16.2	1,564	-20.9	301	-48.3	103	-10.4
Trentino-Alto Adige	7,190	4.3	603	10.0	2,203	10.8	737	0.7	497	-6.8
Veneto	58,171	2.4	2,549	-5.7	20,597	5.2	3,391	10.8	13,422	1.3
Friuli-Venezia Giulia	15,738	17.3	361	12.1	7,093	13.3	2,035	136.9	510	0.0
Emilia-Romagna	49,459	5.3	3,367	6.8	21,380	5.3	4,413	3.4	5,237	2.9
Tuscany	33,942	-0.3	1,764	8.5	6,376	3.9	1,908	6.8	12,970	-3.9
Umbria	3,612	-1.1	296	7.6	944	5.2	56	19.1	802	7.5
Marche	12,543	-2.0	334	32.5	5,305	-0.8	284	-2.1	3,684	-5.7
Lazio	16,882	6.9	4,134	0.0	5,348	-0.9	3,553	52.9	886	-0.9
Abruzzo	8,239	8.4	382	19.4	2,010	12.2	2,938	9.9	824	7.3
Molise	940	-0.4	198	-8.8	45	-10.0	17	13.3	437	2.3
Campania	12,240	13.0	891	0.6	2,510	33.5	3,003	32.8	1,482	-17.2
Puglia	9,527	5.1	393	-17.1	872	-1.4	1,092	174.4	2,073	3.0
Basilicata	1,795	138.1	91	-20.9	44	-10.2	1,275	400.0	32	-11.1
Calabria	463	12.7	90	-12.6	146	58.7	11	175.0	30	-3.2
Sicily	6,699	1.2	681	-18.1	651	36.5	1,422	30.5	55	-5.2
Sardinia	2,865	-13.5	614	-10.4	105	-13.9	254	59.7	34	6.3

Source: Istat.

Table aB5

**REGIONAL INDICATORS OF EXPORT SPECIALIZATION BY REGION
AND BRANCH OF MANUFACTURING INDUSTRY IN 1998 (1)**

Regions	Ferrous and non-ferrous minerals	Non-metallic minerals and products	Chemical products	Machinery and metal products	Transport equipment		Food products	Textiles and clothing	Leather and footwear	Wood, paper, rubber and others
						<i>of which: cars and car engines</i>				
Piedmont	0.82	0.36	0.63	0.95	2.15	2.88	1.35	0.93	0.14	0.92
Valle d'Aosta	11.02	0.27	0.04	1.00	0.06	0.09	0.37	0.31	0.11	0.70
Lombardy	1.33	0.40	1.46	1.22	0.52	0.57	0.63	1.14	0.32	0.84
Liguria	2.78	1.26	1.95	0.94	0.58	0.32	1.51	0.15	0.12	1.17
Trentino-Alto Adige	0.55	1.21	1.06	0.93	1.00	1.39	2.26	0.52	0.35	1.48
Veneto	0.74	1.12	0.51	0.99	0.52	0.32	0.74	1.14	2.13	1.36
Friuli-Venezia Giulia	0.89	0.57	0.26	1.24	1.15	0.14	0.75	0.21	0.17	1.93
Emilia-Romagna	0.45	3.11	0.79	1.20	0.80	0.92	1.55	0.78	0.37	0.52
Tuscany	0.66	1.54	0.61	0.53	0.51	0.22	0.40	2.13	3.05	1.39
Umbria	5.05	1.24	0.96	0.74	0.14	0.09	1.09	1.74	0.62	0.62
Marche	0.24	0.23	0.30	1.16	0.20	0.07	0.26	0.61	4.57	1.44
Lazio	0.31	0.82	2.81	0.88	1.88	1.01	0.68	0.36	0.25	0.57
Abruzzo	0.48	1.40	0.53	0.67	3.17	4.09	0.76	0.64	0.57	0.94
Molise	0.16	0.14	2.47	0.14	0.16	0.23	1.68	4.06	0.34	1.02
Campania	0.52	0.62	0.85	0.58	2.23	2.06	4.40	0.39	1.64	0.66
Puglia	4.75	0.61	0.53	0.28	1.14	0.80	0.75	0.71	3.37	1.60
Basilicata	0.08	0.09	0.58	0.07	6.33	9.30	0.32	0.15	0.01	1.15
Calabria	1.06	0.32	2.58	1.01	0.24	0.16	2.91	0.62	0.15	0.79
Sicily	0.62	1.56	2.15	0.50	3.49	2.39	1.79	0.11	0.06	0.29
Sardinia	2.07	1.24	4.29	0.18	1.38	0.03	3.52	0.18	0.01	0.62

Source: Based on Istat data.

(1) Ratio of each branch's share of total regional manufacturing exports to the branch's share of total Italian manufacturing exports.

Table aC1

LABOUR FORCE, UNEMPLOYMENT RATE AND PARTICIPATION RATE

(thousands, percentages and percentage changes)

Regions	Employment					Job seekers	Labour force	Unemployment rate	Participation rate
	Agriculture	Industry excluding construction	Construction	Other sectors	Total				
Average values in 1998									
Piedmont	77	564	111	924	1,677	161	1,838	8.8	49.4
Valle d'Aosta	4	7	6	35	52	3	54	5.6	52.4
Lombardy	103	1,292	260	2,097	3,752	230	3,981	5.8	51.5
Liguria	21	89	44	426	580	71	651	10.9	44.7
Trentino-Alto Adige	37	68	37	257	400	14	414	3.4	54.1
Veneto	93	644	132	981	1,850	102	1,952	5.2	51.2
Friuli-Venezia Giulia	23	136	30	278	467	29	496	5.8	47.8
Emilia-Romagna	123	480	113	980	1,696	102	1,798	5.7	51.7
Tuscany	60	377	84	828	1,349	120	1,469	8.2	47.7
Umbria	20	69	24	186	298	29	327	8.9	45.5
Marche	34	185	39	303	560	40	600	6.7	48.2
Lazio	77	225	128	1,401	1,831	258	2,089	12.4	47.3
Abruzzo	33	103	37	261	434	46	480	9.6	45.0
Molise	15	18	12	58	104	22	126	17.5	46.0
Campania	158	218	131	1,018	1,526	507	2,033	24.9	44.5
Puglia	155	198	97	685	1,135	299	1,434	20.9	43.6
Basilicata	28	30	21	93	172	39	212	18.4	42.9
Calabria	73	34	60	351	518	190	708	26.8	43.3
Sicily	151	117	134	901	1,303	440	1,743	25.2	42.7
Sardinia	53	55	57	329	494	135	629	21.5	46.1
Changes on 1997 (1)									
Piedmont	-11.5	-0.7	2.8	-0.6	-0.9	1.3	-0.7	0.2	-0.3
Valle d'Aosta	0.0	16.7	0.0	-2.8	0.0	0.0	-1.8	0.1	-1.0
Lombardy	1.0	1.7	-2.3	3.0	2.1	-2.5	1.8	-0.3	0.7
Liguria	-12.5	3.5	7.3	0.0	0.5	-4.1	0.2	-0.5	0.3
Trentino-Alto Adige	-5.1	-2.9	-2.6	2.8	0.8	-17.6	0.2	-0.7	-0.2
Veneto	-7.0	1.6	0.0	-0.3	0.0	-1.0	-0.1	0.0	-0.3
Friuli-Venezia Giulia	0.0	1.5	7.1	-1.4	0.0	-17.1	-1.2	-1.1	-0.6
Emilia-Romagna	1.7	1.1	-3.4	-0.1	0.1	-6.4	-0.3	-0.4	-0.3
Tuscany	5.3	0.3	-4.5	-0.6	-0.3	-4.0	-0.6	-0.3	-0.4
Umbria	0.0	1.5	-4.0	-1.1	-1.0	-3.3	-0.9	-0.2	-0.6
Marche	-12.8	2.8	-4.9	-0.3	-0.7	-11.1	-1.5	-0.7	-0.9
Lazio	-3.8	-1.3	-4.5	1.9	0.8	-0.4	0.6	-0.1	0.0
Abruzzo	-8.3	-1.9	-7.5	-1.1	-2.5	-2.1	-2.4	0.0	-1.3
Molise	-6.3	0.0	9.1	-3.3	-1.0	4.8	-0.8	0.9	-0.4
Campania	0.0	-1.8	3.1	3.1	2.1	-2.5	0.9	-0.9	0.2
Puglia	6.9	8.8	-5.8	-1.7	0.7	11.6	2.8	1.6	0.8
Basilicata	3.7	0.0	-8.7	0.0	0.0	-4.9	-0.5	-0.9	-0.5
Calabria	-5.2	-5.6	1.7	0.3	-0.6	13.8	2.9	2.6	1.0
Sicily	-3.8	3.5	-8.2	2.7	0.8	5.8	1.9	0.9	0.5
Sardinia	-13.1	-1.8	-1.7	3.8	0.4	3.8	1.1	0.6	0.5

Source: Istat, *Rilevazione trimestrale delle forze di lavoro* (See the *Methodological notes*).

(1) The changes in the unemployment and participation rates are in percentage points.

Table aC2

AUTHORIZED HOURS OF WAGE SUPPLEMENTATION*(thousands)*

Regions	Ordinary benefits		Total (1)	
	1997	1998	1997	1998
Piedmont	11,059	9,648	23,695	16,211
Valle d'Aosta	224	198	1,182	790
Lombardy	18,147	14,631	36,957	34,254
Liguria	818	608	4,685	4,112
Trentino-Alto Adige	613	604	6,254	5,584
Veneto	3,226	3,270	7,494	6,273
Friuli-Venezia Giulia	704	700	2,462	2,812
Emilia-Romagna	3,488	2,709	9,128	6,433
Tuscany	5,007	3,449	10,736	8,911
Umbria	1,263	836	3,311	2,246
Marche	1,561	1,615	2,957	2,746
Lazio	4,598	5,701	15,977	15,859
Abruzzo	1,883	1,816	4,688	5,010
Molise	302	569	1,733	1,448
Campania	4,724	4,390	27,441	18,549
Puglia	4,023	4,055	22,277	18,932
Basilicata	689	640	3,833	2,899
Calabria	595	938	5,894	3,730
Sicily	4,526	3,567	16,742	10,698
Sardinia	784	839	5,097	4,919

Source: INPS.

(1) Includes ordinary and extraordinary benefits and hours authorized by the special building industry fund.

Table aD1

NUMBER OF BANKS AND BANK BRANCHES BY REGION

(end-of-year values)

Regions and geographical areas	1989		1997		1998	
	Banks	Branches	Banks	Branches	Banks	Branches
Piedmont	75	1,354	69	2,145	66	2,220
Valle d'Aosta	12	49	14	81	14	85
Lombardy	222	2,881	227	4,876	238	5,038
Liguria	36	548	41	807	41	828
North-West		4,832		7,909		8,171
Trentino-Alto Adige	191	634	154	841	150	857
Veneto	127	1,269	122	2,583	120	2,710
Friuli-Venezia Giulia	68	434	57	735	58	764
Emilia-Romagna	123	1,492	114	2,499	114	2,584
North-East		3,829		6,658		6,915
Tuscany	86	1,241	93	1,851	95	1,901
Umbria	30	261	35	403	35	412
Marche	54	487	59	792	59	825
Lazio	133	1,198	144	1,931	143	1,989
Centre		3,187		4,977		5,127
Abruzzo	42	310	57	477	51	490
Molise	21	62	27	106	27	113
Campania	88	717	91	1,348	92	1,375
Puglia	77	681	59	1,122	58	1,144
Basilicata	37	149	35	212	35	216
Calabria	58	296	49	439	49	452
South		2,215		3,704		3,790
Sicily	107	1,305	73	1,609	68	1,619
Sardinia	15	201	15	390	15	636
Islands		1,506		1,999		2,255
Italy		15,569		25,247		26,258

Source: Supervisory returns.

Table aD2

BANK LOANS AND BAD DEBTS BY REGION (1)*(end-of-year values in billions of lire, percentages and percentage changes)*

Regions and geographical areas	Loans			Bad debts			Bad debts/ total loans (%)	
	1997	1998	% change	1997	1998	% change	1997	1998
Piedmont	112,668	115,613	2.7	4,964	4,803	-2.8	4.4	4.2
Valle d'Aosta	2,463	2,655	8.1	162	185	14.2	6.6	7.0
Lombardy	341,121	370,278	8.6	17,407	16,982	-2.1	5.1	4.6
Liguria	28,385	29,146	2.7	2,753	2,866	4.5	9.7	9.8
North-West	484,637	517,692	6.9	25,286	24,836	-1.4	5.2	4.8
Trentino-Alto Adige	25,775	28,573	10.9	753	726	-3.2	2.9	2.5
Veneto	107,057	117,547	9.9	6,678	6,387	-4.1	6.2	5.4
Friuli-Venezia Giulia	25,207	28,346	12.5	1,408	1,311	-6.9	5.6	4.6
Emilia-Romagna	115,401	128,767	11.6	6,464	5,838	-9.7	5.6	4.5
North-East	273,440	303,233	10.9	15,303	14,262	-6.7	5.6	4.7
Tuscany	83,721	90,328	7.9	6,667	6,605	-0.8	8.0	7.3
Umbria	15,248	17,286	13.4	1,427	1,407	-1.4	9.4	8.1
Marche	27,391	31,385	14.9	2,381	2,392	2.9	8.7	7.6
Lazio	245,236	245,547	0.3	24,095	24,595	3.0	9.8	10.0
Centre	371,596	384,546	3.6	34,570	34,999	2.0	9.3	9.1
Abruzzo	18,485	19,274	5.4	2,849	2,761	1.9	15.4	14.3
Molise	3,365	3,567	6.7	649	618	-3.0	19.3	17.3
Campania	63,538	61,858	-0.3	9,738	9,137	1.3	15.3	14.8
Puglia	43,049	44,041	4.9	9,803	9,217	4.6	22.8	20.9
Basilicata	7,338	7,595	4.1	1,760	1,763	2.6	24.0	23.2
Calabria	15,514	16,473	7.5	4,131	4,134	3.8	26.6	25.1
South	151,289	152,808	3.1	28,930	27,630	2.8	19.1	18.1
Sicily	52,317	55,451	6.0	16,038	18,241	13.7	30.7	32.9
Sardinia	20,067	22,027	9.8	2,769	3,224	16.4	13.8	14.6
Islands	72,384	77,478	7.0	18,807	21,465	14.1	26.0	27.7
Italy	1,353,346	1,435,755	6.4	122,894	123,192	2.3	9.1	8.6

Source: Supervisory returns.

(1) Percentage changes are calculated on a constant sample.

Table aD3

BANK DEPOSITS BY REGION*(end-of-year data in billions of lire and percentage changes)*

Regions and geographical areas	1997		1998		% changes 1997-98	
	Total deposits		Total deposits		Total deposits	
		of which: current accounts (1)		of which: current accounts		of which: current accounts (2)
Piedmont	85,518	53,970	85,012	61,572	-0.6	14.1
Valle d'Aosta	2,912	2,071	2,664	1,989	-8.5	-4.0
Lombardy	221,939	152,716	229,689	181,079	3.5	18.4
Liguria	29,535	18,840	28,283	20,158	-4.2	7.0
North-West	339,904	227,597	345,648	264,798	1.7	16.2
Trentino-Alto Adige	21,663	9,204	21,624	13,965	-0.2	13.7
Veneto	81,703	45,481	79,563	51,785	-2.6	11.2
Friuli-Venezia Giulia	22,952	13,036	22,665	15,678	-1.3	8.6
Emilia-Romagna	86,259	51,909	82,608	57,047	-4.2	8.0
North-East	212,578	119,630	206,461	138,475	-2.9	9.7
Tuscany	68,715	41,911	66,309	45,812	-3.5	8.8
Umbria	12,963	6,408	12,848	7,380	-0.9	14.0
Marche	23,956	11,953	23,982	13,496	0.1	12.0
Lazio	102,498	75,744	111,052	90,048	8.3	18.5
Centre	208,132	136,016	214,191	156,736	2.9	14.7
Abruzzo	15,937	7,538	16,242	8,633	1.9	12.1
Molise	2,998	1,391	2,931	1,612	-2.2	14.5
Campania	60,549	30,602	60,240	35,903	-0.5	14.7
Puglia	45,025	16,792	44,480	19,859	-1.2	17.5
Basilicata	6,572	2,454	5,973	2,690	-9.1	7.0
Calabria	17,695	7,081	16,906	8,037	-4.5	9.0
South	148,775	65,858	146,772	76,735	-1.3	14.2
Sicily	49,510	20,055	47,981	22,771	-3.1	11.1
Sardinia	18,849	11,095	18,878	11,966	0.2	7.8
Islands	68,359	31,150	66,859	34,737	-2.2	10.0
Italy	977,748	580,251	979,931	671,480	0.2	14.0

Source: Supervisory returns.

(1) The figures refer only to the banks that sent detailed returns at the end of 1997. (2) The percentage changes in current accounts are adjusted for the banks that did not send detailed returns in 1997 (See the section: *Methodological notes*).

Table aD4

**SECURITIES HELD FOR CUSTODY AND
ASSETS UNDER MANAGEMENT BY REGION(1)**

(end-of-period data in billions of lire and percentage changes)

Regions and geographical areas	Securities held for custody (2)			Assets under management		
	1997	1998	% change 1997-98 (3)	1997	1998	% change 1997-98 (3)
Piedmont	305,620	363,778	19.0	22,061	32,279	46.3
Valle d'Aosta	4,373	4,194	-4.1	328	391	19.2
Lombardy	755,798	978,771	29.5	86,463	114,827	32.8
Liguria	70,448	69,099	-1.9	6,627	11,145	68.2
North-West	1,136,239	1,415,842	24.6	115,479	158,642	37.4
Trentino-Alto Adige	19,536	27,230	10.0	3,526	5,446	42.9
Veneto	141,217	149,763	4.7	22,551	35,828	58.8
Friuli-Venezia Giulia	49,954	56,416	8.0	5,500	8,259	50.2
Emilia-Romagna	235,173	269,694	13.7	46,730	52,254	11.5
North-East	445,880	503,103	10.1	78,307	101,787	29.2
Tuscany	114,493	124,482	8.3	16,027	28,020	74.8
Umbria	15,574	17,264	9.8	1,601	3,000	87.4
Marche	32,733	35,877	3.3	3,751	5,304	41.4
Lazio	255,570	296,649	15.8	19,565	31,812	62.6
Centre	418,370	474,272	12.5	40,944	68,136	66.4
Abruzzo	13,965	14,634	2.6	566	1,400	147.3
Molise	1,832	1,977	7.7	71	292	311.3
Campania	59,543	72,136	20.6	3,508	8,819	151.4
Puglia	40,377	43,017	6.2	5,213	8,785	68.5
Basilicata	3,543	4,641	30.4	145	476	228.3
Calabria	11,258	14,104	23.3	622	1,338	115.1
South	130,518	150,509	14.5	10,125	21,110	108.5
Sicily	44,614	52,497	16.4	1,549	3,259	110.4
Sardinia	13,925	14,171	1.8	944	2,103	122.8
Islands	58,539	66,668	13.0	2,493	5,362	115.1
Italy	2,189,546	2,610,394	18.4	247,348	355,037	43.3

Source: Supervisory returns.

(1) Excluding interbank transactions. (2) At face value. (3) The percentage changes are adjusted to take account of the banks that did not send detailed returns in 1997 (See the section: *Methodological notes*).

Table aD5

BANK LENDING AND DEPOSIT RATES BY REGION

(percentages)

Regions	Lending rates					Deposit rates				
	Dec. 1997	Mar. 1998	June 1998	Sept. 1998	Dec. 1998	Dec. 1997	Mar. 1998	June 1998	Sept. 1998	Dec. 1998
Piedmont	8.91	8.51	7.92	7.41	6.56	4.60	3.93	3.39	3.25	2.36
Valle d'Aosta	10.44	9.60	9.08	8.88	8.16	4.52	3.89	3.45	3.15	2.49
Lombardy	8.49	8.10	7.37	6.85	6.17	4.36	3.88	3.39	3.24	2.59
Liguria	9.67	8.98	8.19	7.98	7.62	4.38	3.71	3.23	3.09	2.36
Trentino-Alto Adige	9.45	8.84	8.34	7.83	7.24	4.54	3.93	3.55	3.32	2.34
Veneto	9.18	8.74	8.07	7.57	7.16	4.60	3.96	3.46	3.34	2.59
Friuli-Venezia Giulia	8.89	8.69	7.78	7.40	6.80	4.48	3.70	3.26	3.20	2.54
Emilia-Romagna	8.74	8.24	7.61	7.10	6.49	4.50	3.89	3.19	3.10	2.38
Tuscany	9.28	8.84	8.35	7.76	7.13	4.71	4.13	3.65	3.55	2.84
Umbria	10.32	10.14	9.59	9.17	8.56	4.70	4.21	3.69	3.57	2.93
Marche	9.07	8.91	8.14	7.60	6.94	4.51	3.94	3.58	3.21	2.35
Lazio	9.38	9.60	9.05	8.50	7.57	4.60	3.70	3.25	3.26	2.63
Abruzzo	10.85	10.40	9.53	9.13	8.59	4.46	3.78	3.21	3.06	2.44
Molise	11.30	11.34	10.54	10.21	9.36	4.64	3.38	3.12	2.98	2.14
Campania	10.79	10.43	9.73	9.37	8.52	4.14	3.50	3.18	3.03	2.28
Puglia	11.23	10.45	10.03	9.28	8.57	4.57	3.66	3.39	3.18	2.53
Basilicata	11.90	11.57	10.64	10.11	9.27	4.06	3.47	3.51	3.29	2.32
Calabria	12.58	12.25	11.55	10.72	9.77	4.43	3.87	3.59	3.24	2.51
Sicily	11.49	11.20	10.59	10.34	9.48	4.68	3.88	3.45	3.35	2.88
Sardinia	10.87	10.78	10.08	9.85	9.51	4.26	3.85	3.41	3.23	2.48
Italy	9.13	8.75	8.10	7.58	6.89	4.49	3.86	3.37	3.25	2.55

Source: Central Credit Register data classified according to the location of each branch. See the Section: *Methodological notes*.

BANKS' PROFIT AND LOSS ACCOUNTS
BY GEOGRAPHICAL AREA (1)
(billions of lire, percentages and percentage values)

Items	1997	1998	% change (2)	as a % of total assets 1997 (3)	as a % of total assets 1998 (3)
North-West					
Net interest income	25,620	25,516	-3.9	2.05	1.85
Non-interest income	14,186	20,468	38.8	1.13	1.48
Gross income	39,806	45,984	11.1	3.18	3.33
Operating expenses	27,176	27,098	1.6	2.17	1.96
<i>of which: banking staff costs</i>	<i>16,844</i>	<i>16,267</i>	<i>0.5</i>	<i>1.35</i>	<i>1.18</i>
Net income	12,630	18,886	29.1	1.01	1.37
Value adjustments and allocations to provisions	5,640	4,320	-26.2	0.45	0.31
Profit before tax	6,990	14,566	66.0	0.56	1.05
Net profit	3,544	7,582	87.3	0.28	0.55
North-East					
Net interest income	11,600	11,363	-1.4	2.83	2.62
Non-interest income	5,325	7,252	38.7	1.30	1.67
Gross income	16,925	18,615	11.1	4.14	4.29
Operating expenses	10,686	10,445	1.5	2.61	2.41
<i>of which: banking staff costs</i>	<i>6,408</i>	<i>6,180</i>	<i>2.5</i>	<i>1.57</i>	<i>1.42</i>
Net income	6,240	8,170	26.5	1.52	1.88
Value adjustments and allocations to provisions	1,724	2,411	35.4	0.42	0.56
Profit before tax	4,516	5,759	23.1	1.10	1.33
Net profit	2,435	3,164	37.8	0.59	0.73
Centre					
Net interest income	16,193	15,503	0.7	2.14	2.15
Non-interest income	7,282	9,393	37.5	0.96	1.30
Gross income	23,475	24,896	12.0	3.11	3.45
Operating expenses	16,583	15,633	-0.7	2.19	2.16
<i>of which: banking staff costs</i>	<i>10,670</i>	<i>9,946</i>	<i>0.2</i>	<i>1.41</i>	<i>1.38</i>
Net income	6,892	9,263	42.9	0.91	1.28
Value adjustments and allocations to provisions	10,067	5,226	-47.1	1.33	0.72
Profit before tax	-3,176	4,037	***	-0.42	0.56
Net profit	-4,809	1,954	***	-0.64	0.27
South					
Net interest income	4,209	3,899	-5.0	2.85	2.82
Non-interest income	1,485	1,849	26.3	1.00	1.34
Gross income	5,694	5,748	3.2	3.85	4.16
Operating expenses	4,488	4,150	-1.4	3.04	3.01
<i>of which: banking staff costs</i>	<i>2,835</i>	<i>2,618</i>	<i>0.7</i>	<i>1.92</i>	<i>1.90</i>
Net income	1,206	1,598	17.5	0.82	1.16
Value adjustments and allocations to provisions	1,086	974	-2.4	0.73	0.71
Profit before tax	120	624	72.4	0.08	0.45
Net profit	-101	282	***	-0.07	0.20
Islands					
Net interest income	2,555	2,886	-6.0	2.64	2.64
Non-interest income	748	938	33.7	0.77	0.86
Gross income	3,303	3,824	0.8	3.41	3.50
Operating expenses	2,461	2,711	0.4	2.54	2.48
<i>of which: banking staff costs</i>	<i>1,631</i>	<i>1,803</i>	<i>1.7</i>	<i>1.68</i>	<i>1.65</i>
Net income	842	1,113	1.5	0.87	1.02
Value adjustments and allocations to provisions	560	915	70.9	0.58	0.84
Profit before tax	283	198	-67.9	0.29	0.18
Net profit	83	-23	***	0.09	-0.02

Source: Supervisory returns. The data refer to the Bank of Italy's monthly sample; the areas refer to the location of each bank's registered office. For definitions of the series see the section *Methodological notes* and *Glossario*, in the Appendix to the Bank's Annual Report in Italian.

(1) The data for expenses, net income and profit before tax for 1998 are not fully comparable with those for 1997 owing to the elimination of contributions to the National Health Service. The increase rates for 1998 are adjusted by subtracting 6.6 millions lire per employee from 1997 staff costs. (2) Percentage changes were calculated on a homogeneous sample between the year of reference and the previous one. (3) Source total intermediate funds.

METHODOLOGICAL NOTES

B - ECONOMIC ACTIVITY

Figure B1

ISAE indicators for industry excluding construction

The series for domestic, foreign and total orders and production are seasonally adjusted using the TRAMO-SEATS procedure.

Table aB3

Capital spending, turnover and employment of manufacturing firms with at least 50 employees

The Bank of Italy carries out an annual survey of manufacturing firms' capital spending using a sample stratified by size, sector and region. The sample is basically "closed" and includes around 1,000 firms with at least 50 employees. For more detailed information, see the "Note metodologiche" section in the Appendix to the Bank's Annual Report in Italian.

The figures shown in the table were obtained using weights that take account for each stratum of the ratio between the number of firms observed and the total number in the universe.

Table aB4

Exports (*fob*) by region

The data on trade with EU countries are obtained using the Intrastat system; those on trade with other countries using customs data. The regional data are the result of the aggregation of the data classified by province of origin and destination. The province of origin is taken to be that in which goods for export were produced or obtained following the processing, transformation or repair of temporarily imported goods. For further information, see the "Avvertenze generali" section in *Statistiche del commercio con l'estero*, published by Istat.

C - THE LABOUR MARKET AND REGIONAL DEVELOPMENT POLICIES

Tables C1-C3 and aC1

Labour force, unemployment rate and participation rate

The coefficients used to relate the sample results to the total population are based on the 1991 census. For further information, see the notes to the "Forze di lavoro" table in the Appendix to the Bank's Annual Report in Italian and the "Note metodologiche" section in the Bank of Italy's *Bollettino economico*.

The participation rates were obtained as the ratio of the total labour force to the population aged 15 and over.

D - BANKING

Tables D1-D4 and aD1-aD4

Balance sheet data

The figures in the tables are based on the data the Bank of Italy requires banks to send under Article 51 of the 1993 Banking Law (Legislative Decree 385/1993). Since 1995 the former special credit institutions have been submitting identical data to those sent by other banks, while the information on the former special credit sections has been included in the reports of their parent institutions. For details on the classification of customers by economic activity, see the “Glossario” section of the Bank of Italy’s *Bollettino statistico* (under the items “*settori*” and “*comparti*”). Following the modification of the classification of customers by sector in 1998, the data in Table D1 have been adjusted for consistency with the previous classification. However, this still does not provide full compatibility with previous years’ data.

The definitions of some items in the tables are given below:

Deposits: savings deposits, certificates of deposit, savings certificates and non-bank customers current accounts with banks.

Loans to residents: lending in lire and foreign currency to resident non-bank customers in the following technical forms: discounting of bills, current account overdrafts, self-liquidating transactions (advances on bills, other credit instruments and amounts credited subject to final payment), import and export credits, mortgage loans, advances other than current account advances, pledge loans, loans secured by the pledge of salary, assignments of claims, loans granted drawing on funds administered for third parties, and other financial investments (banker’s acceptances and commercial paper, etc.). Short-term loans are those with maturities of up to 18 months; medium and long-term loans, more than 18 months.

Substandard loans: Claims on borrowers in temporary difficulties that they can be expected to overcome within a reasonable period of time. The data are available half-yearly.

Bad debts: Loans to insolvent persons (even if they have not been officially declared bankrupt) or in essentially comparable circumstances.

Unless otherwise specified, the data refer to the residence of the counterparty. The figures for loans include bad debts.

Table D4

Securities deposited with banks

The collective investment undertakings referred to in the table include UCITS and real-estate investment funds. The UCITS include open-end securities investment funds, SICAVS, units of unharmonized investment funds specializing in foreign securities, closed-end securities funds. For further information, see the “Glossario” section of the Bank of Italy’s Annual Report in Italian.

Table aD5 and Figure D1

Bank interest rates

The observations on interest rates are based on quarterly reports made by two groups of banks comprising 70 banks for lending rates and 59 for deposit rates. Both groups include the leading Italian banks.

The data on lending rates refer to the average rates on loans to non-bank resident customers reported to the Central Credit Register, which records the positions where the credit granted or used exceeds 150 million lire.

The figures for deposit rates (shown gross of withholding tax) refer to savings and current account deposits in lire of at least 20 million lire held by non-bank resident customers. The data are averaged by weighting the reported rates with the amounts outstanding at the end of the reference period (presumed rate). The information for the fourth quarter of each year, when interest is paid on most accounts, correspond to the average cost of the funds raised for the whole year (average effective rate).

For further information, see the “Appendice metodologica” in the Bank of Italy’s *Bollettino Statistico*.

Tables D5 and aD6

Banks’ profit and loss accounts by geographical area

Total assets, which are used as the denominator for the statistics for the various items of the accounts, are calculated as averages of thirteen monthly observations, assigning a weight of 1 to the figures for December of the reference year and that of the previous year and a weight of 2 to the months in between. The percentage ratios to total assets are obtained considering only the banks that have produced profit and loss reports in the year. In Table aD6 the percentage changes are calculated with reference to homogeneous samples for the reference year and the previous year.

The Reports on the Economic Developments in each region can be obtained from the Bank of Italy, Servizio Studi, Divisione Biblioteca e Pubblicazioni, Via Nazionale, 91 - 00184 Rome (Fax: 06 47922059) or directly from the Bank of Italy's branch in each regional capital. The Summary of the Reports on economic developments in the Italian regions in 1998 is available on the Bank of Italy's website www.bancaditalia.it.

Piedmont

Via Arsenale, 8
10121 Torino

Valle d'Aosta

Avenue du Conseil des Commis, 21
11100 Aosta

Lombardy

Via Cordusio, 5
20123 Milano

Liguria

Via Dante, 3
16121 Genova

Trentino-Alto Adige

Piazza A. Vittoria, 6
38100 Trento

Veneto

Calle Larga Mazzini,
4799 San Marco
30124 Venezia

Friuli-Venezia Giulia

Corso Cavour, 13
34132 Trieste

Emilia-Romagna

Piazza Cavour, 6
40124 Bologna

Tuscany

Via dell'Oriuolo, 37
50122 Firenze

Umbria

Piazza Italia, 15
06100 Perugia

Marche

Piazza Kennedy, 9
60122 Ancona

Lazio

Via XX Settembre, 97/e
00187 Roma

Abruzzo

Corso Federico II, 1
67100 L'Aquila

Molise

Via Mazzini, 2
86100 Campobasso

Campania

Via Cervantes, 71
80133 Napoli

Puglia

Corso Cavour, 4
70121 Bari

Basilicata

Via Pretoria, 175
85100 Potenza

Calabria

Piazza Serravalle, 1
88100 Catanzaro

Sicily

Via Cavour, 131/a
90133 Palermo

Sardinia

Largo Carlo Felice, 13
09124 Cagliari